Startup Genome

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Global Startup Ecosystem Report 2020 Key Findings

The **Global Startup Ecosystem Report** (#GSER2020) is the world's most comprehensive and practical research on startup success and ecosystem performance. We are grateful to our Members and more than 300 partner organizations that help make this research possible.

Startup Genome's coverage of ecosystems is growing. Our analysis now ranks the top 30 and 10 runner up global startup ecosystems, as well as 100 emerging startup ecosystems. In the past, our ranking included only the top 30 global startup ecosystems. We have expanded our list of ecosystems to include regions that have traditionally received less coverage, including Central Asia, Middle East, Africa, and South America.

Key Findings from the #GSER2020 Rankings include:

- For a second year running, **the top seven ecosystems remained the same**. These ecosystems are in a league of their own and command a combined Ecosystem Value of $1.5 trillion, 1.7 times the remaining top ecosystems. Silicon Valley maintains its #1 position. New York remains at #2, although now London has risen up and is now tied with it. Beijing is at #4 and Boston is at #5. Among the top five global startup ecosystems, only London was not in the top five in the 2015 ranking, showing an incredible rise in its startup power. Tel Aviv-Jerusalem and Los Angeles follow, both tied at #6.
- The "Rise of Asia" is more visible this year, with 30% of the top ecosystems coming from the region, compared to 20% in 2012. Of the 11 new ecosystems that made it to the top ecosystems list, six are from the Asia-Pacific region.
- The 2020 rankings have seen the growth of many R&D powerhouses: those ecosystems growing largely building upon their strengths on research and patent production. Tokyo (#15) and Seoul (#20) are the prime examples of this, with both ecosystems scoring the max in the Knowledge Factor — a measure of R&D activity. Shenzhen (#22) and Hangzhou (#28) also fit this ecosystem archetype.
- There are two new entrants in the top 20 global startup ecosystems: Tokyo (#15) and Seoul (#20). They displace Bangalore (which fell primarily due to low levels of Funding) and San Diego.

- In addition to Tokyo and Seoul, new entrants among the top 30 include Shenzhen (the advanced manufacturing hub, at #22), Hangzhou (home to Alibaba, at #28), and São Paulo (#30, returning to the top ecosystems list after falling off in 2017).
- Six ecosystems debuted in the list of runners-up of top global ecosystems: Salt Lake-Provo and Dallas (tied at #31 with other ecosystems); as well as Copenhagen, Melbourne, Montreal, and Delhi, tied at #36 with Dublin.
- Amsterdam and Stockholm have demonstrated strong improvement over the years. Amsterdam was ranked #19 in 2015 ranking and since then it has continued to rise to #15 in 2019 to #12 in 2020. Amsterdam ranks very high in Connectedness, gaining from Netherlands' logistical and social connectedness to the world. Stockholm, which debuted in the 2017 report at #14, climbed four places to #11 last year and managed to break into top 10 in this year's ranking. Stockholm's performance was driven by a high volume of substantial exits.
- Traditional tech centers improved significantly in this year's ranking. The Seattle ecosystem made its debut in the top 10, rising two places from last year. Washington, D.C. is another standout case, moving up eight places in the ecosystem rankings to #11 due to its strong tech talent pool.

Key Findings on the Impact of COVID-19 on Startups include:

- In 2020, the State of the Global Startup Economy can be seen through two main angles: the calm before the storm, up to Dec. 2019, and then the consequences of the COVID-19-triggered crisis.
- Until December 2019, things generally looked positive for startups globally. We analyzed companies in the billion-dollar-club, with exits or private companies in technology with over $1 billion in valuation. In 2013, only four ecosystems produced unicorns or billion-dollar exits. Today, a cumulative 85 ecosystems have produced companies unicorns or had billion-dollar exits, astoundingly.
- As the COVID-19 crisis hit across the world, startups have found themselves in a double bind, being hit hard from two main shockwaves: capital shock and demand.
- Four out of every 10 startups today are in the Red Zone: they have three months or fewer of capital runway. This means that they will collapse if they do not raise additional capital and their revenues and expenses remain unchanged, risking a mass extinction event for startups globally.
- The fundraising process has been dramatically disrupted. Even for startups that already had term sheets from investors before the crisis, signed or unsigned, three out of every four startups have had the fundraising process disrupted. A dramatic 18% of those startups with term sheets have had a funding round cancelled by the investor, and 54% have had their funding round delayed or the lead investor become unresponsive.

- Total VC funding has dropped dramatically across every single continent. Globally, it is down by 20% in the three months of 2020. In some regions of the world it dropped even more sharply. China, the first country hit by the crisis, had funding drop by over 50% relative to the rest of the world, as we have written for the World Economic Forum. While the country is experiencing a rebound in investments in March, it still faces lower activity than it had in December 2019.
- About 72% of startups saw their revenue drop since the beginning of the crisis, with the average startup experiencing a decline of 32%. Shockingly, almost 40% of companies of the companies saw their revenue drop by 40% or more, and only about 12% are experiencing significant growth.
- Over 60% of startups have laid off employees or reduced salaries. For startups reducing FTEs, an average of 33% of jobs were cut, as the Startup Genome COVID-19 Impact Insights survey shows. This is also reflected in crowdsourced data about startup layoffs globally, with the number of employees laid off identified in these crowdsourced lists growing 5x between March and May 2020.
- 71% of startups have reduced their expenses, with an average cost cutting of 22%. The combination of drop in expenditures, salary cuts, and layoffs have downstream effects for the rest of society, not just today but also tomorrow's potential for economic growth and innovation capacity.
- However, the news is not all gloomy: Every crisis creates opportunities, and this crisis is no different. For instance, over half of Fortune 500 companies started during a contraction. Over 50 unicorns were created in the Great Recession alone, as Startup Genome data shows. The list of companies funded during the Great Recession is impressive. It includes Facebook, LinkedIn, Palantir, and Dropbox — all of these based in the Bay Area. This shows the need for funding startups during down periods.

Key Findings in Policy include:

- Startups contribute meaningfully to both local communities and to the global startup economy as a whole. With that in mind, policymakers should be focused on helping startup companies get through COVID-19 intact.
- Startups need help now and if policymakers don't work to support them, the economic effects will be dire. Global venture capital funding has dropped roughly 20% since the onset of the pandemic in December 2019, creating ripple effects throughout startup ecosystems.
- Governments stand to make money by injecting at least 6 months worth of cash into technology startups. Even with a negative 10% return on equity, the cost per job saved is 41% lower for startups than for SMBs, respectively costing $14,766 or $24,928 per job saved. It simply costs less to save a job in a startup than elsewhere.

- Startups not only are a good engine for jobs, but without startups, there's less innovation at larger corporations and at small- and medium- sized businesses (SMBs) as well.
- Governments around the world are taking actions to help businesses during COVID-19, but they aren't doing enough to assist startups. Government relief programs typically have strict eligibility rules and emphasize companies with revenue, profitability, and collateral. But this leaves a lot of startups out in the cold.
- 43% of startups globally are not receiving assistance and/or do not expect to be helped by national or local government relief measures.
- The first major goal of governments should be to inject capital quickly to save at least 80% of startups that are at risk of folding in 2020. The second goal should be to inject capital to increase the rate of new seed and Series A investments over the next two years, to ensure these types of investments do not drop as dramatically as they did during the 2008 recession.
- With startups struggling to generate demand they had before the COVID-19 crisis, policymakers can step into help with the development of government-led innovation procurement programs. Startups can help with addressing problems rising from the COVID-19 crisis especially startups in healthcare, social services, and online services.