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The latest release of the “Polish Startups” report, despite the fact that it is another report written during the COVID-19 pandemic, differs from last year’s one. While it is true that pandemic threads are present in many places in the report - there is even a chapter devoted to it - it is not, unlike in the previous edition, a dominant theme. On the other hand, the results of our survey of startups clearly show that if the pandemic has had an impact on the functioning of the sector, it has largely been a stimulus for their faster growth. As many as 47 percent of companies that changed their business model in the pandemic say they did so because they saw an opportunity for themselves to grow revenue. For 37 percent of startups, the impact of the pandemic on business was in a positive way, and for 40 percent it was basically unnoticeable. The vast majority of startups also have no intention of laying off employees anytime soon.

It is also positive that investors have noticed the huge potential hidden in young Polish technology companies and have boldly invested their capital in the startup market. This applies to both private and public investors. Foreign investors are also playing an increasingly important role in the Polish market. The fact that money is easier to raise can be seen in several megarounds we witnessed this year. In 2021 we also got our first Polish unicorn! Let’s hope that this incredible success of DocPlanner will soon be repeated by our other startups. There is a good chance for it.

Unfortunately, not everything on our market works perfectly, and the Polish startup environment still faces many problems. In this report we have analyzed in detail the barriers that the sector faces and the resulting challenges. We have devoted a separate section to regulatory barriers affecting startups. In this context, we also draw attention to the problem of ESOPs, or employee stock ownership, which is severely limping along in our country and is a key element of a healthy, fast-growing market for young technology companies. This issue must be resolved if we want our economy to be innovative and if we are to be able to catch up, whether with European or global leaders.

We devoted one part of the report to the topic of women in startups. When it comes to gender parity, there is a clear disproportion between “female” startups and those founded by men. Unfortunately, Poland is no exception.
It’s a global problem, which we as a community should deal with as soon as possible and do everything we can to make sure there are as many women in startups as possible. Especially since data shows that startups founded by women do better on the market.

This time we also looked at the issue of employment in startups, as well as training needs - are they needed, and if so, in which areas? Interestingly, founders would be more willing to train in issues related to the development and running of the business, or practice various types of soft skills, rather than, for example, IT skills.

In the course of preparing the report, we conducted a number of interesting interviews with foreign venture capital funds, which resulted in the secondto-last chapter. We asked them, among other things, how Poland compares to the CEE region or other markets, taking into account such areas as: innovation of solutions, growth rate, access to talent, and we also asked how Polish founders can increase their chances of attracting foreign investors. These are just some of the topics covered in our report. We recommend reading it to everyone interested in the startup market. We hope that the conclusions from the report will help to better understand the specificity of this market, its good points, but also the pains that startups in Poland have to face.

The report may also be a useful reading for potential investors – whether industry or venture capitalists, for whom a portion of knowledge about the current situation of our national startups, may be a trigger for talks about new, interesting investments.

Tomasz Snażyk
CEO
Startup Poland
The profile of Polish startups
The profile of Polish startups

Who is a Polish startup founder?

For the seventh year, as Startup Poland Foundation, we have been monitoring and analyzing the condition of Polish startups, which resulted in this annual report. Over these few years, this market has changed beyond recognition. In particular, the last two pandemic years were exceptionally dynamic in terms of changes. The survey conducted among founders and startup managers shows that the Polish startup sector has largely solidified – the average time since founders started their companies has increased. The percentage of startups operating for 5 to 10 years has increased over the last year by 4 percentage points to reach 18%, while the percentage of entities operating for 3 or 4 years is now 28%. (increase from 25% in 2020).

The largest part are startups founded one or two years ago (34 percent). Here we also note an increase. On the other hand, the number of entities established less than a year ago has decreased significantly (decrease from 29 percent to 19 percent).
More than a half of the analysed startups have been operating for up to two years, less than a fifth for longer than 5 to 10 years.

Representatives of startups participating in the survey are primarily their founders (71 percent). Another 11 percent are people who manage the company, but are not its owners, and 17 percent are employees working in the company.

Research conducted in previous years has shown that startups are founded by increasingly older people. This time the trend seems to be the opposite. The number of founders from the youngest generation has increased from 28% in 2020 to 37% today. However, the largest group among startup owners, as in the previous study, are 30-year-olds (43 percent). There are fewer 40-year-olds among those surveyed (13 percent of indications). There are 4 percent of those who founded their own startup over the age of 50.

The surveyors of this year’s study also checked in which regions of Poland founders register the most startups. Mazovia dominates – every third Polish startup is registered in Mazovia (over 32%). This is followed by several regions with other major metropolises – Lower Silesia with Wrocław (over 9 percent), Lesser Poland with Kraków (8.7 percent), Greater Poland with Poznań (7.3 percent) and Silesia with the Upper Silesian Agglomeration (6.9 percent).
The worst performance was recorded in the Kujawsko-Pomorskie, Opolskie and Zachodniopomorskie regions.

In which voivodeship is the startup registered? If it is not registered yet, tick the voivodeship in which it actually functions.

- Masovian: 32%
- Lower Silesian: 9%
- Lesser Poland: 9%
- Greater Poland: 7%
- Silesian: 7%
- Lublin: 6%
- Łódź: 6%
- Subcarpathian: 5%
- outside Poland: 4%
- Pomeranian: 4%
- Podlaskie: 4%
- Lubusz: 3%
- Warmian-Masurian: 1%
- Świętokrzyskie: 1%
- West Pomeranian: 1%
- Opole: 0.5%
- Kuyavian-Pomeranian: 0.5%
A founder - in profile and “en face”
Companies were and are created. They are founded by entrepreneurial, determined and ambitious people. But is there a difference in age and characteristics of startup and non-startup entrepreneurs? In Poland, the average age of an entrepreneur is over 40. Nevertheless, the founder or co-founder (he/she) of a startup is by definition perceived as a very young person, during or just after graduation, with a head full of ideas that are supposed to change the world and ready to make extraordinary sacrifices. This is the pattern we most often encounter when thinking about the founder profile.

The media have perpetuated this image, most often citing as an example the founders of American technology giants. Yes, they started as twenty-year-olds... And in addition, numerous competitions, hackathons and meetups, filled with lots of young people, widely reported especially in the middle of the last decade, completed this pattern of perception. And then suddenly it turned out that the average age of a founder, when he/she started building a company worth more than 1 billion dollars, was – according to Bloomberg - 34 years old!

So let’s look the founder straight in the eye, “en face”. In my experience, we will see there - more often than it was a few years ago - a person with experience, 30-35+ years. Especially if the project concerns “digitalization” in industries where knowledge of processes and the scale of change that can result from implementing a solution is an asset.

There is also a group of founders, for whom the implemented project is already the next one, and the previous ones ended either in success or at least in gaining valuable experience. And these are also usually people aged about 30+ years.

And do we meet young people who conform to the previously established pattern? Of course! For example, where we touch the ocean of “deep tech”!

Marek Kapturkiewicz
Co-founder & Partner
Innovation Nest
Startup founders with experience
As we mentioned in the previous section, only 4 percent of startups were founded by people over 50, and this percentage has decreased compared to previous years. What could this trend be due to? Perhaps the pandemic resulting in the rampant digitization of more and more services has caused many younger people to try their hand at the startup market, taking advantage of the “pandemic afterburner” so to speak. In the research conducted in the following years we will have the opportunity to verify whether this greater number of young founders will translate into real business successes of their companies.

Until now, it was rather older, more experienced people who were considered as those whose startups were more likely to develop a successful business. This is due to their previous work experience, making it easier for them to find their way in more difficult situations. Of course it is not said that a young entrepreneur doesn’t have a chance to create a wellfunctioning company, but it is more difficult task and often causes that one has to learn on a “living organism”, which sometimes generates smaller or bigger mistakes or failures.

Does the Polish startup sector stand out in this respect from the most developed ones? Rather not. In the recently published book “Super Founders: What Data Reveals About Billion-Dollar Startups,” we can read that among startups valued at $1 billion or more and founded in the last 15 years, the median age of founders at the time of founding was 34.

An interesting analysis was also carried out by Prof. Pierre Azoulay in his book “Age and High-Growth Entrepreneurship.”. It shows that when looking at the most successful companies, the average age of the founders increases, not decreases. Overall, the empirical evidence shows that successful entrepreneurs tend to be middle-aged, not young.
So what would be the optimal scenario? Many younger people who try their hand at the startup market are unlikely to end up with just one business idea. When they gain experience, learn from the mistakes they made at the beginning of their path, they will be willing to try again at a later age. As the Startup Poland Foundation, we will certainly keep a close eye on this issue in the years to come.
The idea, determination, courage, and first of all, people – the key elements of success
Idea, determination, courage and people are the key elements of success. Age is of secondary importance. Of course, the solid and long work experience that my partner and I both had when we started the company certainly helped us build it. Experienced leaders are often more effective in handling crisis situations and have a responsible approach to business. They always have a plan B in mind, which allows them to come out on top when the going gets tough. They know that crisis is part of growth. On the other hand, young people are often more innovative and have a bolder approach, fresh ideas and a different perspective. But the most important thing is a promising project and the people behind it. If the founders are deeply convinced of the value of their idea, and they are driven to action by passion, they will find people who will help them in its implementation.

There is no such thing as one path to success and everyone, learning from their mistakes, must develop their own unique path. The backbone of any business are visionaries who have an interesting idea, are committed to its development and believe that it will succeed. However, it is worth remembering that success cannot be achieved by acting alone. Therefore, one of the most important tasks of the founders is to create a team that shares the mission and values of the company, attract and retain trusted colleagues who will work together with them effectively.

After several years since Future Collars was founded, I can say that we have managed to build a strong and effective team that understands and shares our values, which translates into the successes we achieve. By wholeheartedly believing in our mission, which is to democratize access to digital competence learning, we have convinced investors, partners and customers. Thanks to our help, 3000 people have already gained new digital competences and a large part of them have completely changed their professional path. To reach the moment where we are now, we were also helped by courage and determination. These are essential qualities for any leader to face daily business challenges and bring to life innovative ideas that the market needs.

Beata Jarosz
President and co-founder of Future Collars
Women in startups
With each year, the involvement of women in business is growing, but still there are half as many women on the boards of Polish companies as men. The same disproportion occurs in the case of running one’s own business. Data collected by Transparent Data shows that in Poland there are 138.7 thousand women as CEOs of business entities and 301.6 thousand men. This means that only 31.5 percent of CEO positions are held by women.

And what is the gender parity like in the startup sector? The disproportions here are very large, and not only in Poland. Startups founded by women are more and more common, but they constitute only a fraction of the entire global market. Interestingly, according to a report prepared by Statista.com, there are some regional differences and Central and Eastern Europe has more female founders than other regions of Europe. However, this does not change the fact that in every country - be it the United States, Sweden, Poland or India - the male advantage is significant, although it is slowly decreasing.

Proportion of startups worldwide with at least one female founder between 2009 and 2019

Source: Statista.com
In 2019, 21 new unicorns led by women were reported worldwide – six more than the previous year. Their number is expected to grow steadily in the coming years. What could accelerate this process? Networking could be key here – expanding the list of contacts and mutual support of female startups. It seems possible, also due to the fact that often female start-up founders themselves emphasize that they are not only aiming at commercial success, but that they are driven by the need of independence and functioning on their own rules. That is why all platforms, associations and projects promoting female entrepreneurship are valuable. These initiatives allow them to share mutual experiences, knowledge, but also ways of effective business management.

Data from Statista.com shows that only one in five startups worldwide (20 percent) has at least one woman among its founders. In 2020, startups founded by women received only about $5 billion from VC funds, while about $20 billion was invested in startups co-founded by both men and women. Meanwhile, it turns out that entities led by women statistically perform better.
“There are quite a few successful startups led by women, also in Poland. An example is Prowly, founded by Joanna Drabent, a B2B platform for managing PR communication. The platform’s services are currently used by the largest Polish and foreign companies. A year ago, the company was entirely bought by an American industry investor, but Joanna Drabent is currently CEO of Prowly.

Marta Krupińska was a co-founder of Azimo – a platform for international transfers, which was a great tool to make life easier for Polish emigrants across Europe in 2011, when the solution was created. In turn, with the elderly in mind, Edyta Kocyk founded Sidly, with the idea of designing a medical monitoring wristband that would enable constant control of health of ailing seniors. Another interesting example is Ulala Chef – a platform designed by Agnieszka Górska for hiring well-known chefs ready to serve a selected menu in a given location. Currently, the startup already cooperates with more than 150 top chefs.

Among the best Polish startups led by women, Deko Eko is often mentioned. Founded by Agata Frankiewicz, it is a sales platform that promotes the idea of upcycling, i.e. secondary processing of waste, ethical and responsible fashion. The startup connects large corporations that produce waste, with small social enterprises, startups and local designers. The products produced are sold on the Deko Eko platform.

These are just a few of the many great ideas that innovative Polish women have come up with and successfully developed. There are already many more of them and we can expect that more will be created in the near future.”
If one of us wins, we all win
“Female entrepreneurs are exactly like their male counterparts – diverse. Some of us excel in creativity and some in analytical skills. The more diversity among us, the more role models for the next generation.

Talent and skill have no gender. But the belief that we can succeed does. I wish all women had more of the confidence, the huckstering that I still see more often in men. Let’s not wait for an invitation to the table – we deserve a place at the table.

I dream of a world where the conversation about entrepreneurship and business is always approached with the same commitment regardless of who is participating. At the same time, I am painfully aware of the barriers and glass ceilings that are impossible to break through for most people.

The female entrepreneurs I’ve met along the way stand out for their sheer determination and focus on their goals. I think this can often be attributed to a greater awareness of the limitations around them – the more barriers, the more determination.

Women today have to prove that what they want is possible for them. I hope that the next generation will not have to prove anything. If one of us wins, we all win.”

Maja Schaefer
Co-founder and CEO of Zowie
Founder: experience and personality are most important, not age or gender
“A lot of factors influence the success of a startup. One of the most important is the team, especially the founder’s composition. Gender and age are of secondary importance, although statistically startups are much more often founded by men. In Poland, however, we see some “swallows” of change. In Wandlee – a company from our portfolio – one of the co-founders is a woman who finds herself very well in the innovative technology business. I am convinced that it is only a matter of time and soon founders will become more balanced in terms of gender.

When it comes to the age of founders, historically young men have prevailed (and still do). However, our experience shows that the number of founders of mature age (45+ years) is increasing. This is an excellent prognosis, as these are people with a lot of experience, who have often already run their own businesses or left their full-time jobs. At the same time, they are motivated because they often have certain family commitments due to their stage of life, which make them considerate but also do not allow them to give up easily.

In summary, it is not age or gender that determines whether a team will be successful, but a combination of personality traits and team competence. The features that we as a fund look for in founders are determination in pursuing a goal, willingness to learn and broaden horizons, openness to changes, self-confidence, but also humility. Also important are the so-called “people's skills”, i.e. interpersonal skills, including the ability to build a network and listen to customers.”
What do Polish startups specialize in?

“In a survey conducted by the Startup Poland Foundation, respondents were asked to indicate three key words that best describe the nature of the main service or product offered to their customers. Most often, more than one-fifth of them (22 percent) pointed to AI (artificial intelligence) and machine learning (machine learning). Slightly fewer (18 percent) chose "e-commerce". The third place was taken by the term medtech (13 percent), i.e. services in the field of medicine and health. An almost identical percentage (12 percent) indicated the words “education” and “analytics, research tools, business intelligence”. Every tenth respondent indicated “productivity, management,” and 9 percent indicated “Big data”, “industry 4.0” and “fintech, insurtech, financial services”. Terms such as the Internet of Things (IoT) were followed by 8 percent, smart city, martech, or marketing solutions (both 7 percent), and sports (6 percent). The low position of terms such as “agritech”, “e-sports”, and “virtual reality” may be puzzling.

The Polish startups, when asked directly about what specifically they offer, split almost 3 ways – 34 percent offer a service to customers, 32 percent offer a product, and another 34 percent offer a solution that is a mix of product and service.”
Indicate three words which best reflect the character of your main product/service

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Artificial intelligence/machine learning</td>
<td>22%</td>
</tr>
<tr>
<td>Ecommerce</td>
<td>18%</td>
</tr>
<tr>
<td>Medtech</td>
<td>13%</td>
</tr>
<tr>
<td>Other, what are they</td>
<td>12%</td>
</tr>
<tr>
<td>Education</td>
<td>12%</td>
</tr>
<tr>
<td>Analytics/research tools/business intelligence</td>
<td>12%</td>
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<tr>
<td>Productivity, management</td>
<td>10%</td>
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<tr>
<td>Big data</td>
<td>9%</td>
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<tr>
<td>Industry 4.0</td>
<td>9%</td>
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<tr>
<td>Fintech/insurtech/financial services</td>
<td>9%</td>
</tr>
<tr>
<td>Internet of Things (IOT)</td>
<td>8%</td>
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<tr>
<td>Smart city</td>
<td>7%</td>
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<tr>
<td>Martech/marketing technology</td>
<td>7%</td>
</tr>
<tr>
<td>Sport</td>
<td>6%</td>
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<tr>
<td>Content</td>
<td>6%</td>
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<tr>
<td>Transport</td>
<td>5%</td>
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<tr>
<td>Entertainment</td>
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<tr>
<td>Hrtech/tools</td>
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<tr>
<td>Hardware</td>
<td>5%</td>
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<tr>
<td>Life science</td>
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<td>Foodtech</td>
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<tr>
<td>Biotech</td>
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<tr>
<td>Greentech/cleantech</td>
<td>4%</td>
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<tr>
<td>Cybersecurity</td>
<td>4%</td>
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<tr>
<td>Social media</td>
<td>4%</td>
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<tr>
<td>Logistics</td>
<td>3%</td>
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<tr>
<td>Proptech</td>
<td>3%</td>
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<tr>
<td>Developers tools</td>
<td>3%</td>
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<tr>
<td>Design</td>
<td>3%</td>
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<tr>
<td>Virtual/augmented reality</td>
<td>3%</td>
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<tr>
<td>Games</td>
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<tr>
<td>Power industry, power</td>
<td>3%</td>
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<tr>
<td>Blockchain/dlt</td>
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<tr>
<td>Agrotech</td>
<td>3%</td>
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<tr>
<td>Electronics/robotics</td>
<td>2%</td>
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<tr>
<td>Tourism</td>
<td>2%</td>
</tr>
<tr>
<td>CRM/ERP</td>
<td>2%</td>
</tr>
<tr>
<td>Fashion</td>
<td>2%</td>
</tr>
<tr>
<td>Electromobility</td>
<td>2%</td>
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<tr>
<td>E-sport</td>
<td>1%</td>
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<tr>
<td>Space</td>
<td>1%</td>
</tr>
<tr>
<td>Cryptocurrencies</td>
<td>1%</td>
</tr>
<tr>
<td>Smart home</td>
<td>1%</td>
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<tr>
<td>RPA</td>
<td>1%</td>
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</table>
A more in-depth analysis of products and services offered by domestic startups shows that most often, nearly half of them (48 percent) define them as a web application, i.e. a computer program that communicates over the network using web browsers. In turn, in 30 percent of cases, their product functions as a mobile application, operated from a smartphone or tablet. Certainly, many tools combine both of these categories.

It may be interesting to note how many startups create products for individual order, implementation at the customer – every fifth respondent indicated such an answer (20%). Meanwhile, a mass product tailored to a wide range of customers is offered by 24 percent of startups. Among other terms, startups also indicated “tools for IT” and “hardware IT”. (both 17 percent), and 7 percent for “digital goods” understood as games, movies, music, etc.

Which of the categories describes your product best?

- **Web application**: 48%
- **Mobile application**: 30%
- **Mass product**: 24%
- **Product made to an individual order/individual implementation at the customer’s**: 20%
- **IT tools**: 17%
- **IT hardware**: 17%
- **Digital goods (films, music, etc.)**: 7%
- **Other**: 7%
The most popular business models

The largest percent of the startups surveyed define their service as advisory services (23 percent), and every fifth of them indicates the e-commerce category (20 percent). These are the two most popular terms, whereas the remaining 57 percent chose “other” category.

The analysis covered business models most often used by Polish startups. The largest number, 40 percent, offer services in the SaaS model (Software as a Service). This type of business model is currently extremely popular and used not only by startups but also by the largest corporations. This growing importance of SaaS systems in the global economy is caused by real advantages brought by transfer from the license system to the subscription-based access to services (most often in the cloud). The change of the model means a significant reduction of company costs with the simultaneous, increased flexibility and freedom of action. Thus, it can be clearly seen that Polish startups understand the process and find themselves well in it.

A separate and the largest category is made up by entities operating in the B2B model (namely, sale and provision of services to other entities). In total, such a model was pointed to by as many as 68 percent of startups, of which 36 percent have large enterprises and corporations as clients, and clients for 32 percent clients are small companies. What is interesting, direct sale to the client (B2C) is realized by significantly lower percent of startups (22 percent). Every fifth company surveyed (20 percent) operates in the marketplace model,
integrating in its tool (most often in the form of an online platform) goods of many Internet sellers allowing customers to buy them.

In which business model does your startup function?

<table>
<thead>
<tr>
<th>Business Model</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAAS</td>
<td>40%</td>
</tr>
<tr>
<td>B2B enterprise</td>
<td>36%</td>
</tr>
<tr>
<td>B2B small business</td>
<td>32%</td>
</tr>
<tr>
<td>Direct to consumer</td>
<td>22%</td>
</tr>
<tr>
<td>Marketplace</td>
<td>20%</td>
</tr>
<tr>
<td>Gig economy</td>
<td>4%</td>
</tr>
<tr>
<td>Creators economy</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
</tbody>
</table>

Another model, recently gaining in popularity, is so called gig economy – sharing or co-sharing economy. It involves so-called work from job to job (namely gigs), which basically makes the model different from the typical full-time employment of workers. Gig workers are mainly freelancers, consultants, external subcontractors of all types, or temporary workers. Subcontractors themselves benefit from such a work model owing to more freedom and a possibility to work in a few projects at the same time. However, at the same time, for many people it is frequently related to the accompanying feeling of uncertainty, constant necessity to take risks, and the sense of instability.

The phenomenon of gig economy is very popular in the United States – according to the statistics of the International Labour Organization (ILO), still in 2017 so-called gig workers constituted 34 percent of all employees in that country, whereas in 2020 the number increased to 43 percent. As for Polish startups, 4 percent function in such a model.

In the survey there is another, small group of startups (2 percent) defining their business model as creator economy. This is one of extremely popular trends in marketing and business nowadays. Within this model, money is earned on the contents made available on social media platforms, and in particular on websites such as Instagram, YouTube and TikTok.

A vast majority of startups have a developed business model, however, every 14th entity (7 percent) does not have such a model yet.
Who are target recipients of services and solutions offered by Polish startups? First of all, the predominance of B2B sales is visible – as much as 58 percent address their offer to small and medium-sized firms (employing maximum 250 people). Slightly fewer (53 percent) indicate the B2B model, but in which clients are large enterprises and corporations (above 250 employees).

As far as sales directly to individual customers (B2C) is concerned, it is offered by nearly half of the entities surveyed (49 percent). 16 percent address their offer to representatives of liberal professions, freelancers, etc. The B2G model has a relatively poorest representation – institutional clients, such as offices, self-governments, schools, universities, hospitals, services, etc. are the clients of 31 percent of startups. For more than every tenth entity non-government organizations (NGOs), public utility organizations, etc. (B2B2G) are the target group.

What type of customer is the assumed target group of the product/service of the startup?

- 58%: Small and medium-sized companies (up to 250 workers), (B2B)
- 53%: Large enterprises and corporation (more than 250 workers), (B2B)
- 4%: Individual customers (B2C)
- 16%: Institutional clients: offices, self-governments, schools, universities, hospitals, services, etc., liberal professions, so-called freelancers
- 11%: NGOs, public utility organizations
- 31%: Other
Polish startups more and more attractive to VC funds
The results of the survey Polish Startups 2021 show that they basically concentrate on business models and sectors which are willingly supported by VCs. Moreover, it can be seen that they try to use the largest potential of the Polish ecosystem – the access to the world-class computer programmers.

From the survey it arises that in Polish startups SaaS models prevail (40%), and B2B Enterprise (36%) gains a definite advantage over B2C (20%). It correlates strongly with the preferences of both Polish and European VC funds. Due to the properties of the SaaS model (after incurring costs, these companies have a potential to achieve very high profitability), it is willingly supported by investors. At the same time, a very large part of VCs, due to the necessity to build other competences and much higher capital-absorption ratio, by assumption does not finance projects addressed to consumers.

20% of startups declare activity in the marketplace model. Definitely, it is also one of the models preferred by VCs. It should be noticed that at the end of the day only a limited number of companies in the model can function on the market – therefore, the result should be interpreted as very high. In my opinion, it shows the level of competition between different platforms but also real risk that only some of them will raise financing from VC and fully use the network effects.

It is very promising that Polish startups place a bet on using AI/ML (it refers to as much as 22 percent of the entities surveyed). The analysis conducted by Movens VC on 15 largest rounds of Seed and Series A in Poland in 2020 showed that as many as 9 of them found their way to companies using the potential of artificial intelligence. It is visible for foreign investors this area is becoming our specialisation.
The feature that most differentiates the startup sector from other sectors of the economy is the emphasis on innovation and the desire to seek new, different solutions. Thus, the issue of patents protecting intellectual property and limiting the risk of copying ideas by competitors seems to be all the more crucial. It is not a simple matter, however, because while founders may and should take care of protection of their projects, devices, databases or source code of their own solutions, it is virtually impossible to protect the idea itself.

According to patent law, computer programs cannot be protected by patents, which means that software solutions are excluded from that option. The issue is even more complex, however, because it requires a distinction between computer programs per se and solutions perceived as technical tools that use software. The former category is excluded from patent protection. Polish (and not only Polish) law does not provide for protection of intangible ideas, concepts or methodologies. This is stated in Art.1(3) of the Copyright and Related Rights Act.

It turns out that over two-thirds of Polish startups have taken care to protect their intellectual property rights (68 percent). However, one-third of them did not.

**Does your startup have intellectual property right now?**

- **68%** YES
- **32%** NO
In a survey conducted by the Startup Poland Foundation in 2019, founders asked why they do not patent their solutions most often indicated that their technology is unpatentable (46 percent), 18 percent that they are still at the research stage and are yet to patent, and 16 percent that they do not see any value for themselves from doing so. Nearly one in 10 startups complained that the patent process was too convoluted and difficult, and 7 percent complained that the associated costs were too high. It is likely that these reasons are still valid today.

What intellectual property rights do Polish startups use for their products and services? The vast majority (77 percent) focus on protecting their know-how. More than every second of them protects their trademarks (52 percent), and 41 percent protects works subject to copyright protection. More than a third of entities indicate the issue of databases (34%). 15 percent and 11 percent of startups, respectively, use intellectual property rights in the form of industrial and utility models.
Startups use different forms of intellectual property protection
The Startup Poland Foundation survey shows that startups use various forms of intellectual property protection. 77% of respondents declare that they protect know-how, 52% use trademark protection, 41% use copyright protection. Only 26 percent of respondents use patent protection. The results of the survey confirm that startups are heading for a less formalized form of protection, less expensive and yet effective while maintaining its basic requirements. The vast majority of respondents choose know-how as a form of protection, which shows that it is an element of strategic management for young companies, which immediately allows them to gain and maintain a competitive advantage in the market.

**Protection of know-how – benefits and limitations**

However, the companies must be sure that know-how meets the features of secrecy, significance for the production process or provision of services and it has been identified (precisely described and separated). Young companies very often consciously decide not to file for patent protection. Startups declare using know-how protection in 77%, while only 26% use patent protection. Know-how protection does not require filing applications or conducting proceedings, and no registration certificates are issued. An invention covered by a patent goes into the public domain after 20 years of protection, which means that anyone can use it. In the case of know-how, the protection can last indefinitely, as long as there is a need to maintain it and the protection mechanisms are not violated.

Know-how, however, may be disclosed at any time, losing the object of protection. Taking care of the security of information flow inside and outside a company should be a priority for companies that decide to protect their know-how.

**Justyna Wilczyńska-Baraniak**
Associate Partner, attorney at law, Leader of Intellectual Property, Technology and Personal Data Practice Group, EY Law
Financing
The most popular sources of capital in Poland

The sources of raising capital by Polish startups are already quite numerous. Especially that there is a lot of money on the market at the moment and it looks like there will be even more in the coming years. In fact, according to the Startup Poland Foundation’s survey, almost half of startups don’t seem to notice any major changes on the market when it comes to fundraising, but according to one in three of them, it’s getting easier to find financing (34%). The opposite view is expressed by 18 percent of respondents.
The venture capital market is breaking records. This is clearly shown by analyses conducted quarterly by PFR Ventures and Inovo. They show that in the first three quarters of 2021 Polish startups raised (excluding megarounds) PLN 1.46 billion, while in the entire 2020 it was PLN 1.23 billion. The number of transactions after 3 quarters of this year has already managed to exceed the number of transactions made in the whole 2020, and in the third quarter alone it was higher by almost a quarter than in the same period last year.

Quarterly, the value and the number of transactions (mln PLN)

As PFR Ventures and Inovo state in their report, 47 of the 110 deals conducted during the period were investments involving PFR Ventures funds. In the first quarter of this year, they provided 49.7 percent of capital for startups. On the other hand, for entities at the seed stage, the funds of the National Center for Research and Development are crucial, as they made 30 transactions, which accounted for 6.7 percent of the total value invested. As for Bank Gospodarstwa Krajowego funds (managed by Netrix Ventures, Brave Seed Fund, BP VC GP1 and Bitspiration Booster), they made 8 investments in Q3.
When it comes to the value of transactions in the analyzed period, the Polish startup market was dominated by public-private capital - public-private capital was responsible for 61 percent of the transaction value in the second quarter, and private capital for the remaining 39 percent. This disproportion is even greater if we analyze the transactions in terms of their number - in this case, as much as 84 percent of them are the responsibility of the public-private side, and 26 percent of them are private.

The percentage share of private and public-private funds in Q3 2021

**By value of transactions**
- 61% Public-private capital
- 39% Private capital

**By the number of transactions**
- 84 Public-private capital
- 26 Private capital

Source: PFR Ventures, Inovo
In the third quarter of this year Polish funds demonstrated great activity in the market, providing companies with almost 60% of the capital. Thus, the trend seen in the previous quarter, when mainly foreign funds led the way, was reversed. The impact of international funds decreased quarter-on-quarter by as much as 28 percentage points. This decrease is due to the lack of large investment rounds in this period, where foreign capital dominates. The share of co-investments of Polish funds with international funds increased by 8 percentage points from the previous quarter. This indicates an increase in the importance of international relationships built by local funds. According to analysts at PFR Ventures and Inovo, stabilization of the upward trend throughout 2021 may translate into setting the indicator at the ceiling of the end of 2020 (27 percent).

The percentage share of international and Polish funds in Q3 2021

By value of transactions

71% Polish funds
29% International funds

By the number of transactions

102 Polish funds
8 International funds

Source: PFR Ventures, Inovo
The breakdown of sources of capital raised by Polish startups in Q3 2021 in terms of value was as follows: the largest portion, 49.7 percent, was funds raised from PFR Ventures, followed by international private capital (26.4 percent), and then Polish private capital (15.4 percent) and NCBR (6.7 percent). However, the proportions are different when it comes to the number of transactions – admittedly, PFR is also the leader here (47 transactions), but then there is NCBR (30). Polish private capital invested in 19 entities, whereas international capital invested in 6. In the analysed period, BGK provided funds to 8 companies.

Sources of capital

Public programs and private capital in Q3 2021
The Startup Poland Foundation survey also asked about the sources of capital used by startups throughout their history. As many as 73% of startups relied on founders’ own funds. It seems, however, that this is not the most growth-friendly financing model. When it comes to external sources of capital, which Polish startups have used so far, the majority (30 percent) points to domestic VC funds (without distinguishing between public-private and private ones). A similar percentage (28 percent) received a financial injection from a domestic Business Angel, and almost one in four (23 percent) benefited from the support of a domestic gas pedal. The same percentage of respondents pointed to funding received from NCBR. Slightly fewer (22 percent) obtained support from the Polish Agency for Enterprise Development (PARP).

**What sources of capital have you used so far?**

<table>
<thead>
<tr>
<th>Source of Capital</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own funds</td>
<td>73%</td>
</tr>
<tr>
<td>Domestic VC</td>
<td>30%</td>
</tr>
<tr>
<td>Domestic business</td>
<td>28%</td>
</tr>
<tr>
<td>Domestic accelerator</td>
<td>23%</td>
</tr>
<tr>
<td>NCBR</td>
<td>23%</td>
</tr>
<tr>
<td>Polish Agency</td>
<td>22%</td>
</tr>
<tr>
<td>Revenue-based financing</td>
<td>8%</td>
</tr>
<tr>
<td>Business angel</td>
<td>8%</td>
</tr>
<tr>
<td>Foreign accelerator</td>
<td>7%</td>
</tr>
<tr>
<td>Foreign VC</td>
<td>6%</td>
</tr>
<tr>
<td>Strategic industry investor</td>
<td>5%</td>
</tr>
<tr>
<td>Crowdfunding</td>
<td>4%</td>
</tr>
<tr>
<td>Bank credit</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
<tr>
<td>Academic incubator</td>
<td>2%</td>
</tr>
<tr>
<td>Venture debt</td>
<td>1%</td>
</tr>
<tr>
<td>Municipal office</td>
<td>1%</td>
</tr>
<tr>
<td>Stock exchange</td>
<td>1%</td>
</tr>
</tbody>
</table>
Another financing model used by Polish startups is the so-called revenue-based financing. It means such a model in which the company receives capital for development or increase of sales and the repayment is done through a predetermined percentage of income. In this case, the founder does not give up shares in the company to the investor. This model was used by 8% of startups.

As for non-domestic sources, 8 percent of the respondents pointed to a foreign Business Angel and 6 percent to a foreign VC fund. A relatively small percentage used support from a strategic industry investor (5 percent), or crowdfunding and crowdinvesting (4 percent). An even smaller number reached for a bank loan (3%). What is striking is the relatively low popularity of such sources of financing as academic incubators (2%), local government support (1%) and the stock market, including NewConnect (also only 1%).

Most of the startups already using external funding have only one round behind them (52 percent). One-third of the surveyed companies have already gone through two rounds of financing, and almost one in ten through three (9%). The percentage of such entities that are already at a further stage of development and have received external capital in four or more rounds is 5 percent.

Source: PFR Ventures, Inovo
What amounts have been collected in the rounds so far? It turns out that most companies have so far raised amounts of PLN 1-2 million (24 percent) and PLN 3-5 million (21 percent). However, these are often significantly lower amounts - in the case of 16 percent of startups, they do not exceed PLN 100 thousand, and 12 percent managed to raise between PLN 100 thousand and PLN 0.5 million. Another 8% of startups were financed with the total amount between PLN 0.5 million and 1 million. Larger cash injection, at the level from PLN 5 million to PLN 10 million, was invested in every tenth startup (10%), while amounts exceeding PLN 10 million were collected by 8% of them. As shown by the latest data from PFR Ventures and Inovo, we have a lot of pre-seed and seed rounds this year - there are 37 percent more than last year and about 50 percent more than two years ago. The number of A rounds is also increasing - this year there are about 10 quarterly, which is 64 percent more than in 2020 and two and a half times more than in 2019. According to PFR Ventures experts, these numbers show that the ecosystem is maturing: there is no problem with access to capital, and the best founders are successfully raising funds from both Polish and foreign funds.

**VC investment in Poland 2019 – Q3 2021**

**Division by the type of round**

Quarterly, the number of transactions with approximation for later rounds

<table>
<thead>
<tr>
<th></th>
<th>Q1 19</th>
<th>Q2 19</th>
<th>Q3 19</th>
<th>Q4 19</th>
<th>Q1 20</th>
<th>Q2 20</th>
<th>Q3 20</th>
<th>Q4 20</th>
<th>Q1 21</th>
<th>Q2 21</th>
<th>Q3 21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-seed/Seed</td>
<td>38</td>
<td>59</td>
<td>32</td>
<td>56</td>
<td>79</td>
<td>89</td>
<td>104</td>
<td>93</td>
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<td></td>
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<tr>
<td>A</td>
<td>124</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>55</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>2</td>
<td>5</td>
<td></td>
<td>2</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D/E</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: PFR Ventures, Inovo
Poles are just learning how to make startups
The scale of growth of the market of innovative companies on the Polish market is substantial. Over the past few years, the scale of investments has been gaining momentum in a snowball rolling downhill, due to the increasing amount of capital pumped into our market, which from the investors’ point of view is becoming a bigger and bigger opportunity compared to other European markets.

The trend that is most evident in the report is that the number of companies at very early stages of development is increasing, while there are still relatively few companies at further stages.

This is shown for example by the number of unicorns, which in a market the size of Poland is still small. This is a result of the fact that only in the last few years the dynamics of investments on our market has become really impressive.

So it can be said that Poles are only at the stage of learning how to make startups. Compared to the hottest places where they are developed in the world, we still lack collective experience in key areas for success. There is still a lack of founders (but also employees) who have already had the opportunity to make their mistakes or achieve their first success, operating under the assumption of aggressive growth.

Undoubtedly, our advantage is in being hard-working and quickly making up for these deficiencies. While the technical areas are really well covered and here we can even say that we export our talent, in the area of marketing and the mindset of doing business this way we still have a lot of catching up to do.

However, I personally believe that we are on the right track to change that. More and more investment will yield more successes and failures that will increase the competence of our staff, and the increasing focus on internationalization will result in exposure to global best practices that will increase significantly. This should ultimately produce very good results.

Michał Gołkiewicz
CEO of Sundose
What does the exit from an investment look like?

Among startups surveyed by the Startup Poland Foundation, the vast majority (91 percent) have not yet had the opportunity to exit. Only 9 percent of them have gone through the exit process.

Exit can take many forms. In the case of startups participating in the survey, the most common form of exit was a trade sale, M&A (Mergers and Acquisitions), i.e. a sale of shares, merger or acquisition of the entire company or its selected part. 67 percent of startups made such an exit. In the case of 13 percent of them, the exit ended with selling off the company’s assets and its liquidation. Other types of exits indicated in the responses were: redemption of shares for remuneration, purchase of shares or the entire company by other shareholders from a VC investor, and secondary sale, i.e. a re-sale of shares to a VC investor. Each of the above responses was indicated by 7% of the respondents.

In 2021 we have witnessed a few interesting exits. The big event on the Polish market was the sale of Piccodi by Innovation Nest. It was an exit from one of the last investments made in Innovation Nest's first fund, in the Seed round conducted in 2015. A report from PFR Ventures and Inovo shows that the return on this investment was 5.3 times the amount invested (CoC). The buyer was Meliuz, a Brazilian company that sells discount coupons and cashback services.
Innovation Nest has made yet another successful exit, cited in the PFR Ventures and Inovo report. This time, however, it was the company itself that bought out its shares from that investor. The company in question is Survicate, a Warsaw-based startup offering tools for conducting surveys and collecting customer feedback. The fund invested an amount of 160 thousand PLN in this startup in the Seed round conducted in 2015. Today, on the occasion of the exit, it recorded as much as eleven times return of this amount (CoC).

Another noteworthy exit this year was the sale of shares of the Katowice-based IT company skyrise.tech to the Finnish listed company Etteplan. The Black Pearls VC fund acquired a stake in the company under the Bridge Alpha program in 2015. The company was successfully growing and performing in foreign markets as well. This investment brought the fund a spectacular return of 18.6x the invested amount. In the third quarter, in turn, we had to deal with the exit of bValue from the company PushPushGo. The investment was made as part of the bValue investment vehicle co-financed by NCRD, from the Bridge Alpha program, and yielded a return of 8-10x CoC for private investors in the bValue Bridge fund. At the same time, bValue also exited its investment in YesIndeed. The company creates complex gamification and incentive systems and has a cafeteria platform called WannaBuy. In this case, the return for private investors was 9-11 times the invested capital. Also worth noting is the exit of Aligo VC from KSME with a return of 9x CoC.
Don’t sell, let yourself get bought
Let us start with the question whether an entrepreneur in an early round of financing should already be thinking about exiting? On the one hand, this may be a sign of a well-thought-out strategy, good market intelligence, even business maturity, but on the other hand, an investor may perceive this as a negative signal, because for us, founders and their motivation are one of the key elements in the early evaluation of a startup.

And yet, the challenge of exiting comes up in the life of every startup - unfortunately, in 90% of cases, it is the premature termination of the business by selling, selling out or simply liquidating.

The most common scenario is that the fund, in an attempt to save its investment, tries to monetise the tangible and intellectual assets, and often finds a new home for the team, especially if it has built a good relationship with investors. Of course, few startups and funds will admit to a so-called „fire sale:” so for the market layman it looks much better in press releases.

The rarest scenario is a startup going public. This happens globally in about 2% of cases. Assuming that only 10% of startups succeed, this is a 0.002% chance. Often the stock market is a „car park” for companies that are somehow doing well, but don’t have the potential to be bought by big global players.

It is best to be bought, i.e. to build such a product and forge such relations with the market, clients, distributors, business partners or competitors as to receive a purchase offer. When someone wants to buy us, we will always negotiate better terms, thus giving the founders, team and investors the expected returns that reward their time and risk.

The fewer investors a company has, the more „bootstrapped” it is, the more exit options it has. Keep this in mind when planning your next rounds.
The young market must take courage
Looking at the sources of capital in Polish startups allows us to draw two conclusions and two recommendations for participants in the Polish innovation financing ecosystem.

#1 We are young...
Our innovation funding ecosystem is still very young. The caution inherent in early age means that many company founders are still wary of contact with venture capital funds. This is indicated by the share of own funds in financing innovative companies - declared by nearly three quarters of the survey respondents. However, this attitude seems to be slowly changing. This can be observed, among others, in the number of investment rounds. In the first three quarters of 2021 there were as many as in the entire previous year.

#2 …, so we make mistakes
At the same time, domestic VCs and business angels are still reluctant to invest at a truly early stage. Many seed rounds appear in our country, but in a mature ecosystem, an analogous company would have already raised an A round. Of course, we have positive examples where this is not the case, but this is about the general trend. In the local market, trust appears from the initial traction or at least MVP stage. For the first area, our influence is limited – it’s impossible to make a leap that moves us from the tail to the peloton. It’s a long process where we will be ahead of individual competitors. In the area of capital availability, we need not only to provide public funds (no problem with that), but also to create an environment for private investors (including tax reliefs and incentives). However, capital also needs to be managed wisely, so managers should also strive for self-improvement in international practices. Otherwise, there is no question of getting ahead.

Additionally, there must be a greater appetite for risk on the part of venture capital funds. Otherwise, they will quickly be duplicated by global players who are already interested in our seed rounds. They have grown in mature ecosystems and now see in countries like Poland an opportunity to multiply capital. They are able to offer developing start-ups more than local players. That is why when an international fund invests in a local start-up, there should already be a domestic investor on board who can verify the idea not only through the prism of financial data and the degree of advancement of product implementation.
Polish startups on the stock exchange

An IPO is a natural stage in the development of businesses. This also applies to startups. However, not all of them are planning such a step. When asked if they are considering going public, startups were divided almost 50-50 – 51 percent have no such intention, while 47 percent are considering such an option. Only 2 percent of them indicated that their shares are already available on the stock exchange.

What is the purpose of going public? The first and most important is to raise capital for further development. At the same time such a move means selling part of the shares belonging to the current owners. The specificity of the startup market makes going public a viable alternative to other ways of financing at a later stage of development - e.g. bank financing in the form of working capital loans or investment loans. The first step before the company thinks about the IPO, however, is to obtain financing on the VC market or industry investors, or support from Business Angels.

A stock exchange debut, however, requires the company to be adequately prepared - first of all, with regard to the legal form of its activity. The company must be transformed into a joint stock company. Other business models are based on shares and not on stocks, which are traded on the stock exchange. In Poland, there are two markets available - the main market, where larger,
developed companies sell their shares, and the NewConnect market, which is ideally suited to the needs of young technology companies such as startups.

However, it should be remembered that the company in the process of IPO must use the support of appropriate advisor or brokerage house. A company's presence on the stock exchange brings a number of benefits - apart from raising capital, it helps build a stable image and ensures constant presence in stock exchange announcements, building brand recognition. However, it also imposes a number of information-related obligations on stockholders.
The stock exchange friendly to startups
The explosion of interest in investing in companies listed on the Warsaw Stock Exchange is due in part to the emergence on the trading floor of companies that have quickly transformed from start-ups into mature businesses with revenues in the billions. Examples of such transformation are Allegro.eu, CD Projekt, Dino Polska or Pepco Group.

Managing such a rapid growth of an organization is quite a challenge for its founders. One of the key decisions is to choose the path of capital development. Currently, founders in Poland have a huge choice of local funds at the seed stage, and at subsequent stages they can use the support of national and international funds financing the dynamic growth phase. Today, venture capital investment is almost 0.1% of GDP, up from 0.01% just 15 years ago, and a quarter century ago such funding was not available. Startups emerging now should reach their first billion in revenue much faster than their big brothers.

Founders should remember that a PE/VC fund’s commitment to a venture is time-bound in advance. Sooner rather than later it will culminate in the fund’s exit from the investment. The most spectacular exits, particularly in the US, are IPOs (Initial Public Offering). According to the Venture Monitor report, in the first half of 2021, out of the 30 largest investment exits, 26 occurred in this way. An IPO conducted at the right time is able to provide founders with capital raised for further development, but it also gives the opportunity for a partial exit from the investment.

We are happy to see that founders of Polish startups are thinking about taking their companies public - 47% of them are considering an IPO. Even if only half of them were to go public, the share of the stock market in exits would be comparable to that of American stock markets. For US VC funds, exits via IPOs account for 20-30% of all exits, but generate 70-80% of all investment returns. Simply put, the depth and breadth of the global stock market is incomparably greater than other segments of the financial market.
As the WSE, we want to actively support businesses in raising capital at every stage of their development. We are working on a Crowdfunding platform and have established GPW Venture ASI and GPW Ventures Asset Management. We are also launching a number of initiatives addressed to the startup market - as a technology recipient under such programmes as ScaleUP or Poland Prize, we are looking for fintech solutions which may have a positive impact on the development of our products and the capital market in Poland. 6 entities have passed through our incubator and our technology company GPW Tech has invested in one of them (TransactionLink). We are constantly improving our offer for IPOs - they receive world-class service, access to a virtually unlimited number of global and local investors while keeping IPO and listing costs at 25-35% of those incurred on the world’s largest exchanges.

Ignacy Bobruk
Vice-Director of the communication and marketing department,
Head of GPW Venture Network,
Giełda Papierów Wartościowych w Warszawie S.A.
(Warsaw Stock Exchange)
In 2021, we witnessed more than twenty debuts on the NewConnect market (as of October 2021), the vast majority of which were producers and distributors of video games. Only a few entities are exceptions, including Legimi - a company from Poznań offering e-reading services (audiobooks and e-books). Another entity that stands out in terms of industry is TenderHut. It is a group of technology companies providing digital products and software for corporate clients. In 2021, the following companies also debuted: DG-Net S.A. - a telecommunications operator building optical fiber networks and providing broadband Internet access, digital TV, and fixed-line telephony services, and Woodpecker.co, a producer and provider of SaaS software designed to automate customer acquisition processes and streamline sales.

An interesting IPO this year is Genomtec, a Wrocław-based medtech company dealing with molecular diagnostics. According to the company’s announcements, it intends to move soon to the main market of the Warsaw Stock Exchange. The main motivation for the move is to gain access to a larger group of long-term investors, including foreign ones.
On the way to WSE main market
At the time we were starting Genomtec, we knew that at some point the decision whether to go public would be in front of us. At first we financed ourselves among private investors, but a year ago we completed a larger issue and since March 2021 we have been listed on NewConnect. Our next step, which we have already announced, is to move to the main market of the Stock Exchange.

But before that could happen, we had to prove that our business idea, its development strategy and execution would bring value and have market potential, making us attractive to stock market investors.

Today, we are in the industrialization phase of our Genomtec ID platform, which we plan to launch in 2022. Genomtec ID has a chance to completely change the approach to genetic diagnostics and bring it closer to the patients, so that diagnosis is possible during a single medical visit and genetic testing can be performed by a doctor, nurse or paramedic. This is the basis for building value in the healthcare market and for our stockholders.

Investors are interested in companies with good prospects. And good prospects are determined not only by the business idea, but also by the team. At the initial stages of running the business, what counts are the competences of individual members of the company and the will to cooperate. This gives a synergy effect. Many paths that are taken in business do not bring results, there are dead ends, but in a good team changes occur faster and more effectively, so that the company can develop further and consistently realize its intentions. Business trends change, some sectors accelerate their growth, others slow down. The ability to efficiently manage a team with the highest qualifications is therefore essential.

To sum up, the most important elements for young companies in my opinion are: the idea for a business which is in line with the needs of the customers, the ability to raise capital for development and consistency in implementing the strategy resulting from dynamic decisions and, above all, the knowledge and experience of the team.
Are Polish startups richer and richer?

A specific feature of the startup sector is that many of them do not generate revenue. Many of them are at the stage of research (R&D), others are just testing their solutions on clients, e.g. by providing their services for free. Hence the key role of investors, thanks to whom a startup has capital not only for day-to-day operations, including salaries for employees, but also for business development, thanks to which it will start generating profits. Of course, this is not only a Polish specificity. On the global startup market, only 40 percent of entities have a chance to become profitable. Startup Poland Foundation data shows that every third Polish startup does not generate income (32 percent). However, in comparison to last year’s survey, this percentage has decreased significantly (from 44 percent).

The revenue structure in this year’s survey is more favorable than last year. Today, 9% of startups complain about decreased revenue (last year it was 7%). By 10 percentage points increased the percentage of those declaring that their company generates more revenue than last year (increase from 32 percent to 42 percent), and another 17 percent record revenue much higher than in 2020. (then only 6 percent of indications).
Appetite comes with eating
When asked to comment on this report, I was asked the question ‘Are Polish startups getting richer?’ Thus, another oxymoron entered my dictionary: rich startup. It will probably amuse every founder, who, regardless of the amount of funds raised, lives in perpetual poverty, making difficult choices about which of the many ideas to fund, how to deal with the fact that development takes longer than expected, revenues grow too slowly, what to do when employees leave and the budget does not provide any room for increases, etc. And the closer we get to the end of the runway, the worse it gets.

On the one hand, the financial situation of Polish startups has improved a lot. Almost 20% of them have already raised at least PLN 5 million, almost 60% are developing and generate higher revenues than last year, and more than one in five generates monthly revenues exceeding PLN 200 thousand, which allows them to feel a sense of financial stability. On the other hand this is still a drop in the ocean of needs. Polish founders are ambitious and the economics of VC funds encourages them to aim high. This means competing for global leadership positions with companies from Western Europe or the United States. Unfortunately, there is still a gap in access to capital. 36% of Polish startups have raised less than PLN 1 million, an amount for which it is really difficult to achieve anything. Of course, we benefit from lower labor costs, but acquiring customers costs our companies exactly the same as their competitors from Germany or the US.

Still, there are many reasons for optimism. There are many more Polish VC funds on the market today than just a few years ago, leading funds from Europe and the US are interested in our startups, and obtaining funding at this key early stage of development is much easier. Additionally, we are participating in building bridges in the CEE region, in Europe and beyond. This means that if we abolish formal barriers, in a few years we can catch up with other Western European countries in terms of the number of great startups that are created here.

Krzysztof Dębowski
Co-Managing Partner of KnowledgeHub
What specific amounts are we talking about? Comparing revenues from the first half of 2020 to the first half of this year, we can see that the differences are not significant. A year ago, 20% of startups had revenues below PLN 10k per month, while currently the percentage is 19%. The number of entities with revenues between PLN 10-50k dropped slightly (from 22% to 17%). However, the percentage of startups with revenues between PLN 50k and 100k (from 7% to 10%) and between PLN 100k and 200k per month (from 9% to 12%) increased.

Still every tenth startup records revenues between 200-500 thousand PLN. An interesting situation takes place in the case of entities with the highest revenue - the percentage of companies earning between 0.5 and 1 million PLN has slightly decreased (down to 4%), while there are more companies whose monthly revenue exceeds 1 million PLN. A year ago it was 5 percent, and now it is 8 percent.
The interviewers also checked which revenue models are used most often by startups in Poland. Almost two-thirds of them (61 percent) earn money through sales, e.g. content and ads, or products and services. More than every third entity grants a paid license for its technology, tools, etc. A quarter (24 percent) generate revenue through brokerage and profit sharing. Among the surveyed startups, 7% are companies that have not yet developed a revenue model.
Revenues from the market more valuable than capital from investors
The year 2021 shows that the Polish startup market is gaining in value: not only is the amount of financing raised systematically increasing, but also - which is new - the number of investment rounds carried out. This is related, among others, to the emergence of new Polish funds, as well as the entry of foreign investors to Poland, who are attracted by the growing number and value of projects.

However, is the ever increasing capital really necessary for Polish startups? Entering the market, especially with online services, is now much easier and requires less expenditure than a few years ago, e.g. thanks to the growing popularity of the SaaS model, which allows easy access to business tools in exchange for a monthly subscription. There are more and more such facilitations. At the same time, however, other costs associated with running a business are increasing, such as costs of hiring employees (30% of respondents perceive it as a barrier to development) or necessary marketing activities. As long as this trend continues, we will see more and more investment rounds.

In the early stages of development, when a company does not earn enough to cover its operating costs, external funding is essential. The vast majority of respondents are at this stage - only about 10% declared that in 2021 their monthly revenues were higher than PLN 100 thousand. However, raising capital from investors should not stop startups from launching their products on the market as soon as possible. It’s not about revenue, but about being able to validate a product or service. Feedback from the market is priceless, so quickly testing the MVP (minimum viable product) on customers can be crucial to the success of a project.

The good news is that nearly 60% of the companies surveyed increased their revenue year-over-year. Growing revenues indicate that the products or services they offer have already passed the toughest test, i.e. market verification, and in the following years we can expect further good news about the financial condition of Polish startups.

Radosław Czyrko
Managing partner of Tar Heel Capital Pathfinder
Money is there, but the idea is not enough
There are quite a few sources of funding on the Polish market and startups have a good environment to grow. Apart from private investors and business angels, there are PE and VC funds. There are public funds, e.g. from NCBiR, PARP or PFR. For the „advanced“ there is, of course, New Connect and the main floor.

Looking at the results of the survey, I am not surprised that the vast majority of the surveyed startups - 73% - start from the bootstrapping stage, i.e. self-financing and develop the business with their own resources. Before investors believe not so much in the idea as in the development potential and efficiency of the business model, it is necessary to build the foundations - such as MVP (minimum viable product) - for which funds are needed. Even pre-seed or seed rounds, contrary to appearances, do not start from the proverbial zero. Investors or business angels enter when they see the potential, know the founders and the team, much less when they are captivated by the idea itself.

In Worksmile the beginnings were similar. There was an idea, but as founders we had experience gained in large organisations and knowledge of the industry in which we were starting. This allowed us to set up the business and convince first a private investor and then the Pracuj Ventures fund, whose investment at the beginning of the pandemic in 2020 allowed us not only to maintain our position, but also to move forward strongly and take advantage of the emerging opportunities, despite market adversities. We have expanded our portfolio, introduced new product categories, which were perfectly suited to this difficult time.

Today, we focus on scalability and technology. Just before the summer holidays of 2021, we also gained a new strategic partner, Grupa Pracuj, and our growth accelerated again.

Tomasz Chaciński

CEO and co-founder of Worksmile
Expansion
What will the expansion of Polish startups be like within the next 12 months and which directions of the world are Poles interested in?

Polish startups are doing better and better on foreign markets. Services offered by Booksy, Brainly, ICEYE, or the first Polish unicorn DocPlanner are used by users in almost every latitude. Most young technology companies realize that achieving true scale, satisfying both founders and investors, is rather impossible without going international.
Certainly, the pandemic has made this task easier - accelerating global digitalization of new areas of services creates an ideal field for entities offering useful and, above all, universal solutions that will work equally well in Poland, the United States, India or South Africa.
Money capital and trust capital in the expansion from Poland
Polish startups face two difficulties in the course of expansion: raising cash capital and maintaining trust capital.

Financing risky, innovative ventures is expensive for a simple reason - while developing companies and introducing them to new markets it is impossible not to make mistakes. The creators of startups, by the very definition of doing something completely new, have no templates on which to base their decisions. Their decisions are and will be subject to error. And their attempts cost money - even if they are executed using the best lean methods. In Poland, financing new ventures is based on a very young Venture Capital ecosystem. Its immaturity means that the funds invested do not come from the profits of previous successful transactions. As a result, there is more risk aversion, lack of experience, a flood of formalities and lower valuations. As a result, startups that successfully reach outside of Poland do so by acquiring capital for expansion from foreign investors.

The second challenge is trust capital. As a nation in trust surveys we are in the middle of the pack when answering questions like „would you trust a stranger” or „most people can be trusted”. This result can be colorfully interpreted historically and geopolitically, but in the pragmatic realities of the „here and now” it is not a good predictor of startup expansion. Startups are built not on a hierarchical supervisory structure like large companies, but on a platform of trust and respect. They are created and developed with strangers - hence trust is like a glue that binds loose elements together. Lack of trust capital in Polish entrepreneurs has the potential to risk upsetting the balance in the famous formula of Gramsci quoted „optimism of the will, pessimism of the intellect. Polish startups whose expansion has been successful often demonstrate how to successfully overcome existing stereotypes.
The fact that Polish startups want to operate in other countries is confirmed by the results of a survey conducted by the Startup Poland Foundation. Almost eight out of ten startups plan to enter new foreign markets within the next year (78%).

The number one foreign expansion direction considered by domestic startups is the EU market - as many as 85% of respondents indicated this answer. The second priority market are the United States and Canada - more than every second entity (53%) is thinking about entering these two huge and key from the point of view of business development markets. Third place was taken by non-EU European markets, such as Ukraine, Belarus, some of the Balkan countries and Norway.

Interestingly, very high on the list of expansion destinations is Australia and Oceania (15%), indicated more often than South America (14%), East Asia (13%), or the Middle East (12%). Another surprise may be the relatively low position of India (9 percent) and China (8 percent). On the one hand, both of these countries are leaders when it comes to the size of the startup market (a whole bunch of highly rated unicorns originate from both of them), so the competition seems high. On the other hand, the populations of those countries are so huge that many Polish solutions could also be applied there. The same percentage (8%) is considering entering the Russian market and Kazakhstan. Startups from Poland are relatively least likely to look at Central American and African markets (5 and 4 percent respectively).
What economic areas of the world are you considering expanding into overseas?

- European Union: 85%
- USA, Canada: 53%
- Other European countries: 40%
- Australia and Oceania: 15%
- South America: 14%
- East Asia: 13%
- Near East: 12%
- India: 9%
- China: 8%
- Russia, Kazakhstan: 8%
- Central America: 6%
- North Africa: 5%
- Continental Africa: 4%

Startups making overseas expansions often consider opening another headquarters in another country or even on another continent. This makes daily operations on those distant markets easier and helps coordinate business and development processes „on the spot”. However, moving the headquarters abroad is a different matter - every fourth Polish startup (25%) has such plans. This is quite a high number and can be a kind of warning signal.

Such a move is often a result of barriers the company encounters in its home country. A broader analysis of barriers faced by domestic startups is described in the next chapter.

Do you ultimately want to move the head office from Poland to another country? What are the reasons?

- Yes: 25%
- No: 75%
Good product may not be enough
Polish startups have been building their businesses with the global market in mind for several years now. More and more companies have plans to expand into foreign markets, especially Europe and North America. This is a very good trend because it allows us to look at the product from a different angle - more universally and comprehensively. It is also an important message for investors – the company wants to develop, it creates a product which has potential on many markets.

When entering foreign markets, you need to be prepared in many areas. A good product may not be enough. It is important to have good knowledge of the specifics of a given market in order to adjust communication and sales accordingly. Companies must also be prepared to provide adequate support in new places and different time zones. This can be hindered by the rapidly rising costs of hiring new employees. It is becoming more and more difficult to recruit specialists who will ensure the maintenance of a high level of service. In addition, there is limited direct contact with the client or product implementation - activities which in the era of the pandemic are quite a challenge. Huge competition is nowadays constituted by global corporations and foreign startups offering many interesting projects. It becomes crucial to support startups in acquiring additional external capital that can help overcome emerging barriers.
Azimuth unchanged
Most of the Polish start-ups are planning to expand abroad. This is a fact supported by declarations that have been repeated for several years. Not only in research, but also in press releases of companies that announce their investment rounds. The direction does not change - the European Union and the USA. The reasons are obvious. The EU is a common market, unified regulations and customs union - altogether it means easy access to almost half a billion clients. The United States is the largest market especially for software companies, and in addition the customers speak English. That arrangement isn’t going to change any time soon.

Ambitions are easy to express, the problem comes with implementation. To achieve success in a particular market, first of all you need to know it. Polish founders lack this knowledge and experience and need support from outside – experts, mentors and advisors. This is where the greatest value, besides capital, that venture capital funds can bring to Polish startups with global ambitions becomes apparent. Market experience, as well as contacts to people or companies that can help start-ups develop in new markets. As long as the funds also go beyond ambitions and actually have such contacts and knowledge.

Smart money is not only the domain of international venture capital funds. We are happy to observe that local players are also doing better in this field. The participation of foreign investors, both funds and business angels, in the rounds of Polish start-ups, often takes place at the invitation of domestic teams. We believe that with time, a similar role will be played more and more by founders themselves, who have been successful on foreign markets and will help in the development of start-ups at an earlier stage by opening doors to their colleagues.
What the expansion of Polish startups will look like
Our domestic enterprises are able to attract the attention of international investors - this stimulates their foreign expansion. It is important to remember that financial support alone is not enough to achieve success. A very high value of cooperation with private equity is new business contacts and support in blazing the trade routes.

Recently, Poland has become a cradle of incredible competence in software development. Recently, we have observed that Polish software solutions cease to be just projects and become products that Western buyers are willing to pay for. Our example proves that we can run an internationalised business without complexes from the very first days of operation, taking full advantage of the open possibility to sell services and products on the Scandinavian and DACH markets, among others.

We are not just suppliers – the international community also wants to benefit from our experience and knowledge: in Stockholm at IoT Talks 2021: Innovating the Ordinary we will be presenting our new smart & sustainable utilities solutions.
Barriers to the development of startups
Will the barriers a startup encounters change with the development of the startup?

Polish startups are growing increasingly faster. However, this does not mean that this pace could not accelerate. The vast majority of them (83%) indicate that as their business grows, the barriers they face on their way are changing.

These barriers can have very different dimensions. The Startup Poland Foundation asked in a survey which of them are the most problematic for Polish startups. It turns out that despite the fact that there is more and more money available on the market (which is discussed in more detail in chapter...
II of the report), still for more than one in three startups (34%) it is acquiring financing in the next phases of development that is the biggest problem.

The second most frequently mentioned barrier are too high costs of hiring an employee - 30% of entities complain about this aspect. This is in fact a problem affecting the entire Polish economy. However, the pressure on wages affects young, emerging businesses to a greater extent than corporations and large enterprises, where the room for manoeuvre to raise wages may be greater. In addition, it should be remembered that startups are often companies offering technologically advanced solutions, such as those based on artificial intelligence, and therefore they need employees specializing in IT areas, such as programmers. However, the work of such specialists is increasingly expensive, and the competitive struggle for good employees is intensifying.

Half a smaller percentage (15%) points to the barriers resulting from organizational problems associated with the construction of the startup. Slightly fewer (11%) companies complain about rapidly changing and unclear regulations, and one in ten about the formalities associated with running a business.

What barriers are most problematic for you now?

- Raising finance in subsequent phases of development
- High employment costs
- Organisational problems connected with the extension of the startup
- Fast-changing and unclear regulations
- Formalities related to conducting activity
Too many formalities
Raising funding is a skill that every early stage entrepreneur needs to develop and then perfect. Fundraising is a very engaging activity, so part of skilful capital raising is to make the process as short as possible in order to focus on growing the startup and its value.

A significant barrier to growth is sourcing qualified staff. Competition from large companies able to offer good terms is palpable. Additionally, it is not uncommon for recruitment for one position to take up to six months, which is a very long time given the pace of company and product development. Fortunately, we look at this as a challenge we have taken on and have found ways to find the right people in a short period of time.

In terms of forms of employment, the IT market is dominated by B2B, which is a very flexible form of employment that allows the terms and conditions to be maximally adapted to the needs of the project. On the other hand, various types of external funding, such as grants, may require specific forms of cooperation, such as an employment contract, which involves a number of different formal consequences and bureaucracy.

The number of reports that the entrepreneur has to fill in for the state and the regulations he has to know is very high. Such reporting also involves the company’s decision-makers, distracting them from the tasks associated with its development. I hope that the next few years will see a reduction in this burden, particularly for small businesses.
Is there any money or not?
When I was founding ZenCard together with Jarek Sygitowicz and Marek Rogozinski in 2013 I heard from Bartek Gola, our seed investor, “Krzysiek, we have money, but no ideas”. Talking to dozens of founders or originators of start-ups in the last 9 years most of them said “Krzysiek, I have an idea, there is no money”. Which is true? Personally, I think the money is there. There is even more money now than there was a decade ago, as evidenced by the insane valuations of startups at the idea or initial traction level. But this applies (unfortunately) to selected areas and mostly to markets other than Poland.

Why? Because we are too young VC market and too poor society. Our VCs want to invest for a short period of time, be very profitable and have control over the company. Socially, we don’t have enough people who once had their own start-up, earned their own hundreds of millions, and now dare to be business angels for ideas which they see as sensible in 5-10 years. The second important element is the investment specificity of Poland. It is accepted that in Poland every investment, especially from VC, is based on capital. Even the initial, pre-seed or seed investment. Until recently, there were funds that wanted several dozen percent of capital for startup. You can’t do it that way. This is no way to build start-ups worth billions. Such a startup needs several rounds and many years to achieve it. And what is it supposed to give in the next rounds, if at the start it gave away a few dozen percent? How does raising capital abroad look like? I will tell you briefly on the example of our next project - Authologic.com. We also founded it with Jarek and Mark in July 2020. We were not able to get the funding associated with NCRD - “project not enough development”. Within a week after that verdict we raised money from SMOK VC and two months later we got into the US Y Combinator program first time. We decided to make a seed round after YC. And it happened: dozens of meetings with VCs from all over the world within a month. No giving capital here and now, signing dozens of pages of agreement, giving power to VCs. The whole thing was based on the so-called SAFE (in short: a loan convertible to shares) – a document of two pages (!!). The result? A month of time, $1.8 million in the account and we could go back to work on the product and its development.

Is it possible in Poland? I say: currently it is not. Why not? The main reasons I mentioned above. They lie on both sides, or maybe even on three?
4 barriers to growth and how to overcome them
Despite many pandemic concerns, optimism in the startup community remains high. According to Capital One’s Corporate Growth Index, 64% of companies see current conditions as “good or excellent”. In spite of this optimism, many companies are struggling to secure sufficient growth momentum.

One of the barriers that comes with growth is the lack of verified business metrics to drive growth. It is difficult to think about expansion without knowing customer acquisition costs, conversion rates, or average customer value over time. Moreover, it is important to note that well performing channels in one market are not necessarily guaranteed success in others.

New risks also emerge during the growth phase, which need to be managed effectively. When planning a growth strategy, it is advisable to prepare a “Plan B” that takes into account any major obstacles such as employment problems, production problems, unexpected expenses, cash flow problems and so on.

Expansion also means additional costs. If your expenses exceed your income, even for a short period, paying the bills becomes difficult. In fact, cash flow problems are one of the most common reasons startups fail.

An invariable barrier that arises at every stage of business development is access to the best talent. To thrive, you need to surround yourself with great people who believe in what you want to achieve and have the competencies to achieve your goals.

Whatever stage your business is at, there are thousands of barriers, large and small, in its path. The best ones are distinguished by their determination and the ability to overcome them.
Regulatory barriers as a problem for Polish startups

Startup founders, like any entrepreneur, face many obstacles when growing their business. Many of these problems are a direct result of regulatory barriers, which are a pain strangling economic development. For most startups, the biggest problem in day-to-day operations is excessive bureaucracy – as many as 69 percent of them point to this aspect. And this should not come as a surprise – there are calculations showing that the costs of bureaucracy borne by companies in Poland amount to several dozen billion PLN every year.

Another important factor blocking the development of the startup sector is the frequent changes in regulations. Trying to keep up with chaotic changes in the law is indicated as the main regulatory barrier by more than half of startups (55%). This is, by the way, a thread directly related to bureaucracy. The growth of the bureaucratic apparatus destabilizes the law – also the officials themselves cannot keep up with the rapidly changing law. This problem was exacerbated during the pandemic, when successive anti-covid legislation introduced completely new regulations virtually overnight.

What regulatory barriers are most difficult for you to overcome?

- Bureaucracy: 69%
- Frequent changes in regulations: 55%
- Insufficient investment incentives/lack of tax reliefs: 46%
- Public procurement system which does not support startups: 42%
- Long and costly process of establishing a startup (company registration, obtaining possible permits): 14%
Almost every second startup points out that investment incentives in the segment of young technology companies are insufficient (46 percent). The startup community has been calling for tax breaks for investors for years. Examples that this is necessary can be seen with the naked eye. There is a reason why so many great startups are created in the United States, where access to capital has been very easy for years. A natural feature of startup ideas is an increased risk of failure of such an investment. Incentives, e.g. in the form of tax breaks, could significantly help in this matter.

The Ministry of Finance is working on introducing such a solution as part of the Polish Order. As we read in the government’s communiqués, the plan assumes that an investor who wants to multiply his resources by entering a startup with his own capital will be able to take advantage of a tax relief amounting to 50 percent of the total investment. He will deduct this sum from his income, up to a maximum of 250 thousand PLN. If this provision comes into force, it could significantly improve access to funding for startups and companies that invest in innovation.

For 42 percent of those surveyed, the key regulatory barrier is the structure of the public procurement system, which is unfavorable for startups. Indeed, as we showed in Chapter 1, the B2G model is relatively unpopular among innovative companies. Institutional clients are a relatively difficult partner for entities in this sector.

One of the barriers indicated by respondents is also a long and costly process of formal establishment of a startup– e.g. the problem of the registration of the company, obtaining permits, etc. This problem is indicated by 14 percent of startups. The solution which was to help is a PSA (Simple Joint Stock Company). A significant benefit is simple and cheap establishment of the company via online registration. Minimum share capital in the case of a PSA is PLN 1. It is difficult to assess now to what extent this form of conducting business activity will be interesting in a longer perspective. In the first month of the PSA functioning only 39 of such companies were registered. The key issue here is also investors’ approach to such entities. The question is whether they will not be assessed as potentially more risky than “traditional” joint stock companies or limited liability companies.
Competence barriers and training

Who are the most in-demand employees for startups? Who is currently the most difficult to recruit? There are no major surprises - above all, the market is short of programmers. As many as 59 percent of startups indicate that this is the professional group whose shortage bothers them the most. In second place is a related profession - an engineer who specializes in creating algorithms responsible for machine learning. Such specialists are sought by every fourth Polish startup (24 percent). Salespeople are also in demand - one fifth of the respondents indicated that it is difficult for them to recruit a sales manager.

For 18 percent of those asked, it is crucial to recruit a growth manager (an employee who combines the features of a marketer, product manager and salesperson). The same percentage believes that it is difficult to recruit a business development manager, as well as a UX/UI designer, i.e. a person who deals with designing user interfaces for machines and software, with emphasis on usability and convenience of use of a given solution.

According to 17 percent of those surveyed, startups lack DevOps engineers, i.e. people responsible for configuring servers and infrastructure when creating a given product.

Also wanted are marketing managers (16 percent), product managers (15 percent) and Big Data engineers. These are specialists responsible for the processes of collecting and analyzing data, evaluating its usefulness, and creating new databases. Another branch of IT eagerly seen among startups are Cloud engineers, or so-called cloud engineers responsible for the full range of tasks related to the design and operation of cloud solutions. People with such professional competencies are sought by 8% of the surveyed companies.

Slightly less (7 percent) of them are looking for HR manager who would support startups in processes related to recruitment. Among the desired professional groups is also an operations manager (6 percent) and finance manager (5 percent).
Competence of newly hired employees is one thing, but no less important is training of people currently working in startups. According to every third company questioned, the market is currently saturated with various types of training and there is plenty to choose from in this respect. More than one in five companies indicates, in turn, that on a daily basis they have no special training needs, although occasionally they take advantage of some interesting training offer. For 5 percent the problem is to find a training that meets the real needs of the company. On the other hand, it is often said that startups do not look for any training at all (38 percent)

**What competencies are lacking in startups now?**
**Who is most difficult to recruit?**

- Developer: 59%
- Machine Learning engineer: 24%
- Sales manager: 21%
- Growth manager: 18%
- Business development manager: 18%
- UX/UI designer: 18%
- DevOps engineer: 17%
- Marketing manager: 16%
- Product manager: 15%
- Big Data engineer: 15%
- Cloud engineer: 8%
- HR manager: 7%
- Operations manager: 6%
- Finance manager: 5%
- Other: 12%
Among startup employees receiving training, those in marketing (39 percent) and sales (33 percent) are the most popular. A slightly smaller percentage train in programming (28 percent). A quarter of them point to training related to project management, and 22 percent to organizing work in the company. Another 17 percent of startups train their employees in the area of programming and operating machine learning and AI algorithms.

When it comes to other trainings in the broad field of IT, relatively popular are trainings on: cyber security, DevOps, cloud solutions (in each case 14 percent). Slightly less frequently startups participate in trainings in graphic design, or data analysis (Big data) - in both cases, 6 percent.

When it comes to competencies related to company management and business development, startups also indicated training related to global scaling of business, finance and accounting (14 percent), customer service (11 percent), pitching, logistics management, supply chain and distribution (8 percent), HR, and risk assessment (6 percent).
Among the training courses used by Polish startups, there are also those teaching soft skills – also necessary in modern business. More than one in ten respondents trained emotional intelligence, as well as leadership and communication (11% each). Another 6% indicated training in time management, and 3% in stress management.

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<td>Graphic design</td>
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<td>Data analysis / Big Data</td>
<td>6%</td>
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<tr>
<td>Stress management</td>
<td>3%</td>
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<td>Other</td>
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Sales and marketing necessary in business scaling
EY has been actively involved in the development of the startup ecosystem in Poland for many years, thanks to which we are able to closely observe the changes occurring in this environment. We see that the effects of the pandemic have had a huge impact on the technology and investment needs of many companies. The winners are definitely startups. Thanks to the accelerated digital transformation, many young innovative companies have started to grow faster, attracting the attention of investors. As the latest Startup Poland survey results show, young innovative companies largely need support in developing their sales and marketing competencies and scaling their business. EYnovation program meets these needs. Its participants have access to original development and educational programs. In cooperation with the Polish Development Fund we have also created for them educational courses on building a business model or raising capital. We also provide access to a wide range of EY experts.

Our support for the startup ecosystem is complemented by the possibility of presenting their innovative solutions to a wide range of corporations - potential customers or investors. For this purpose we use, among others, virtual meetings EY StartUp Talk or Demo Day events.

The results of the survey also indicate that most representatives of startups consider the competencies and skills that are particularly important to them to be those in the areas of sales, marketing, project management, communication and presentation techniques, work organization and cyber security. We also meet these needs through the activities of the EY Academy of Business, which over the past 27 years has expanded the competencies of over 70,000 people, offering training and certification programs in 23 subject categories. We continuously adapt our programs to the changing needs of entrepreneurs.

We are proud of the ambitions of Polish startups, which want to be present on our market and are committed to international expansion. We are happy that as EY we can support them on their way to success.

Michał Piętka
EYnovation Leader, EY

Krzysztof Witkowski
Associate Partner, EY
The survey also investigated in which areas startups would like to be trained. It turns out that above all, they want to practice competencies that allow them to better manage the business or strengthen sales skills. In the first place, training in global scaling of business (43 percent), marketing (40 percent) and sales (36 percent) were indicated. According to 28 percent of those surveyed, leadership and project management training would be useful. Another 26 percent of respondents would like to improve their competencies related to effective fundraising, and every fourth would like to improve their work organisation.

Interestingly, training related directly to various competencies in the IT area is less desirable than training on soft skills such as communication (17 percent), or stress management (16 percent). In these areas, the expectations and needs are clearly incompatible with the reality, in which training is definitely less common than it would result from the needs expressed in the declarations.

What areas would you like to be trained in?

- Global business scaling: 43%
- Marketing: 40%
- Sales: 36%
- Leadership: 28%
- Project management: 28%
- Fundraising: 26%
- Work organisation: 24%
- Programming: 22%
- Pitching: 21%
- Machine learning / AI: 21%
- Finance and accountancy: 19%
- Communication: 17%
- Customer service: 17%
- Cyber security: 17%
- Stress management: 16%
- Data analysis / Big data: 16%
- Time management: 14%
- Risk assessment: 12%
- Devops: 12%
- HR: 10%
- Logistics, supply chain and distribution management: 10%
- Cloud: 10%
- Emotional intelligence: 9%
- Graphic design: 5%
- Other: 3%
Startups don’t learn enough
Analysing the survey results, I am not surprised that more than half of the startups do not train or seek training only occasionally. I often observe that founders are too busy developing their business or... too little humility and too much complacency. This lack of interest in development is astonishing. In my opinion, it’s short-sighted, especially since startups themselves have to educate the market about innovations that support businesses and people.

Young founders usually lack elementary management knowledge as well as knowledge in the areas of effective sales, product development and marketing, which is quite well illustrated by the survey. 43% of respondents indicate that the most interesting training for them is about scaling a business globally. This is certainly knowledge that can be gained from still few practitioners. However, there are excellent training companies, which prepare leaders and their teams to achieve success, both on the management level - such as Leanovatica, and on the technological level - Digital University.

As Pracuj Ventures, we also support our companies by sharing knowledge as part of the #KnowledgeSharing cycle. We believe in and implement the idea of smart money, because apart from funds, we also invest in young businesses with knowledge - ours and external experts - and share experiences. Knowledge can nowadays be provided in “small but concise” doses, which can be easily absorbed and which really support the company’s competences. Without openness to new knowledge there can be no development, which is necessary in any business.
Digital innovation designers wanted
The COVID-19 pandemic and the resulting restrictions and new security standards have accelerated the pace of digital transformation. For many companies, this was the last moment to digitize services and make them accessible to consumers who have moved online and replaced the traditional shopping cart with mobile apps. As a result, as of 2020. We are seeing a revolutionary demand for workers related to building digital innovations. This applies primarily to programmers specializing in various technologies, but also salespeople, marketers, product owners and designers.

Not without significance is also the growing popularity of remote work. The year 2020 has shown many industries that remote work can be as effective as in the traditional model. This encouraged some employees to look for much better paid offers in companies such as the United States or Western Europe, thus reducing the supply of talent in our market.

These trends are reflected in this year’s Startup Poland report. The majority of startups indicate difficulties in recruiting people with technical skills, including primarily programmers, but also engineers specializing in machine learning, devops, big data, or cloud computing. This also affects the high cost of acquiring such talent, which is one of the most common barriers to growth for Polish startups. This is also where the vast majority of such companies’ budgets are spent.

Aleksandra Paszkiewicz
Head of People,
Netguru
The Startup Poland Foundation survey shows that one in three startups (32%) employs between four and ten people, and one in four (24%) employs either the founder alone or a maximum of three people. Slightly larger entities, employing more than a dozen people, account for 15% of the group, and another 16% employ from 21 to 50 people. Those employing more than 50 people constitute only 4 percent. In the case of almost one tenth of the surveyed entities – they do not employ anyone.

The issue of high labor costs has a strong impact on Polish startups and blocks their growth - as many as 8 out of 10 startups believe that increasing labor costs in Poland will limit the employment of workers.

*We are talking about permanent, remunerated cooperation regardless of the legal form of employment.
Most startups (57 percent) also indicate that the cost of hiring employees is the biggest part of their overall budget. Thus, there is less money for such key expenses for business development as research and development or marketing activities. Every fifth startup complains about the lack of financial capacity to hire specialized specialists, who necessarily have high salary requirements. This is a real problem, because in the end the success or failure of a company is largely determined by the competence of its employees. One of the problems also indicated by startups is the need to hire on a B2B contract instead of a contract of employment (15% of indications). Only 7% of respondents do not notice the impact of rising labor costs on business growth.
Every fourth Polish startup reaches for foreign specialists (25 percent). In this group, exactly one half indicate that foreigners work in the company head office in Poland and the other half employ them in their offices in other countries.

Do you do you employ specialists from abroad?

- 75% Yes
- 25% No

How the cost of hiring employees affects startup growth:

- 57% Most of the budget is spent on hiring employees
- 15% Lack of possibility to hire expensive, specialized employees
- 16% Employment based on B2B contracts instead of employment contract
- 7% No impact

Most of the budget is spent on hiring employees
Lack of possibility to hire expensive, specialized employees
Employment based on B2B contracts instead of employment contract
No impact
Startups employing exclusively Polish employees in a vast majority (75 percent) declare that they do not have a need to employ foreigners, every fourth one indicates that the reason for such a state of affairs are too limited financial capabilities.
Rapid employees’ development a challenge for startups
Startups offer their employees the opportunity for faster development. In this respect, they stand out from companies whose organizational structure is more traditional, vertical. However, their managers must remember that balancing employment costs is just as important as good brand positioning on the market.

Real influence on decisions made, the pace of action and opportunities for rapid promotion - these are the advantages of working in startups that their employees list first. The dynamism inherent in this type of business means that staff have a sense of rapidly increasing their own competencies and the importance of their role for the final shape of the product that reaches customers.

The personal development of employees therefore takes place in parallel with the growth of the organization itself. And this poses additional challenges for start-up managers. They have to maintain a balance between the need to meet the growing financial expectations of increasingly qualified staff and the limit set by the stability of the company budget. This is why, among other things, it is becoming increasingly important to employ HR specialists at an early stage of a start-up's operation. Professionals will take care of work comfort, thanks to which the risk of leaving the company will be limited. This in turn will have a real impact on business costs - analysts estimate that expenses related to employee turnover amount to 100-300% of the salary of the replaced employee.

Startups - in order to retain their largest resource - must therefore focus not only on achieving business goals, but also on creating conditions that are attractive to employees. An inappropriate approach to this issue may hinder the company’s development or seriously weaken its position on the market.
Hiring and retaining quality employees as one of the biggest challenges
Besides regulatory issues (which have always been complicated in our country), the cost of maintaining a startup is another significant barrier to growth. Here, 34% of respondents cited the issue of obtaining funding during the next phases of development as the biggest problem, which stands in contrast to the oversupply of money in the market and the mass of investors looking to invest in growing companies, these funds seem to be necessary for startups due to the rising costs of hiring specialist employees.

The rising rates of specialists are partly due to the fact that, through the pandemic situation, it has become apparent that companies from the west can effectively employ specialists in Poland. This phenomenon has meant that the pool of available offers has increased considerably for workers, so they can choose those which will pay them more.

Recruitment, especially in the IT sector, requires employers to invest in Employer Branding, in effective recruitment processes and, in particular, in offering market rates - without these factors, competing for the best talent seems impossible due to the ever increasing competition. These very costs will essentially be the test of a startup’s business model and will validate whether companies can make money despite the rising costs of recruiting and retaining quality employees, which is why the aforementioned funding will likely be necessary for companies to at least test their business model and actual profit generation based on it.
The pandemic two years
The pandemic two years

This is already the next edition of “Polish Startups” report by Startup Poland Foundation prepared during the pandemic. In the almost two years since the appearance of the coronavirus, a lot has changed - on a social, health, cultural and, perhaps most importantly, economic level. The global economy has had to deal with a startling, completely new situation. For many industries, such as tourism, entertainment or gastronomy, it was a real drama, and it cannot be ruled out that they will once again have to limit or freeze their activities.

The industry did not experience a catastrophic collapse, but in the early stages of the pandemic there were problems maintaining supply chains, and as the economies of most countries began to recover from the vaccines, the prices of many raw materials shot up to levels not seen in a long time.

After these almost two pandemic years, we can also already assess how the startup segment has changed. It can be said that last year’s conclusions are confirmed - the pandemic was either a rather positive impulse for the development of young technology companies, or it did not have a major impact on this development. Of course, there are some startups, which were really harmed by the pandemic, but they constitute a decided minority, also on the Polish market. This is shown by the record-breaking rounds, which we have not experienced before. So investors have also come to believe that startups are a promising sector, whose development will only accelerate in the coming years.
This is confirmed by the Startup Poland Foundation survey. Representatives of Polish startups were asked directly whether the situation related to the pandemic affected their business in any way. Most of them declared that it had neither positively nor negatively influenced their operations (40%). However, a slightly smaller percentage (37 percent) indicate that the impact was positive. A much smaller group of startups assess this impact negatively (23 percent).

This positive impact or lack of any impact on business can also be seen if we look at the issue of employment in startups. As many as 48 percent of them declare that due to the pandemic there has been no change in the number of people working for them and that they have no intention to fire anyone. What’s more – almost every fifth startup (19 percent) has recently hired new people. Only 8 percent of startups indicated a negative impact of the pandemic on employment – they had to lay off employees due to the pandemic crisis. There are also some (3 percent) that have plans to hire more people in the near future.
The lack of major impact of the pandemic on startups is also evident in the next question. Only one-fifth of startups (20 percent) had to change their existing business model due to the pandemic. The remaining 80 percent had no need to make any changes.
These companies which made such a change, most often did so for positive reasons – they saw an opportunity to increase revenues by using a different business model. Such a declaration was given by 47 percent of them. Another reason was the need to change the distribution channels, probably largely caused by moving many services to the digital space. Such a change was made by 19 percent of the surveyed entities. In turn, the negative reasons for change were indicated by 16 percent of them. The statements of those questioned show that due to the pandemic, there was a decrease in revenue, which forced them to change their business model. For 13 percent, the pivot occurred due to changes in customer relationships. For 3 percent of those asked, the pandemic caused one or more partners to leave.
There are dark clouds gathering...
On a personal level, the pandemic has completely changed my business. By shutting down service points and putting face masks on people, it practically made the technology of “emotion detection” from the face no longer have any rationale to work.

If you’re interested in this topic, I invite you to read a thorough piece on the subject on Medium.com (My adventure with Quantum CX is coming to an end - why, what lessons, what’s next - https://quantumceo.medium.com/co-się-dzieje-quantum-cx-caaa23976b31).

As an investor and businessman, I personally believe that post-pandemic changes are yet to come. The effects of lockdowns on the economy, in my opinion, are like a tsunami. We will have to wait for the last (hopefully) wave, and what we are seeing now is just a preview. The macroeconomic situation does not inspire optimism. Inflation resulting from the policy of the Central Bank and problems with supply around the globe has to find an outlet somewhere. History likes to repeat itself.

Bartosz Rychlicki
Investor, Startup owner, Podcaster
The pandemic and digital medical care
The past two years have been a time of uncertainty, and facing COVID-19 has been one of the biggest challenges in the history of the modern health industry. However, it turned out that there are many amazing people in the world, ready to help and support each other.

Despite the circumstances, the previous two years were a time of rapid growth in areas such as telemedicine, wearables, and digital patient care. The pandemic has helped drive faster adoption of digital solutions, and with limited access to medical staff and resources, has brought value in streamlining healthcare delivery processes. As a company, we have also seen an increase in interest in our solutions. We expanded our business partners to include companies such as Microsoft (USA), Sana Kliniken (Germany), and Mutuel Group (Switzerland), among others. We also raised $10.25M in funding during the pandemic. And Symptomate, our platform for pre-diagnosis, has already been used by over 10 million patients from around the world.

Since the start of the pandemic, the Infermedica team has nearly tripled in size, from about 50 to more than 130 people. The transition to fully remote working has proven easier than we expected, and this approach has also opened us up to hiring people in entirely new locations, including the US, the Netherlands, and Germany.

We are witnessing a digital revolution in healthcare. Although we are only at the beginning of the journey, I am convinced that the use of new technologies will significantly improve access to primary care and make it better for both patients and doctors.

Piotr Orzechowski
Founder and CEO of Infermedica
It was not a bed of roses but...
I must admit that I look at the results of the survey with a bit of jealousy, because it shows that basically “nothing happened” and the pandemic went lightly with startups. No doubt this depends on the industry or area of the company. Gymsteer in its original concept was to be an ecosystem for managing sports facilities - fitness clubs, gyms, dance studios, etc. This has worked out quite well for us. Unfortunately this industry by far suffered the most – next to HoReCa – in the first 3 waves of the pandemic. Lockdowns and isolation annihilated a lot of business, especially since the real thaw came when the naturally low summer- holiday season arrived.

For us this was a solid blow, but we saw potential in another sphere - employee physical activity benefits. With a broad base of facilities we became an excellent reseller of their offer to employers and users. Gymsteer gave the opportunity to use a database of several thousand activities in over 1,300 different sports and leisure facilities in the country. Not only gyms and swimming pools, but also massages, rehabilitation, dancing or high altitude activities.

In addition, we offered employers – also experienced by COVID-19 – the opportunity to optimise costs. No one in the pandemic could afford to burn through budgets, so in place of unprofitable subscription models, Gymsteer offered a “Pay-per-Entry” – the model where the company only pays for the workouts that have realistically taken place.

Today, as Gymsteer, we have a battle-hardened and experienced team, a great business model, we are developing a technological solution, we are expanding our offer and... customers are coming back I can’t say, however, that the pandemic has gone easy on us.
Adaptation in the new reality
As late as at the beginning of 2020, more than half of the subscription revenue at Kadromierz was generated by companies among the industries that suffered most during the first lockdown. Catering, hotels and service companies in general were forced to suspend their operations. Apart from the fact that these industries provided their services stationary in their premises, they had one more common denominator at the time - a relatively low level of adoption of digital solutions.

The economic and health situation prevailing at the time greatly accelerated the digital revolution in the aforementioned industries. Companies adapting to new needs and investing in digital solutions gained an advantage over the latter, which worked on the basis of processes modelled before the pandemic.

In the early stages of the pandemic, a significant number of our customers temporarily suspended their subscriptions. I, the whole team and our investors were worried. We discussed pivot ideas, how we could adapt our product to industries whose prospects were promising or stable in the face of the prevailing challenges.

It quickly became clear that we could put any product pivot ideas in a drawer. As soon as the service and HoReCa industries were unfrozen, customers quickly returned to our product and we resumed our earlier discussions. To our surprise, we recorded an increasing number of registrations on the website. In addition, we were able to accelerate the average time to acquire a customer, because we could conduct all meetings remotely.

Changes in the rules of the “game” usually come with a prior notice (e.g. GDPR), but they can also surprise us in a flash. Pandemic showed how important it is to be able to (quickly) adapt an organisation, its leaders and individuals to a new reality.
ESOPs currently operating in Poland

An ESOP (employee stock ownership plan), can be defined in other words as an employee participation plan. The general idea is to increase employee involvement through their financial connection to the profits and value of the company. Depending on the specific decision, participation rights may be granted to a wide range of employees and associates or limited, e.g. only to management.

In more mature markets than ours, lower salaries of employees hired in the early stages of the company’s development are compensated by an appropriate share in its potential future success. This is why ESOP is a good motivational tool for employees, which works well in case of startups. This solution is particularly popular in the United States. On the Polish market, however, it encounters some objective difficulties, which in practice to a large extent limits the possibilities of using this solution by Polish startups. Meanwhile, changes in the ESOPs issue are crucial if the Polish startup market is to be competitive. Especially since, as the survey has shown, difficult access to talented specialists is one of the biggest barriers for the development of startups in Poland.

The Startup Poland Foundation’s data shows that the percentage of Polish startups using employee share ownership programs is decreasing. This decrease mostly concerns employee stock option programs in limited liability companies, which is the legal form in which most Polish startups operate. The problems here stem from the very structure of limited liability companies and the provisions of the PIT Act. As we can see on the chart below, limited liability companies constitute as much as 69% of startups, and another 10% are sole proprietorships, where also this tool cannot be applied.
While in the case of a joint-stock company the issue is very simple to implement, in the case of a limited liability company it requires complicated steps, which ultimately results in resignation from this solution or moving the company abroad (5% of indications in the survey). The reason for these difficulties is the inability of the limited liability company to hold its own shares, as well as tax problems related to the possible acquisition of new shares or repurchase of existing shares at a nominal price. The startup community should therefore appeal to lawmakers to rethink this area, because in this way they would support not only the startups themselves, but also the innovation and competitiveness of the entire Polish economy.

The Startup Poland Foundation decided to ask about this issue in its survey. It turns out that only a quarter of startups have implemented ESOP (25%). The vast majority of them do not use this solution, and 30 percent of them do not consider such a move in their plans.
When asked for reasons why they don’t offer ESOPs share options to their employees, it’s the legal status of the company – as many as 45 percent indicate that they operate as limited liability companies, so it’s too complicated to implement from the legal side. Almost one in four startups do not use ESOPs because they do not see a business benefit in such a model. For 15%, the key problem in this context is the lack of tax incentives and reliefs when offering such a solution to employees.
Is an ESOP really difficult to be introduced in a Polish limited liability company?
In the latest Startup Poland survey, 45 percent of respondents indicated that they do not use or plan to introduce an ESOP in their companies. As the main reason they indicated the fact that the introduction of an ESOP in a Polish limited liability company is too complicated. Is it really that difficult?

An ESOP is a mechanism which is very common in American companies. Technology giants treat it as an obligatory component of remuneration and employees know the mechanism perfectly and are willing to use it. In Poland it is still a novelty. Not everyone knows how this mechanism works, and this sometimes causes fear and anxiety. Polish employees are afraid that instead of benefits they will only have problems (complicated agreements, incomprehensible provisions, etc.). An ESOP means sharing our company with employees (but not only – they can be also, among others, co-workers, advisors). Giving a part of what we create together makes the employees identify themselves more with the product, makes them more involved and at last feel that the commercial success of the solution will have a real impact on their wallets.

It is true that in Poland in the case of a limited liability company the procedure of implementing an ESOP is not supported directly by legal regulations. However, let us remember that we are startups. If we want to revolutionise the world we have to look for unconventional solutions, and it seems that an ESOP “is not as black as it is painted”. As I am not an expert in law, I will only try, in a simplified form, to present the operation of an ESOP on the example of our company.

The basic element one should take care of is securing an ESOP on the stage of the investment agreement. Investors must be aware of the existence of such a mechanism, and shareholders must express consent to its implementation. In the end we dilute the share structure! The agreement must define the principles of functioning and the pool which we allocate for this purpose (usually it is updated on each investment round). In a limited liability company, shares must have their owner, therefore the pool is virtual and it is not reflected in real shares until they are taken up by a potential beneficiary. Here the situation may also look two-sided. We can assume that each employee, upon realizing the right resulting from the ESOP, becomes a shareholder. This solution, however, has its disadvantages, therefore we can use so-called phantom options. Owing to adequate provisions in the company agreement and the investment agreement, the authorised person from phantom options has guaranteed shares in profits on the exit, but the obligations and restrictions resulting from being a shareholder do not concern him/her. In this way we do not complicate the organisational situation in the company, at the same time assuring financial values from being a co-owner to the beneficiaries. In our situation
both mechanisms function. The existing shareholders (founders) participate in the ESOP traditionally taking up the shares and new beneficiaries receive phantom options.

The above principles and all procedures connected with an ESOP in our case are described in the Plan. This document, being usually an attachment to the investment agreement, describes in detail who can be a beneficiary of the plan and what the procedure of granting employee options looks like. A very important element is also the whole mechanism of releasing shares (vesting). In the majority of cases beneficiaries of the plan obtain the pool from which during subsequent months in the company next options are released and they are finally ascribed to a beneficiary.

As it can be seen, if we plan the process properly at the investment stage, it is not so difficult to implement. We always work with experienced lawyers who will guarantee safety of operations, both to the company and to future owners.
The future of ESOPs

The present situation in the area of ESOPs is the reason why it is often easier to establish a company for example in the United States and transfer shares to its Polish employees in this American company. This legal status is an impediment to the development of the Polish startup market. It is the reason why ESOPs are created outside Poland, where jurisdiction in this area is much more friendly.

In such a scenario, companies will only leave their R&D centres in our country. Therefore, it is worth thinking over the problem of developing an explicit interpretation of regulations by the Ministry of Finance on how ESOPs should be conducted in limited liability companies, how to develop such a path for them so that the employee participation plan can function equally effectively and smoothly as in joint stock companies.
A foreign view
Poland Prize, we attract the best
The attractiveness of the startup ecosystem is largely determined by its diversity and openness, i.e. friendly conditions for the flow of knowledge and talent, ability to absorb and develop new technologies. That is why at the end of 2018 we launched the first public visa programme for startups - Poland Prize. It is a certain consequence of the diagnosis and solutions set by the Strategy for Responsible Development. The pilot edition was to test the possibility of integrating foreign startups into the Polish market, to allow the implementation of innovative solutions from outside the country and to further strengthen the recognition of our ecosystem.

The programme was operated by five operators who in one year obtained 2,632 applications from startups from 94 countries. As many as 63% of applications came from Europe, but as many as 21% of applications came from non-European markets such as the USA, India and Israel.

The Polish offer for foreign start-ups was exclusive: as a result of the selection of accelerators, 101 start-ups were qualified for the programme, which is less than 4% of all applicants. After setting up in Poland, startups benefited from soft-landing activities, support from experts and mentors, and had a grant at their disposal to finance the development of their product. Apart from financial support, start-ups most appreciated the opportunities to establish cooperation and business relations in Poland, especially with corporations. Also important is the legal environment dedicated to innovation, which has been changing in recent years: the research and development relief, the so-called IP box - i.e. preferential CIT for revenues derived from intellectual property, as well as the planned relief for robotisation and automation.

Despite the difficult period of the pandemic, over 80% of startups that participated in the programme continue their activity in Poland. The vast majority of them plan to commercialise their product within the next two years. Taking into account the broad response from startups in the pilot edition, we are already implementing a new version of the Poland Prize, involving as many as 10 national accelerators. We want to consolidate the image of a country that cares about new, technological companies in a very mature way.
In the course of works on the report, we had an opportunity to conduct a few interesting conversations with representatives of foreign venture capital market about how they perceive the Polish startup sector, what we are like in comparison with our neighbours from the Central and Eastern Europe region and what Polish founders should remember about when seeking interest of VC entities from abroad.

The Polish startup ecosystem in the eyes of foreign investors. Poland vs abroad
The startup ecosystem in Poland provides a very solid foundation for running and establishing a business based on innovation. Public support for setting up and running a business is noteworthy. Institutions such as the Polish Agency for Enterprise Development or the Polish Development Fund have a rich offer for entrepreneurs at virtually every stage of development. The Polish founders I have met are people looking for innovative ways to solve existing business problems - this makes them very valuable business partners. It should be added that a relatively large percentage of the population speaks English, which is not so common in other parts of the world. One should not forget that the Polish market is one of the largest in the region of Central and Eastern Europe, and its geographical location at the crossroads of Eastern and Western Europe adds to its advantages in terms of logistics. Therefore Poland has a lot of assets to effectively compete for the attention of foreign investors.

LESS was established in Argentina and moved to Poland with the support of the Poland Prize programme.
As a fund we invest in startups all over the world. We are cross-border in our approach and do not limit ourselves to any one specific region. Our head office is in Singapore but if you look at our portfolio, most of our investments take place in the United States, where, in our opinion, most groundbreaking ideas are created. Of course, we look closer at the European markets as well, including the Polish one which has a big potential. Basically, “The world is our oyster.” As for the talent pool, the Polish one is assessed as a positively distinguishing talent pool compared to the region, and it is even perceived as the European leader. Of course, it has strong competition on neighbouring markets but as a whole, it is certainly a key market in the region for investors. By all means, while in the United States, for example, the talent pool is great, at the same time it is definitely more expensive, thus the value-for-money attractiveness of the Polish market has its additional advantages to investors.

The ideas and innovative projects proposed by Polish startups face strong competition on the neighbouring markets, e.g. in Estonia (we have 3 investments there), but also in Lithuania, in Romania and even, to some extent, in Ukraine where a few really great ideas are coming up. Here, I would like to draw your attention to possible and actual synergies which already take place in the CEE region, e.g. one of the Estonian startups we invested in, has a software development centre in your country. This is an example to understand how one can mix and match the best of both worlds. In the context of the potential for further development, Poland suffers the same problem as all European countries – their markets are very small. This is certainly a barrier preventing some investors from investing their capital in those countries. Thus, what is of key importance for founders in the context of development is to think about entering other markets in addition to domestic ones, and cross borders, especially across the Atlantic where the real valuations can be seen. In this respect, startups from countries such as Great Britain do well - they have over 20 unicorns. Sharing space on the podium, although much further, there is Germany with 9 unicorns, and Estonia at 7. By the way, this data shows how Germany lags behind in terms of innovation and encouraging entrepreneurship and startups. Simply because there is no comparison between the economic prowess of Germany versus Estonia. Estonia is perceived as the startup nation of Europe, similarly to Israel being the startup nation of the rest of the world. In my opinion, Poland is also coming up really fast and the development of the Polish startup sector is accelerating.

Technology has made it considerably easier for Polish startups to look for foreign partners. At the same time, investors enter foreign markets more easily. In most cases both parties do not really have to meet physically to conclude a transaction. Such as is the case with our investment in Enso. Everyday we try to
curate outstanding entrepreneurs around the world and in one such endeavour we landed up with these guys in America and realised they are from Krakow, Poland. Everything we did with them was virtual, as good ideas never wait. We liked the founders and their idea so much; it is a no-code software and these guys are sitting in Krakow and disrupting the world. That is the magic of software. The world is truly our oyster as technology makes our world so flat. For us, rather than emphasising on live meetings, it is definitely much more important to let founders tell us what they actually do, who they are and show us a real perspective – how their startups are going to grow and how big they can become. The manner of work is evolving and it does not have to mean sitting at the desk from 9 to 5. Getting rid of the stiff working system means that cooperation between founders in Poland and investors, even those coming from a totally different time zones, is not a problem anymore. We should get prepared to work at different hours, sometimes even at night or on weekends. For example, if you work with Israeli people, you must be prepared to work on Sunday. One must be flexible, as the goal is to reach valuable people from different countries who want to make some gamechanging innovations, solve problems and make this world better.

Currently, there is high liquidity on the market – there is a lot of money around. Today even “mediocre” founders are able to gain substantial investments. Founders of startups must, however, be watchful - they must check who they obtain the capital from. It is probable that they will start cooperation with someone who will dictate to them how they should conduct their business, seeking to exit as fast as possible and make fast profit on the investment. This is not how it should work – every founder should have a broader perspective in their heads. You must have passion to what you do, build business based on a long-term formula so that it can last for many years. It is worth referring to the example of Snapchat, which rejected the offer of 4 billion dollars from Facebook which finally turned out to be the right decision. That is the founder who can really make the change. Learning is the biggest value proposition for our world and knowledge is our biggest limiting factor. So we have to come out from being enslaved by our knowledge and experience, to question everything and disrupt what is not working.

Debneel Mukherjee
Founder and Managing Partner, Decacorn Capital
When evaluating an ecosystem, we take into account four different factors. The first one is the talent pool of founders and entrepreneurs building startups. These can have sector specific insights, or know-how related to building companies from prior experience. Secondly, a country must have a market with an adequate level of tech adoption that can fuel the initial demand from customers. The third factor refers to the government, who play a huge role in creating national startup ecosystems. The best example is the government of France who has placed a lot of importance on supporting the development of startups via capital, visas and more, knowing that a strong tech ecosystem benefits the economy as a whole. The fourth and last factor is the capital available, the sector needs funds to support founders in building their businesses.

Startup ecosystems are developing globally at a very fast pace. This is due to the fact that traditional barriers to entry for entrepreneurship such as capital, ideas, and know-how are being eroded, and an additional factor is becoming increasingly important, namely, a country's own set of competitive advantages.

Poland has a number of advantages. Poland is renowned for the quality and depth of its pool of developer and engineering talent. It is not a coincidence that a number of large European corporations, such as Revolut, decided to locate their developer centres in cities such as Warsaw. As investors, this is a great indicator as these companies will develop and support the next generation of founders who have learnt from the best at a global level. As a result, the ecosystem becomes self-sustaining, with greater numbers of local founders establishing their own company. Furthermore, its geographical location gives it convenient access to the whole CEE region as well as to the German market, providing it with a large captive market.

Polish authorities, just like in Germany, France or Great Britain, have bet a lot on the development of the startup sector, proposing a number of different solutions and helping to create funds to support the domestic ecosystem. The activity of PFR Ventures has not gone unnoticed and we appreciate our ongoing the cooperation with the firm. With regard to the availability of capital, there are very strong early-stage funds, and, at the same time, some of the world's largest global funds are also present, and this is not by accident.

Of course, like many other markets in Europe, there are still areas for Poland to improve on. For example, looking at British, German, and French startups, we can see a huge number of seed rounds, or even A rounds where many of
the investors are experienced founders and entrepreneurs who can perform the function of mentors for CEOs of new startups. In Poland, there are already the first examples of such knowledge diffusion, and as the ecosystem continues to develop I’m sure there will be more.

As investors, White Star Capital partners with founders who do not define their companies as being Polish or German or from any one nation, but rather think and act as global companies. They are founders with huge ambitions. They want to build big businesses and are determined. Obviously, these companies need time and a strong team for this, but they have a well-thought plan of action. As a first-time founder, you must show a VC that you have the potential to become a significant player and a leader in your category.

We expect larger rounds will become the norm in Poland as the tech ecosystem begins to mature – as was the case in France or Germany a few years ago. However, Polish founders must begin rooting themselves in the pan-European ecosystem and focus on building their position abroad earlier. They should maintain contacts with founders from other countries and work on building relationship with VCs in advance. This networking is extremely important. For this purpose it is possible to use, for example, the presence at industry conferences and events where representatives of the most important VCs and entrepreneurs from a given industry meet. In this way, one may attract international capital and obtain high valuations of rounds. There are already VCs in Poland which can offer such considerable financing but, of course, the higher the number of them the better.

Nicolas Stocks
General Partner,
White Star Capital
Our fund was established in March 2020, right at the beginning of the COVID-19 pandemic, which proved to be a specific moment, both for us and for the industry as a whole. The general idea was to become the first fund in Israel focusing exclusively on the gaming industry. Of course, there are many funds in our country, some of which invest in gaming, but not exclusively in this sector. This makes us different in the market. We invest primarily in content - in game development studios. We believe that content is the most important element in the development of this industry.

During this short time, we have already invested in 19 different companies from all over the world. We started with our local market because we know it best – 10 of our portfolio companies are from Israel. However, we never wanted to limit ourselves to domestic entities. We actively look for companies all over the world, especially in regions or countries with limited access to capital - including Eastern Europe and the Far East, and we are always on the lookout for new opportunities. In the past year and a half we have invested in companies from the United States, the United Kingdom, Finland and India, and we want to continue this strategy - maintaining a balance between local companies and those operating in other countries and regions.

We are strongly committed to our portfolio companies. In addition to capital, we give them our marketing experience, we show them how to look for additional external sources of funding, not necessarily by pursuing another round. As far as the investment ticket is concerned, it usually orbits around 2 million USD, but we have also made much smaller investments, in companies at the seed stage of development. In contrast, our largest transaction to date was 12 million USD. So we are very flexible - we look for good opportunities with growth prospects, and we are not limited to any particular stage of development of companies or any particular type of investment rounds.

Admittedly, we have not invested in Poland yet, but we have a lot of contacts here and at the moment we are looking around the Polish market. I see a lot of similarities between Poland and Israel - for example in the way teams look at the gaming market. Firstly, most of the companies focus on games for mobile devices. Not exclusively, of course, because there are a lot of great PC and console game developers - CD Project is one example - but from what we see, the mobile game market seems to be more attractive for most developers.

The second issue is experience - Polish game development teams are very experienced - they have had the opportunity to work for the biggest companies in the sector and they transfer this experience to their own projects. They know what and how they want to create, they know the processes well, because they
have implemented them in previous companies and now they use them when making something of their own.

Another similarity is the structure - teams are usually small, but very efficient and guarantee excellent quality. When you set up a startup, you have limited resources, so you have to be smart about what you’re going to focus on in order to achieve your goals wisely with a limited number of employees or amount of capital. We see all this in the companies we look at. These are the issues that make the Polish gaming sector enjoy such a good reputation around the world.

The emphasis on production quality and high artistic ability is something I see in the games created in Poland. Sure - it may just be my personal opinion, but all the games we’ve looked at look great, and that certainly sets you apart from other markets. And this is one of the key factors for players and for their engagement with a game.

There is also the issue of game production costs, which are relatively small compared to other markets. A Polish company is able to produce several games, while in the United States within the same budget only one. This is very important from the point of view of an investor. You never know for sure whether a given production will be successful or not. We do our due diligence as best we can, but in the end there are many external factors that determine the popularity of an outgoing game. The more such productions, the greater the chance of success.

The investment process usually takes time - it’s relationship-building that sometimes goes quickly and sometimes not. There were many times when we looked at a company but it was not the right time to invest, either for us or for them. However, we stayed in touch and after a few months or even a year the situation changed and the deal was finally done. When we say ‘no’, it is never a definitive ‘no’. We stay in touch and watch how the studio develops and we may invest in it a little later. Such a process takes place in many other markets, not only in Poland.

What would be my advice to founders who want to raise bigger rounds? First of all, that they should not be afraid to get in touch with VC funds, especially in the gaming industry. They shouldn’t wait for some unspecified moment when they have the perfect product, the perfect game and are ready to invest. It never works that way - you can always polish something, do some element better. So you have to contact different VCs, get to know each other and realize that this is a longer process. This is a much better approach than waiting for the perfect moment.
Secondly – setting yourself ambitious goals. There are many situations where we refuse to engage with a company not because we don’t believe they are doing a good job, but because their goals are not ambitious enough from a VC perspective. We need bigger goals, more far-reaching plans. Of course they need to be ambitious, but at the same time achievable. This is not only our approach, but probably the approach of most VC funds.

Thirdly, looking around the world and searching for talents outside the local market. Especially since it is now so popular to work remotely. This change is a big advantage for the industry. From what I observe, the majority of development teams in Poland are made up of domestic employees, but they work remotely. There are relatively few teams made up partly of Poles and partly of foreign workers. This would add a certain value to Polish companies and introduce a slightly different perspective. In my opinion, this is a good way to gain access to talented people.

But my most important suggestion for founders in the gaming industry is that they play games – and not just their own productions. It’s the only way to stay in touch with and understand the industry. You can read all the blogs and books about the industry, but if you don’t play games yourself, that knowledge won’t help you. By playing, you can form your own opinion about a particular production, a particular mechanics – see if it appeals to you or not. The more you play, the better you get at creating a good user experience. In particular, it’s worth looking at games developed in Far Eastern countries, such as China or Japan. We often focus on what’s being developed in the West, while trends that are already happening in Asian countries will only appear in our region in a few years.

Daniel Mironov
Principal, Games Expert,
VCGames
How does Startup Wise Guys work?

In a small European country (Estonia) - after Skype, a generation of successful technology entrepreneurs have been born. Many of them became investors, and some decided to give back and empower the next generation of tech entrepreneurs. They invested privately and created a private fund and accelerator for IT startups. This is how Startup Wise Guys was born in 2012. From founders to founders, from ecosystem to ecosystem!

A lot has changed since then - we have expanded our Baltic operations, we have a portfolio of over 250 startups from over 40 countries, our team has grown from 3 to 35 people. We also have on board one unicorn – Bolt.

On the other hand - Startup Wise Guys is a kind of financial vehicle – it functions as an accelerator for startups and has the possibility to invest in them later on. The model looks like this - it starts with an accelerator, then scaling takes place, and then the funds are invested in those startups that have gone through acceleration. Startup Wise Guys itself is also trying to scale - we operate as Startup Wise Guys Poland, so our team is from Poland, while capital is raised agnostically, as far as geography is concerned. It is similar with investments.

**How does the Polish start-up sector look like compared to other markets?**

**TS:** I graduated from university in the US, worked there for 10 years, and have only been working here in the country for a year. Looking at Poland now, I also see a great talent pool, but one that is having trouble scaling beyond its domestic market. Poland is a very large country with a large population, there is a lot of diverse capital here - from specialized to non-specialized, we see a lot of diversification. When such an entity starts to scale at the business level, it starts to achieve very decent revenues. At the same time, in Polish conditions, this often causes very cool domestic startups to fall into a kind of trap. They have good annual revenues - be it MMR or ARR, but they lack that something to go abroad. This creates a situation where a good startup earns, for example, half a million or one million dollars a month, but has no traction outside of Poland, or it is small and limited only to the region. Estonians work differently - due to the fact that they are limited by the small size of the market and small population, they immediately build a product to scale outside Estonia. This raises the question of how to solve this problem - should Poland welcome more foreign capital to promote Polish solutions in other regions, or should Polish investors take a different approach to investing? We need to think about how to help Polish startups scale outside of Poland.
The second issue is that I think it’s a bit unfair to expect Polish founders to have the same business acumen as those operating in the West – after all, Poland has been operating in a market economy system for a relatively short period of time compared to what is happening in London, Berlin, not to mention New York. This translates into a slightly different approach to long-term value creation. Polish companies are quick to go public and do not think about how to raise other, more diversified capital. It is worth using it as an opportunity to enter another market, which will positively challenge other cofounders and early investors. Such capital brings much more dynamism to the company.

We have very talented and respected developers in Poland. Central and Eastern Europe has an excellent reputation in this respect, and Poland is a regional, and therefore global leader. Thanks to this, really good technology is created here. It is not without reason that so many outsourcing centres of global corporations, such as Google or Amazon, operate in Poland. So we have talents on the domestic market that are used by the biggest. This Polish talent pool has already built many excellent solutions. However, from my perspective, this talent in Poland is relatively rarely associated with companies scaling beyond the CEE region. You don’t tend to build market giants on this basis, but rather work according to the principle - we build a solution, the technology works well, so we sell it. Most often it means that we reach a certain level of business development and we go public. Companies in Poland are “cashing in” quite quickly, as opposed to, for example, the United States, where the ceiling is in a completely different place. Although in my opinion this is slowly changing – here we have an example of a Polish unicorn - DocPlanner.

What do Polish founders have to do to get an entity like Wise Guys to invest in their companies?

TS: At Startup Wise Guys we have a very classical approach to the investment framework. This means, among other things, that we expect the company to have between EUR 20 and 50 thousand per month in MRR, the solution offered by the startup should be software and it must be built “in-house”. In addition, the cap table must be investable - there can be no situation where the first investor has, for example, 80 percent of shares in the company. In addition, this capital must be completely transparent - we, as a fund from Estonia, have strict procedures related to AML (anti-money lending) and KYC (know your client). We have to make sure that existing investors go through this standard.

By investing in a founder at an early stage, we have some hypothesis about the scalability of their business, but it has to be a strong, fully committed person. This is very important because we are giving him our brand and our money.
The most important thing, however, is that we donate our time in such a process. We have a certain limited number of startups that we are able to work with. We can’t handle everyone who wants to work with us. We do our best, but in return we expect the founder to build the startup we are investing in and not to do consulting, build parallel startups on the side, etc. There has to be a sincere understanding between us that we give ourselves e.g. three or five years and we don’t give up after a dozen or so months if there are any obstacles. Founder must be determined and have the will to act. Functioning in a startup is unpredictable and we want to work with people who understand this. They have enthusiasm and the opinion about what they are building is strong enough that they will not be dominated by an investor.

But at the moment we have a de facto market of founders. If they are strong, they know very well what they want and what they need. Then even such a well-known brand as Startup Wise Guys has to convince them.

**So why are rounds in Poland relatively low?**

**TS:** In Poland, most of the communication from startups e.g. in the media is about the fact that the company closed the round and how much money it raised from that. This shows that on the Polish market, it is the money that plays a key role. Western startups communicate more often, for example about new clients, new solutions - there are many other elements that are important there. On those markets, money is something natural. The fact that a startup has raised another round is not particularly big news. If we look at the classic unicorns, no one remembers what round Uber or AirBnB raised and when.

Unfortunately, the way Poland is currently perceived abroad is also very important. American investors, for example, sometimes express concern about legal issues - if something goes wrong, will they have the possibility to file an effective lawsuit. If the investment goes well, that’s great, but if it goes badly, there’s no way to check the founder if he or she is doing what has been assumed. This is a very big problem. Startups are the asset class with a high risk.

The basic characteristic of entrepreneurs is taking risks - the willingness to bear risks is very important. In Poland, the willingness to bear risk is relatively low, and the whole systemic environment limits it even more. You also have to remember that when investing in a startup, you have an asset and you have a transaction, and these are two separate things. Americans invest where the transaction makes sense. So even if the asset is good, there remains a whole area of deal terms that is a problem.
My advice to startups? They need to remember that in addition to building a company that has to meet standards and has something unique to offer, the nature of the deal itself is equally important so that funding can be raised in a healthy way. If you mess something up in this regard in the beginning, it’s very hard to recover from it later.

Tytus Stempniewicz
General Partner
Wise Guys Growth
We never stop learning from startup

Over the years, Klarna has evolved from a Swedish payments company to a global shopping ecosystem, changing the way people shop in Europe and the USA. With over 90 million users and partnerships with over 250,000 retailers worldwide, Klarna owes much of its success to its entrepreneurial spirit and to startups. These have led the company to where it is today. At Klarna, we are organised into more than 400 teams, areas and competencies, and every employee is encouraged to start with small projects and learn at a fast pace. What also sets us apart is that we challenge traditional hierarchies and structures.

No one knows it better than startups that, whatever the context, they need to be flexible and have agile structures and cultivate a growth mindset. They do not lose sight of the goal of solving problems and delivering additional value. Klarna continually learns from startups and does so in two ways: first, we work with small and medium-sized retailers who want to improve customer acquisition through best-in-class payment experiences. Second, we add them to our ecosystem if they innovate in the payments, shopping or banking space.

Looking at Poland, we clearly see that in recent years the white-hot startup ecosystem has become one of the drivers of innovation across the CEE region. We see huge opportunities here to leverage local talent, as well as to establish partnerships with some of the startups here. So as to improve the experience of our global community i.e. users and vendors.
Regulatory recommendations
The following regulatory recommendations are a result of the barriers to the development of startups identified this year in a survey conducted by Startup Poland as well as our observations of the startup ecosystem.

We focus on what we believe are the most important postulates, without the implementation of which the further development of the Polish startup ecosystem may be impossible. Most of them are common for both startups and investors, which shows how important the synergy of interests of entities forming startup ecosystem is in building regulatory environment. We would like to settle this year’s regulatory recommendations with the hope that they will be implemented and the conviction that their implementation will maintain Poland’s further investment attractiveness as a startup-friendly country.

1) Not increasing the cost of employment in Poland. Stop to the regulations of the Polish Deal which make it impossible to deduct the health contribution from PIT and which increase the health contribution for entrepreneurs

This appeal to the public sector from the startup community has been constant for many years, due to the regular increase in labour costs in Poland. In this year's report, we put this demand in the first place and devote the most attention to it, which stems both from the results of a survey showing that as many as 8 out of 10 startups believe that increasing labour costs in Poland will limit the employment of workers, and also from the prospect of further increases in labour costs as a result of the entry into force of the Polish Deal regulations at the beginning of 2022.
Increasing labor costs in Poland have business consequences determining startups’ operational activity and their further development, or rather the lack of development opportunities, in view of the indication visible in this year’s report that employment costs constitute the largest part of startups’ budgets, thus limiting expenditures on R&D, hiring specialised staff or marketing activities.

Therefore, it is necessary to stabilise employment costs in Poland and to limit them, instead of permanent growth. In order to achieve this at the regulatory level and not to lead to further increase in labour costs, we recommend removing from the Polish Deal the provisions introducing the non-deductibility of health care contributions from income tax and linking the amount of health care contributions of entrepreneurs to their income.

The lack of deductibility of health contributions from income tax, as provided for in the Polish Deal, will increase the differences between gross and net salaries for specialists employed in startups (e.g. IT specialists, who often constitute the basis of a startup’s workforce). The decrease in net remuneration of specialists and the increase in the costs of their employment will also be affected by the increase in health contributions for persons conducting business activity, resulting from the Polish Deal, by making them dependent on income. These changes will increase the cost of hiring specialists on employment and B2B contracts, which in Poland are already very high and constitute an increasingly highlighted investment and regulatory barrier.

Admittedly, as a result of public consultations, in which the Startup Poland Foundation also participated, the government has proposed a modification to the provisions of the Polish Deal, resulting in a reduction of the health contribution from 9% to 4.9% for taxpayers accounting on a flat-rate basis. In practice, persons conducting business activity will lose less net from the changes, but their situation will still be less favourable than now. However, no modifications have been introduced for those employed on the basis of employment contracts, so the Polish Pact - once it comes into force - will affect people earning from about PLN 12,000 gross per month. In the case of people earning PLN 15,000 gross per month, for example, the loss will be around PLN 2,000 a year, and for people earning PLN 18,000 gross per month – around PLN 5,000 a year. The greater the gross salary of the employee, the greater the tax loss will be.

What will such changes in regulations increasing employment costs in Poland mean for the startup ecosystem? It will be even more difficult for Polish startups to competitively pay Polish specialists, whose salary demands
will increase, and thus to keep them in their teams and develop technology companies of international importance with Polish forces. Polish startups are already struggling with staff shortages and many are forced to import talent from abroad. For investors, Poland will cease to be an attractive investment destination. On the other hand, specialised employees, especially from the IT sector, will work for companies abroad, as the changes envisaged by the Project will significantly lower their net salaries, which are already half lower than those they could receive while working in the same profession for a British, Irish, Danish or Swiss company (European countries with the highest salaries for IT engineers).

The removal of provisions in the Polish Deal introducing the non-deductibility of health contributions from income tax and linking the amount of the health contribution for entrepreneurs to their income is necessary for the further development of the startup eco-system, retaining technological talent in Poland and keeping foreign investors interested in our country. Increasing labour costs in Poland means – according to this year’s survey – a clearly negative impact on the interests of young, innovative technology companies, which are created and grow mainly thanks to the work of highly qualified IT specialists: programmers, artificial intelligence specialists, analysts, system architects or IT managers. Any changes to the law in this regard should be stopped.

2) Allowing ESOPs to function in limited liability companies

According to our survey this year, only 25% of startups have introduced ESOPs in their company and the vast majority are therefore not using this solution, with 30% of respondents not considering the introduction of ESOPs at all in their plans due to legal restrictions. At the same time, ESOPs enable startups to build a competitive advantage among employers and, consequently, attract and retain the best staff, while for investors they are a factor enabling capital inflow and development of the Polish market. It is therefore a win-win situation that cannot be exploited due to regulatory restrictions.

To enable ESOPs to function widely in Poland and to give startups the opportunity to use this desirable business tool, we recommend first of all the introduction in a limited liability company of solutions enabling the implementation of ESOP programmes on the model of those existing in a joint-stock company, as well as the introduction of tax regulations encouraging the offering of ESOPs to employees and introducing reliefs for employers offering ESOPs.
It is also necessary from the regulatory side to introduce transparent tax solutions clearly defining the tax obligation until the time of obtaining cash proceeds from the sale of the acquired ESOP shares (analogous to the already existing regulations for a joint-stock company). Only comprehensive legal and tax solutions tailored for ESOPs will make it possible to benefit from the advantages they can bring not only to startups and investors, but also to the Polish economy.

3) Introducing reliefs for private investors

As it turns out after conducting this year’s survey, the introduction of tax exemptions for private investors may determine the possibility of acquiring financing for a startup in the subsequent phases of its development, and the lack of such possibility is the most frequently mentioned barrier for startups by the surveyed - 34% of respondents - despite the increasing amount of money available on the market.

Further analysis of this issue and expert comments show that in the area of capital availability not only public funds are needed, but also the creation of an environment for private investors, including tax breaks and incentives.

For several years now, we have seen an improving situation in this respect and more and more tax breaks and incentives for startups. These are still more frequent than incentives for investors, who after all are also a key element of the startup ecosystem. On the regulatory side, we positively assess the pro-development reliefs for entrepreneurs resulting from the Polish Deal, the support for business in hiring innovative employees, the tools aimed at increasing the stability of doing business in Poland (such as binding interpretations from the administration), as well as reliefs supporting the development of the capital market. Also important is the relief envisaged in the Polish Deal for production robotisation and automation, reliefs for IPOs and for investments in IPOs, reliefs for business expansion and reliefs for those investing via venture capital funds.

Our regulatory recommendation in this respect comes down to the entry into force of the reliefs and incentives provided for in the Polish Deal as well as focusing in the regulatory area on introducing reliefs for private investors in order to increase their presence in the Polish market and diversify financing sources for startups, and on the elimination of tax barriers that limit the raising of financing, in particular venture capital financing.
4) Ensuring regulatory stability

An interesting result of this year’s survey is that 11% of startups indicated fast-changing and unclear regulations as a barrier to growth. It turns out that regulatory stability and the ability to operate under rules developed over many years are important factors not only for investors and large corporations, but also for startups, and the fact that they pay attention to this factor shows their growing business maturity. It is therefore worth remembering that regulatory stability is one of the factors that determine not only whether to invest in a given country, but also whether to develop your startup business there. Startups also feel any legal changes more acutely than large companies due to the need to costly adapt to them. A good example of this is GDPR and the resulting requirements, which have forced companies to hire lawyers or use the services of specialized firms. The costs associated with the implementation of GDPR have placed a greater burden on smaller companies and effectively limited their resources available for investment or other needs. A similar situation may occur in the case of the necessity to implement the Polish Deal, especially without sufficient vacatio legis, or the DSA and DMA regulations currently pending in the European Parliament, forming a new digital regulatory package.

Therefore, we recommend maintaining regulatory stability and taking into account the voice of startups in the law-making process.
Methodology

The report was prepared on the basis of the survey ordered by the Startup Poland Foundation. The survey was conducted between 5 July and 31 August with the CAVI (Computer Assisted Web Interview) method on an Internet panel. The sample was n=229 people, including 69 women.

Additional information was obtained from the indicated external sources.