

Scale-up

Study

for Slovakia -

The Fast

Growing Firms

of the

Internet Age

2017



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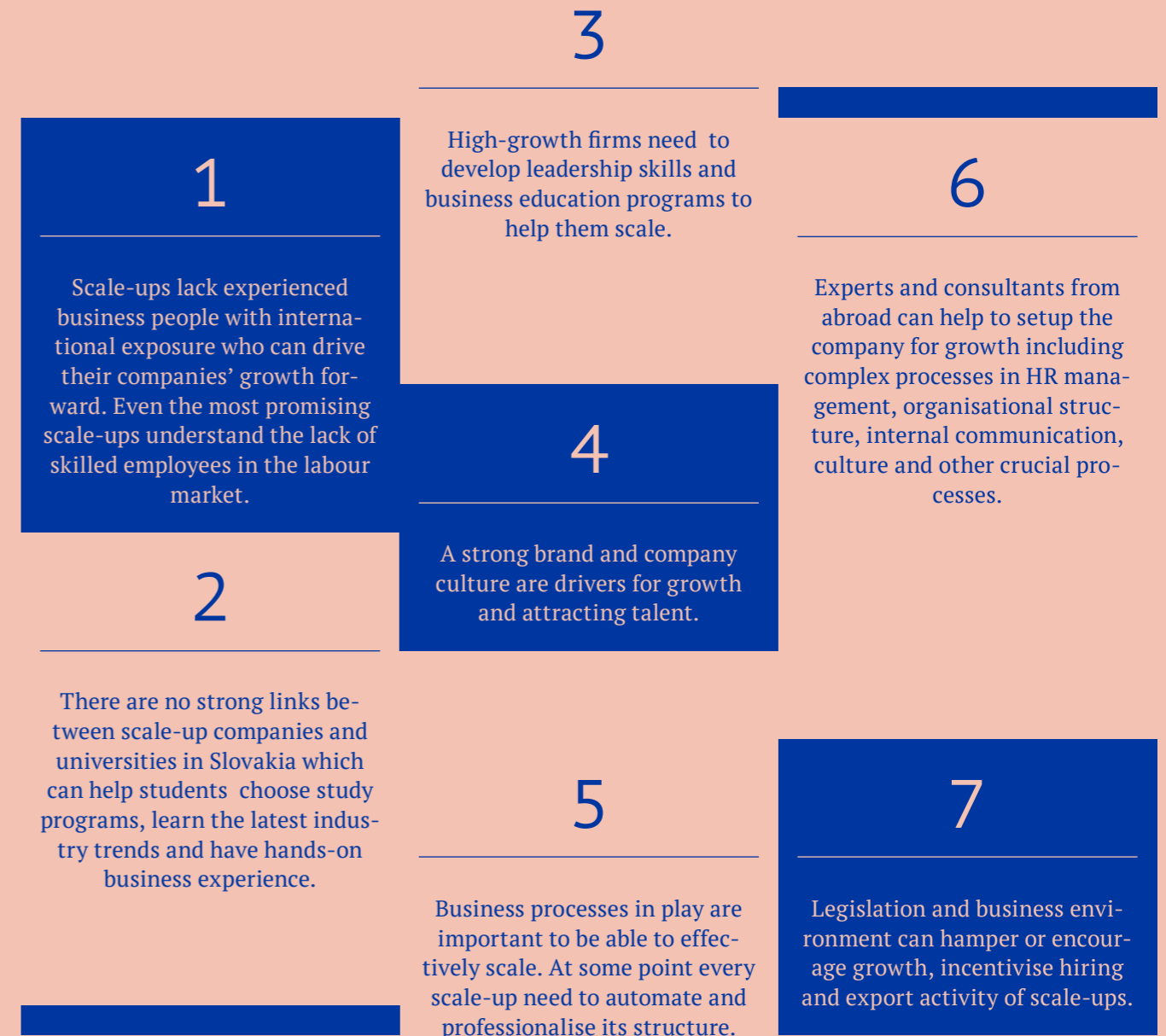
Executive Summary

This scale-up study is the first of its kind in Slovakia and provides an insight into the world of fast-growing companies through the most successful Internet companies based in Slovakia. The existing data across the world suggest that a small number of high-growth firms may generate significant social and economic benefits. One company that grows to 100 employees in five years can better serve its stakeholders (employees, shareholders, and government) than 50 stagnating. Scale-up companies have not only become leaders in their areas but also a significant proof of globally successful Slovak businesses. There are 10 871 companies founded between 2000–2016 that are active in the field of the Internet Economy and 253 of them are considered scale-ups based on the OECD definition used in this report.

In 2013, 253 scale-ups in the Internet economy generated 1% of turnover of all active companies in Slovakia.

The recipe of a successful scale-up has many ingredients. Based on international research and interviews conducted with successful Slovak scale-ups, there are three key factors: **experienced entrepreneurship and leadership capacity** (entrepreneurial spirit and ability to inspire others), **timing, and ability to scale.**

Key Conclusions:





A list of recommendations based on prevalent feedback from Slovak entrepreneurs on the scale-up ecosystem includes:



Overall bureaucratic burden for the fast-growing firms

Growth capital

Activating talent

Growing globally

Power Innovation

Monitor, Measure, Evaluate

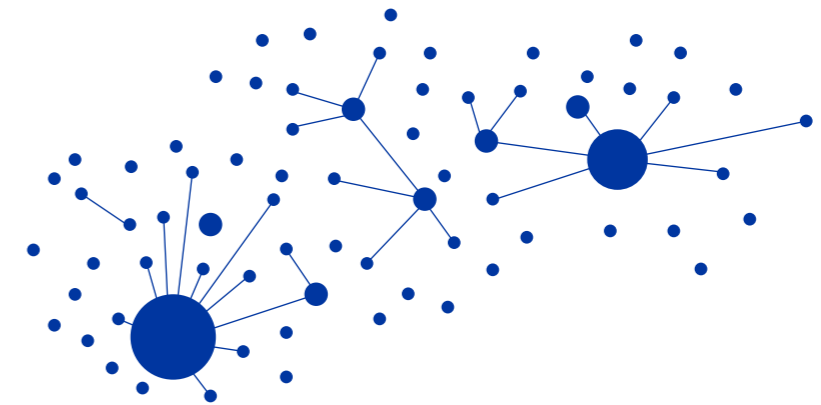


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Scale-ups - The Titans Of Tomorrow

The importance of fast-growing firms has been proven in the UK at the Scale-up Report on UK Economic Growth by Sherry Coutu in 2014 that states when closing the scale-up gap the companies can generate £38 billion additional turnover and create 238,000 jobs in just three years.^[1]

In the Slovak Alliance for the Innovative Economy we understand that supporting, empowering and respecting home-grown innovation companies can bring positive impact to sustainable growth, employment and Slovak innovation that can be shared with the world.



Increasing the iGDP

By measuring the impact of Slovak scale-ups on the economy we can identify their specific needs, pain points and provide specific support from public and private initiatives that would lead to an increase in employment (usually in high-skilled jobs and R&D) and its consequential impact on GDP.

We understand the iGDP as the innovation GDP that sparks in Slovakia and brings value back to the country even when these companies serve global customers.

To illustrate the current impact of high-growth firms (scale-ups) in the UK, Royal Bank of Scotland undertook an analysis to determine the economy wide impact of 1% of all businesses with over 10 employees shifting from a stable growth state into high-growth mode. This would see the total population of high-growth firms (HGFs) in the UK increased from 10,200,124 (4.6 % of total business population with 10 or more employees) to 12,440 (5.6 % of total business population with 10 or more employees). At the end of year three this would result in 2,240 businesses making this shift and the creation of 238,000 jobs and almost £39 billion in additional turnover.^[3]

OECD DEFINITION of a scale-up:

Scale-up is a high growth firm with average annual growth in employees or turnover greater than 20% per year, over a three year period, and with more than 10 employees at the beginning of the observation period.^[2]



Our hypothesis and what is the scale-up gap?

Why should we encourage Slovak businesses to scale?

UK's Department for Business, Innovation and Skills has identified three enablers of business success and the associated market failures: Internal capacity, external environment, and the vision of the business owner.^[5] These three failures can be addressed by targeted measures such as mentoring, education, a favourable business environment with measurable and targeted interventions as well as using the role model effect of successful entrepreneurs. Recommendations are included in the third chapter.

Some research from the US suggests that young firms create more jobs than old. The research supports the idea that scaling of younger firms generates economic value through net job creation with weaker evidence of similar impact amongst older firms.^[6] However, there are companies in Slovakia that over a longer period of time (sometimes 10-20 years and mostly in the B2B sector), found their market and customers and scaled their operations. One of them is featured in our case studies in the next chapters.

Based on the evidence collected for the Scale-up report in the UK the potential economic impact of successfully raising the number of scale-ups is likely to be substantial. The impact analysis conducted by Deloitte estimates that if the recommendations in this report were implemented in full this might generate between £70 billion and £225 billion of GDP for the UK economy (in 2014 prices) over the period between 2015 and 2034. This is consistent with an additional 45,000 to 150,000 net jobs above baseline in the UK in 2034.^[4]

The scale-up gap in the UK report is perceived as using the full potential of the high-growth firms in the economy driving productivity and increasing economic performance. The goal is to move the trend from smaller, low productivity firms, towards larger firms and increase the long-term competitive advantage by building a strong and vibrant national ecosystem that consists of the co-existence of corporate multinationals, domestic scale-ups and startups.

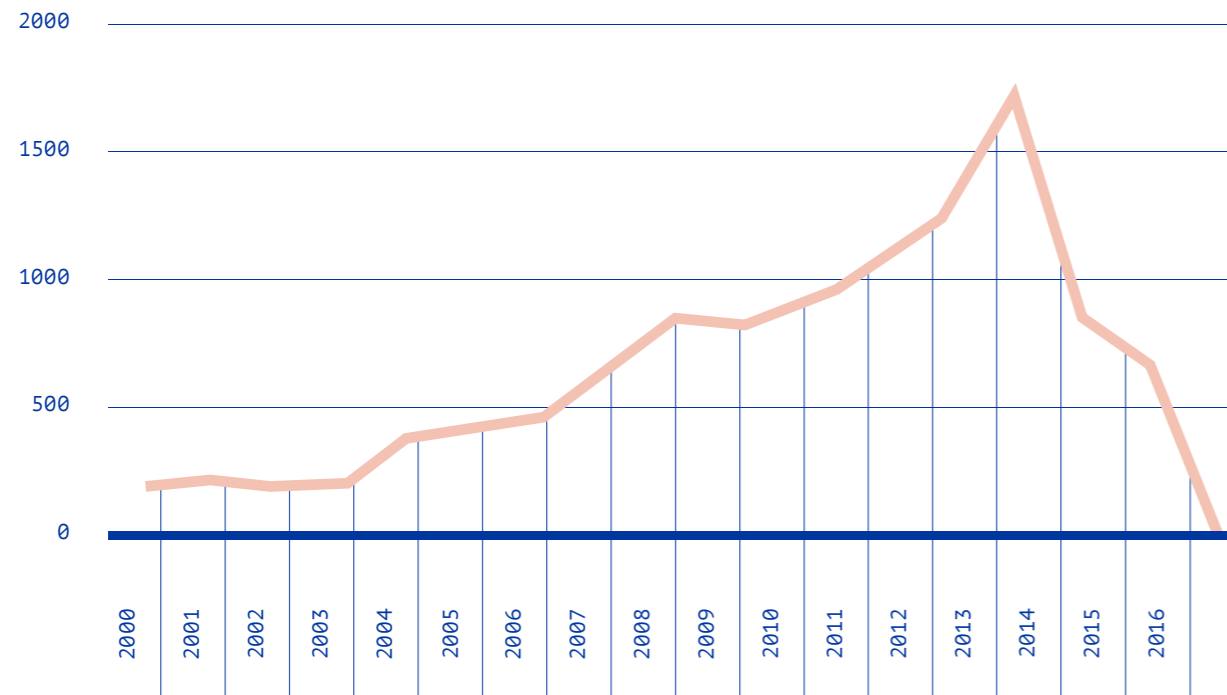
In this report we wanted to test the hypothesis of scale-ups generating growing revenues and identify their relevance for the whole economy. Using the definition of OECD and adding extra criteria on minimum turnover of 200,000 EUR we have identified 2,600 companies in the Slovak economy that bear the marks of a scale-up. The sectors range from manufacturing to energy with approximately 10% of those scale-ups from the Internet Economy sector.

The Slovak Internet Economy

The goal of this report is to map, identify and evaluate the impact of fast-growing firms in the Slovak Internet economy. To identify such firms we have cooperated with Finstat, the largest database of companies in Slovakia using open data from various government registries, and selected 12 sectors based on their NACE codes (The Statistical Classification of Economic Activities in the European Community) that corresponded with companies active in the Internet Economy.

There are 10 871 companies founded between 2000–2016 that are active in the field of the Internet Economy.

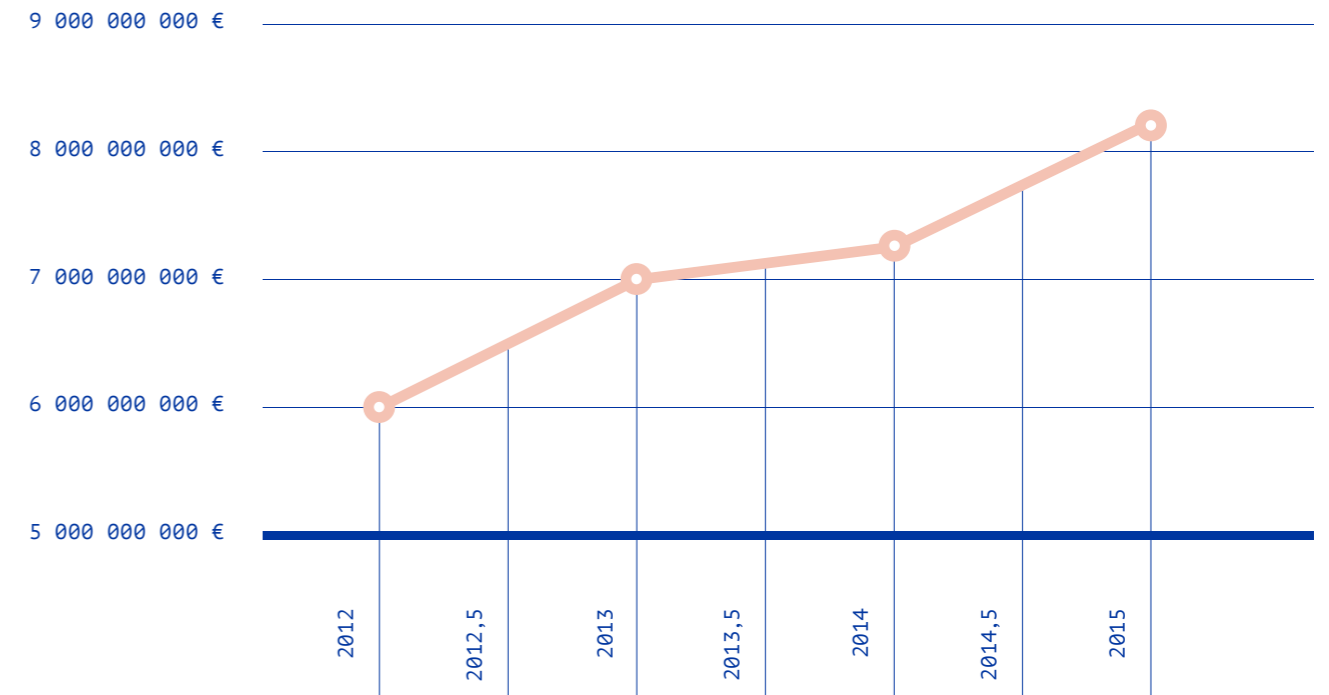
Formation of companies



Turnover of the Internet Economy compared to all companies in Slovakia and their respective growth

Year	Turnover of the Internet	Growth	Turnover of of all companies	Growth
2012	5,938,665,471 €		146,798,992,871 €	
2013	6,990,172,487 €	17.71%	166,346,199,549 €	13.32%
2014	7,261,218,402 €	3.88%	174,234,255,094 €	4.74%
2015	8,373,435,194 €	15.32%	187,868,578,803 €	7.83%

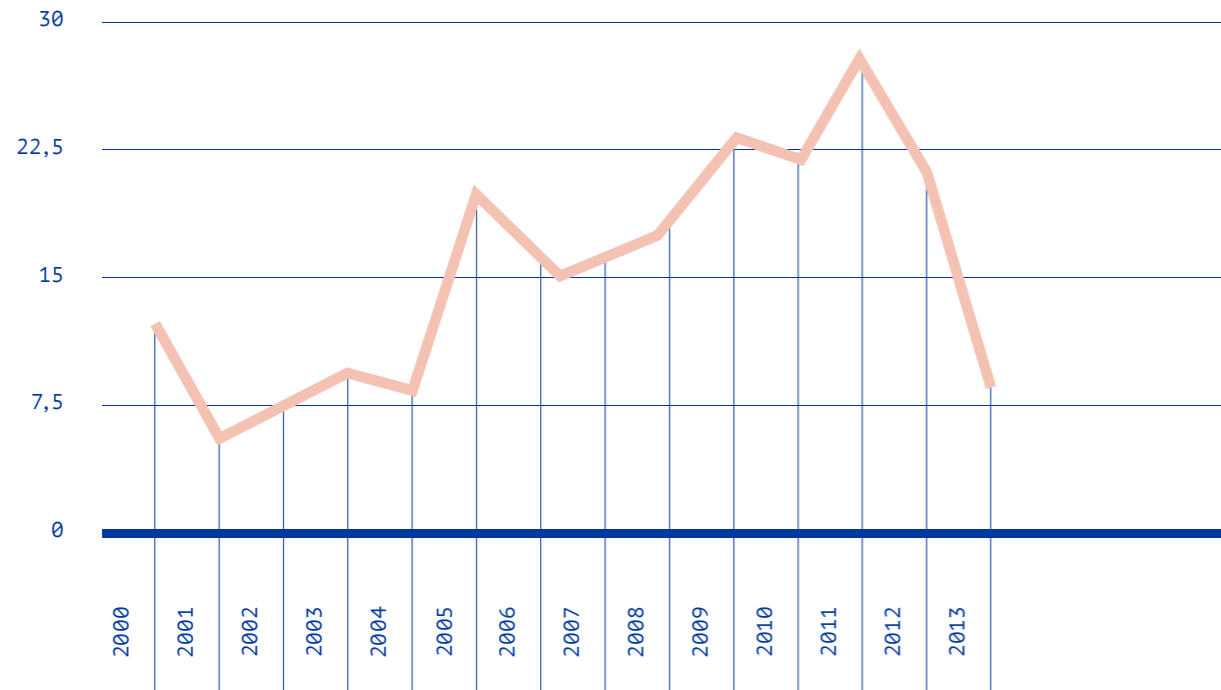
Turnover of the Internet Economy



Based on the OECD definition there were 253 scale-ups in the Internet economy during the observation period of 2012 to 2015. **In 2013, 253 scale-ups in the Internet economy generated 1% of turnover of all active companies in Slovakia. The majority of them were founded after 2006, despite the global financial meltdown.**

Considering the current statistical conditions we were unable to exactly measure the impact of the Internet Economy on job creation. However, we could see the increase of turnover over the three year period.^[1]

Formation of scale-up companies



Geographical Location

The majority of scale-ups are in the Western part of Slovakia 56 companies with 133 based in Bratislava.

Turnover in 2013 based on a location

Location	Number of scale-ups
Bratislava	133
Central Slovakia	38
Eastern Slovakia	26
Western Slovakia	56

Location	Turnover 2013
Bratislava	499,794,927 €
Central Slovakia	29,537,694 €
Eastern Slovakia	16,233,533 €
Western Slovakia	28,596,041 €

[1] The Scale-Up report on UK Economic Growth by Sherry Coutu CBE – <http://www.scaleupreport.org>

[2] For the purpose of this report we have used the OECD definition and expanded it with another criteria of minimum 200 000 turnover at the beginning of the observation period reflecting the fact that this amount approximately equals to salary requirements of minimum 10 employees.

[3] The Scale-Up report on UK Economic Growth by Sherry Coutu CBE – <http://www.scaleupreport.org>, page 78

[4] Scale-up Challenge: An Impact Report by Deloitte, november 2014 – <https://www2.deloitte.com/uk/en/pages/strategy/articles/the-scale-up-challenge.html>

[5] Scale-up Challenge: An Impact Report by Deloitte, november 2014, page 4 – <https://www2.deloitte.com/uk/en/pages/strategy/articles/the-scale-up-challenge.html>

[6] Haltiwanger, Jarmin and Miranda, 2013, Who creates jobs? Small vs. Large vs. Young The Review of Economics and Statistics Volume XCV, Number 2



	Turnover 2013	Turnover 2014	Turnover 2015
Scale-up firms	1,460,052,383 €	863,965,840 €	574,162,195 €
All firms in the economy	166,346,199,549 €	174,233,759,872 €	187,868,578,803 €
Share of scale-up firms on all the firms in the economy	0.88%	0.50%	0.31%
SK NACE	Turnover of scale-ups 2015	Turnover of all companies in 2015	Share of turnover of scale-ups on all companies registered under NACE code
Wholesale of electronic and telecommunications equipment and parts	189,787,164 €	598,963,059 €	32%
Other information technology and computer service activities	568,700,786 €	2,183,262,758 €	26%
Wholesale of computers, computer peripheral equipment and software	377,906,716 €	1,619,298,227 €	23%
Retail sale of telecommunications equipment in specialised stores	9,861,261 €	44,592,956 €	22%
Other research and experimental development on natural sciences and engineering	16,791,441 €	99,943,861 €	17%
Retail sale via mail order houses or via Internet	48,603,803 €	323,029,440 €	15%
Computer programming activities	112,245,857 €	771,232,727 €	15%
Data processing, hosting and related activities	64,981,479 €	448,422,079 €	14%
Other telecommunications activities	59,665,749 €	523,274,260 €	11%
Web portals	4,055,655 €	61,022,690 €	7%
Wireless telecommunications activities	4,134,534 €	882,954,885 €	0%
Wired telecommunications activities	3,317,938 €	771,399,691 €	0%

The Slovak Stars and the Scale-up Ecosystem

The recipe of a successful scale-up has many ingredients. Based on international research and interviews conducted with successful Slovak entrepreneurs that are identified as scale-ups, highlights three key factors - experienced entrepreneurship and leadership capacity (entrepreneurial spirit and ability to inspire others), timing, and ability to scale.

Extraordinary value creation is intertwined with growth, and growth itself means developing powerful marketing and sales, building a strong organization with an inclusive company culture and diverse group of people, knowing how to make strategic decisions with limited capital resources, partners, markets and direction. Growing a successful firm requires dedication, energy and vision. Through Innovative products, services and business models, scale-ups usually revolutionise industries and bring significant employment opportunities, economic and social value for the local and national economy. Some Slovak scale-ups tried several times before they got the product and market fit right.



Based on the extensive UK research that identified the growing pains of UK scale-ups we have extrapolated the key barriers of scaling a company:

attracting talent

developing scale-up leadership

attracting customers

and accessing markets

financing scale-ups

cooperation with academia

and use of R&D infrastructure

The Role Model Effect

The reason why we want to identify Slovak scale-ups is to use their successes and failures as role models to help stimulate others to take this path and to generate the scale necessary for this sector to grow. This effect has been mentioned in multiple international studies during the course of our research, which measured its significant impact. ^[1]

[1] Research by Prof. Dan Isenberg, Professor of Entrepreneurship Practice, Babson College, Don't Judge the Economy by the Number of Start-Ups by Dan Isenberg and Fernando Fabre

► <https://hbr.org/2014/10/dont-judge-the-economy-by-the-number-of-start-ups>; Focus Entrepreneurship Policy on Scale-Up, Not Start-Up by Dan Isenberg ► <https://hbr.org/2012/11/focus-entrepreneurship-policy>



Dominik Brichta a Peter Both

Electronic Star

/ Year founded: 3. November 2012 / Scale-up period: 2012–2016



Electronic star is a successful e-commerce business present in 7 countries across the CEE region with 20 e-shops and B2B distribution. The founders, Dominik Brichta and Peter Both, met at high-school and prior to Electronic star started another business together.

Electronic star has a combined 13 white goods, sound & light and fitness brands which are designed in Berlin. One of their advantages is their use of own distribution network, design centre in Berlin and production facilities in China, which can be reflected in a more favourable price for customers. The products are designed and updated based on the feedback of customers across Europe.

Dominik and Peter decided to build their future with their own hands and started their business during university. Peter learned from his parents company and caught the entrepreneurial spirit from an early age.

Electronic star was based on a true friendship, which they then used as one of the pillars of their business. **Dominik says: “Even though we have sometimes very different ideas about innovating our business or moving it forward, we have never argued about it. It is thanks to very clear boundaries and respect we have for each other. I would recommend to every entrepreneur to clarify expectations and visions to prevent any disputes in the future.”**

Being part of a scale-up business also means you are a multitasker and a quick learner from store manager to accountant and strategist. One of their key messages is the need for attention when leading a company, which means getting very good at every day mundane tasks and persevering.

Company culture is extremely important when a company needs to grow organically and helps encourage employees to learn and grow. The founders of Electronic Star want to lead by example with their hands-on mentality and “live for the company”.

One of the biggest obstacles was to find the right talent. At the beginning they needed skilled professionals with experience in e-commerce, but they were unable to attract them to a start-up, even one with a bold vision.

Their goal is to engage young people who are quick learners and can adapt to the culture and fast growth of the company. The first employees were selected to become the next managers. The selection process was quite complex with multiple rounds and a meeting with a psychologist.

Peter: “We wanted to make absolutely sure that the people we started with were the right ones to help us grow. More than half of them are now managers and lead Electronic star forward.” Employees are encouraged to grow with the company and use their entrepreneurial spirit to proactively become leaders within 2-3 years. In 2017 we have a team of 50 people in Bratislava serving all our markets from our headquarters.

Processes change quite often in the fast-growing firm. Electronic star grew 100% annually since its inception in 2012. Sometimes they have to change a process two or three times a year reflecting the growth that they have experienced. Peter says: “The key is to have a clear vision where the company is going and what leaders they need to help them grow. Currently we have 6 heads of departments coordinating over 50 people which we are planning to increase to 75 people.”

In 2016 we have passed a significant milestone of a turnover of

10 million EUR . Building a company such as ours required considerable capital. The company was never backed by an external investor, or from a bank, so what the company is and has now has been bootstrapped with the founders’ efforts. The founders decided not to pay any dividends or receive any salary for the first five years. The future expansions to the new markets in the Balkans and Eastern Europe will be financed by their own profit and in the case that they need more capital they envision financing the company via bank loans that would allow them to keep their equity and allow them to make fast decisions in the rapidly changing e-commerce landscape.

Dominik and Peter see the role of government as closely cooperating with the private sector and tailor its programs to the needs of growing and emerging sectors. Fast-growing companies could be encouraged and supported by bringing experts from specific fields from abroad to help local companies with scaling and internationalising their activities.

Ján Cifra

CEO / WebSupport

/ Year founded: 12. August 2004 / Scale-up period: 2009–2014

The history of WebSupport started in a dorm room as a combination of great people with a very simple and timely idea of providing hosting services.. **“The key element for success was enthusiasm and chemistry between the founders,” says Jan.** WebSupport has been built one step after another and it’s impossible to reproduce its success today.

WebSupport has always had a special connection with their customers, Jan says. They have never really experienced financial issues in terms of investment needed, but there were other constraints such as missing infrastructure and experienced talent pool. They are looking for the right fit and attitude, even on a junior level and they work on developing their skills. The fit is so important, that a new employee must be agreed upon by at least three people. Based on his experience, Slovakia has very limited amount of experienced sales people.

He admits that it is always good to get some external insight when a company is scaling and what works for some may not work for others. WebSupport wants to maintain the inherent culture that the founders brought to the company.

According to Jan, a scaling company focuses on things that are important for it at that stage and neglects other things and this may cause problems for the company. If there was a program for scale ups he would advise to create better access to government and public officials who would be willing to listen and deal with the issues that scale ups might come across.



Peter Gažík

CEO / O2 Slovakia

/ Year founded: 2. February 2007 / Scale-up period: 2009–2012

O2 is the fastest growing mobile network operator in Slovakia. From the start of its operations in 2007 it has been bringing revolutionary solutions, open communication and fairness for all of its customers. O2 was the first mobile operator in Slovakia which has brought the first unlimited program for calling and texting. O2 was also awarded as the operator of the year in seven consecutive years in an independent poll as well as an employee of the year in 2013, 2014 and 2015 among the large companies.

The biggest success of O2 in its 10 year history is 1,9 million customers. O2 has been successful in maintaining their core values they had at the beginning. These values are fairness, transparency and simplicity. According to Peter, there is not one universal company culture, every company is a culture. Company culture is created by its employees.

“If the O2’s core values were not genuine it would not work and this is true especially when it comes to fairness,” Peter says.

O2 is proud to start a revolution and help break down the barriers of the telecommunication market.

The hiring process in O2 is based on mutual communication which means that not only O2 must be convinced about its pick but also a potential employee must choose O2 as the best for him or her.

Peter says that technology enables everything these days but it is more important to show the customers what is useful for them rather than showing what is feasible. O2’s approach is not about bringing innovation but rather implementing it into life.



Jaroslav Chrapko

CEO / Dedoles

/ Year founded: 8 July 2012 / Scale-up period: 2013–2016



Dedoles is an e-commerce business that operates on 6 markets in the Central European region, in Slovakia, Czech republic, Austria, Germany, Hungary and Romania. The company was founded 5 years ago as a distributor of an American T-shirt manufacturer that uses eco-friendly colours, The Mountain. Within three years they've become the largest distributor in Europe.

The vision for the store came from the founder's attitude to life of being responsible and environmentally friendly. The company culture reflects Jaroslav's values and was naturally spread across the team as Dedoles grew. It is based on three pillars, first the desire to grow and develop together with the company and learning as they go, second is humanity, respect and understanding that creates a friendly atmosphere and third, fulfilment in the work they do.

After a few years, they wanted to diversify their portfolio based on customers' needs and feedback.

Currently they sell also natural cosmetics and bags.

Among the key issues they faced during their growth was insufficient cash flow and financing rapid periods of growth. They managed to attract an angel investor who helped them over the intense period of the last quarter of the year that usually brings 50% of their annual revenue. Banks didn't understand their need for short-term loans. They had to be on the market for 5 years to get the trust of their suppliers and banks to help them finance growth.

To be able to serve the growing number of customers, Dedoles needed to create scalable systems and processes, that automated logistics, that further allowed data exchange between internal systems and their e-shop. The goal was to be able to teach a new employee how to process orders in 5 minutes.

Dedoles is still a fairly young company that has a "free-style" selection process. As Jaroslav puts it: "We need to get the right people in the bus, then we can do anything." They are first looking at the fit with company culture and values. As other Slovak scale-ups noted they look for talent and hire people with potential and drive who could grow with the company.

Initiatives from the private sector that Jaroslav sees beneficial

were community events where like-minded entrepreneurs could share their experience. Dedoles was part of the e-shop accelerator Masters Gate, which they won in 2015, that brought extensive mentoring and expert advice and opened doors that helped them grow to the next level. The 2016 Christmas period brought a turnover of 1 million EUR and 25 000 packages shipped.

The government program that would benefit fast-growing firms should start with the inception of the company, where firms would be presented with options and tips on how to scale with mentoring and expert advice in key areas (finance, processes, talent, export). Jaroslav sees the opportunity in VAT thresholds that would allow companies to grow faster. Also, one of the key elements is the ability to hire employees easily.

Michal Meško

CEO / Martinus

/ Year founded: 2001 (e-shop) / Scale-up period: 2007–2010

Martinus is a successful Slovak scale-up that has its roots in 1990 with a brick and mortar bookstore, and then by incremental steps by first opening an online store that allowed them to open more physical stores. In 2016 they have over 400 employees and 25 million EUR revenue.



Martinus is considered a “love brand” for many bookworms in Slovakia.

“The Martinus brand has matured with its customers. To be called a brand that people love is an honour for us. Love means building a long-term relationship between employees and our readers. We hope that this relationship can create something good.”

Looking back the company has been shaped by mistakes and missteps. Great challenges of management came when the company started to grow rapidly. Company culture is one of the strongest things they have. Even if it wasn’t written or codified it was in Martinus’ everyday practice of treating employees, and the communication and service to customers.

The selection process of new employees is mostly based on them sharing the right values. Martinus wants to be as smooth as a symphony, everyone playing their individual notes to make

an overall harmony. The compatibility in values is crucial.

Michal says: “We now understand that we are not a company for everyone. It is worth to wait for the right person for a few months and play defensively for the time being. We cannot teach someone our values, they have to have them in them. We can teach them skills and everything else.”

Martinus didn’t want an investor. They decided to grow step by step, using their own resources.

Martinus experienced new bureaucracy every time they grew to a next level. When they hired more people they needed to adjust processes and also comply with more regulation. Michal says: “During the scaling period, it is hard to comply with various types of regulation because the company needs to set up new processes and concentrate on developing the business and values for its customers. I would suggest easing the legislation for growth.”

Ivana Molnárová

CEO / Profesia

/ Year founded: 28 November 2000 / Scale-up period: 2013–2016



Profesia’s vision is to provide the best possible service for job seekers and the best place for employers to find new talent.

Over 16 years the company changed owners multiple times. They lived through the financial crisis, which changed the landscape of HR from one day to another. The crisis put a halt to hiring and decreased Profesia’s income. It forced the company to look inward, optimise and drive efficiency. It made them ready for growing and scaling after the market bounced back.

Now the company has over 100 employees, it has changed its structure to multiple products and implemented new processes to allow scaling. The process was not simple and it required effective communication with employees.

Ivana says: “We needed to have a clear vision and communicate it well to move forward even if it hurts in the short-term.”

Their company culture is based on honesty and openness. Mistakes are important, even encouraged, because the leaders of the company believe they need to happen to allow learning and growth.

As a CEO, Ivana talks to every employee and her door is always open. The overall mission is for employees to look forward to go to work every morning.

Currently the company has been growing at 29% (2015) and feels a strong need for experienced professionals with an international background to join its ranks to help them build globally scalable products.

Ivana believes in supporting all entrepreneurs and creating a stable and predictable business environment with a strong focus on evidence-based policy making and impact assessment.

Tatiana Ondrejková

CEO / Pelikan

/ Year founded: 24 August 2004 / Scale-up period: 2013–2016



Pelikan was founded in 2004 by three enthusiasts with different backgrounds bringing a unique set of skills, knowledge and contacts from the tourism and digital sector. They sold their first flight ticket at the end of 2004. Tatiana admits that other retail stores didn't view them as their competitors but soon they un-

derstood their success. Pelikan currently employs 140 employees with turnover of 80 million eur in 2016. They are the leader on the Slovak market with an overall market share of 25%, and 80% in the leisure business, being number three in the Czech Republic. They operate also in Hungary, Poland, Austria and Germany.

Tatiana attributes their success to the position of the first comer in online ticket sales in Slovakia. Tatiana admitted that they have never dealt with a lack of capital, but growing pains were rather about crucial decisions on how to develop the company, which markets to go into and how to structure the company, since they increased their headcount from 2 to 15 in one year.

Tatiana admits that several problems emerged due to the lack of experience of the founders. For Pelikan the company culture is a treasure that needs to be preserved. According to Tatiana it has been a struggle as the company grew to 140 employees. She

emphasises that it is important to find the right managers who would transfer the values of the company to the people. From this perspective it is easier to build the company culture from the beginning then to preserve it. You need to learn how to create communication channels between different departments. Also a decrease of productivity has been present since it always takes time to find new people and train them. **Tatiana says: "It is crucial that new people do not come because of more money they would earn but because of the passion of the job".**

Tatiana says that a scale-up program should focus on the ease of doing business and creating a friendlier business environment rather than hampering their business activities by generating new legislative obstacles. Instead of imposing strict rules on businesses there should be more control which would detect the unfair practices of companies

Šimon Šicko

CEO / Pixel Federation

/ Year founded: 10. August 2007 / Scale-up period: 2010–2014



According to Šimon, in order to build a scale-up there must be a set of circumstances and the founders having an appropriate entrepreneurial mindset. Either you need to do something you love and monetize it at the same time or you solve a problem.

Šimon is convinced that a strong vision builds endurance. In Pixel Federation they found something they love and we were willing to sacrifice a lot of things. Back in 2007 when Pixel Federation was founded, the term startup wasn't popular just yet, but the founders were fully aware that they had to be making a profit from the start. They failed five times before they found the right model for their business.

According to Šimon, an approach on how to do the business may differ. In comparison with Facebook which is viewed as an unicorn, Pixel is a cockroach that would survive even a nuclear blast. The company is set on a "slow" scale up period compared

to the scale-ups in Silicon Valley. They plan to become an unicorn in 20 years.

Pixel Federation follows Kaizen when it comes to company culture. He says that it is important to be able to quickly adapt to the current situation depending on the size of the company; whether there are 10 or 200 employees in the company. Vision and strategy are most crucial for company culture. It is always important to identify what and why we are doing and this must be clearly communicated to the employees. If they are not compatible with this then there is a problem. Is it better to have a failing product than a company culture that isn't followed.

“There are several departments in Pixel and we are proud that we are one team and we all work together. We have a saying in our company: “players to players“, which means we try to make the product as if we were making

it for ourselves,” Šimon says.

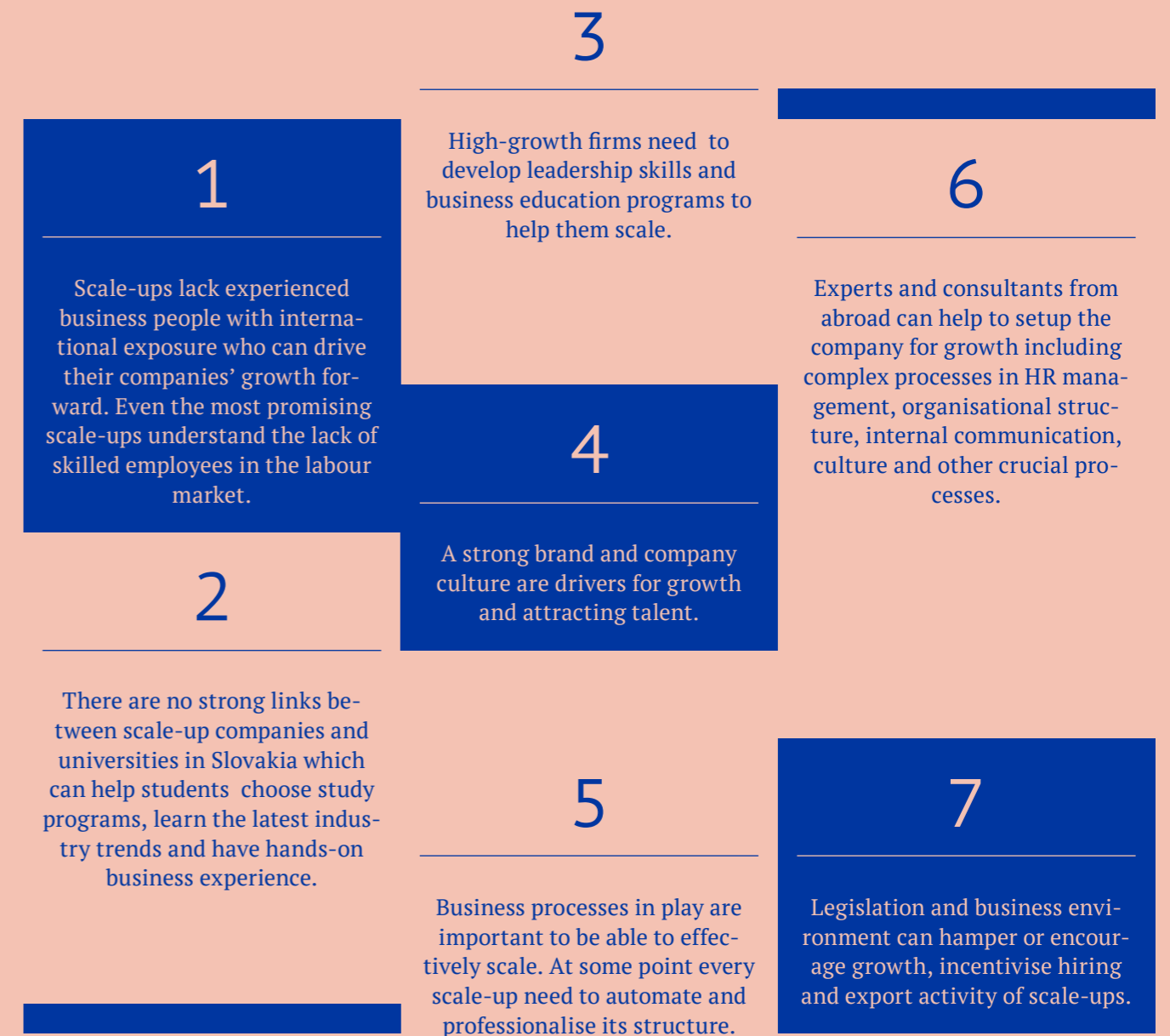
Their aim is to maintain the spirit of Pixel Federation which has been present from the beginning. It is a challenge with a growing number of employees, but top consultants hired by Pixel are managing this issue. However, a growing number of employees might have caused a decrease in productivity even though there is no hard data which could prove this. On the one hand Pixel has not experienced any problems with capital, also thanks to the investments they received, but on the other they view a lack of skilled people as a problem recently. They hired the best people at the beginning but as the company grows the problem is becoming more significant. They are dealing with this problem by inviting international mentors who help them with the processes that they are not able to set up in-house.

According to Šimon, there must be three fulfilled criteria in order for a company to reach a scale-up phase or to be able to get financing: 1. Beta-version of their product 2. Marketing strategy and identified customers 3. Understanding KPIs.

Šimon highly appreciates cooperation with the Vienna University of Applied Sciences where they work closely with professors and students. He didn't have a good experience in Slovakia and he says that there must be a generational change at Slovak universities to allow better cooperation with the business sector.

A program supporting scale-ups should include a venture capital fund that would be able inject large amounts of money into scale-ups and he also recommends a government program for inviting international mentors to help fast-growing companies set up processes and structure.

Key Conclusions:





Best Practices From Private and Public Players

The private and public sector can play a crucial role in supporting the business environment as a whole as well as specific initiatives for fast-growing firms. Every scale-up we have talked to during interview sessions identified a series of growing pains they experienced when rapidly expanding their operations.

In this chapter we look at private and public initiatives supporting the fast-growing innovation sector. This list covers some of the tools helping entrepreneurs in finding the right employees, building leadership capability, accessing new markets and finance.



Finding The Right Talent

In the V4 Startup Survey we have dedicated a chapter to human resources. The situation on the Slovak labour market was already alarming to them. In 2016, Slovakia has reached the lowest unemployment rate in seven years and now has the highest number of job offers available. The labour market has changed in the previous months and it shows signs of overheating. On the one hand there are the highest number of offers, while on the other the unemployment rate is falling and there are a smaller number of available candidates. The ratio between job offers and available candidates is leaning towards more offers and this will be worsen in the future. This trend is favorable to candidates looking for a new position, since they can choose from more possibilities and it is much easier to negotiate an offer. For companies looking for new employees this situation gets more complicated. This means more competition among employers, which is most visible among highly-skilled professions. In the high value-added fields there is fierce competition for the best talent. ^[2]

The Slovak scale-ups we have interviewed decided to hire less skilled employees and train them in-house to grow with the company. However, for some of the advanced tasks they required talent and expertise that was harder to find on the market. Many see the opportunity of opening the hiring policy to potential employees outside the European Union.

The lack of skills could be solved in the short-term with public and private initiatives matching and training potential employees to work for a scale-up. Examples from such initiatives from across the world:

► Silicon Milkroundabout is a job fair that aims to attract talent to work for a tech company with startups, scale-up founders and team leaders presenting opportunities in engineering, product management, design and marketing.

► General Assembly - offers full-time programs, long-form courses, and classes and workshops on the most relevant skills for the 21st century - from web development and user experience design, to business fundamentals, data science, product management and digital marketing.

► Coursera - offers online courses from top universities across the globe with over 2,000 courses in business, computer science and social sciences.

In Slovakia there are also some interesting programs on building entrepreneurial and digital skills. Google launched Digital Garage ^[3] in 2016, which aims to train people with a range of digital skills for free online. This initiative trained over 16,000 Slovaks in the first 6 months. Among other Slovak initiatives are the online and offline course in programming, design, web and app development by Learn2Code ^[4]. Rozbehni sa ^[5] aims at developing entrepreneurial skills and testing out ideas in a out-of-the-box solution. The initiative Aj ty v IT ^[6] aims at a female audience, attracting girls at high-school to a career in IT fields.

Looking at the long-term trends and ranking of Slovakia in the international OECD PISA ranking ^[7] the education sector and preparation of the younger generation for the jobs and opportunities of the 21st century would require evidence-based decisions on effective programs and a critical set of skills required for students, future employees and entrepreneurs. Evaluation of the long-term strategies is beyond the scope of this report, but the authors wanted to stress its importance for the long-term sustainability of the Slovak economy.

Developing Scale-Up Leadership

Leaders of fast-growing companies often need to cope with changing conditions and may need to use external insights, knowledge and expertise to take their company to the next level. A very important aspect of growth is a skilled and talented pool of employees who are willing to learn or already have professional experience in rapidly growing businesses.

There is also a strong case for the role model effect, highlighting entrepreneurs who “made it big” and are willing to share and exchange knowledge with others, provide vital mentoring and advice to ‘first-timers’, helping them move forward.

[2] Slovak Startups Report 2016, Part of the V4 Startup Survey

[3] ► <https://digitalnagaraz.withgoogle.com/>

[4] ► <https://www.learn2code.sk/>

[5] ► <http://rozbehnisa.sk/>

[6] ► <http://www.ajtyvit.sk>

[7] ► <http://www.compareyourcountry.org/pisa/country/svk>



Case Study: BrainTrust Slovakia

BrainTrust is an informal association of top Slovak tech CEOs meeting every 6–8 weeks facilitating the sharing of knowledge and insights in building a global innovative company in Slovakia.

The motivation behind starting this platform was the first presidential trip to the US, where many entrepreneurs who accompanied the Slovak president talked in an informal and friendly atmosphere, but they did not go into detail on their business experiences. The founder of BrainTrust Marián Gazdík says: “After talking to key players of the ecosystem, such as Rasťo Kulich and Ken Ryan, we have decided to change this and encourage sharing of ideas, knowledge and insights, which is common in other parts of the world.”

The goal of BrainTrust is simple – To implement a culture of sharing knowledge and help while building world-class companies.

Each session has three parts, starting with a presentation on a selected topic about scaling a business delivered by one of the members, then a debate with members and then selecting a major

challenge within these topics and working on them in smaller workshops and then a presentation of the workshop outcomes.

Members go through a rigorous selection process. One of the main criteria is that they need to be founders or CEOs of significant companies that have a clear vision and path to become global players. Also very important is the strong personal integrity of the CEO.

Similar to the Slovak BrainTrust is the UK ELITE programme ^[8] which is designed to help prepare UK private companies for their next stage of growth. The three part service offers education, business support in organisational and cultural change, mentoring, building relations with corporate partners and access to private equity, institutional investors and international markets delivered in collaboration with Imperial College Business School.

One of the key aspects of programs like these is a creation of a mentor exchange tailored to the needs of high-growth companies.

Acceleration programs

UK's GrowthAccelerator is a government-backed service that provides a comprehensive package of business support to Small and Medium Enterprises (SMEs) with the potential for achieving high-growth in these SMEs. It is delivered by a consortium of private sector companies led by Grant Thornton, and provides expert business coaching which is tailored to addressing each business's needs. The coaching offer is split into three main strands: access to finance, growth through innovation and business development. Assisted companies can also access up to £2,000 of matched funding for leadership and management training for each senior manager. 14,000 businesses in the UK have been supported by the service since it was launched in 2012. These businesses have added 36,000 jobs and £1.5 billion of gross value-added (GVA) growth. This is an average annual increase of 36 per cent in employment and 32 per cent in GVA. Businesses have also been successful in raising finance, with £103 million raised in total. ^[9]

Goldman Sachs 10,000 Small Businesses ^[10] is an investment to help entrepreneurs create jobs and economic opportunity by providing greater access to education, capital and business support services. With 33 sites across the United States and United Kingdom, 10,000 Small Businesses have served over 7,700 small business owners. The program

has reached businesses from all 50 states, Puerto Rico, and Washington, D.C, and has resulted in immediate and sustained business growth for the alumni of the program.

In Slovakia there are private initiatives delivering business education for e-commerce.

Masters Gate ^[11] is a Czech and Slovak competition for a year-long acceleration program in three categories, from a small growing e-shop to a company ready to scale to new markets. The program offers educational events, mentoring sessions, strategic consulting and marketing tools that aim to encourage entrepreneurship and motivate founders to scale their businesses on national and international markets. The competition is now in its second year and one of its graduates (Dedoles) is featured in this report as a high rising star multiplying its revenue 25 times since 2013.

Pricemanía academy ^[12] offers complex education for e-commerce entrepreneurs through interactive online and live workshops, mentoring services and consultations with business experts. Since its inception in 2013 they have organised over 100 workshops, 50 one-on-one mentoring sessions training over 800 people. Their satisfaction rate is 99,7%.

[8] ▶ <https://uk.elite-growth.com/>

[4] The Scale-Up report on UK Economic Growth by Sherry Coutu CBE – ▶ <http://www.scaleupreport.org>, page 56

[5] ▶ <http://www.goldmansachs.com/citizenship/10000-small-businesses/US/>

[6] ▶ <http://www.mastersgate.com/>

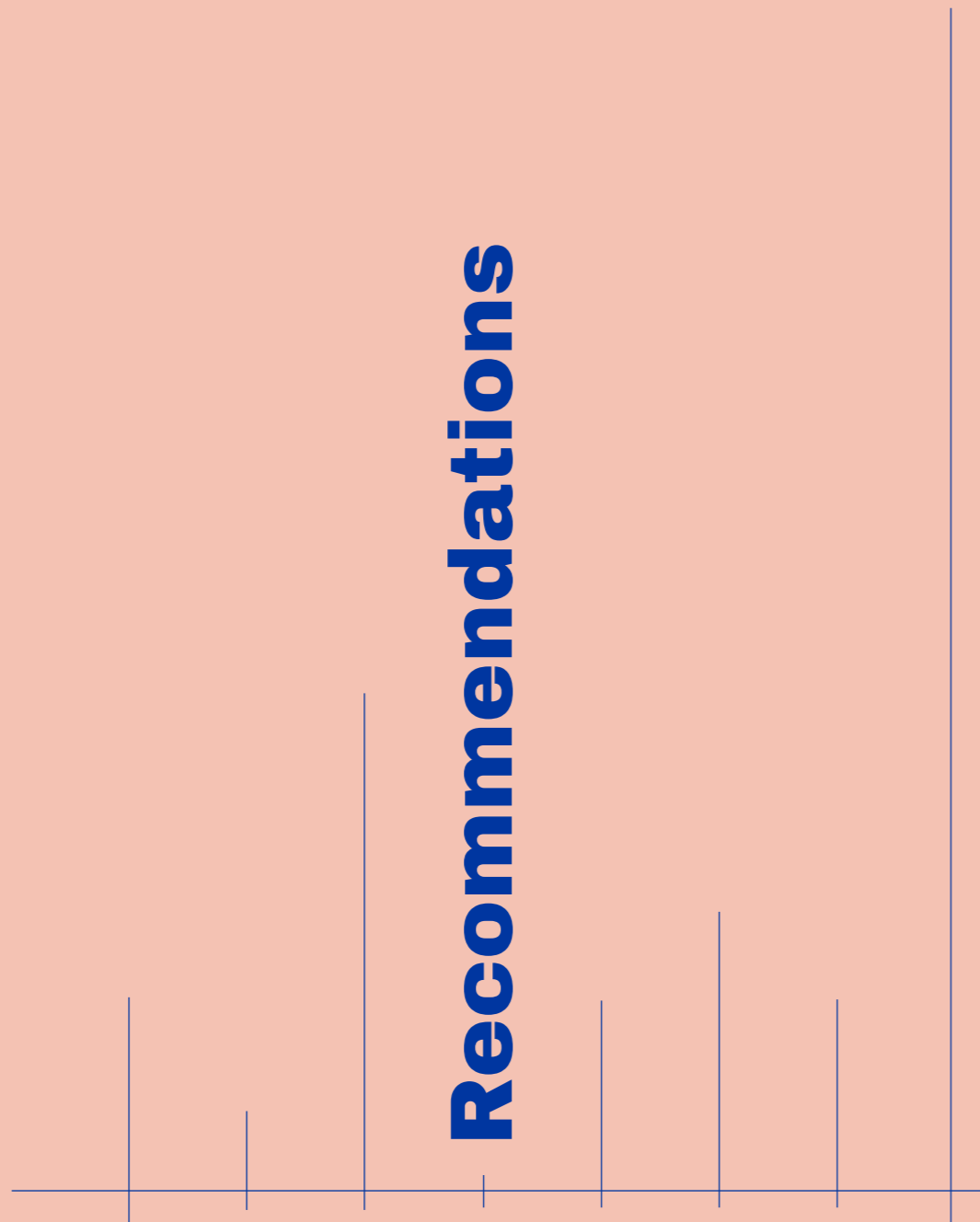
[7] ▶ <https://www.pricemaniaacademy.sk/>





4

Recommendations



In the recent months we have heard voices in the European Union shifting the discussion from startups to scale-ups. As Prof. Dan Isenberg said, we can refocus the policy to look at companies that grow and help facilitate that growth. There are various ways government can and should help entrepreneurs. First, it can drive attention to enriching the local labour pool, either by encouraging new skills or attracting talent for other locations.



A Manifesto for Change and Empowerment in the Digital Age ^[13] that has been launched in Bratislava in 2016 covers 6 key areas policy makers can look at to improve the entrepreneurial ecosystem nationally and in the EU:

1. Complete the Single Market (VAT simplification, copyright, data, SME test, common consumer rules etc);
2. Mobilize Capital through Capital markets union, tax incentives for growth, crowd capital;
3. Activate Talent: attract, train talent, incentivized to hire;
4. Power Innovation: use of legislative sandboxes, startup-corporate collaboration, open data etc;
5. Broaden Education: entrepreneurship education, ICT skills, modernize education and education for business;
6. Monitor, Measure and Evaluate: track and evaluate policies

Based on the most prevalent feedback from Slovak entrepreneurs we have selected a list of recommendations that apply to the Slovak scale-up ecosystem.

Overall bureaucratic burden for the fast-growing firms.

1

- a. **Present options for growth** – Creating a one-stop-shop for companies to see their options while growing the company. One of the ways to do this might be to popularise the simplified joint-stock company that allows founders to negotiate with investors as well as award employees with stock options.
- b. **“Scale-up test”** – Many entrepreneurs reported complex legislative issues while growing that prevented them from growing and hiring faster. Besides applying the SME test, the scale-up test should be applied on all levels of government evaluating all proposed measures based on their potential effect on high-growth firms’ growth, jobs and internationalisation.
- c. Creating a legislative sandbox that would allow scale-ups to grow in a relatively easy legislative environment and helping them to prepare and comply with regulation.

Growth capital

2

- a. **Tax incentives for growth** – creating a VAT threshold by which a fast-growing firm doesn’t need to pay the full amount of VAT, but will repay it after 3 years when it accumulates enough capital. Effectively the government will be offering a loan to an entrepreneur allowing for fast growth with more available capital at the time of rapid growth.
- b. **Scale-up Fund** – Slovak fast-growing firms do not have a pool of follow-on capital to match their growing needs, so the promising scale-ups raise capital in other parts of the world. Although this gives them access to capital, if the company floats or is sold and the shareholders are not based in Slovakia, the gains do not flow

[13] ▶ http://scaleupeuropemanifesto.eu/pdf/Scale_Up_Europe_Brochure.pdf



into the Slovak economy. Additionally, the pressure for companies to re-domicile is typically greater if most of their funding is based abroad.

- c.** **Short-term loans to finance rapid growth** – The government can offer short-term loans to fast growing firms that are not yet attractive to the private banking sector.

Activating talent

3

- a.** **Scale-up education – managerial and leadership training including supporting private initiatives.** Many US VCs also provide extensive ‘talent services’. For instance, Greylock – which funded Facebook, Twitter and LinkedIn – makes an entire team available to their portfolio companies. The sole focus of that team is in supporting scale-ups to develop talent and providing mentoring to help manage the challenges associated with fast-growth. This kind of support should be available to all fast-growing firms that seek mentoring, expert advice and consulting on setting up processes and structures through hiring mentors and globally renowned experts based on the needs and in cooperation with scale-ups. The government should also consider supporting private initiatives that provide these services.
- b.** **Encourage entrepreneurial and digital skills education as part of the curriculum.** Entrepreneurship should become part of the school curriculum, and mainstreamed across all secondary schools and universities. Programmes such as Erasmus for Entrepreneurs and Founders4Schools should be expanded to high school and university students to provide short internships in innovative companies. There are many examples of carefully designed and engaging game-like programs that get students familiarised with basic concepts of entrepreneurship without inducing them to a culture of extreme competition.
- c.** **Scale-up Visa and the Blue card directive.** In order to grow, high-growth companies need to be able to recruit fast the best talent available. According to the OECD, highly educated third-country migrants are much more likely to live in North America (57%) than in Europe (31%)^[14] The Blue Card Directive is a way for Slovak scale-ups to hire skilled migrants and fill in the positions that cannot be satisfied in the local job market (the government should recognise self-taught skills as well and consult with the business sector the specific needs and gaps in the job market).

- d.** **Encourage scale-ups to work with students from high-schools and universities to create role models.** Based on Slovak data, most scale-ups are based in Bratislava and in the west of Slovakia. It is important to encourage better regional distribution and encourage young people to seek employment at innovative Slovak companies.
- e.** **Modern employment for innovative firms** – As is, European companies pay on average 41.8% more in non-wage labour costs – the difference between the labour cost paid by the employer and the corresponding net take-home pay of the employee due to income tax and social contributions – than the OECD average, with some countries (Belgium, at 55.3%) taxing labour twice as much as the U.S. (31.7%). OECD economists believe that a 10% cut in the tax wedge could lead to a drop in structural unemployment of as much as 2.8% in Europe (with every one percentage point cut costing the national treasury around 0.3% of GDP in foregone taxes, according to an IMF estimate)^[15]. Some European countries are leading by example, such as Latvia that introduced innovative startup tax. The goal is to encourage companies to grow and hire employees. Company would pay a special flat Startup Tax that is currently 252 EUR per month per employee, regardless of salary paid and for minimal social benefits (in case monthly salary exceeds 4,500 EUR, there is going to be the additional solidarity tax applied for the excess amount); as well as a special tax regime for highly qualified employees with PhD or Master’s degrees, whereby all social contributions and salary taxes are covered by the state from EU funds.
- f.** **Encourage and recognise informal learning and degrees based on MOOC programs** as part of lifelong learning and upskilling of the professional workforce.

[14] Jonathan Chalo, Recruiting Immigrant Workers: Europe 2016 (Paris: OECD, 2016).

► <http://dx.doi.org/10.1787/9789264257290-en>

[15] Organisation for Economic Co-Operation and Development, Taxing Wages 2016 (Paris: OECD Publishing, 2016)

► <http://www.oecd.org/ctp/tax-policy/taxing-wages-20725124.htm>; International Monetary Fund, “Back to Work: How Fiscal Policy Can Help,” Fiscal Monitor October 2014 (Washington: IMF, 2014).

► <https://www.imf.org/external/pubs/ft/fm/2014/02/pdf/fm1402.pdf>



Growing globally

4

- a.** **Include scale-ups in trade missions and create closer ties to Slovak embassies abroad.** A presence at trade missions and official visits can open doors for fast-growing companies to new markets that would be otherwise be hard to access for them. Closer cooperation and promotion of Slovak innovation can on the one hand improve our image abroad and on the other help scale-ups grow beyond Slovak borders.
- b.** **Unleash the power of “Global Slovak”.** Based on the successful programs from Ireland or Scotland, Slovakia can unleash the potential of successful Slovak professionals working abroad that can act as connectors to foreign markets, facilitators and potential investors. This tremendous potential should be identified and worked with on a systematic basis creating ties between Slovakia and Slovaks living across the world.

Power Innovation

5

- a.** Some of our scale-up entrepreneurs reported cases of more difficult cooperation with universities in Slovakia. A great example comes from the UK, where technology and innovation Catapult Centres connect UK businesses, scientists and engineers to work together on R&D, transforming ideas into new products and services to generate economic growth. These centres also focus on developing manufacturing capabilities to permit the increase of commercial production. Catapult Centres are expected to generate their funding broadly and equally from three sources: business-funded R&D contracts won competitively; collaborative applied R&D projects funded jointly by the public and private sectors, which is also won competitively; and core public funding for long-term investments. In Slovakia, we see a great need of connecting the business sector and academia in developing new products and collaborating on education for the next generation.

Monitor, Measure, Evaluate

6

- a.** **Evidence-based Policy Making.** Each change of policy should be made based on data and evidence gathered from the previous policy and impact assessments on SMEs and fast-growing firms.
- b.** **Government should create and maintain a database of fast-growing firms** to be able to monitor their growth and impact on the economy as well as encourage their activities to secure long-term sustainability of the Slovak economy.



Methodology And Resources

Resources

Deloitte report

► <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/strategy/deloitte-uk-scale-up-challenge.pdf>

The Scale-Up report on UK Economic Growth by Sherry Coutu CBE

► <http://www.scaleupreport.org>

A Manifesto for Change and Empowerment in the Digital Age

► http://scaleupeuropemanifesto.eu/pdf/Scale_Up_Europe_Brochure.pdf

Haltiwanger, Jarmin and Miranda, 2013, Who creates jobs? Small vs. Large vs. Young The Review of Economics and Statistics Volume XCV, Number 2 Research by Prof. Dan Isenberg, Professor of Entrepreneurship Practice, Babson College, Don't Judge the Economy by the Number of Startups by Dan Isenberg and Fernando Fabre

► <https://hbr.org/2014/10/dont-judge-the-economy-by-the-number-of-start-ups>; Focus Entrepreneurship Policy on Scale-Up, Not Start-Up by Dan Isenberg

► <https://hbr.org/2012/11/focus-entrepreneurship-policy>

► <http://www.compareyourcountry.org/pisa/country/svk>

► <https://digitalnagaraz.withgoogle.com/>

► <http://www.ajtyvit.sk>

► <http://rozbehnisa.sk/>

► <https://www.learn2code.sk/>

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► <https://uk.elite-growth.com/>

► <https://www.pricemaniaacademy.sk/>

► <http://www.mastersgate.com/>

► <http://www.goldmansachs.com/citizenship/10000-small-businesses/US/>

Our Methodology And Data Analysis

Based on the evidence collected for the Scale-up report in the UK the potential economic impact of successfully raising the number of scale-ups is likely to be substantial. Evidence suggests that there are a significant number of SME businesses with the potential to become scale-ups in the UK which do not go on to achieve that status. The impact analysis conducted by Deloitte estimates that if the recommendations in this report were implemented in full this might generate between £70 billion and £225 billion of GDP for the UK economy (in 2014 prices) over the period between 2015 and 2034. This is consistent with an additional 45 000 to 150 000 net jobs above baseline in the UK in 2034. ^[16]

The hypothesis for the Slovak innovation ecosystem was to map the Internet economy from 2000-2016, quantify the number of scale-ups in the Slovak Internet Economy from 2013-2015, which we defined by the 12 most used statistical codes (NACE). To define a scale-up we used a definition by the OECD with an extra criteria on company turnover starting at 200 000 EUR at the beginning of the observation period.

The scale-ups featured in the interviews were either currently scaling their operations or are historically successful Slovak scale-ups with track record worth sharing with the wider business community.

[16] The Scale-Up report on UK Economic Growth by Sherry Coutu CBE ► <http://www.scaleupreport.org>





Selected NACE codes:

Wholesale of electronic and telecommunications equipment and parts **[46520]**

Retail sale of telecommunications equipment in specialised stores **[47420]**

Retail sale via mail order houses or via Internet **[47910]**

Wired telecommunications activities **[61100]**

Wireless telecommunications activities **[61200]**

Other telecommunications activities **[61900]**

Computer programming activities **[62010]**

Other information technology and computer service activities **[62090]**

Data processing, hosting and related activities **[63110]**

Web portals **[63120]**

Other research and experimental development on natural sciences and engineering **[72190]**

Wholesale of computers, computer peripheral equipment and software **[46510]**

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