



Corvinus Business School

European Startup Monitor – Country Report Hungary

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Main Findings of the European Startup Monitor 2016 for Hungary in Brief

- As opposed to the declining number of traditional small and medium sized businesses in the Hungarian economy, start-up firms have a significant growth potential.
- There is a wide range of government policies supporting start-ups, although they cannot substitute for creativity and responsible management.
- Hungarian start-uppers are young people, with one third of them being women; they are satisfied with their life, and most of them would launch another start-up if the current one fails.

Introduction

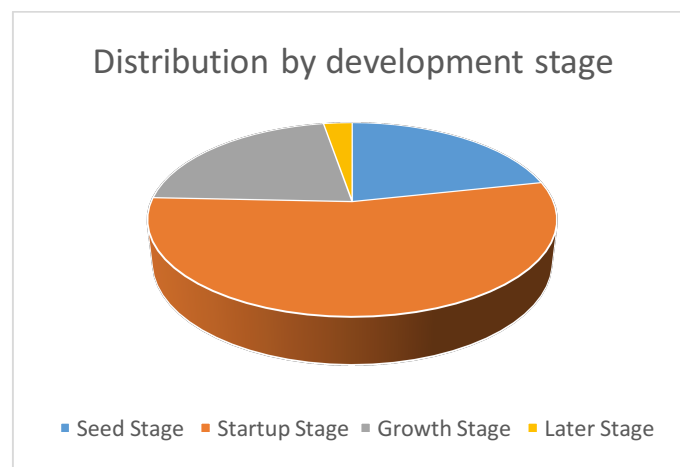
Starting a new venture is a necessity for a country's future economic growth and societal progress. In addition to traditional small business, new ventures or startups that are innovation driven and have high potential are even more important. Startups might create new industries and generate other ventures and economic development not only in a country or region but more often on a global scale.

The Hungarian situation is quite interesting. While the creation of traditional new ventures has been decreasing during the last decade the hype of launching start-ups is increasing. As in the time of gold rush, the start-up ecosystem emerged and expanded rapidly. Individuals,

private equity and venture funds, and governmental institutions partly financed by European Union funding are eager to support innovative teams to start and scale new ventures in a relatively amateur way.

Participating Startups

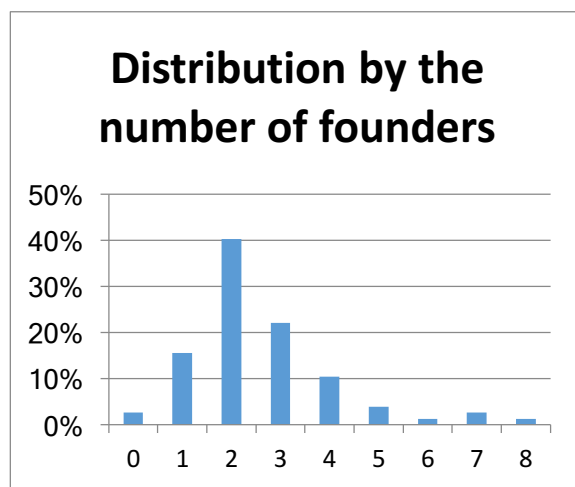
22% of the participating start-ups are in the seed phase (i.e. elaborated the concept of their venture, but do not have any revenue or active users). More than half (54%) of the participants are in the start-up phase. These participants have already developed their minimum viable product (MVP), and they have either generated revenues or registered users. 22% reached the growth stage, and are in the process of scaling their markets. Only 3% are in the later stage and can be considered as established market players.



The type of Hungarian start-up activity in our sample is diverse. IT and software development has the highest share, followed by software provided as a service. Mobile and web applications cover further 12% of the firms, with education and on-line services also taking a significant share. Industrial technology/production/hardware, bio-, nano-, medical technology, green technology, media and creative industries together give one fourth of the activity of the sample.

Founders / entrepreneurs

The majority (62%) of the Hungarian start-ups in the sample were established by two or three founders. 16% of the firms seems to be a one man show while less than 20% have four or more founders. 30% of the firms have female founders, this proportion being almost the same as the share of female entrepreneurs in the whole economy. Female CEOs act in almost one quarter of the start-ups.



The majority (70%) of the founders have no record in the start-up business; this is their first case in testing their fortune via venture. One quarter of the founders have been involved before in one or two start-ups, and four founders may qualify as serial start-upper as they have been interested in more than three ventures earlier.

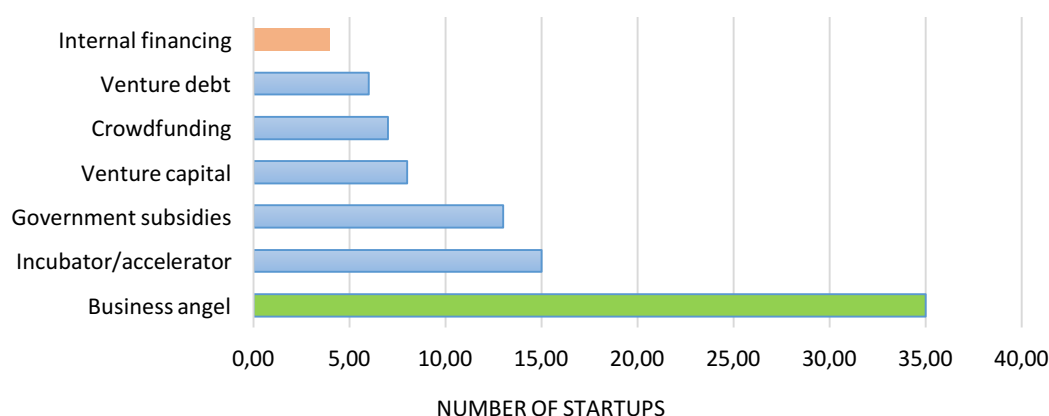
Four fifths of the founders are between 20-35 years old, the modus is 25 years.

Outside the 58% Hungarian founders, the member countries of the European Union represent further 38%, and only 4% of the founders are from outside the EU (Russia and Ecuador). The start-up community in Hungary is more international than the rest of the business sector.

Economics / Relevant sectors / Financial Situation and Business Climate

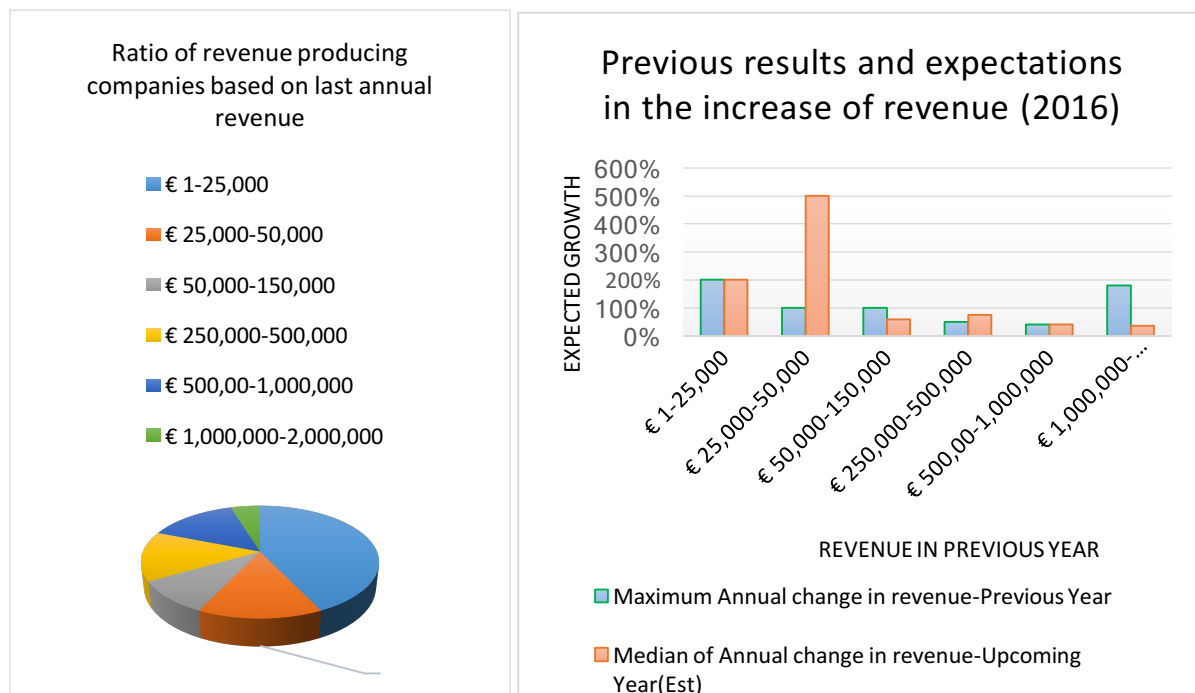
A key financial aspect of start-ups is the origin of funds raised by the companies. The majority of the observed pre-revenue start-ups (61%) consider fundraising as their greatest challenge. Despite the massive growth of the venture capital market between 2011-16 in Hungary, our research suggests that the most common way of raising capital among innovative companies is entering into a contract with a business angel; 37% of the start-ups signed a contract with an angel investor previously.

Most common financing methods among startups in Hungary (2016)



The most likely explanation is that while large investors prefer funding lower-risk projects, business angels are more open to taking larger risks in hopes of fast growth. Other forms of gaining capital like entering an incubation program are significantly less common (16%). Meanwhile self-sustaining methods such as internal financing are the least common methods on our list (only 4% in total).

Besides funding, the focus of the majority of start-ups is on utilizing the potential of their innovative idea and establishing rapid growth within the first few years. In our sample of revenue producing start-ups (21 companies), the future expectations of majority of the firms and the best previous performance of similar companies are significantly similar on most revenue levels.



10% of the sample managed to achieve a revenue of 25 to 50 thousand euros, while the majority of early stage firms usually earn under 25 thousand euros. Above-average performance of companies significantly boosted their expectations, aiming at a high, even 500%, growth. Companies with an annual revenue above 50 thousand euros have much lower expectations, rarely targeting an increase above 100%. However, our sample contains some outstanding results such as a company with a revenue above the 1 million euros mark and a last annual growth of almost 200% which demonstrates how performance may exceed expectations as an innovative company grows.

Human Resources / Jobs / Employees

Companies that have taken part in the survey employ 5.1 (w/o founders but incl. working students and interns) people on average, the biggest workforce being 60. When breaking down the data by the development stage, it suggests, that the growth stage of start-ups holds the most challenges in HR development. The average employee size of the companies increased by 400% (see figure below). The average of later stage companies showed a slight decrease, although only 2.56% of the sample was from this stage. Therefore, a broader study might lead to a different conclusion regarding this matter. Planned and previous hiring analysis is consistent with the above-mentioned findings, although it is worth noting that

based on the previous and planned HR growth, the current average workforce size of start-up stage companies is a bit lower than expected. It must also be noted that 50,6% of the respondents did not answer the question about the past 12-month HR activity.

On average a start-up has created 3.55 jobs in the last 12 months and this pace will also continue in the next 12 months. In comparison, a Hungarian company (including multinational firms but excluding individual entrepreneurs) has created virtually no jobs on average between June 2015 and June 2016. ¹

Employees and hiring	Stage of respondent company			
	Seed	Start-up	Growth	Later
Average number of Employees hired in the previous 12 months	1.8	2.2	7.0	11.0
Current number of employees	1.5	3.1	13.1	12.0
Average number of Employees planned to be hired in the next 12 months	1.8	3.3	6.1	4.0

Employing interns and students is not common (0.5 and 0.8 on average respectively); using this type of workforce is only around 25% on average, and 50% of the respondent companies does not plan to hire such a workforce in the next 12 months. 90.4% of the workforce is domestic, with 5.3% coming from other EU countries, and 1.8% from outside of the EU. Surprisingly, 2.5% of the workforce respondents chose not to give its origin. IT/software development companies are the most workforce intensive with 13.08 employees on average, followed by software as a service companies with 6.8.

Start-ups taking place in the survey are flat organizations with only two hierarchical levels; more than 50% one person is responsible for all the important decisions. The responsibilities however are divided between the members of the company and owners prefer specialists to generalists.

Political and legal environment

When answering the question, how companies would rate basic political environmental issues, majority answered poor or deficient. Two third of the answers regarding national

¹ Calculated based on the data provided by the Hungarian Statistical Office.

politicians’ understanding the concerns of startups and the national school system and universities promoting and communicating entrepreneurial thinking, were quite negative. Two third expect certain reduction of regulatory and administrative burden and in some areas tax reduction from politics regarding their entrepreneurial activities. More than three quarters expect better support in capital raising and more support for access to venture capital. Easier hiring of non-EU citizens is requested by 88%.

Question	Proportion of respondents (%)			
	Negative	Neutral	Positive	Very positive
How positive do you rate your experiences with governmental institutions in your country?	50.0	25.0	14.3	10.7
Do you feel that the government in your country has a serious interest in supporting start-ups?	19.6	23.2	33.9	23.2
How positive do you rate your experiences with European institutions?	12.2	17.1	26.8	43.9
Do you feel that European institutions have a serious interest in supporting start-ups?	36.4	45.5	4.5	13.6

Generally, European Institutions are ranked higher than the local ones. However, their interest in supporting start-ups is regarded lower than governmental institutions. This is a clear contradiction, which might be interpreted as having higher hope in European institutions compared to local ones but based on experiences, both are categorized as less promising.

76 per cent would agree or fully agree that the domestic markets are rich in profitable opportunities while only 52 per cent would argue that opportunities for product innovation are abundant in their major industry.

Cultural environment

Hungarian start-uppers feel responsible for their employees to reflect a strong team spirit. They expect hard work in exchange and feel they set the pattern to follow. They less

intensely support social engagement, and see freedom as the central drive for entrepreneurial activity. The less supported statement is that start-uppers would be politically committed to the interest of their firm.

Statement	Distribution of answers (%)				
	Fully agree	Agree	Neutral	Disagree	Fully disagree
I feel responsible for my employees	67.7	32.3	0.0	0.0	0.0
I work hard and this is also what I demand from my employees	57.6	36.4	3.0	3.0	0.0
I support social engagement	39.4	30.3	18.2	9.1	3.0
Freedom is the central drive for my entrepreneurial activities	38.2	38.2	20.6	2.9	0.0
I place importance on the ecological and sustainable development of my start-up	35.3	44.1	17.6	2.9	0.0
In my start-up, it is important to identify unconventional solutions	35.3	41.2	14.7	8.8	0.0
I am also politically committed to the interests of my start-up	20.0	30.0	20.0	10.0	20.0

Running a start-up firm makes people satisfied. Although no one evaluated his/her current life as perfect, satisfaction level is rather high. Every respondent gave a score above five, with the modus being impressively high eight.

For the majority of Hungarian start-uppers, plan B is founding a new venture. Almost one fifth of them would capitalize on the failure of his/her venture as a consultant, 15% would draw the conclusion that the best choice is to be an employee and less than 10% would rather invest into other ventures. The overwhelming majority of the Hungarian start-uppers would remain in the innovation ecosystem even if their current attempt fails.

Conclusion

Out of the three major engines of creating and scaling start-ups, Hungary has interesting ideas, and energetic teams of 2-5 members in addition to some initial funding. To make these start-ups even more successful, there is a need for systematic validation of the business ideas combined with customer development, developing entrepreneurial competencies, providing more business angel funds, and finally mentoring and control (see the low percentage of self-financing). Hungary has talent and success stories like Prezi, but the country desperately needs more.