Four Ideas to Build Better Startup Ecosystems

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Idea in brief: *Vibrant startup ecosystems drive job creation, create an innovative and active business community, and improve the residents' quality of life. In most large cities, however, the startup ecosystems fall far below their potential, depriving startups of the much-needed support, resulting in missed innovation and growth. Drawing on decades of experience with innovation and startup ecosystems, we identify four keys for a successful startup ecosystem development.*

The importance of startups to local economies cannot be overstated. According to the Kaufman Foundation, 100% of all jobs created in the United States (US) since 2003 were created by firms less than 5 years old – older firms had a net loss in jobs. But new businesses face long odds. They also have a much higher chance of failure, for reasons that range from running out of money (38%), lack of product/service market fit (35%), flawed business model (19%), and lack of relevant talent (14%), according to CB Insights.

Strong startup ecosystems help address these challenges by providing access to capital, talent, advice and dedicated mentorship. From our work with startups and startup ecosystems in the US and around the world, we have identified four key factors that characterize successful startup ecosystems:

Develop a unique strategy that reflects the community's current stage of development. Ecosystem stakeholders often look to Silicon Valley or Boston for inspiration. But this "follow the leader" approach is not relevant or useful, and sometimes even counterproductive. To successfully scale a startup ecosystem, an ecosystem's leadership should develop strategies that reflect that community's relative stage of development.

Startup Genome's Ecosystem Lifecycle Model identifies four stages of ecosystem development, starting with *Activation* (relatively few startups, a limited funding environment, and few successful exits), and progressing through increasing levels of growth, global presence, sophistication, and their ability to attract global resources like talent and VC investment.

Notably, most startup ecosystems globally are at the *Activation* stage. For these ecosystems, the most important steps include building up the local community, connecting the key participants, thereby increasing the overall startup quality and creating the first generation of successful exits, thus beginning the circle of resource recycling.

Identify your community's unique strengths and build on them. Successful ecosystems carefully choose where to focus their resources. Certainly, any new startup is welcome, but successful early-stage ecosystems identify their unique strengths and competitive advantages, and proactively develop strategies around them.

Strengths may come from the region's business history (e.g., depth in a specific industry) or their geographic location, and potentially reflect technologies in which the local universities excel. Because startup ecosystems compete globally, winning requires a built-in advantage, a unique selling proposition, or a compelling reason for a startup to locate in that community.

Austin, Texas provides a good example. Beginning in the 1990's, leaders in the Austin startup community focused on technology, leveraging expertise within the existing business community and at the University of Texas. This resulted in rapid growth in startup activity, which was further accelerated as alums from successful startups like Dell became active advisors and/or investors. In annual rankings of global startup ecosystems, Austin consistently ranks in the top 20, far ahead of larger Texas cities. Not coincidentally, Austin's population grew by 163% between 1990 and 2019, almost twice as fast as Houston (89%) and Dallas (88%), and five times faster than the US as a whole (32%).

Recognize the value of a strong "backbone organization" to provide leadership and resources. Startup ecosystems consist of diverse stakeholders, including accelerators, incubators, investors, mentors, and advisors, as well as local government, corporations, and universities. A strong *backbone organization* is the essential glue to pull these organizations together.

A key role of a backbone organization is to facilitate connections and rally the ecosystem around shared goals and vision. Research shows that, holding all other success factors constant, increased local connectedness is linked with revenue growth. A critical factor is to recruit motivated people who can "connect the dots" and "make things happen," as opposed to high-ranking officials, who may look good on paper but may not have the bandwidth.

StartupAmsterdam is a good example of an effective backbone organization. Beginning in 2015, *StartupAmsterdam*, a public programme, facilitated the coordination of multiple players in the startup ecosystem, including venture capitalists, incubators, and tech companies, and successfully organized efforts across the city's ecosystem more effectively than disparate organizations would on their own. As evidence of their success, Amsterdam went from an Exit Value ranking of #31 to #13 in the world within 5 years, with annual exits growing from $0.3B to over $10B USD.

Support startups to scale, not just in the early stages. Many organizations and initiatives that seek to support startups focus on the earliest stages. World-class ecosystems go beyond and devote resources to ensure startups can scale up to achieve $100 million+ valuations. Such scaleups, though small in numbers, are responsible for the lion's share of job and shareholder value creation. They are also powerful success stories that can attract resources, startups, and talent. Furthermore, their founders and employees often become investors, mentors and cheerleaders for the rest of the ecosystem, as with Dell in Austin, thus creating a virtuous cycle.

To increase the number of high-valuation startups, an ecosystem should identify and nurture the highest potential initiatives; support them with space, resources, talent; and help them tap into larger markets, including internationally. Research shows that startups that focus on going global sooner tend to scale faster, and an effective ecosystem can help to overcome the barriers to international expansion.

London is a great example; it's "Future Fifty" program was started in 2013 specifically to support late-stage startups and to stop bleeding top companies to Silicon Valley – those in their B and C rounds, who face different challenges from early-stage startups, but still benefit from an effective startup ecosystem. As evidence of success, many Future Fifty companies exited at high valuations, creating thousands of jobs, and putting London in 2nd place globally in the 2020 and 2021 rankings of startup ecosystems – up from 7th place in 2012, and above leaders such as Boston and Tel Aviv.

Conclusion: Many metro areas aspire to develop stronger, more vibrant startup communities, and with good reason - startups are huge contributors to jobs, innovation, and growth. The four keys discussed here have been shown to help emerging ecosystems contribute to startup success, in turn contributing to the growth and vibrancy of their communities.

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