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Introduction

The latest, eighth edition of the “Polish Startups” report is another one which is being produced at a time of crisis or rather several simultaneous crises. The pandemic-induced health one is still ongoing and the long-term impact of the pandemic turmoil on the global, as well as the Polish economy, is being felt, for example, in the form of long-unseen and painful for our wallets inflation. This is compounded by the full-scale war unleashed across our eastern border and the associated shortages of energy resources and the consequent increases in their prices on an unprecedented scale. Such an accumulation of ‘black swans’ is having a direct impact on almost every sector of the economy. The startup market is no exception. The annual survey conducted by the Startup Poland Foundation among several hundred startups is a kind of snapshot of the current mood and can be a good basis for drawing conclusions for the near, not easy future. Unfortunately - while the pandemic was an impetus for faster growth in the startup sector, the current crises have or may have a rather negative impact on the mood of young technology companies.

The structure of the Polish startup market does not change particularly from year to year. Most of them are still young companies, usually with less than four years of experience, and their founders are usually representatives of the 30-year-old generation. Which region of Poland could be called the country’s ‘Silicon Valley’? When it comes to the number of registered startups, two voivodeships stand out at the top - the largest number (21 per cent) is located in the Lower Silesian Voivodeship, followed by the Mazovian Voivodeship. The podium is closed by the Lesser Poland Voivodeship with Krakow in the lead - every tenth entity has been registered there.

The vast majority of Polish startups are limited liability companies, which is not necessarily good news, given how difficult it is for such companies to have ESOPs, a type of employee shareholding characteristic of startups, very popular e.g. in the United States. We have devoted a subsection of this report to the issue of ESOPs. This is an important topic, as it is of great importance when it comes to the possibility of retaining talent in the company. As a foundation, we have been highlighting this topic for years and, as it turns out, with increasingly better results. It turns out that the awareness of the existence of ESOPs and the need to introduce them are beginning to spread among a wider group of companies also in Poland.
Recently, however, the number one topic in the broadly understood startup community has been the question of the existence or non-existence of a 'startup bubble'. Questions are increasingly being asked about whether there really is a bubble and, if so, if and when it is going to burst. There are fears that investors will turn away from startups and shift their capital to other fields. However, this issue is not clear-cut and opinions, whether from experts or startups themselves, are strongly divided.

Indeed, we are already seeing a slowdown in the most developed markets and pessimism tends to prevail among startups. There is a noticeable decline in the amount of capital invested in startups. Such a negative trend is visible, for example, in the United States, but also in the Western European markets, where the situation is also starting to become more complicated. Startups at a later stage of development are complaining about increasing problems with closing late-stage rounds. Younger players, on the other hand, are complaining about longer and more thorough due diligence processes, which in itself may be a good thing for the market. The unprosperous, weaker startups will drop out.

In Poland, the data so far do not show a decline in the amount of available capital, but when asked about this, founders have a rather pessimistic outlook, believing that problems could arise here too. In the following quarters, the situation will become clearer and it will be easier to assess whether and to what extent we will also feel this slowdown. So far, most Polish startups have had only one round of funding. Will they be able to count on another? This is of course possible, although it seems that raising such high amounts as in previous years may become more difficult. It is also worth remembering that the startup sector is not homogeneous - there are industries that are more favoured by investors, but there are also those where private capital is very hard to come by. Companies in the space sector, described in our separate 'Space 2022' report this year, can serve as an example of just such an industry. Those sectors, for which access to capital from private investors is more difficult, should be more strongly supported by state money, both by institutions such as PFR (Polish Development Fund), NCBR (National Centre for Research and Development), ARP (Industrial Development Agency) or PARP (Polish Agency for Enterprise Development) (which actually works quite well in Polish conditions) and by a more startup-friendly policy of state-owned companies - various types of synergies may emerge on this line.

This report also looks at the problems and barriers hindering the development of startups in our country. These are, above all, the problems of acquiring qualified experts as well as the difficulty of raising sufficiently large capital for development. Unfortunately, everything points to the fact that these two issues are unlikely to improve in the foreseeable future - virtually all branches of the economy complain about the shortage of hands, and in the case of startups, competition for programmers, for example, is enormous. Startups compete for them both among themselves and with corporations that can often offer better employment conditions than young, less experienced companies. And when it comes to development capital, the situation is also unlikely to improve in the near future and actually it may get worse.
To these two issues, our traditional Polish ills must be added - excessive bureaucracy, volatility of legal and tax regulations. It can be said that the situation in this aspect is not improving, but has actually worsened. The Polish Deal (Polski Ład) programme announced by the government at the beginning of this year, which not only did not improve the situation of Polish startups, but also caused huge confusion, chaos and real problems for startups, which is true even today, when these regulations have been de facto withdrawn.

The next part of this report is devoted to analysing the impact of black swans (pandemic, war, inflation, energy crisis) on Polish startups. As our survey shows, the cost of doing business for startups is rising rapidly and startups are reacting to this process by either passing these increases on to customers or cutting spending - primarily on marketing and advertising. Almost one in five startups surveyed was forced to make redundancies for this reason.

And finally, a symptomatic data in our opinion - almost half of the founders are considering not expanding abroad (which is a most welcome development), but moving their business abroad permanently. This is a very worrying signal. When asked about the reasons for such an attitude, the respondents - in addition to purely business objectives - pointed to problems arising from the introduction of the Polish Deal and some to concerns about the geopolitical situation of our country in the face of the war in Ukraine.

We hope that the problems currently being experienced by Polish startups will not worsen and that the startup community will nevertheless come through the current crises relatively untouched.

However, if we want the startup sector in our country to continue to grow as fast as it has so far and to be able to catch up with world leaders, we have a lot of work to do - both as a state and as representatives of the startup sector. However, this effort must be made. After all, startups are to a large extent the engine of a modern, high-tech economy - they support traditional industries, improve the quality of life for consumers, create new ideas and improve old ones. Poland - a country still chasing the best ones, simply cannot give up in this field.

Tomasz Snażyk
CEO
Startup Poland
1. Polish startups most often operate in the B2B model, with 39 per cent targeting large companies and corporations and another 25 per cent targeting small businesses. In total, therefore, almost two-thirds of Polish startups operate in the B2B model. Significantly fewer, only 11 per cent, operate in the direct to consumer (B2C) formula.

2. Only 7 per cent of startups felt a decline in foreign investors’ interest in the Polish market at the time of the survey. A much higher proportion (38 per cent) has not yet experienced such a negative trend. However, more than one in two startups answered “difficult to say”, which may herald a change in this trend.

3. The key role on the Polish market is played by domestic VC funds whose capital was used by 28 per cent of the surveyed startups as well as by domestic business angels who supported one in five startups (22 per cent). An identical percentage received funding from the National Centre for Research and Development.

4. Among startups using external funding, most are those with only one investment round behind them - this is as many as two-thirds of the surveyed companies (67 per cent). The amounts raised in all rounds so far by startups are most often between PLN 1 and 2 million.

5. The startup bubble narrative is already penetrating the consciousness of Polish founders. More than half (55 per cent) agree with the thesis that there is a startup valuation bubble on the market. The opposite view is held by 45 per cent of the respondents.

6. The main barrier to the development of startups in Poland is the problem with recruiting employees, with the costs of employing them rising rapidly. As many as 52 per cent of startups point to this aspect.

7. In the face of recent crises (black swans), almost half of Polish startups (49 per cent) declare that the costs of doing business have increased significantly. Those who have not experienced an increase in costs constitute 50 per cent. On the other hand, there are very few startups in which costs have decreased (only 1 per cent).

8. Nearly two-thirds of startups believe that the changes introduced under the Polish Deal destabilise their business (62 per cent). Another 28 per cent indicate that the new regulations have forced them to change their form of hiring and 13 per cent that it has become more difficult for them to attract talent from abroad.

9. Almost half of domestic startups are considering moving their business permanently outside Poland, which would also mean moving their headquarters to another country.

10. The regions competing for the position of the “Polish Silicon Valley” are: the Lower Silesian Voivodeship (with Wroclaw) and the Mazovian Voivodeship (Warsaw). The third region with the largest number of startups is the Lesser Poland Voivodeship (Krakow).
Map of Polish Startups
Map of Polish Startups

Polish Startups’ profile
Polish startups are rather young or very young entities. This year’s survey shows - as in previous years - that the vast majority of them have been operating on the market for less than 4 years (as many as 83 per cent of the surveyed companies). Almost one in three has been operating for 3 to 4 years, a similar percentage has been in operation for one or two years and one in five startups questioned has not even been in operation for one year (22 per cent). Companies founded as startups, but with longer existence, are relatively few in number - one in ten is between 5 and 10 years old and 7 per cent of the surveyed companies have a business history of more than a decade. Compared to previous years, the differences here are rather small and the proportions between the different time ranges have not changed. In previous years, young entities also clearly dominated.

The following question can be asked at this point: why is there so little variability from one year to the next? Why aren’t more startups with longer existence growing over time? Perhaps some of them suspend their activities quite quickly or, after going through successive rounds and developing the scale of their business, they no longer see themselves as startups and are no longer represented in the survey as they are more mature companies.

How many years has your startup been operating?

<table>
<thead>
<tr>
<th>Time Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one year</td>
<td>22%</td>
</tr>
<tr>
<td>1-2 years</td>
<td>31%</td>
</tr>
<tr>
<td>3-4 years</td>
<td>30%</td>
</tr>
<tr>
<td>5-10 years</td>
<td>10%</td>
</tr>
<tr>
<td>More than 10 years</td>
<td>7%</td>
</tr>
</tbody>
</table>
In the survey carried out by the Startup Poland Foundation, founders (owners of companies) account for the vast majority of respondents - 86 per cent of the entire sample, while 7 per cent of those questioned are managers who do not, however, own the company. An identical percentage of respondents are employees.

**What is your role in the startup?**

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>founder</td>
<td>86%</td>
</tr>
<tr>
<td>manager</td>
<td>8%</td>
</tr>
<tr>
<td>employee</td>
<td>6%</td>
</tr>
</tbody>
</table>

While last year’s survey showed that the number of startups founded by younger people (by 20-year-olds) increased slightly, its latest version confirms a trend already noticed in previous years - founding a startup is mainly the domain of 30-year-olds. Among founders, as many as 44 per cent are aged between 30 and 40 (in 2021, it was 43 per cent, so the percentage has hardly changed). However, the percentage of founders aged 40-50 has increased noticeably (from 13 per cent in 2021 to 17 per cent today). One in three startups is the work of people aged between 20 and 30 (33 per cent). In this age category, therefore, we have a year-on-year decrease of 4 percentage points. Only 2 per cent of companies were founded by people younger than 20 and founders aged 50+ account for 4 per cent of all respondents.

It seems, therefore, that the combination of a still young age (30+) associated with innovation, following new trends and a willingness to be active with some experience in business (e.g. in a corporation) is the ideal age for a founder. This is also confirmed by other sources. As the research cited by Bloomberg shows, the average age of unicorn founders is 34.

### Which age group did you belong to when you established your business?

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 20</td>
<td>2%</td>
</tr>
<tr>
<td>20-30</td>
<td>33%</td>
</tr>
<tr>
<td>30-40</td>
<td>44%</td>
</tr>
<tr>
<td>40-50</td>
<td>17%</td>
</tr>
<tr>
<td>50+</td>
<td>4%</td>
</tr>
</tbody>
</table>

By far the most common form of legal status chosen by founders for their companies is the limited liability company, which is part of a more general trend in our domestic business. Disregarding sole proprietorships, it is limited liability companies that make up the vast majority of businesses in Poland. As we read in the Polish Companies 2021 report, as many as 448,000 limited liability companies were operating in Poland at
the beginning of 2022. The second most popular legal form is limited partnerships. However, their number is significantly lower (35,700). The podium is closed by general partnerships (32,600). Only 8,400 companies operate in our country as joint stock companies.

The legal statuses of Polish startups are similarly distributed. The dominance of limited liability companies over other types of business forms is crushing - they account for as much as 77 per cent of all startups surveyed. Other forms of business are far less popular - the joint-stock company and sole proprietorship were indicated by only 5 per cent of the respondents. This disproportion, however, has its negative consequences - in startups operating as limited liability companies, it is much more difficult to offer ESOPs to employees - so popular among startups in, for example, the United States. However, we will discuss the issue of ESOPs in more detail in a dedicated chapter later in this report.

The simple joint-stock company - available in Poland from July 2021 - has so far not proved to be a game changer on the Polish startup market, even though it is this form of business that seems ideally tailored for startups. So why have only 3 per cent of the companies surveyed opted for a simple joint-stock company (PSA)? There are concerns among some startups that this type of company may have more difficulty finding external funding, as VC funds do not necessarily look favourably on such a solution. However, as this form of business is only just beginning on our market, there is a good chance that in the course of time, both Polish startups and potential investors will be more open to this new legal form. As a foundation, we will also monitor this in further surveys in the future. A further 3 per cent of companies are foreign-registered entities. Among the startups surveyed, 6 per cent were still before registration.

What is the legal status of your startup?

<table>
<thead>
<tr>
<th>Legal Status</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before registration</td>
<td>6%</td>
</tr>
<tr>
<td>Sole proprietor</td>
<td>5%</td>
</tr>
<tr>
<td>Limited liability company</td>
<td>77%</td>
</tr>
<tr>
<td>Joint-stock company</td>
<td>5%</td>
</tr>
<tr>
<td>Simple joint-stock company</td>
<td>3%</td>
</tr>
<tr>
<td>Foreign-registered entity</td>
<td>3%</td>
</tr>
<tr>
<td>Other form</td>
<td>1%</td>
</tr>
</tbody>
</table>

Polish startups are mostly small entities - most often they have between 4 and 10 employees (35 per cent) and 18 per cent employ between one and three people on a permanent basis. Larger teams of 10 to 20 employees are employed by 15 per cent of the companies surveyed, while a similar percentage (16 per cent) of companies are companies with 21 to 50 employees. Those with more than 51 employees make up only 5 per cent of the entire survey sample. One in ten startups does not employ
a single employee on a permanent basis at the moment. The situation, in terms of employment in startups, has not changed much compared to previous years. Perhaps next year, seemingly more difficult for startups, will bring some changes in this area. Although if they do occur, they will be rather negative.

How many people are currently employed at your startup?
Meaning permanent, remunerated cooperation regardless of the legal form of employment.

<table>
<thead>
<tr>
<th>Number of People</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 people</td>
<td>19%</td>
</tr>
<tr>
<td>4-10 people</td>
<td>36%</td>
</tr>
<tr>
<td>11-20 people</td>
<td>15%</td>
</tr>
<tr>
<td>21-50 people</td>
<td>16%</td>
</tr>
<tr>
<td>51 people or more</td>
<td>4%</td>
</tr>
<tr>
<td>I do not employ anyone</td>
<td>10%</td>
</tr>
</tbody>
</table>

Unfortunately, there is still a deficit of women on the Polish startup market - there are only 21 per cent of startups, where more than half of the team is made up of women. In this group, we have 15 per cent of startups, where the female part of the team exceeds half of the employees, while those where women make up more than three-quarters of the staff are only 6 per cent. Nearly one in three startups has indicated that women make up a maximum of one quarter of the team and those where almost half of the team is made up of women account for 29 per cent. In contrast, as many as 18 per cent of the companies surveyed do not employ a single woman (bearing in mind, however, that there are also companies in this group which do not employ a single person).

What percentage of women work at your startup?

<table>
<thead>
<tr>
<th>Percentage Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>18%</td>
</tr>
<tr>
<td>0 - 25%</td>
<td>32%</td>
</tr>
<tr>
<td>25% - 50%</td>
<td>29%</td>
</tr>
<tr>
<td>50% - 75%</td>
<td>15%</td>
</tr>
<tr>
<td>75% - 100%</td>
<td>6%</td>
</tr>
</tbody>
</table>

This persistent gender disparity appears to be part of a wider problem - women are in a distinct minority when it comes to working in technology companies, a significant proportion of which are startups after all and this is a global phenomenon. Although even in the case of large tech companies, the gender gap is significant. A Deloitte study shows that the percentage of women working in such companies is just under 33 per cent, while when it comes to technical positions, it shrinks to 25 per cent. However, there is also an optimistic aspect here - this gap is gradually narrowing every year. Perhaps we will see the same trend in the case of startups which will be also increasingly willing to employ women.
Large technology companies are making slow but steady progress in increasing female workforce representation

Female workforce representation in large technology companies

<table>
<thead>
<tr>
<th>Year</th>
<th>Proportion of women in overall workforce</th>
<th>Proportion of women in technical roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>30.8%</td>
<td>22.4%</td>
</tr>
<tr>
<td>2020</td>
<td>31.5%</td>
<td>23.1%</td>
</tr>
<tr>
<td>2021</td>
<td>32.2%</td>
<td>24.0%</td>
</tr>
<tr>
<td>2022</td>
<td>32.9%</td>
<td>25.0%</td>
</tr>
</tbody>
</table>

Which region of Poland could be described as the country’s ‘Silicon Valley’? Two voivodeships definitely come out on top when it comes to the number of registered startups - the largest number (21 per cent) are based in the Lower Silesian Voivodeship, with Mazovia taking second place. Thus, Wrocław and Warsaw are the two main centres of choice for domestic startups. Third place is occupied by the Lesser Poland Voivodeship (Krakow) - every tenth entity questioned was registered there. This is followed by Greater Poland (8 per cent), Subcarpathia (7 per cent) and the Lublin Voivodeship (6 per cent). The Opole and Lubusz Voivodeships are by far the weakest on this map. The low position of the Silesian Voivodeship (only 3 per cent of registered startups) may also come as a surprise.
### SUMMARY

- **Polish startups are most often companies with a short – at most 4-year – track record, founded by representatives of the generation of 30-year-olds and 20-year-olds, operating in the form of a limited liability company.**
- **Domestic startups are small companies – usually with only a few employees on the permanent basis.**
- **The Polish startup market still suffers from a shortage of women – there are only 21 per cent of entities where more than half of the team are women.**
- **The regions competing for the position of the “Polish Silicon Valley” are the Lower Silesian Voivodeship (with Wrocław) and the Mazovian Voivodeship (Warsaw). The third region with the largest number of startups is the Lesser Poland Voivodeship (Kraków).**

### In which voivodeship is your startup registered? If it is not registered yet, select the voivodeship in which it actually operates.

<table>
<thead>
<tr>
<th>Voivodeship</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Silesian</td>
<td>21%</td>
</tr>
<tr>
<td>Kuyavian-Pomeranian</td>
<td>2%</td>
</tr>
<tr>
<td>Lublin</td>
<td>6%</td>
</tr>
<tr>
<td>Lubusz</td>
<td>1%</td>
</tr>
<tr>
<td>Łódź</td>
<td>4%</td>
</tr>
<tr>
<td>Lesser Poland</td>
<td>10%</td>
</tr>
<tr>
<td>Masovian</td>
<td>20%</td>
</tr>
<tr>
<td>Opole</td>
<td>0%</td>
</tr>
<tr>
<td>Subcarpathian</td>
<td>6%</td>
</tr>
<tr>
<td>Podlaskie</td>
<td>4%</td>
</tr>
<tr>
<td>Pomeranian</td>
<td>5%</td>
</tr>
<tr>
<td>Silesian</td>
<td>3%</td>
</tr>
<tr>
<td>Holy Cross</td>
<td>1%</td>
</tr>
<tr>
<td>Warmian-Masurian</td>
<td>3%</td>
</tr>
<tr>
<td>Greater Poland</td>
<td>8%</td>
</tr>
<tr>
<td>West Pomeranian</td>
<td>2%</td>
</tr>
<tr>
<td>outside Poland</td>
<td>4%</td>
</tr>
</tbody>
</table>
What are we best at?

Over the past almost three years, the face of the global economy has changed beyond recognition and in many different ways - the COVID-19 pandemic has, on the one hand, disrupted the global flow of goods and ruptured existing supply chains, while on the other hand, forced some acceleration when it comes to the development of cutting-edge digital technologies and their application in real life. The pandemic has turned out to be an opportunity of sorts, which the startup market has exploited quite well, as can be seen in the successive record sums invested every quarter in young technology companies.

Today, as we face further crises - this time triggered by the war in Ukraine as well as the climate catastrophe that is unfolding at an accelerating pace - further opportunities are opening up where startups can be of great help.

Startups offering services in the energy sector can serve as a good example – their innovative ideas can support the energy sector - whether offering solutions in the field of RES, cyber security, thermal modernisation or the implementation of ESG processes in companies - here both opportunities and ideas are on the increase. This particular sector was extensively described in the Startup Poland Foundation’s report ‘Technologies for Energy’ published in September this year. Other most promising directions most often mentioned include: ‘green’ technologies, blockchain, VR solutions, cloud solutions, medtechs as well as edtechs and fintechs.

Let us, therefore, take a look at what Polish startups offer, in which business model they most frequently operate and who the target audience for their products or services is. Most - almost two-thirds - of the startups offer applications to customers - the majority of which (36 per cent) are web applications and 26 per cent are mobile applications. SaaS services are very popular, indicated by 39 per cent of startups.

Hardware also ranks quite high, with hardware solutions offered by 17 per cent of the companies surveyed. Another 15 per cent point to consulting services and 13 per cent to e-commerce services. A similar percentage of companies offer customised digital products to customers (14 per cent) and 10 per cent offer customised physical products. The same percentage of companies create tools for the IT sector.

Other responses mentioned included: bulk physical products (8 per cent) and digital goods such as games, films, music, etc. (2 per cent). In addition, startups further mentioned: marketplaces, blockchain investments, IoT (Internet of things), VR (virtual reality) applications, NFC, AI (augmented reality) and machine learning.
In contrast, when asked to identify the three keywords that best reflected the nature of the main service or product they offer, startups most often mentioned AI and machine learning (21 per cent), productivity and management (14 per cent), analytics – research tools, business intelligence (13 per cent), HRtech and HR tools, medtech (both 12 per cent), financial services - fintech or insuretech and big data (10 per cent).

These are just a few of these most frequently chosen keywords, but their scope proves to be very diverse and broad. The Polish startup sector is therefore not focused on one particular business segment - either in terms of industry or the type of services or products offered.
Identify three keywords that best capture the nature of your main product/service

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agrotech</td>
<td>3%</td>
</tr>
<tr>
<td>Artificial Intelligence/Machine Learning</td>
<td>21%</td>
</tr>
<tr>
<td>Analityka/Research Tools/Business Intelligence</td>
<td>13%</td>
</tr>
<tr>
<td>Big Data</td>
<td>10%</td>
</tr>
<tr>
<td>Biotech</td>
<td>4%</td>
</tr>
<tr>
<td>Blockchain/DLT</td>
<td>6%</td>
</tr>
<tr>
<td>Cryptocurrencies</td>
<td>3%</td>
</tr>
<tr>
<td>Content</td>
<td>3%</td>
</tr>
<tr>
<td>Drones</td>
<td>1%</td>
</tr>
<tr>
<td>Social Media</td>
<td>3%</td>
</tr>
<tr>
<td>Cybersecurity</td>
<td>2%</td>
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<tr>
<td>Design</td>
<td>3%</td>
</tr>
<tr>
<td>Developers Tools</td>
<td>2%</td>
</tr>
<tr>
<td>Ecommerce</td>
<td>14%</td>
</tr>
<tr>
<td>Edge</td>
<td>1%</td>
</tr>
<tr>
<td>Education</td>
<td>8%</td>
</tr>
<tr>
<td>Electronics/Robotics</td>
<td>7%</td>
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<tr>
<td>Electromobility</td>
<td>1%</td>
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<tr>
<td>Space</td>
<td>3%</td>
</tr>
<tr>
<td>Energy technology/Energy</td>
<td>3%</td>
</tr>
<tr>
<td>E-Sport</td>
<td>1%</td>
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<tr>
<td>Financial services</td>
<td>11%</td>
</tr>
<tr>
<td>Foodtech</td>
<td>4%</td>
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<tr>
<td>Greentech/Cleantech</td>
<td>6%</td>
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<tr>
<td>Gaming</td>
<td>0%</td>
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<tr>
<td>Hardware</td>
<td>7%</td>
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<tr>
<td>HRtech/Tools</td>
<td>12%</td>
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<tr>
<td>Industry</td>
<td>10%</td>
</tr>
<tr>
<td>Internet of Things</td>
<td>8%</td>
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<tr>
<td>Life Science</td>
<td>5%</td>
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<tr>
<td>Martech/Marketing Technology</td>
<td>4%</td>
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<tr>
<td>Medtech</td>
<td>12%</td>
</tr>
<tr>
<td>Fashion</td>
<td>3%</td>
</tr>
<tr>
<td>Nanotech</td>
<td>1%</td>
</tr>
<tr>
<td>Productivity, management</td>
<td>13%</td>
</tr>
<tr>
<td>CRM/ERP</td>
<td>3%</td>
</tr>
<tr>
<td>Proptech</td>
<td>4%</td>
</tr>
<tr>
<td>Entertainment</td>
<td>3%</td>
</tr>
<tr>
<td>RPA</td>
<td>1%</td>
</tr>
<tr>
<td>Sport</td>
<td>3%</td>
</tr>
<tr>
<td>Smart City</td>
<td>5%</td>
</tr>
<tr>
<td>Smart Home</td>
<td>1%</td>
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<tr>
<td>Transport</td>
<td>5%</td>
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<tr>
<td>Logistics</td>
<td>4%</td>
</tr>
<tr>
<td>Tourism</td>
<td>1%</td>
</tr>
<tr>
<td>Virtual/Augmented Reality</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>15%</td>
</tr>
</tbody>
</table>
The survey also looked at which business model is most commonly used by Polish startups. They most often operate in the B2B enterprise model (39 per cent) with a further 25 per cent indicating B2B small business. In total, therefore, almost two-thirds of domestic startups operate in the B2B model.

Significantly fewer – only 11 per cent – operate in the direct-to-consumer (B2C) formula. A similar percentage (13 per cent) of companies operate as a marketplace. Less popular, but also appearing in the responses, are the following models: creators economy, gig economy. Models combining B2B and B2C also appear.

**What business model does your startup operate in?**

- Marketplace: 13%
- Direct to consumer: 1%
- B2B enterprise: 38%
- B2B small business: 26%
- Sharing economy: 1%
- Creators economy: 2%
- Other: 9%

The survey also asked about the revenue models used by the respondents. Here, selling (e.g. of content and advertising, products and services) reigns supreme. Nearly 70 per cent of Polish startups earn in this model. The second most frequently selected revenue model (39 per cent) is licensing (e.g. of technology, rights, etc.). Fewer, 14 per cent, of those asked earn money through business intermediation and 12 per cent through profit sharing. Other models such as a commission system, subscriptions and EU subsidies (grants) were also mentioned by the respondents.

**Which revenue models does your startup use?**

- Selling (e.g. content and advertising, products, services): 69%
- Licensing (e.g. of technology, rights): 39%
- Business intermediation: 14%
- Profit sharing: 13%
- We do not have a business model yet: 6%
- Other: 6%
Startups also answered the question of what type of customer is the assumed target group for their product or service. Here, the predominance of the B2B model is even more evident, with almost two-thirds of the respondents (64 per cent) indicating B2B - small and medium-sized companies (up to 250 employees) and further 62 per cent indicating large companies and corporations with more than 250 employees. Individual customers (B2C) are the target group for 35 per cent of startups. Slightly fewer (30 per cent) target institutional customers (B2G) - authorities, local government units, schools, universities, hospitals, services, etc.

Freelancers are customers of one in five startups (20 per cent) and 18 per cent operate in the B2C2C model. A slightly smaller percentage of startups operate in the B2B2G model - directing their services or products to non-profit organisations (NGOs).

The predominance of B2B models among startups in Poland has therefore persisted for a long time and there is no indication that there will be a turn towards individual customers any time soon, with the ratio between B2B and B2C still two to one in favour of the former model.

**What type of customer is the assumed target group for your startup's product/service? You can tick more than one?**

- Individual customers: 36%
- Freelancers: 19%
- B2C2C: 18%
- Small and medium-sized companies (up to 250 employees): 63%
- Large companies and corporations (more than 250 employees): 63%
- Institutional customers: authorities, local government units, schools, universities, hospitals, services, etc.: 29%
- Non-profit organisations, etc.: 15%
- Other: 4%
What are we best at?
What startups do we know that the average user may never know?
There are more than 5,000 startups in Poland, among which a small fraction is widely recognised. Booksy, DocPlanner or Brainly are examples of startups which, among other things, thanks to their offer addressed directly to individual customers, have gained popularity not only in our market, but also worldwide. Less popular in the social consciousness are companies creating solutions for business, even though they sometimes provide technology to many of the market’s major enterprises. In the Startup Poland report, companies that specialise in the development of artificial intelligence, business analytics, technologies supporting management processes or HR Tech solutions and medical projects stand out above all.

Cosmose, Vue Storefront and Zowie are examples of companies that are building solutions for commerce and have raised funding of more than USD 10 million each. Nomagic, a provider of robots designed for logistics centres, raised more than USD 20 million in round A. Synerise and Tidio provide sales and marketing process support with investments of more than USD 20 million, this time in rounds B. Examples of Polish B2B companies with valuations in the initial rounds in the millions of dollars are increasingly numerous. In 2022 – excluding mega investment rounds – Polish startups have raised more than USD 400 million and mostly in the B2B segment. It is also worth mentioning the very dynamically growing startups that create advanced medical solutions. These include Infermedica, Biotts, MedApp, Molecule. one or Saventic Health.

Polish startups offer solutions based on advanced technologies, improve the efficiency of business processes, reduce the costs of organisation’s operations and enable the scaling of solutions on the global market – these are just some of the common characteristics of Polish young companies that have already been noticed worldwide. And although they may not be known by the end customer, they are raising more and more funds from funding rounds and have enormous potential to establish themselves on international markets, primarily in the B2B segment, for which startups can help build greater efficiency in the face of upcoming global economic challenges.

Michał Kramarz
Director of Google for Startups in Central Europe
Software is our domain
If one were to look at the sectors of the Polish economy through the prism of innovation, it would certainly abound in industries in which we have had both engineering traditions and developed production for years. Plants producing electric buses or new-generation locomotives come to mind. Behind them, however, are powerful, mature companies with established market position. With startups on the Vistula, however, it is different. Apart from a few exceptions, it is hard to find young, innovative companies developing hardware. Physical products, especially for the mass market, are the most difficult and costly undertakings and also carry the highest risk.

Over the past decade, it has been repeatedly predicted that Poland will become a global hub of various technologies – from 3D printing, through graphene and so-called beacons, to drones. It is difficult to see these predictions coming true. But... Well, that’s just it. These days, behind every physical technology, there is some kind of software. And this is a domain where our position is really strong. Research shows that 39 per cent of founders, when asked what their company offers, indicate SaaS software as well as mobile (26 per cent) and web applications (36 per cent).

We have the largest number of programmers in the whole of Central Europe and their quality is known all over the world. This is the reason why ventures that have become symbols, such as CD Projekt or the Ivona speech synthesiser acquired by Amazon, could be established here. Such examples could be multiplied. Fantastic human capital, not only when it comes to computer science, but also mathematics or physics, is our strength which can and should be used to solve important business and social problems. And we are no longer talking about potential – after all, indigenous startups create solutions that are used by hundreds of millions of users worldwide.

Polish companies have a solid base to seek their advantages everywhere in gaming, fintechs or sectors that have been on the up recently, such as health, education and energy. In practice, however, their opportunities are much broader. Let’s abandon the classic sectoral view and look horizontally: innovative software, artificial intelligence, data analytics – i.e. the domain of domestic startups – are becoming present in almost every aspect of our lives. This opportunity should not be wasted.
The startup environment must evolve into a high-tech environment.
I believe it goes without saying that the Polish startup market is, above all, technically excellent. There are many rankings and studies indicating the high level of competence of our programmers and engineers. I think this is why startups from the areas of Business Intelligence, Big Data and Artificial Intelligence are very strongly represented in the Startup Poland study. When we also look at categories directly related to engineering, building hardware, we also see high representation. It’s good that we have strengths, it’s good that we can use these talents of ours in a global race. I believe the problem is that over the last 10 years we have not developed business talents in Poland radically at all. In industries where marketing and sales skills are key, where understanding the customer can generate the greatest competitive advantage, there are still not many startups and success stories.

Advanced technical solutions are a great base for any business, but charismatic personalities of founders, scale, vision, courage and skilful building of market position based also on branding are what we need much more of in Poland.

The Startup Poland study also shows brilliantly that the key to the development of startups is actually internal demand. The fact that fintech in Poland is not only popular but also very strong is the aftermath of the very high activity of Polish banks and insurance companies. Today, in the Polish industry, I see a movement that could have been observed in this sector 5-7 years ago. However, I put here an important condition for the development of our ecosystem. We need to be more open as an environment. Polish startups are convinced of their openness and inclusivity, but we actually love to meet at our own conferences, meetups, we have ‘our own places’.

However, we should open up more to the environment, to R&D centres in big corporations, to engineers from industrial companies, to academia and even to the gaming industry. I think we should start transforming the startup environment into a high-tech environment.
SUMMARY

- Most – almost two-thirds of startups offer applications to customers – of which the majority (36 per cent) are web applications and 26 per cent are mobile applications. Hardware also ranks quite high, with 17 per cent of the companies surveyed offering hardware solutions.

- When asked to indicate three key words that best reflect the nature of the main service or product offered, startups most often mentioned AI and machine learning (21 per cent), productivity and management (14 per cent), analytics – research tools, business intelligence (13 per cent), HRtech and HR tools, medtech (12 per cent each), financial services – fintech or insurtech and big data (10 per cent).

- Polish startups most often operate in the B2B enterprise model (39 per cent), with a further 25 per cent indicating B2B small business. In total, therefore, almost two-thirds of domestic startups operate in the B2B model. Significantly fewer, only 11 per cent, operate in the direct to consumer (B2C) formula.

- When it comes to revenue models, sales (e.g. of content and advertising, products and services) reign supreme. Nearly 70 per cent of Polish startups earn in this model. The second most frequently chosen revenue model (39 per cent) is licensing (e.g. of technology, rights, etc.).

- Almost two-thirds of startups indicated B2B – small and medium-sized companies (up to 250 employees) – as the target group for their services and another 62 per cent indicated large companies and corporations with more than 250 employees. Individual customers (B2C) are the target group for 35 per cent of startups. Slightly fewer (30 per cent) target institutional customers (B2G) – authorities, local government units, schools, universities, hospitals, services, etc.
Funding
Funding

Sources of funding for startups
We have very rarely had the opportunity to hear any optimistic economic news recently. Everyone is looking at the coming months with anxiety. And this is not just a Polish peculiarity - the current crises are global, multifaceted and their effects are largely unavoidable. This omnipresent pessimism is also gradually making its way into the startup market, particularly in the United States.

While during the pandemic, the sector of young, innovative companies was red-hot and investors were very keen to put up record amounts of money for the next startup, there are now many indications that this period of prosperity is coming to an end or at least partially slowing down. The global startup funding climate is changing to the downside and the source of easy capital for startups is starting to dry up.

Problems are affecting both later-stage startups and earlier-stage companies which now have to demonstrate more effective sales models or well-planned revenue models to investors in order to raise capital for growth. In addition, startups are increasingly indicating that due diligence processes are getting longer and the finalising of deals is getting longer, which is not necessarily bad news. Perhaps this will ensure that money will go to the best ones and that weaker players, who until recently could easily raise funding, will disappear from the market.

Analysts at GlobalData have calculated that in the first six months of 2022, just over 5,700 VC funding deals for startups were concluded in the US, with a value of USD 123.1 billion. As GlobalData’s experts point out, although the US market was the best in the world in this respect (accounting for nearly 50 per cent of the global amount of VC funding in the analysed period), its value fell by as much as 21.7 per cent. The volume of deals, in turn, fell by 19 per cent year-on-year. The second quarter was particularly weak in this respect.

The situation in European markets is also starting to become more complicated.
Crunchbase data show that European investment in startups in the second quarter of this year shrank by USD 14 billion from its peak to USD 23.7 billion, meaning a year-on-year decline of 38 per cent. Most market analyses of the European startup market cite the high-profile example of Swedish startup company Klarna, whose spectacular fall in value is seen as a harbinger of trouble for the entire market. The company’s valuation has rapidly shrunk from USD 42 billion to just USD 6.7 billion.

At the beginning of 2022, European startups were still doing quite well in terms of raising VC capital (in contrast to the US market) - the first quarter was in fact the second best in terms of startup funding in Europe since the beginning of 2021.

Unfortunately, the second quarter was already part of the global negative trend. This is especially true for later-stage investments – European startups raised USD 13.7 billion in the second quarter - this is half the amount raised in the same quarter a year ago and 28 per cent less when comparing quarter-on-quarter. Early-stage funding in the second quarter of this year fell by 9 per cent year-on-year to USD 7.9 billion. The quarter-on-quarter decline here is more pronounced, by around 19 per cent.

**European Venture Dollar Volume Trough Q2 2022**

<table>
<thead>
<tr>
<th>Overall Dollar Volume</th>
<th>QoQ Change (%)</th>
<th>YoY Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-24%</td>
<td>-38%</td>
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</table>

Source: Crunchbase
And what is the situation in our domestic backyard at the moment? A report prepared by PFR Ventures and Inovo summarising the first three quarters of 2022 shows that despite the weak global sentiment, cautious optimism still prevails in our country. In the analysed period, the total value of VC deals amounted to more than PLN 2.5 billion, thus showing an increase of 76 per cent year-on-year.

In the third quarter, an amount of PLN 513 million was raised, representing a slight year-on-year decrease. (12 per cent). However, the number of concluded transactions increased (by 14 per cent). But, as the authors of the report point out, it is the last quarter of the year that is usually the strongest, so there is a chance that even in the face of unfavourable economic and geopolitical conditions, another record for the level of funding of startups in Poland is possible.

Will this happen? We will find out after the publication of the next PFR Ventures and Inovo report in early 2023.

**VC investments in Poland 2019-Q3 2022**

Quarterly, value and number of transactions (PLN million)

In their analysis, the experts from PFR Ventures and Inovo explain that the decrease in the value of transactions, while the number of transactions has increased, is a result of the aforementioned slowdown in global markets and, consequently, a significant reduction in the activity of international funds, whose financing value has decreased from 66 per cent to less than 30 per cent.
The fact that international VC markets are becoming increasingly cautious about investment at the time of the Startup Poland Foundation's survey still affected Polish startups only slightly. Only 7 per cent of them felt a decline in interest from foreign investors. A much larger proportion (38 per cent) did not feel such a negative trend. However, there seems to have already been considerable uncertainty on this issue, with more than one in two startups answering “difficult to say”.

**Are you experiencing a decline in interest from foreign investors?**

- **Yes**: 7%
- **No**: 38%
- **Difficult to say**: 55%
As we read in the previously cited PFR Ventures and Inovo’s report, the share of foreign funds in funding startups amounted to almost half of the entire Polish VC market. Co-investments with foreign entities account for 39 per cent of the capital invested in the first three quarters of 2022.

**Percentage share of international and Polish funds in Q3 2002**

- **By value of transactions**
  - 51% Polish funds
  - 49% International funds

- **By number of transactions**
  - 117 Polish funds
  - 14 International funds

Source: PFR Ventures, Inovo
Among startups asked in the survey by the Startup Poland Foundation about which sources of capital they had the opportunity to use, most, because as many as 68 per cent, indicated bootstrapping i.e. own funds. Thus, as many as two out of three founders reached into their own pockets at some stage of their project’s development. The survey also shows the key role on the Polish market played by domestic VC funds, whose capital was used by 28 per cent of the startups surveyed, as well as domestic business angels, who supported one in five startups (22 per cent). An identical percentage pointed to funding obtained from the National Research and Development Centre.

Other forms of state institution support for startups include investments carried out by the Polish Agency for Enterprise Development (18 per cent) and by the Polish Development Fund (9 per cent). As the survey shows, the role of national accelerators is also important (17 per cent). Only 12 per cent of the startups surveyed finance their activities from current revenues (revenue-based funding).
Appetite comes with eating
In this year’s “Polish Startups” report, the word crisis occurs 10 times more often than in the 2021 report. During the times when founders and fund managers from all over the world keep saying that word all the time, it is worth stopping and taking a look at how much we have achieved over the past few years.

In the past three years, the venture capital market in Poland has been breaking new records. In 2019, the total value of VC investments was more than PLN 1.26 billion. In 2020 - PLN 2.12 billion and in 2021 - PLN 3.62 billion. In the first 3 quarters of 2022, more than PLN 2.55 billion went to innovative Polish companies. The year 2019 was doubly record-breaking. The value of investments was not only higher than in 2018 (PLN 156 million), but higher than the total value of investments in 2011-2018 (PLN 1.06 billion).

Today, more than 100 local funds are active on the market and we have also managed to attract international teams that are looking at Polish companies with interest, at an increasingly early stage of their development.

Even if 2022 will not be a record-breaking year, we can openly admit: we have laid a solid foundation for building a national innovation ecosystem. There is still a lot of work ahead of us. Another challenge on the horizon is the implementation of funds from the European Funds for a Modern Economy (FENG) programme.

These new funds will go to around 50 VC funds, with a public contribution of PLN 1.9 billion and additional PLN 1.3 billion from private investors. They will provide support for companies at various stages of development and stimulate investments by business angels and those involving corporations and larger companies. We have also invested over PLN 600 million in 13 international funds that invest in Polish companies at a later stage of development. These will soon be joined by local teams. This will help to bridge the capital gap that hinders the development of companies between the seed and growth stages.

Startups not only have capital available from funds backed by public programmes, but also from teams managing private capital or from international financial institutions. From the beginning of the year to the end of November 2022, new funds raised more than PLN 3.3 billion for investments and they plan to raise another billion in the upcoming months. The market cannot complain about a lack of capital. The founders’ task now is to convince investors of their ideas and business models.
In the collected responses, a clear predominance of domestic sources of capital is evident - both a foreign VC fund and an accelerator were indicated by only 7 per cent of the respondents. Slightly more important is the role of foreign business angels whose support was used by 11 per cent of startups. Relatively few of the companies questioned indicated a strategic industry investor (4 per cent). The same percentage of startups had the opportunity to use crowdfunding and a bank loan. Only 3 per cent of the startups interviewed originated from university business incubators.

The bane of startups is the so-called ‘equity gap’ - when a startup struggles to raise capital to grow its business. This, in turn, limits many truly innovative ideas which, however, also carry risks for the investor. On the other hand, new, trailblazing ideas will not thrive without investors able to see their potential and take a risk. There are therefore claims that the state should step into this equity gap to support innovative initiatives, even if they may fail. Although the vast majority of startups are sceptical on this issue (70 per cent), still almost one in three startups is in favour of the statement that investments in the equity gap should be predominantly publicly funded.
Should investments in the equity gap be predominantly financed by public funds?

- Yes: 30%
- No: 70%
Why cooperate with a bank?
Everyone knows that relationships with investors are very important for startups and scaleups. However, not everyone knows why it is worth having a good relationship with a bank.

It is a good idea to start the relationship-building process before there is a need for bank funding - by opening a bank account and learning about a bank's offer. It is definitely best to become friends with a bank that understands startups and has a special offer for them - like BNP Paribas. Knowing the company’s business model and plans, we can offer solutions so that they can maximise their profits and minimise various risks, using the existing non-credit services and products. Our offer is not just about funding - although this element always generates the most interest. When is it worth considering bank funding? The idea itself is not enough, the MVP stage is also far too early. We can discuss funding with companies that already have a working product, have already attracted customers and investors and have annual revenues of minimum PLN 2 million. Demonstrating a source of credit repayment that will not lead the company into liquidity shortage is crucial for the bank. So is adequate preparation for the crediting process at the bank.

In the course of a credit analysis, we assess, among other things, the cooperation to date, the quality of the documents presented (not only the financial ones), we analyse forecasts and assumptions as well as the market potential. We check whether the company has historically met its forecasts. During discussions with companies, we have noticed that what seems obvious to us (e.g. the balance sheet should balance) does not always seem obvious to the founders. The prospect of crediting cooperation is certainly one of the reasons for ensuring good and responsible accounting from the beginning. Unfortunately, there have been instances of presenting unreliable data, which unfortunately hindered further cooperation.

A bank, compared to a VC fund, has different objectives. The fund wants to multiply its capital and come out of the relationship with a high profit, while the bank expects repayment of a loan as well as a long-term cooperation. So why is it ultimately worth using a bank at the right stage of development? The answer is simple - because it pays off. By raising capital from VCs, founders reduce their percentage of shareholding, while by using a bank, they can diversify their sources of capital raising, strengthen their credibility and retain more control over the company, which further increases the reward for founders and employees using an ESOP. The ability to service bank debts also sends a very positive signal to future investors.

Dr Magdalena Matuszewska
Director of Development
(Product Offer for Innovative Companies)
Bank BNP Paribas
Poland lacks a good ecosystem supporting startups at a very early, pre-seed
The decisive reason why Polish startups fund their projects with own funds is the gap at the earliest stage of funding - I believe Poland lacks a good ecosystem supporting startups at a very early, pre-seed stage.

Founders who are the so-called ‘first time founders’, or people with business experience and not necessarily startup experience, think of VC funding and several milestone rounds which require a more mature project. In practice, this means that they skip the early stage of external funding for company development, which, from my perspective, is incredibly important. This stage gives time to test and possibly pivot the offering, build the team, competencies and properly prepare for the next round. In my experience, this next round just often occurs more quickly than with bootstrapping alone.

Pre-seed funding assumes from the outset a path in which founders raise the smallest possible rounds at a given stage, because, by definition, subsequent fundraisings already take place at better valuations. This, in turn, protects the so-called ‘capitalisation table’ i.e. the shareholding structure of the startup, while introducing a well-thought-out fundraising structure. We encourage founders who want to build global projects to raise investors’ funds at the start - in addition to bootstrapping - to help them grow today and to effectively support capital raising in the future.

Perhaps it is worth recalling at this point that many of Europe’s most interesting, spectacular projects today started with a pre-seed. I am thinking, for example, of operationally complex businesses such as Wolt - the company started with USD 500,000 in the first round; or, for example, Bolt - raising USD 100,000 in the first round. Two of today’s leading fintechs went through a similar path. I’m thinking of Revolut - it started with a first round of funding of USD 500,000 or Klarna which raised USD 60,000 of initial funding.

To implement this model in Poland, we need more pre-seed funds as well as an efficient ecosystem of business angels. Yes, such a system is developing and is animated by functioning organisations, but I believe that the supply of private capital is still too small.
SUMMARY

• Only 7 per cent of startups have experienced a decline in interest from foreign investors at the time of the survey. A much larger proportion (38 per cent) of them have not felt such a negative trend so far. More than one in two startups, however, gave the answer “difficult to say”.

• Among startups asked about which sources of capital they have had the opportunity to use, most, as many as 68 per cent, indicated bootstrapping i.e. own funds.

• The key role on the Polish market is played by domestic VC funds whose capital has used by 28 per cent of the startups surveyed as well as domestic business angels who have supported one in five startups (22 per cent). An identical percentage pointed to funding obtained from the National Centre for Research and Development.

• There is a clear predominance of domestic sources of capital - a foreign VC fund and an accelerator were indicated by only 7 per cent of the respondents each.

• Almost one in three startups is in favour of the statement that investments in the equity gap should be predominantly funded from public funds.
Revenues 2021 vs. 2022. What has changed over the year?

The startup sector is a very specific market segment. Many of these young technology companies have not yet managed to grow enough to generate regular revenues. This is the specificity of startups, above all those at earlier stages of development, although there are also those that have already been in operation for several years, but are still focused on research and development of their service or product rather than commercialisation. This ratio of companies already selling commercially to those not yet making money from their product varies from industry to industry.

Those with a higher entry threshold, such as deeptech companies working on very advanced technologies, sometimes require a longer time horizon to get to the commercialisation phase of their business.

Startups asked about this issue by the Startup Poland Foundation, however, mostly indicate that they are generating revenues and the vast majority of them are reporting higher revenues than a year ago (when, in turn, these results were better than in 2020).

The largest group of respondents (40 per cent) report revenues slightly better than in 2021 and 20 per cent declare that they are significantly higher. Fewer, only 7 per cent, indicate that, yes, the company generated revenue, but less than the year before. One in three startups surveyed has not generated any revenues this year (33 per cent). It is worth noting that this proportion has not changed much over the last year (at that time, 32 per cent of respondents declared no revenue).

Is the startup currently generating revenues?

- Generates no revenues: 33%
- Generates less revenues compared to last year: 7%
- Generates more revenues than last year: 41%
- Generates much more revenues than last year: 19%
Rounds and exits – at what stage of development are Polish startups currently?

Among startups using external funding, the largest number are those with only one investment round behind them - this is as many as two-thirds of the companies surveyed (67 per cent). In turn, one in five startups surveyed has already raised capital in two rounds. There are significantly fewer companies at a later stage of development - 6 per cent have already gone through three funding rounds and 5 per cent four or more rounds.

If you use external funding, how many funding rounds have there been so far?

- One: 67%
- Two: 22%
- Three: 6%
- Four and more: 5%

The amounts raised in all rounds so far by the startups surveyed are most often between PLN 1 and 2 million. This is the amount indicated by 28 per cent of them. Every tenth startup has so far raised between PLN 500,000 and one million. Amounts not exceeding PLN 500,000 have been raised by 28 per cent of startups (of which 6 per cent have raised between PLN 250,000 and 500,000, 8 per cent between PLN 100,000 and 250,000 and 14 per cent indicate an amount below PLN 100,000). However, the percentage of startups with rounds of significantly larger amounts is not small - 23 per cent managed to raise between PLN 1 and 5 million (including 16 per cent between PLN 2 and 5 million). Amounts in excess of PLN 10 million are indicated by 11 per cent of the respondents.

What is the total amount of funding from all rounds to date?

- Up to PLN 100,000: 13%
- 100-250 M zł: 9%
- 250-500 M zł: 6%
- 500-1000 M zł: 10%
- 1-2 mln zł: 28%
- 2-5 mln zł: 15%
- 5-10 mln zł: 8%
- More than PLN 10 million: 11%

The data from the Startup Poland Foundation’s survey are consistent with the PFR Ventures and Inovo’s report - where the median value of transactions was calculated to be around PLN 1 million. This report further states that the average value of transactions in Q3 2022 dropped significantly compared to the previous quarter and returned to PLN 4 million i.e. to the level last seen at the turn of 2021.
The report of PFR Ventures shows that we are dealing with a clear domination of pre-seed and seed rounds - they accounted for as much as 95 per cent of all rounds raised (in the previous quarter this percentage was 83 per cent). As the authors of this report calculate, there is a noticeable quarterly decrease in the number of rounds carried out after the seed stage – from 16 to only 7. This is a clear signal of lower activity of international capital on Polish market.

**VC investments in Poland 2019-Q3 2022**

Breakdown by type of round
Quarterly, number of deals with approximation for later rounds

In the absence of a definition of the round by the startup/fund at the time of deal announcement, we rely on data from Dealroom, PitchBook or Crunchbase taking into account (a) the company’s funding history; (b) the investor’s profile; (c) the amount of the funding raised.

Source: PFR Ventures, Inovo
Among the founders surveyed by the Startup Poland Foundation, one in ten has already conducted an exit (11 per cent). The rest (89 per cent) have no such experience. What did these exits usually consist of?

**Have you made an early exit as the founder?**

- **89%** No
- **11%** Yes

Startups with the exit process already behind them most often indicate that the exit took place through a trade sale (M&A) i.e. the sale of shares to an industry investor. This answer is indicated by 45 per cent of the respondents. The second most frequently indicated form of exit was the redemption of shares against payment (26 per cent). Less popular options, but also chosen by some respondents, were: a secondary sale – the sale of shares to a VC investor (7 per cent), a buyout of shares from a VC investor by founders (7 per cent) or a buyout by other shareholders (6 per cent). Less common are exits in the form of ICOs (token sales), IPOs (going public and selling to investors on the public market) or selling off assets and liquidating the company. Each of these options was indicated by 3 per cent of the respondents.

**How did the exit end?**

- **Sale of shares or the enterprise or an organised part of the enterprise:** 45%
- **Sale of shares to the Venture Capital investor:** 7%
- **Buyout of shares or the enterprise or an organised part of the enterprise from the VC investor:** 6%
- **IPO of the company – sale of shares to investors on the public market:** 3%
- **ICO (Initial Coin Offering) – token sales:** 3%
- **Redemption of shares against payment:** 26%
- **Sale of the company’s assets and its liquidation:** 3%
Prepare for a fruitful exit
As an entrepreneur, I have built and sold four technology companies. This is invaluable experience that I am happy to share with founders. By understanding the elements involved in achieving a good exit, both for startup founders and investors, we are able to prepare companies for this event from the pre-seed stage. We are still often faced with projects, where it is necessary to improve various elements to prepare a company for an acquisition e.g. cap table, ESOP, etc. I am happy to see that in recent years we have been seeing more and more startups founded by serial entrepreneurs. It is a great pleasure to work with such founders. They know what mistakes they don’t want to make and understand how to get there. Such startups, if they additionally focus on selling on foreign markets, are able to generate higher return on investment than projects operating locally.

In terms of exits, Polish market differs somewhat from others in CEE. The group of Polish funds that regularly make exits is not large. In our case, it is a continuous process that results in transactions capable of paying off the entire fund. Polish startups receive takeover offers by unicorns less frequently than foreign ones. In our portfolio, a Latvian company, Nordigen, (open banking) had this type of exit and it was acquired by a fintech, GoCardless, with more than 70,000 customers worldwide. This is a unique experience both for investors who have the opportunity to become shareholders of a unicorn and for founders who can see what building and growing such a company looks like in practice.

In Poland, it is also less common for startups to be acquired by Private Equity funds which are interested in companies with a larger scale of operation. Quite a number of Polish startups do not reach this stage and accept offers from industry investors while still in the fairly early stages of development. Spotting a good time to sell a company is not easy. What we try to instil in founders is the awareness that takeover offers will occur during the company’s life cycle. You have to be ready for them, which does not mean that you should accept the first one. Especially when its effect is not life-changing for founders. Good startups will always attract interest and will know perfectly well why someone will want to take over their company.
What are the advantages for a startup of being present on the stock exchange?
In the case of Bioceltix - both the debut on NewConnect and the subsequent move to the main market of the WSE were part of the company’s development strategy from the beginning. What are the advantages of being on the stock exchange? Firstly, it provides access to a whole new class of institutional investors who, prior to the IPO, were completely out of the company’s reach. Secondly, it is part of a long-term growth strategy that includes, among other things, the possibility of selling the company to a larger industry player.

With NewConnect, we moved to the main floor in less than 10 months, which is a sensational result. The source of this success can be attributed primarily to our determination and very good organisation of work, bearing in mind that we actually started preparing for this event many years ago. In other words, when we launched Bioceltix, we already planned to take the company public and then move quickly with NewConnect to the main floor in 2016. That was when we were building the team and making some promises to investors. After a few years, the company grew enough to fulfil these promises. Taking a company public needs to be planned more in advance than one might think, sometimes even years in advance. This is because it is not just a matter of changing legal form, but above all of carefully and wisely shaping the ownership structure, the communication strategy, the equity story, the long-term growth strategy or being attentive to corporate issues. Any serious shortcomings in these areas make it difficult to build trust in the wider market. There is a need to understand this system of interconnected vessels, otherwise, in the long term, public company status will not provide any benefit. Adequate legal and advisory support must also be provided – it is worth relying on the competence of experienced people who have been through the process of going public many times. Acquiring such competence is relatively expensive, but overall, learning from one’s mistakes is even more
How are Polish startups funded?
Like in previous years, the Polish startup ecosystem has been asked in a survey by the Startup Poland Foundation where they get funds for the startup and further development of their venture. Among the most popular sources of capital, the golden trio still remains: own funds i.e. the so-called Bootstrapping, capital from domestic VCs and money from domestic Business Angels. However, compared to last year, there is a slight decline giving way to other sources of capital whose popularity is growing, such as revenue-based financing and support from foreign Business Angels or a bank loan. Slowly but progressively, the structure of capital raising sources is changing.

The Venture Capital transaction market is doing well in Poland and is even growing in strength. Quarterly analyses by PFR (Polish Development Fund) and Inovo show that since the beginning of this year, a total of over PLN 2.5 billion has gone to Polish startups (this is the result for the nine months of 2022). Everything points to the continuation of the upward trend despite unfavourable economic conditions and the political situation in the world.

This year’s results point quite strongly to the growing number of young companies with only one round and an increase of as much as 15% compared to the previous year. This is partly due to the fact that the value of seed deals, which are well above the average value of funding at this stage of development, has increased.

Still, the most popular amount range that a company can raise during an equity round is PLN 1-2 million, which is as much as 28% of the entire VC market in Poland. The second place on the podium is occupied by the range of PLN 2-5 million and such amounts constitute about 16% of all transactions, despite the fact that we can see a decrease in comparison with the previous year by 5%. Among the largest transactions of the quarter A rounds of SunRoof and Nevomo, which raised PLN 70 million each, are is worth noting.

We still see little experience of exits among founders, there is a slight increase compared to last year, but we are hoping for much more in the future.

An exit is the proverbial Holy Grail for both a startup and its investors. The most common form of an exit is an acquisition - a company is bought by another company in a particular sector in order to, for example:
1) Broaden the range of services offered, while acquiring a customer base
2) Increase revenues in a specific sector
3) Acquire a valuable and difficult to replicate technology

This type of exit was the exit of 45% of the startups surveyed, which at the same time represents a decrease of 22% compared to the previous year. For 26% of them, the exit ended with the redemption of shares against payment. Other types of exits indicated in the responses were selling off the company’s assets and liquidating 3% and here, there is a significant decrease in this form of exits compared to last year, by as much as 10%, signifying a more mature approach by founders to running their business.
One example of a successful exit and acquisition of majority ownership by a Swedish company is presented by the Polish e-sports agency Knacks. The company, which works with professional gamers and influencers, sold 62% of its shares to RightBridge Ventures AB.

Another exiting option in July 2022 was the sale of ZMorph to the Sygnis Group which promises to grow and take the lead as part of the 3D printing companies’ operations. ZMorph was founded in Wroclaw, Poland, and in just a few years has grown from a small startup to become an internationally recognised partner in the production of 3D printers distributed worldwide.

It is increasingly encouraging that Polish startups are generating more and more revenue. External funding is not only capital for the company’s day-to-day operations, but also for business development, sales, acquisition, foreign expansion and, finally, will allow them to generate profits. The achievement of much higher revenues than a year ago is declared by 20% of the surveyed companies, 40% indicate that they have achieved higher revenues than a year ago and only 7% that they recorded a decrease. However, data from the Startup Poland Foundation show that still one third of startups in Poland do not generate revenue (33%). These are mainly companies that are stuck at the stage of research (R&D) or still have not commercialised their solution on the market, testing with customers for free, remaining at the level of pre-seed or seed funding and not developing
SUMMARY

• Among startups using external funding, most are those with only one investment round behind them - this is as many as two-thirds of the companies questioned (67 per cent).

• The amounts raised in all rounds by startups to date are most often between PLN 1 and 2 million. This is the amount indicated by 28 per cent of them.

• However, the percentage of startups with rounds of significantly larger amounts is not small - 23 per cent have managed to raise between PLN 1 and 5 million (including 16 per cent between PLN 2 and 5 million). Amounts in excess of PLN 10 million are indicated by 11 per cent of the companies.

• One in ten founders has already made an exit (11 per cent). The remainder (89 per cent) have no such experience.

• Startups with an exit process behind them most often indicate that they exited through a trade sale (M&A) i.e. the sale of shares to an industry investor. This answer is indicated by 45 per cent of the respondents.

ESOPs in Polish startups

What still distinguishes the Polish startup sector from other, better developed ones, especially those overseas, is the approach to ESOPs (Employee Stock Option Plan), a type of employee share ownership characteristic of startups. However, while in countries where these solutions are most common, in the US for example, it is a very popular way to effectively motivate a team to work for a company - with their own shares they can feel part of it more easily. Such a solution can be an attractive way of retaining skilled employees in the company, who are not at all easy to come by, especially if competition for the best professionals is intensifying.

Admittedly, the popularity and awareness of the benefits of introducing ESOPs is gradually increasing in our country too. However, there are still some legal aspects specific to our market that do not facilitate the implementation of this solution. Nevertheless, changes in this area can be clearly seen when comparing this year’s survey with the one from a year ago. The number of companies declaring that they have already introduced ESOPs at their company has increased from 25 per cent to 36 per cent. This is quite a leap and the trend should continue to increase. Last year, 30 per cent of startups had plans to introduce ESOPs and today the figure stands at 44 per cent, so it looks like our market is also becoming more like the leaders over time. This is great news, given that this could make the Polish startup sector more competitive and the best employees more likely to stay here, ‘growing’ with their company.
Companies that do not have and do not want to introduce ESOPs most often argue that it is too complicated for them from a legal point of view, precisely because they operate as limited liability companies. This was the answer given by 30 per cent of the respondents. A similar percentage of the respondents declare that they do not see the business value of such a solution (28 per cent). For 14 per cent, the lack of financial incentives when offering ESOPs to employees is a barrier. Among the reasons for not offering ESOPs, startups also cited: too early stage of building the startup, reluctance to dilute shareholder ownership or a small number of employees.

For what reason?

- We operate in the form of a limited liability company, where the introduction of an ESOP is too complicated from the legal point of view: 30%
- Lack of financial incentives when offering ESOPs to employees: 13%
- We do not see the business value of ESOPs: 30%
- For a different reason: 27%

**SUMMARY**

- There is a growing awareness of ESOPs among startups. The number of companies declaring that they have already introduced ESOPs at their company has increased over the past year from 25 per cent to 36 per cent.

- Those that have not introduced and do not want to introduce ESOPs most often argue that it is too complicated for them from the legal point of view, precisely because they are operating as limited liability companies. This was the answer given by 30 per cent of the respondents.

- For 28 per cent of those questioned, ESOPs do not bring business value.
Investments – are there reasons for optimism?
Investments – are there reasons for optimism?

"Startup valuation bubble" – true or false?

As we mentioned in the previous chapter, the global VC market is becoming short of breath, as can be seen in the data coming from the most important US market. In Europe, too, the previously enthusiastic mood is becoming increasingly pessimistic. Is this trend having or will it have a negative impact on our domestic backyard in the forthcoming months? Opinions are divided - some predict a spectacular bursting of the startup bubble, others tone down these alarmist visions. What is the reason for this cautious optimism among some experts and market practitioners in Poland? Primarily from market data.

So far, the Polish startup market has not seen the collapse or symptoms of bursting of the startup bubble that some analyses warn about. Both some experts and practitioners of the startup market draw attention to the still peripheral nature of our country, which, paradoxically, in the current situation may be beneficial. Direct relations with international players are naturally less important in our country than in more developed markets which on the one hand benefit from globalisation in good times, but in crisis situations they are affected as the first ones.

Furthermore, it is pointed out that, while the over-inflated startup sector can indeed be observed worldwide, in Poland we have not yet managed to develop a real bubble that could burst spectacularly. Many experts point out that our market is much more influenced by the actions of key state entities investing in startups, such as PFR or NCBR, than by smaller or larger turbulences on the global market. However, it is important to keep a close eye on the data coming out in the forthcoming quarters, as we may not be seeing a bubble in Poland, but a certain pessimism may also hit our domestic VC market, and thus the startups themselves, with a ricochet.
On the other hand, however, it is clear that the bubble narrative is already breaking through into the consciousness of Polish founders. When asked by the Startup Poland Foundation, more than half (56 per cent) declared that they agree with the thesis that there is a startup valuation bubble in the market. The opposite view is held by 44 per cent of those asked. We will probably see soon whether, and if so to what extent, the scales will tip in the negative direction.

**Do you agree with the thesis that there is a „startup valuation bubble“ in the market?**

- **Yes**: 56%
- **No**: 44%

Such a large number of people noticing this bubble may mean that, while money is still available in the market, startups expect sources of capital to dry up in the forthcoming months. Perhaps such worrying signals are already emerging in their conversations with investors.
Raising foreign VC funds.
What do Polish startups need to pay special attention to?
Every VC fund, during analysis, pays attention to the same basic elements of the business such as the team, the market or the problem. In the case of international funds, Polish founders should pay additional attention to selected issues.

Network. Polish startups rarely have relationships in foreign startup ecosystems that allow for a direct introduction to a suitable fund. Founders can ask their existing investors for help with an ‘intro’, apply to foreign accelerators or appear at international events. An introduction coming from a trusted entity can open the door to investment talks.

Development stage. Most pre-seed and seed rounds are raised by Polish startups locally. Foreign funds will often be interested in investing when a startup is at the A/Pre-A Round stage or scaling abroad.

Research and structuring. The process of raising an investor should start with the research of funds and defining the steps of the ‘fundraising’ process. It is important to check which foreign investors’ strategy you will fit into and whether a given VC is investing in the CEE region at all. A well laid out process allows you to receive several term sheets from VCs and select the best consortium.

Knowledge of market standards. Founders planning to seek funding abroad should ensure that their startup is ‘investable’ and understand the realities and standards of international transactions. This prevents the founder, for example, from agreeing to give too many shares or a non-standard preference to a local pre-seed/seed investor and often closes the door to discussions with foreign parties.

Sustainability. The sustainability aspect is increasingly present in Western Europe, but is only just breaking through into the mindset of founders in the CEE region. When talking to foreign VCs
The question, then, is this bubble, signifying excessive valuations of startups pumped up by too much cash in the market, actually perceived as such by the founders themselves?

The answer may come as a surprise. Only one in four respondents disagrees that current startup valuations are too high (25 per cent), while a slightly higher proportion (28 per cent) of the respondents actually agree with this statement. Almost half, on the other hand, chose the answer ‘difficult to say’ (47 per cent), which is also difficult to interpret as an optimistic answer.

**Do you think that current startup valuations are too high?**

```
29% Yes
24% No
47% Hard to say
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The problem, however, is that this still relatively easy money is not equally distributed across the startup sector. Some industries can indeed count on the favour and openness of private investors, while others face under-investment from private capital. An example of such a ‘more difficult’ industry is the space sector. We wrote extensively about the problems and expectations of this sector in this year’s “Space 2022” Foundation report. In it, representatives of space startups drew attention to the problems of attracting investors due to high entry threshold and longer perspective for commercialization of the services offered. They are therefore counting primarily on various types of grants, whether from the European Space Agency or the support of our state institutions, such as NCBR or ARP. When asked for their opinion, startups split almost down the middle, with 53 per cent believing that there are some particularly underfunded sectors. The other opinion is held by 47 per cent of those asked. The latter group does not perceive any differences between industries when it comes to access to funding.
When asked to identify what they considered to be the most underfunded sectors, respondents most often indicated edtech, this was the answer given by one in five (22 per cent). This negatively perceived group also included greentech / cleantech and hardware manufacturing (both 16 per cent). These were immediately followed by agrotech (15 per cent) and medtech (14 per cent).

The respondents’ indications seem to be well founded. We wrote about the problems, but also the potential of edtechs in our report last year. Indeed, the needs in the field of education are enormous, although it must be admitted that, especially during the pandemic period, this segment had a chance to kick into high gear and the successive successes of Polish edtechs, also on international markets, may fill us with optimism. However, this does not change the fact that there is still much to be done in the extremely underfunded education sector in our country, so the presence of modern educational solutions should still increase significantly.

Next on the list are the cleantech (greentech), agtech and medtech sectors - all of which have huge potential and should be strongly supported with capital, which will benefit everyone. On the other hand, these are also market segments with a usually high entry threshold for investors. The solutions they offer are very high-tech and therefore require both time and a lot of money. The other market categories are more evenly distributed in terms of how they are perceived by the respondents. A detailed analysis is presented in the chart below.
Underfunded branches

- Agrotech: 15%
- Artificial Intelligence/Machine Learning: 10%
- Analtyka/Research Tools/Business Intelligence: 5%
- Big Data: 9%
- Biotech: 9%
- Blockchain/DLT: 3%
- Cryptocurrencies: 3%
- Content: 0%
- Drones: 1%
- Social Media: 3%
- Cybersecurity: 4%
- Design: 3%
- Developers Tools: 0%
- Ecommerce: 5%
- Edge: 0%
- Education: 22%
- Electronics/Robotics: 9%
- Electromobility: 5%
- Space: 5%
- Energy technology/Energy: 5%
- E-Sport: 3%
- Financial services: 1%
- Foodtech: 9%
- Greentech/Cleantech: 16%
- Gaming: 0%
- Hardware: 16%
- HRtech/Tools: 7%
- Industry: 12%
- Internet of Things: 12%
- Life Science: 12%
- Martech/Marketing Technology: 2%
- Medtech: 14%
- Fashion: 1%
- Nanotech: 7%
- Productivity, management: 8%
- CRM/ERP: 0%
- Proptech: 3%
- Entertainment: 2%
- RPA: 1%
- Sport: 9%
- Smart City: 7%
- Smart Home: 1%
- Transport: 4%
- Logistics: 4%
- Tourism: 9%
- Virtual/Augmented Reality: 4%
- Other: 7%
The survey conducted by the Startup Poland Foundation confirms many of the conclusions from direct interviews with founders. Those industries, for which access to capital from private investors is more difficult, should be more strongly supported by state money, both from institutions such as the PFR, NCBR, ARP or PARP (which actually works quite well in Polish conditions) and from a more startup-friendly policy of state-owned companies - there may be various synergies on this line. Startups offering various solutions for the energy sector can serve as an example, which – especially now, in the face of the energy market crisis - can play an important role in mitigating its effects. This issue is explored in more detail in this year’s “Technologies for Energy” report which we also encourage you to read.
A year of truth ahead
The year 2021 was a record year for investments in startups in Poland. During the same period, the world was also in a bull market and valuations that entrepreneurs had only dreamed of a few years earlier became a reality. At the beginning of 2022, both founders and investors were in for a rude awakening.

The financial crisis and the war in Ukraine did not go unnoticed in the Polish startup investment market. In the second quarter of 2022, we observed a virtual standstill in investments. Although there were quite a few announcements about new funding raised by startups, but these were mostly processes that were still started in 2021 or in the first quarter of 2022. The holidays were less active in terms of investment than usual. Most investors decided to wait out this period. What awaits us in the last quarter of 2022 and in the year ahead?

**I am not optimistic**

Entrepreneurs who optimised investment rounds for the largest possible (paper) valuations in 2020-21 now have a problem. And this does not only apply to large, overvalued technology companies like Sweden’s Klarna, whose valuation has fallen by as much as 85% from USD 45.6 billion to USD 6.7 billion, but also to early-stage companies from Poland, which in the boom years sometimes raised funding at valuations of 50 times or even 100 times their annual revenues.

These startups, even if they have ‘delivered’ the assumed increases in revenues and other metrics, are now struggling to raise another round at a higher valuation. So they often turn to debt instruments like venture debt, do ‘extension rounds’ from last year based on ‘convertible loans’ or raise an equity round at a flat valuation. More and more companies are also aiming to get to ‘break-even’ faster at the expense of faster growth. It also doesn’t help that most of the funds supported by NCBiR or PFR Ventures have their investment period coming to an end in the current year and quite a few of them have already spent all their money.

The year 2023 will probably be the year of truth for many startups. I expect a large number of bankruptcies, a further marketisation of valuations, but also more activity from foreign funds in Poland which have so far not found their way into the competitive funding market in our country. Private funds and funds raised in 2021 and 2022 in partnership with the European Investment Fund will also reap the harvest. Less competition will mean lower valuations at the seed stage and therefore ultimately higher return for investors.
A few words about cooperation and investment
Investment by corporations in startups is not a common phenomenon. It is even rarer that such cooperation allows for joint development. After almost 3 years since Autenti invited us to become an investor, we seem to be among the few who have done it right.

Our cooperation with Autenti officially began in 2018 - that is when we launched our first joint project - an instalment loan concluded outside a bank branch using an electronic signature and document. It was an innovative solution at the time. In 2019, we expanded our cooperation to include further processes. We already knew the value Autenti brought to our business, so when we received an invitation to participate in an investment round, the decision was much easier to make.

This is the first principle of good reconciliation between the role of a customer and an investor. If a large corporation experiences tangible benefits from business cooperation, then it works much better as an investor. Further development of the cooperation is not forced (you have to implement this because it is our investment), but natural (I implement because I see the value).

We learnt the true value of our investment a few months later - when the whole world shut down due to the COVID-19 pandemic. This was the most rigorous test of our cooperation. Overnight, we had to use the technology provided by Autenti on a much larger scale. Thanks to this investment - and the whole investment process - we knew their solution so well that we had no problems implementing it. In record time, we were able to conclude the deal and significantly improve document circulation during the pandemic.

The investment process involved three banks, two venture funds and the founders. Building a shared vision for the company’s development was very important. With such a large difference in the size of the companies - Autenti as a startup and 1/3 of the banking sector in Poland, it is very easy to fall into the trap of overconfidence. We left business decision-making in the hands of the founders.

This is the second very important principle - if we want the investment and cooperation to grow, let’s make sure that the founders are the ones who can take care of it - after all, they have led the company to such an investment.
The third principle is closely related to business cooperation with the investment target. I have frequently encountered a statement that since it is our investment, maybe they should do it for (half) free. Probably the best solution in such a situation is to reverse this statement - since it is our investment, every penny we pay for the service simultaneously increases the value of this investment.

Certainly, the full success of commercial cooperation with a startup, in which you have invested, depends on many other factors - partly the characteristics of the industry, partly the people involved. In my opinion, these three principles cited here are a very good foundation on which you can build a true partnership.
SUMMARY

• The ‘startup bubble’ narrative is already breaking through into the consciousness of Polish founders. More than half of them (55 per cent) have declared that they agree with the thesis that there is a startup valuation bubble in the market. Forty-five per cent of the respondents are of the opposite opinion.

• Only one in four respondents disagrees with the thesis that current startup valuations are too high (25 per cent), with a slightly higher proportion (28 per cent) actually agreeing with this statement. Nearly half, on the other hand, chose the answer “difficult to say” (47 per cent).

• More than half of the founders believe that there are some particularly underfunded sectors of the startup market. The opposite view is held by 47 per cent of those asked. The latter group does not perceive any differences between the various sectors when it comes to access to funding.

• When asked to identify the most underfunded sectors, founders most often pointed to edtech, which was the answer given by one in five (22 per cent). This negatively perceived podium also included greentech / cleantech and hardware manufacturing (16 per cent each).

Interest in the Polish market among foreign investors – how has it changed recently?

In an earlier section of this report, we cited recent data from PFR Ventures and Inovo showing a decline in foreign capital involvement in the Polish startup market. The responses collected in the Startup Poland survey do not yet confirm this negative trend. Only 7 per cent of startups reported a decline in interest from international investors.

Are you experiencing a decline in interest from foreign investors?

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<td>Yes</td>
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<td>No</td>
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However, the PFR’s data show that, although direct investment by international entities is decreasing, the number of co-investments – combining foreign and Polish capital – has significantly increased on an annual basis. Probably in the following months we will be able to assess what form this trend will eventually take.
Foreign investors believe in Polish talent
Over the last few years, we have seen increased interest in the Polish market among foreign investors. Recent reports on our ecosystem show the increasing activity of many well-known Venture Capital firms. Demium is also intensifying its activities in the region, including, of course, Poland.

Looking at the CEE region, Poland represents a fairly large national market, ideal for testing and initial product launches with local customers, but it is also in a network with other business hubs across Europe.

Due to the nature of investment, also for Demium, Poland is a key investment market where we can give our startups the most value. Our priority is to be present in those communities that bring together people with great experience in technology and business. On the other hand, the sustained demand by projects for investment funds is important for many foreign investors entering Poland.

The startup ecosystem in times of crises
The geopolitical and epidemic situation certainly does not make it easier for startups, either in terms of business operations or capital raising processes. We are already seeing this leave its mark on lower company valuations and longer negotiation times for investment agreements. I think startups should prepare for more in-depth questions from investors and the presentation of specific metrics for traction or validation. It will definitely be more difficult to raise significant funds for the idea itself, as crises push investment teams to reduce the investment risk of their LPs (Limited Partners).

However, I want to assure you that both Demium and our partner funds are continuing their mission to distribute funds between projects and are also announcing further funds under their management (the new Demium CE fund is an example).

The war in Ukraine, inflation or the Covid-19 pandemic are primarily significant external factors with a visible impact on the startup market as much as on other areas of life. However, they can also present startups with a number of new opportunities and areas for innovation.

Karolina Wilk-Tryjanowska
CE Regional Manager,
Demium
What is holding back the startup market in Poland?
What is holding back the startup market in Poland?

Key barriers and challenges
Running one's own business is not a simple matter, as every entrepreneur knows, and setting up and running a startup means dealing with a whole range of additional problems - starting with the basic one - where to get money for the development of the startup and how to learn from mistakes, especially in the initial phase, resulting, for example, from a lack of extensive business experience. Added to this is the volatility of the law, which is characteristic of our market - navigating the maze of unfriendly regulations, illogical accounting rules or facing competition in the fight for the best possible employees. All this can cause sleepless nights for founders who have nevertheless decided to take the brave decision to set up their dream startup.

Interviewers asked respondents what barriers and challenges they find most difficult to overcome. At the moment, the problems of recruiting employees, with the rapid increase in the cost of hiring them, stand out at the forefront. This aspect is highlighted by as many as 52 per cent of startups. This is not an easy problem to solve and this situation is unlikely to change in the long term. And without the right staff, no company is able to function optimally and fully utilise its potential for growth.

The second barrier that Polish startups most often face is the difficulty of obtaining funding in the subsequent phases of development. This was the answer given by 42 per cent of those asked. It is worth noting that this is the key barrier so often indicated by startups despite the fact that market data are still not bad and money from investors is theoretically still plentiful. It remains to be seen whether this issue will come to the forefront of the problems faced by startups in Poland in the next survey.
Less than 30 per cent of startups complain about too much bureaucracy when running their operations. To some extent, this issue is linked to the process of setting up a startup (company registration, obtaining necessary permits, etc.), which 7 per cent of startups indicate is too difficult, long and costly. This is compounded by frequent changes in legislation, indicated by almost one in five startups (21 per cent).

Some startups (presumably those at a slightly later stage of development) complain about the difficulties with international expansion (27 per cent). An almost identical percentage of the startups point to insufficient, in their opinion, investment incentives and lack of tax breaks (26 per cent). Every ninth startup points to difficulties with participating in public tenders (12 per cent).

One-fifth of the respondents believe that the barrier is still too little experience or lack of adequate knowledge necessary to run their own business.
To be and to have i.e. mental health and funds as a startup must-have
Cash is a king

Much has already been said about the main reasons for the demise of startups. The same is true of the challenges. Interestingly, irrespective of latitude, two main areas are mentioned most often among the biggest challenges of startups - funds, including raising funds and the issue of funding startups and legal issues (including legislative changes). At the end of the day, the main source of startups’ biggest challenges is money or rather the lack of it. Working closely with startups as part of the accelerator programmes we run, we can clearly see how important it is for startups to manage their revenue stream and fundraising planning well. We see two challenges in this area - a lack of knowledge about the process of raising investors in the first and subsequent rounds and a lack of knowledge about how to cooperate in business with large companies and corporations.

Where does a startup raise money from

We all remember a discussion from a few years ago that appeared on one of the industry’s native Facebook channels when, after a question from a startup „What are the best sources of funding for startups that you know”, the answer in the comments was „Customers”. All the time, at various stages of startups’ development, the need to provide founders with knowledge about managing the company’s finances, designing the revenue stream accordingly, planning the process of raising further investment rounds well in advance and taking a rational approach to estimating valuations is evident. There are still many founders building companies based on grants rather than revenues from product sales.

The limited openness of large companies and corporations to be the first company to test a solution provided by a startup, let alone implement paid trials, is also still a challenge. It is also worth mentioning here that startups often do not know that the procedure for cooperation with large organisations still takes a very long time. In addition, poor customer diversification, too much focus on the biggest players, can cause a startup to fail for financial reasons. The lack of a properly managed cash flow consequently affects the entire organisation - its ability both to expand into new markets and to attract people with the kind of competences that enable the organisation to grow dynamically.
Not only business support is important
An issue that does not appear in the answers of the respondents to the Startup Poland survey, but we observe it not only among startups within the accelerations carried out but also within the portfolio of funds, is the issue of founders' mental health. Creating and developing a startup is a very heavy burden. Therefore, the role of an investor nowadays also includes being attentive to what happens to founders and when startup creators should be provided with additional specialist support.

The effect of what has been happening in the world recently and what is happening in the economy also has a big impact on startups - both positive and negative. While developing a business in the belief that a coveted and recognised by the environment success awaits us in the future, it is worth keeping in the back of our minds that it is just as important that when this success is achieved, our health allows us to enjoy and benefit from this success as we would like. This is why it is important to have a springboard outside of your busy business life, and by your side, in the role of business companion, not only a party who will support you in business matters, but one who will also be with you in your worse moments.

Monika Synoradzka
CEO of HUGE THING, Managing Partner Of SpeedUp Group
Polish startup market, Quo Vadis? Obstacles and challenges for founders
Not so long ago, the situation in Poland was comfortable for founders and the market was repeating like a mantra that there was more money than good projects. So it was enough to come up with something innovative, well-prepared materials for the investor and the world was open to the originators - after all, after raising capital easily, one could set off to conquer the global market.

However, the situation has strongly changed. The COVID-19 pandemic, the war in Ukraine, the uncertain economic situation and the running out of public funds with which investors were able to 'leverage' themselves by multiplying their capital many times over, have caused those with money to take a much closer look at every penny in their portfolio.

Undoubtedly, this could be one of the key barriers for many projects in the near future. Not only for those seeking funds at the pre-seed or seed stage, but also for those already seeking further rounds.

This will force startups to step out of their comfort zone and open up to foreign capital, the acquisition of which requires far better preparation and greater determination.

This is not the only problem on the horizon. Things that were still the song of the future some time ago are happening before our eyes. The gigantic shortage of programmers, the rising prices of services and products as well as the complexity of regulations related to running a business in Poland, undoubtedly affect the desire of originators to create and develop startups.

All the indications are that, as a result of these changes, founders who want to tackle the realisation of their ideas will have to be considerably more mature in business terms than their predecessors were just a few years ago and have the management competences they may previously have learned while building a project. Without these, they will find it extremely difficult to exist.

The role of entities such as incubators or accelerators (regardless of whether private or public), supporting innovative entrepreneurs not only with capital, but, above all, with content, networking and business, will also increase significantly. To some extent, they will be responsible for creating ‘founders 2.0’ who find their way in the new reality.

Kuba Nagórski
Head of co.brick venture building
SUMMARY

• The main barrier to the development of startups in Poland is the difficulty in recruiting employees, with the costs of employing them rising rapidly. This aspect is pointed out by as many as 52 per cent of startups.

• The second barrier most frequently faced by Polish startups is the difficulty in obtaining funding in subsequent phases of development. This was the answer given by 42 per cent of those asked.

• Almost 30 percent of startups complain about too much bureaucracy when running operations.
Black swans – consequences of global crises
Looking back over the last three years, one can undoubtedly say that we are living in a time of transition. The well-known maxim ‘may you live in interesting times’ seems to perfectly capture the nature of the current period. In this case, however, ‘interesting’ does not mean anything positive. Quite the contrary. Unfortunately, it seems that the good, calm times are over and the mounting crises are keeping virtually everyone awake at night - politicians, decision-makers, entrepreneurs and ordinary people who have to cope with a number of negative phenomena: uncertain future, rampant price increases, crisis in health care.

The beginning of 2020 seems to be the turning point here - the outbreak of the pandemic has become a game changer in so many fields that a return to the pre-pandemic world no longer seems possible. Unfortunately, just two years later, another twist appeared - this time brutal and extremely dangerous. The full-scale Russian aggression against Ukraine came as a shock to the whole world and its consequences have a direct and indirect impact on our reality. Poland, as a neighbouring country and heavily involved in supporting Ukraine, is in a particularly difficult situation, if only because, compared to all other European countries, the largest group of refugees has fled to our country.

This is compounded by the ongoing climate crisis which is already having dramatic consequences, for example in the form of increasing number of dangerous weather anomalies, including in our region of the world.
All these phenomena can certainly be described as ‘black swans’ i.e. unpredictable and sudden events of considerable magnitude and huge consequences. All of them also have a negative impact on the economy and therefore on the situation of companies. However, while during the pandemic many industries were indeed hit hard, e.g. by lockdowns, others were doing quite well or even better than before the pandemic. The e-commerce industry certainly fell into this category as well as many others based on novel ideas based on new technologies. The startup community made good use of this opportunity and their valuations grew rapidly. Unfortunately, it seems that the current crisis is no longer so kind to startups. So, is the ‘startup eldorado’ ending right before our eyes?

**Market changes in startup funding**

We have already written about the funding of startups and the turbulence already on the horizon (and, in the case of more developed markets, actually already there) in chapter two of this report. So far, the data from the Polish market are not bad, but it is difficult to state categorically that they will not take a negative trajectory in our country. The startup ecosystem operates as a system of interconnected vessels - in order to grow, it needs external capital, largely foreign, and this source may be drying up more and more. The data cited in chapter two show that Polish founders are largely aware of this.

The question is whether these changes will stay with us for the long term or whether this is just a short-term fluctuation. With private investors less active, the presence of capital from public sources (both national and EU) seems all the more crucial. In Poland, it had a very important function even before the crisis. Now, this proportion may even increase. On the other hand, however, certain peripheral nature and immaturity of the Polish market may, to some extent, protect Polish startups from strongly negative consequences.
Swans of a shallow pond
Although we are a country of efficient, enterprising people, our market resembles a small pond which, in addition, has started to dry up even more over the last three years.

Why are the dimensions of our pond so small? They are largely the result of the different founding history of our market. Central and Eastern Europe has a much shorter history of market entrepreneurship compared to Western countries and the United States. The free market and the existing legal principles operating over a long period of time create basins that allow the largest waterbirds to spread their entrepreneurial wings. In our country, tectonic processes have merely created a pond due to a series of conflicts, crises and the drive to nationalise enterprises during the communist era. As a result, we do not have multi-generational companies and those that are more than 100 years old, such as ‘Bolesławiec’ Ceramic Plant or ‘Kruk’ jewellery, are among the few companies in our region. It is difficult for young companies to put down roots in such a volatile soil which is depleted of capital and microelements of previous enterprises. There is a lack of solidified standards, routine, confidence and optimism drawn from the successful ventures of previous generations. We have all become accustomed to the current conditions and do not notice them unless they are revealed by the occasion of a merger or takeover of a Polish company by a multinational. In such conditions, dissimilarities are visible as if on the palm of our hand - our degenerate belief in the sense of social security and paying pension contributions if you know you will not have a pension, and instead of being employees, we prefer to be subcontractors at the price of tax optimisation. For entrepreneurs in the west, each of these topics is baffling to say the least. Although it is skilfully blamed on cultural differences, it is indicative of how much we are no longer chasing the west, but rather skirting it around, away from well-known rules.
So, welcome to the turbo-capitalism of Central and Eastern Europe, a space full of savvy micro-entrepreneurs with limited trust in both their country and each individual. Because of this general trust deficit, it is difficult to glue larger companies together from individualised atomic super-specialists. But that’s okay, because the trends are in our favour - in the post-Covidian era, it is much easier to take care of our own skin by working remotely for three employers at the same time, as long as they don’t catch on, which is possible because our efficiency is already shrouded in legend. And before we know it, we are already operating under conditions of fuelled cacophony, without the knowledge that we will not build a second Boeing or Google in our region with these methods. Instead of lighting a bonfire - we burn the leaf litter. The effect of such independent actions looks like a fireworks display viewed from the Palace of Culture. Everyone may be able to light a firecracker, but from a great height above the ground, it looks nothing like the New Year’s Eve show in London - a harmonious combination of thousands of flares, lights and music.

To the specifics of the market, let us add the current challenges i.e. insanely rising inflation and unrest across the eastern border. In this situation, we can only blame the Nobel Prize-winning economist, Milton Friedman, who coined the term “freedom of choice”, for the self-reliance and awakened survival instinct of Polish specialists. The adaptation to the strange rules prevailing in our country and the new external conditions are moving us further away from global standards. Before 2020, with the influx of talented IT specialists from across our eastern border, we had the chance to become a place of technological thought. But now, what will keep them here when they have to cope with the devaluation of the Polish currency? Each of them will ask themselves - why not earn in a foreign currency and look at the worries from the perspective of the Canary Islands? All you need to create a great code is a laptop that is as usable in Bydgoszcz as it is in Cyprus.

As a result, the experts in our region are beginning to resemble the Ixian family from Frank Herbert’s novel Dune. In the world he described, it was the Ixians, operating at the antipodes of the galaxy, who created useful technology that was used by royalty including the Atreides. We may have the ability to produce great solutions like the Ixians, but due to local conditions we do not function in an environment that would allow us to develop these solutions to the scale of companies that have been operating for decades like Nintendo, Sony or Apple. As a result, we sell our inventions and their potential is monetised by bigger companies, in markets where there is potential for a bounce-back.

Business highs can end badly, as in the case of ‘Gastronauts’. This once great culinary portal was lost somewhere in the reeds after being sold to India’s Zomato. On the other side of the spectrum is the success of Allegro which, being in the hands of two large foreign funds, is effectively increasing its scale of operation. But what happens in the long term when companies like Allegro get out of the hands of their founders?
Well, the market is judged by the balance of flows; strong markets are those that pull in more money than they transfer out. This is the macro equivalent of a household budget - it is always better to earn more than to spend. A good brand, good product, good code or good patent is like a magnet that attracts flows in the form of royalties. If companies have to change hands in the course of their development - this redirects the flows towards the new owners and, in the long term, depletes the market from which they came. And in our country, ideas that germinate at least a little from the thought and courage of their creators, because of the lack of strong roots, are uprooted by global turmoil and forced to be replanted where they have a chance to grow further. As a result, products and companies will change affiliation to survive fluctuations in demand, logistical problems or a range of other challenges caused by the post-pandemic situation, Russian aggression or Chinese expansion.

The history of companies such as CD Projekt Red shows that it is possible to achieve scale without the owners losing control over the fate of their business. However, ‘the heavier the bird, the longer the run-up’ and current trends do not give us the prospect of the market getting any deeper. We are subjected to a long cycle in which we are beginning to see and feel the effects of local politics with poor global conditions. The suggestion that something might suddenly change for good would, unfortunately, be naive optimism. On the micro-scale, our enterprising Ixians will cope. On the macro-scale, the waters at their disposal will not allow them to spread their wings for long.
Pandemic through the eyes of a startup
By far, the Covid-19 pandemic had the biggest impact on Hashiona, as a business. Hashiona was established just weeks before the border closures in Europe and with the outbreak of the pandemic, we had to face a number of issues that affected us, a young technology company. The general mood of panic, the closure of offices, the cancellation of events and remote working meant that we had to rethink our strategy for building the company, the product and its verification, access to patients as well as medical staff. Also, software development costs have increased by practically 40 per cent, when compared to pre-pandemic times. It was particularly difficult for us to attract high-calibre specialists in software services, which involved a change in the budget as well as a change in the amount of external capital raised.

On the other hand, however, the pandemic helped us get into international accelerator programmes and gave us the opportunity to present the company in Warsaw, Munich, Sydney and Silicon Valley. Raising capital from investors in other countries was difficult, yet due to the pandemic, health-focused technologies were in the proverbial spotlight and attracted a lot of investor interest.

We have also noticed a greater favourability of investors to conduct investment processes remotely. For the first two years, we did not have the opportunity to meet our investors in person and all notarial formalities were carried out remotely and via courier companies, which is no small feat for small companies like Hashiona with capital coming not only from Poland, but also from the Czech Republic, Austria or the aforementioned Silicon Valley.

At the moment, the biggest problem for us is the increase in the cost of doing business due to the changes in taxation that result from the Polish Deal as well as rising inflation.
How have the costs of maintaining a startup changed and how are they being reduced?

The crisis in the energy market caused by soaring energy commodity prices has exacerbated an already high and unseen for years level of inflation. And this is happening all over the world. The increased competition for access to energy resources is aggravating this phenomenon. The prices of almost everything are rising sharply before our eyes. For entrepreneurs, rising labour costs are an additional problem - hiring highly qualified staff (with unemployment still at record lows) is a challenge of sometimes unprecedented difficulty. This is particularly true in the broadly understood IT sector, where salaries were already very high. There is a shortage of professionals on the market. Startups feel these problems even more acutely, because, despite everything, salaries or various types of benefits in such young companies are usually less attractive than, for example, in large companies or corporations.

In the Startup Poland survey, we asked startups whether they had noticed an increase in the cost of doing business as a consequence of the pandemic, the war in Ukraine and inflation. The answers can be worrying. Nearly half (49 per cent) declare that these costs have increased significantly. Those who have not experienced an increase in costs are 50 per cent. In contrast, there is a trace number of startups in which costs have decreased (only 1 per cent).

In the context of recent events (pandemic, war in Ukraine, inflation), have the costs of maintaining a startup changed?

50% Costs have remained stable

49% Costs have increased significantly

1% Costs have decreased
So, the key question is whether and how startups are tackling this problem. The most common tactic chosen appears to be something that seems to be the simplest – passing on cost increases to customers by raising the prices of the products or services offered. This is the move made by the largest number of startups, 37 per cent. However, this is only effective to a certain extent. Prices cannot rise indefinitely, as customers will eventually no longer be able to pay more. However, many different companies, including those outside the startup environment, are facing the same problem. We see the effects of such tactics on shop shelves every day. Unfortunately, many companies simply have no other option.

As with other crises, cost-cutting in companies starts with advertising and marketing spending. This is the move that 28 per cent of the startups interviewed decided on. It seems that marketing is of secondary importance to many companies, which is why it is most often the first to ‘go under the knife’. After all, sales are the salt of business, while marketing and advertising are only supposed to support it. However, one has to be careful here - what is the point of offering a product or service if potential customers don’t find out about it? It is also worth taking into account the danger that competitors may still carry on with their advertising and marketing activities and thus secure a competitive advantage that is difficult to catch up with.

Almost one in five startups surveyed was forced to carry out redundancies (19 per cent). This seems to be the last and most dangerous stage for a company to remedy the situation. Startups usually have a limited staff and are unlikely to complain about overstaffing and redundancies. Here, the margin of safety seems narrower than for a traditional business.

**What measures have you taken to reduce costs?**

- We did not need to reduce costs: 18%
- We gave up our office and decided to work remotely: 13%
- We have reduced expenditure on advertising and marketing: 29%
- We have had to lay off employees: 19%
- We have not reduced costs, but have increased the prices of our services/products: 38%
- Other: 10%

One in ten companies surveyed (11 per cent) has given up the office, switching entirely to remote working. This is certainly one of the key changes resulting from the pandemic. It turned out that moving work to remote mode does not necessarily result in a decrease in quality. In the face of skyrocketing rental costs, such a move seems justified.
Cost structure needs to be adapted to market changes
The last year has brought huge changes to the startup environment and also to VC funds. Gradually rising inflation dampening economic growth has significantly cooled and recently completely froze the financial markets. The declines in the valuations of technology companies observed on the stock market have not been without effect on the funding of startups. It is now much more difficult to raise a round of funding at the round A stage and beyond, and we expect that this will soon be observable at the seed stage as well.

These developments have forced significant changes in the strategy of startups. The pressure to grow revenues as much as possible, even with the aim of a very large financial loss, has changed to a pressure to reach the break-even stage as quickly as possible. Unfortunately, the previous strategy of ‘growth at all costs’ meant that some companies invested too much in growing their team, especially in sales and technology. Now, many have begun to downsize in order to cut costs, while reducing the team makes the revenue increases that founders promised investors even more difficult to realise.

Inflation is causing companies and individual customers to cut back on spending, reducing demand for products and solutions that have hitherto seen sustained increases in demand. This makes it even more difficult for startups to grow revenues and thus the transition to the break-even stage gets further away. It forces startups to raise funding to save liquidity, but this happens on much worse terms than previously obtained, as investors discount future revenues at a higher rate.

As bValue, we have been working with companies for a long time to adapt their cost structure quickly enough to the upcoming market changes and most of them have coped well with this change in model. We also see that some companies are observing acceleration in revenue growth with the changing preferences of their customers, but every startup is affected to some degree by the worsening economic conditions.

Marcel Animucki
Investment Manager w bValue Fund
Doing Business and the Polish Deal

Introduced at the beginning of 2022 by the government, the so-called ‘Polish Deal’ was supposed to be a revolution on many different fronts, of which the tax aspect was probably the most important for business. This government plan was intended to reduce social inequalities and create better living conditions for all citizens. However, once it came into force, it became apparent that the project was full of errors, contradictions and, consequently, a variety of interpretations. Both accountants and the tax service itself were unable to grapple with the scale of problems. After months of trying to fix the Polish Deal, the government largely withdrew from many of the ideas contained in it. However, the consequences of the information and decision-making chaos have strongly affected the operation of many businesses. The lack of stability and the unpredictable consequences of the changes definitely make it difficult to plan and implement even the best business strategy. And how do startups view the effects of these tax changes? Definitely negatively.

How do tax changes (Polish Deal) affect your business?

- They make it more difficult to attract talent from abroad: 13%
- They force a change in the form of employment: 28%
- They destabilise my business: 62%
- Other: 23%

Nearly two-thirds of those asked assessed that the changes introduced under the Polish Deal destabilise their business (62 per cent). Another 28 per cent indicated that the new regulations have forced them to change their form of hiring and 13 per cent that it has become more difficult for them to attract talent from abroad. Startups also pointed out in interviews how the volatility of the law was a big problem in running a business - new ideas came up every few weeks, requiring constant attention and ongoing adaptation.

SUMMARY

- In the face of recent crises (black swans), almost half of Polish startups (49 per cent) declare that the costs of doing business have increased significantly. Those who have not experienced an increase in costs constitute 50 per cent, while there are very few startups in which costs have decreased (only 1 per cent).
- The most common tactic chosen to combat rising business costs is to raise the prices of the products or services offered. This move was made by as many as 37 per cent of startups.
- The second most common way for startups to cope with rising business costs is to reduce advertising and marketing budgets.
- Almost one in five startups surveyed was forced to make redundancies (19 per cent).
**What does the war in Ukraine change?**

The Russian invasion of its neighbour on 24 February 2022 came as a shock to probably everyone. The scale of brutality and human drama exceeded anything most of us had experienced in our lives. On the other hand, the level of public involvement of the Polish people in helping Ukrainian refugees was a phenomenon unprecedented in history and, importantly, this phenomenon continues. Data published regularly by the Polish Border Guard show that since the beginning of Russia’s aggression, more than 6.95 million refugees from Ukraine - mostly women and children - have crossed the Polish-Ukrainian border. Of course, some of them did not stay with us, but travelled further, while another group returned to Ukraine. Still, the number of refugees remaining in Poland is huge.

Both individuals and companies got involved in helping. A whole host of different types of initiatives emerged - from collecting donations, offering premises to financial assistance. The desire to help was also widespread among startups.

**Has the war in Ukraine affected your business and if so, how?**

- It did not affect my business: 58%
- We hired specialists from Ukraine: 6%
- We lost one of our markets: 8%
- We got involved in helping refugees: 26%
- We got involved in supporting Ukrainian startups: 6%
- Other: 11%

When asked if and how the war in Ukraine had affected their business, as many as 26 per cent of startups said they had become directly involved in helping refugees and 6 per cent had supported Ukrainian startups. The same percentage hired specialists from Ukraine at home. On the other hand, our eastern neighbour was an important market in our region, with 8 per cent of startups doing business there, and they lost this market with the outbreak of war. However, the majority of those interviewed (58 per cent) did not notice any direct impact on their business due to the outbreak of a full-scale war across our eastern border.
How to become crisis-proof?
Do times of crisis favour startups and the development of new technologies? The coronavirus pandemic was quite a challenge for ecosystems, but it was also a moment that forced founders to adapt to the new reality and thus to think in terms of innovations. This unique and unprecedented situation became a driving force for the modern digital solutions sector. It has accelerated the transformation and prompted the search for optimisation in the operations and functioning of companies. For the most part, however, the Polish ecosystem does not view the last few years negatively and the potential inherent in startups, their flexibility and creativity have led not only to finding new customers and a noticeable increase in sales, but, importantly, also to the retention of employed staff. In many industries related to product digitisation, e-commerce and healthcare, a number of interesting projects have emerged and the market for technology startups has definitely grown. The profitability of businesses in relation to their innovation was in the background, as reflected in many spectacular and record-breaking VC deals.

The war in Ukraine and its aftermath, together with the crisis, have led to cumulative phenomena that affect the entire economy, including start-ups, which are an important link in it. However, the outlook is not clear-cut and the next few months may prove to be volatile for the ecosystem. Investment by Polish funds has slowed slightly due to inflation factors and greater uncertainty in the market. This situation could be an opportunity for foreign funds looking for interesting projects from the CEE market. Domestic venture capitalists are waiting for details of government support programmes which they have been keen to use. The year 2023 may be a year of transition.

However, the prevailing uncertainty does not mean that there have been no success stories in the market. Examples of positive use of the crisis are well-known companies in Wrocław: Infermedica, Alphamoon, Bioceltix, CUX, PayEye, Brand24, Biotts, Vue Storefront or SatRev.

This shows that, even during a crisis, the right product that responds to the needs of the market, an experienced team and diversification of funding sources will keep the companies resilient. Whoever preserves this resilience will be even more valuable after the recession.

Magdalena Okulowska
President of the Management Board of the Wroclaw Agglomeration Development Agency S.A.
Startups on a rough sea. How the war in Ukraine is affecting the startup ecosystem in Poland.
Dynamically changing economic challenges across Europe are leading startups to seek solutions to keep their businesses viable in the face of changing uncertainty, rising costs and high inflation. Many startups are choosing to slow down hiring and some of the continent’s fastest-growing young companies to date have even started to lay off employees.

Currently, startups in the early stages of development (pre-seed, seed) that are not yet operating on international markets are most at risk. Entrepreneurs who only operate on their home market find it more difficult to obtain funding. In addition, there may be a downward trend in VC investment. Rapidly rising costs of capital may depress valuations and startups will need to demonstrate profitability in a shorter period of time. In the current climate, startups need to consider on an ongoing basis where they can reduce spending and where to look for customers outside our region. Even greater flexibility in operations will allow them to react more quickly to sudden downturns. Controlling costs, prioritising the direction of growth, operations and execution, and automation are key elements to support business growth in such challenging times.

An issue that requires special attention and commitment is also the wellbeing of employees. The pandemic, the subsequent worsening economic situation and the war across our eastern border have a negative impact on mental health. This results in lower productivity and an increased risk of burnout, which is a challenge for startup founders and their investors. Their common goal should be to build a healthy work culture and support employees to cope with stress and the surrounding situation...

Crisis situations require founders and investors to revise their plans and be more flexible in their decision-making. In the current situation, instead of putting money into startups focused only on rapid growth, investors will now support young companies that are able to break even in a shorter period of time.

Many startups with projects in the B2B segment are introducing digital transformation and process automation to corporate clients. This enables customers to reduce costs and influence the profitability and stability of the company in times of crisis. Demand for such solutions is growing and so is the potential for growth and investment. Investment in agtech and sustainability startups may see faster growth due to the introduction of business technologies which may contribute to solving the global energy crisis.
Poland Prize and the war in Ukraine
The aim of one of the initiatives implemented under the European Funds from the Intelligent Development Programme is to establish Poland as the first-choice country in Central and Eastern Europe in terms of setting up businesses based on innovative ideas. The pilot edition of the Poland Prize programme, designed by the Polish Agency for Enterprise Development (PARP) and implemented between 2018 and 2020, was a spectacular success. The offer to start a business or relocate a company to Poland, support from Polish accelerators and access to industry partners attracted more than 2.6 thousand applications from nearly 100 countries. In 2021, a new and broader edition of this programme was launched with the participation of 10 accelerators. Its wider offer has been very popular from the start. Applications came not only from nearby European countries, but also from Asia, Africa, North and South America. The main source of applications, however, remained Ukraine.

The outbreak of the war in Ukraine radically changed the geopolitical and economic situation of almost the entire continent and at the same time significantly affected the image of our country. Initially, it seemed that the operators of the Poland Prize programme would have to radically change the areas of scouting. However, it has turned out that despite the dramatic circumstances, applications from Ukrainian teams are still being submitted to the programme. At the same time, we have seen a decline in the number of applications from Western Europe. Poland, as a frontline country, is now seen by the West as not a very safe place. In contrast, for Ukraine and other countries from the East - particularly the former Soviet republics - Poland appears to be a safe haven. The inconveniences, such as the difficulties associated with, for example, stricter banking procedures for non-EU citizens, are only episodic.
Poland’s main assets remain unchanged: location - i.e. the logistic centre of Europe, proximity to the Baltic States, developed connections e.g. with China, a relatively large and not yet overcrowded internal market, a diversified industry and service sector open to innovation, access to the EU market and a superbly qualified workforce, including world-class IT specialists and engineers.

Foreign startups with finished and advanced products think of Poland as a place to grow their businesses. Those at an earlier stage appreciate the available research infrastructure, access to large domestic and international business partners, opportunity to test, develop and potentially implement their solutions. The accelerator programmes, funded under the Intelligent Development Programme, are recording a steadily growing number of technology recipients who are very aware of their needs and ready for mature cooperation with startups.

The development of the system of incentives for innovators from outside Poland should, further down the line, take into account the concentration of support on selected, strategically important areas (with particular emphasis on deep tech solutions). The creation of friendly conditions for the establishment and operation of technology companies in Poland will be also important in these efforts. Changes of a permanent nature, such as simplification of administrative processes and preferential taxation, may serve this purpose most effectively.
Risk will not reduce the stream of money
The innovation market’s phase of unbridled optimism is definitely behind it in the current business cycle, but this does not necessarily mean that the money supply in this segment has to decrease. This is not only due to the fact that the stream of public funds, stimulating the Polish startup market, will soon be injected with an additional envelope within the framework of the revision of the BRIdge Alfa programme, managed by NCBR, but to a more fundamental fact that this will be fostered by the post-pandemic and war-related situation of the global economy.

Disrupted supply chains or fluctuations in the raw materials market, especially energy, have stimulated inflationary mechanisms long unseen on such a scale. In turn, these strongly encourage the conversion of cash into other forms of assets, increasing risk tolerance in times of such economic uncertainty.

The reality of investors and startups is precisely that of an ecosystem where risk is not only understood through the prism of threats and potential losses, but just as often stands for opportunities, chances and prospects for profits. Of course, one cannot disagree that the caution of financiers will be exacerbated, but it seems that the growing maturity of Polish startups, together with the need to fundamentally restructure many sectors of our and European industry, is more likely to further increase the importance of the innovation financing system and thus attract additional attention.

Changes in the investment attractiveness of individual innovation areas are certainly to be expected. Trying to read the changes in current trends, one could expect that, with the need to increase the efficiency of production processes outweighing environmental concerns, sustainability-related areas will give way to Industry 4.0 and e-commercial innovations in the face of declining consumer purchasing power will give way to edtech ideas that stimulate
Crises favour the best
This year is another year that presents startups with new challenges. The war in Ukraine, inflation and an even more unstable political environment have added to the pandemic and constantly changing regulations. These subsequent uncertain times have significantly limited the activities of domestic startups or are the constant changes the best test for our market and an opportunity for dynamic growth of the best companies?

Referring to the results of the Report, again, the biggest challenge for startups seems to be access to capital (and company valuation). As our experience shows, it is not a challenge to raise capital, especially in the seed or early A round, but to raise capital for the B round and subsequent stages (especially when it comes to the development of technologies and products outside the Internet, where manufacturing, certification and patents are involved) as well as successfully scale the business abroad. This is one of the reasons why we are making our contribution to the innovation ecosystem in Poland by supporting startups also with our core business as a bank, with dedicated experts, requirements adapted to the realities of young companies and the palette of opportunities provided by the international potential of the BNP Paribas Group which is celebrating its 200th anniversary this year. We want to be the financial partner of the first choice for innovative companies in Poland and give credibility to home-grown startups abroad.

Coming back to the challenges, salary pressures have not left start-ups, with many talents still opting for a more stable form of employment. However, the outbreak of the pandemic has presented many opportunities, including for sourcing employees from outside the home market. It is also an excellent opportunity for acquiring unique 'know-how'. Here, however, formal problems e.g. with hiring such employees and frequent changes in the law, are invariably a challenge.
Costs, despite unfavourable macroeconomic conditions, have not changed according to 50% of the respondents, while for 49% they have increased - is this due to the nature of startups for which growth is the most important thing and cost only becomes important once they start generating revenues or gain an investor? Certainly, a lot depends on the individual situation of the startup. For some, the previous year has still been a time of tremendous opportunity and growth, for others it has been a difficult test.

The Polish Deal has added challenges for startups - instead of simplifying, it has complicated an already convoluted system, making the Polish financial order an extremely bitter pill to swallow.

In contrast, nearly 60% of the respondents believe that the war in Ukraine has not affected their business and almost ¼ of those surveyed have engaged in helping refugees. We sincerely hope that this situation, too, will translate into growth and strengthening of the domestic startup market. After all, times of crises are also times of great opportunities.

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**SUMMARY**

- Nearly two-thirds of startups believe that the changes introduced under the Polish Deal destabilise their business (62 per cent). Another 28 per cent indicate that the new regulations have forced them to change their form of hiring and 13 per cent that it has become more difficult for them to attract talent from abroad.

- When asked if and how the war in Ukraine has affected their business, as many as 26 per cent of startups declare that they have become directly involved in helping refugees and 6 per cent have supported Ukrainian startups.

- However, the majority of those questioned (58 per cent) did not report any direct impact on their activities due to the outbreak of a full-scale war across our eastern border.
Foreign expansion – planned or forced?
Foreign expansion – planned or forced?

Does it make sense to set up a startup focused solely on the Polish market? It depends, although the vast majority of founders also have foreign expansion in mind when setting up their company. Of course, this is also key information from the point of view of investors, for whom going to markets other than Poland is the primary measure of a startup’s business development potential. Foreign expansion is therefore an important step in scaling the business. We already have many examples that it is also possible to create a startup in Poland that conquers international markets. Successful companies such as Booksy, DocPlanner or Brainly have become a kind of benchmark for many domestic founders.

In a survey conducted by the Startup Poland Foundation last year, as many as 78 per cent of the founders planned to enter foreign markets with their business in the next 12 months.

• The EU market ranked first among the most frequently considered directions – as many as 85 per cent of the respondents indicated such an answer.

• The second priority destination was the USA and Canada, with more than one in two startups (53 per cent) considering entering these two huge and key markets from a business development perspective.

• Third place was taken by non-EU European markets, such as Ukraine, Belarus, some of the Balkan countries and Norway.
From today’s perspective, this optimism of last year may seem excessive. The war beyond our eastern border, the energy crisis or the inflationary crisis may have effectively cooled the enthusiasm for expansion, both among startups themselves and the investors who finance such a step. However, there are also voices saying that the current crisis may even encourage startups to look for customers outside of Poland, hoping for an opportunity which may be the already visible, worse condition of startups on, for example, the American market.

It is a fact that Poland, as well as the entire CEE region, is treated more cautiously by international capital than it was before 24 February this year. Hostilities so close to our borders are having an impact on the condition of our currency, for example - our currency has not been so weak for a long time. This also affects the condition of Polish startups which often earn money in PLN, while at the same time their costs are settled in foreign currencies, such as USD or EUR. If we add to this the other black swans described in the earlier chapter - the changes related to the Polish Deal, inflation, rising energy costs - this may motivate domestic startups not only to look for new markets for their services or products, but even to move their headquarters and operational centres to other parts of the world, where the business itself is simpler and the hostilities in Ukraine have less impact on the local market.

In a survey conducted by the Startup Poland Foundation, founders were asked whether they were considering moving their business permanently outside Poland, which would also mean moving their headquarters to another country. It turns out that almost half of them are thinking about such a step (48 per cent). This is a very worrying measure of how comfortable startups are with doing business in our country at the moment. In the next step, startups were asked about the reasons for this attitude.
The vast majority plan to relocate their business to another country for strictly business reasons. They therefore seem to think that such a move will increase their potential to expand abroad, find and hire the best talent or increase the ease of scaling their business. The second most frequently mentioned reason is the difficulties associated with the Polish Deal introduced by the government and then repeatedly amended. It appears that this programme has had a significant destabilising effect on business, created uncertainty and exacerbated chaos in many areas of company operations, including startups.

The war in Ukraine and the potential threats posed by our country’s geographical location are causing one in ten startups (10 per cent) to want to move abroad. Other reasons mentioned by the respondents include: better legal regulations abroad, excessively complicated tax system, excessive bureaucracy, immaturity of the domestic capital market, lack of economic stability or, in their opinion, unfavourable political situation.

**Why are you planning to move your business out of Poland?**

- Because of the difficulties related to the Polish Deal: 47%
- Because of the war in Ukraine and the potential risks arising from, among other things, Poland’s geographical location: 11%
- For strictly business reasons: 78%
- For a different reason: 19%

Are you considering permanently moving your business out of Poland?

- **53%** No
- **47%** Yes
SUMMARY

- Last year, as many as 78 per cent of the founders planned to enter foreign markets with their business in the next 12 months.
- Nearly half of domestic startups are considering moving their business permanently outside Poland, which would also mean moving their headquarters to another country.
- The vast majority plan to move their business to another country for strictly business reasons. The second most frequently cited reason is the difficulties related to the Polish Deal introduced by the government and then repeatedly amended.
Foreign expansion abroad is in the DNA
From the beginning, we have been building Omnipack with the idea that it should be at least a pan-European company. The market in which we operate is not just Poland, but the whole of Europe and even the world. Foreign expansion is simply written into our DNA. Today, foreign markets account for about 2/3 of our business and it is in the ‘international’ segment that we are experiencing the greatest growth - an average of 4x year-on-year. The UK is the source of as much as 40 per cent of our revenues. We also work with customers from the USA, Scandinavia and Germany.

Poland is one of those markets (not the largest for a long time), but it is also the hub from which we carry out our foreign operations. It is here that we have access to skilled workers, it is here that we build our technology, maintaining a cost advantage over entities that maintain global structures. With everything we do, we want to show that Polish people can do it. Just as we are able to build an international business from Poland, we encourage our clients to do the same and support them in this process at every stage.

In a country like Poland, it is easy to fall into the trap of the middle market - big and mature enough to expand, yet too small to get really big. Meanwhile, there is no reason to limit ourselves to just Poland. As a company offering logistics services for the e-commerce segment, we know that entering new markets is not a business revolution, but simply the next natural step in which, for example, a logistics partner can effectively support. At Omnipack, we have the infrastructure in place, we deliver orders to 40+ countries and we have integrations in place with most marketplaces. A merchant who plugs into this network gains distribution for the whole of Europe. On the one hand, this means huge growth potential and access to developed markets such as Germany. On the other hand, however, it also means taking care of business security. It is no secret that companies that sell only on one market are much more vulnerable to local shocks, as we have seen, for example, during the war in Ukraine.

With many years of experience in business, I believe that the so-called ‘global mindset’ can and should be nurtured. However, it is best to have it from the beginning and to build a company right from the start with a large scale mindset.
Why are founders increasingly setting up startups outside Poland?
Every business is governed by its own laws and there are no ‘one-size-fits-all’ solutions. The Polish market is big enough to reach a reasonable scale, so many Polish founders focus on their home market. For those with a global vision and the goal of scaling quickly, Poland is far too small a market and this is an important reason for expanding abroad. It is not an escape but pragmatism in terms of funding and talent.

Despite a very fast growing VC fund market in Poland, there is still a shortage of money for companies, especially in the early stages. Polish VC funds focus on absolute ‘winners’ where there is often certain growth and monetisation (i.e. there is a calculation basis for investment) especially in sectors where the business cycle is shorter and results can be seen faster (e.g. fintech, e-commerce). The business angel scene in Poland is still very small. There is a lack of initiatives where ‘friends & family’ can invest effectively (example of the SEIS/EIS programme in the UK, where those investing up to GBP 250,000 can get 50% of the amount from taxes and then 0% tax on capital growth after three years). At the later stage of development (A/B/C series), most funds are in Western Europe (e.g. London) and the US (San Francisco). Foreign expansion is key to have an investment ecosystem close by. Of course, many companies in Poland have good contacts with funds around the world through Polish ‘early stage VCs’. Many funds want to be convinced of a company’s global ambitions before they invest.

When thinking about a truly global mission for a startup, it is important to have a diverse workforce talent to support innovation and make good use of their skills. Poland is increasingly opening up to the international market but to build an international team you need to go to a more diverse metropolis (e.g. London, Berlin, Boston). Of course, many things can be done remotely. In Poland we have great process engineers and scientists. Unfortunately, there is a shortage of salespeople and product managers. There is a need for people with a wealth of experience, languages and specialist skills. That is why you need to go outside Poland. Many startups have offices in Poland (for example, Trustedoctor/Further Group has a technology office in Poznan but a main office in Madrid, with a smaller office in London).
How has the interest in the Polish market among foreign investors changed recently?
The outbreak of war in Ukraine, combined with inflation above the European average and widening social policies, may suggest that Poland is no longer an attractive destination for foreign investors. However, today’s global economy is resilient and, despite short-term shocks from unexpected events, is quickly returning to fundamental data. And this continues to speak in Poland’s favour - its membership in NATO and the EU, the quality and price of its services, its advanced IT sector, its proximity to Western markets and its attractive system of investment incentives all contributed to an increase in foreign investors’ involvement on the WSE in H1 2022 compared to last year.

Polish startups can count on the support of foreign investors, but the main barrier remains the lack of meeting international business criteria, rather than the negative political and economic situation. These include designing a business model with a global perspective at the earliest stage, where we often see founders satisfied with only a local vision. As the Warsaw office of the New York-based ffVC fund, we are particularly sensitive to planning foreign expansion, which we most often see in Polish founders who have experienced living or studying abroad.

The Warsaw office of ffVC, the new 500 Emerging Europe fund which is part of a US company or further international funds raised by Credo Ventures from the Czech Republic prove that global investors recognise the potential of Poland and the CEE region when it comes to early-stage technology investments. Over the last three years, more than 100 foreign funds have participated in VC funding rounds of Polish companies and we believe that there will be more and more of them. Last month we made an investment in Trusted Twin which relied on several foreign investors, including Presto Ventures (Czech Republic) and Startup Wise Guys (Estonia).

We currently have a strong foundation in Poland to attract foreign investors and their growing presence, but the key to realising our potential is to globalise the founders’ mentality from the earliest stage. We believe that geopolitical chaos will not distract entrepreneurs from building international scalability, because what would Robert Lewandowski be if he only dreamed of the Polish Ekstraklasa.
Conclusion
Barriers to startup growth under the microscope
Among the barriers identified by startups as key to their growth, the high cost of hiring employees comes first (for 50% of those surveyed). The total cost of hiring an employee includes not only the salary including gross tax, but also additional deductions such as pension and disability contributions. Although the cost of employment in Poland is one of the lowest in Europe, it is growing very dynamically and clearly, making us one of the EU leaders in terms of the labour costs growth rate. The problem that emerges when analysing labour costs in Poland is the unpredictability of legal changes affecting them as well as the rapid changes in legal regulations determining the rates of employees’ salaries in Poland. The Polish Deal, which has been in force since the beginning of this year, is one of the biggest reforms of the Polish tax law - its entry into force deprived employees of the right to deduct health contributions, changed the way tax allowances are deducted and increased the tax-free amount. The Polish Deal was amended after a few months in force and the vagueness of many of its solutions, in the opinion of tax experts, gives rise to uncertainty about the employee’s net salary. As both startups and corporations report, this is a significant barrier to attracting talent to companies.

The second most significant barrier to growth for startups is obtaining funding (42% of those surveyed). The demands related to funding are not due to a lack of access to public funds, but rather to difficulties in obtaining grants.

The difficulties indicated by 27% of the respondents in relation to foreign expansion are a relatively new data in our report. This may indicate that Polish startups are increasingly bold in their attempts to enter foreign markets. We hope that the new project of the Startup Poland Foundation called “International Startup Desk” will help with overcoming difficulties related to foreign expansion. It is an educational and networking platform dedicated to startups with global ambitions, which aims to support startups in their global expansion by sharing knowledge, contacts with experts as well as other startups that are present on foreign markets or are planning to enter them.
Frequent changes in legal regulations - not only tax regulations - are a barrier to growth according to 21% of those surveyed. Regulatory stability and the ability to operate under established rules are a key element in deciding whether to invest in a given country and be comfortable doing business. For startups, regulatory stability is of double importance - on the one hand, it influences the presence in Poland of investment funds and corporations that often finance their activities at various stages of development, and on the other hand, it is a determining factor for the development of startups in Poland. The lawmaking process should be transparent and allow any interested party to participate in it. It is extremely important that decision-makers introduce changes to the provisions of law in a predictable manner and that laws are created after consultations with social partners, respecting the voice of all parties, with sufficiently long vacatio legis, which allows preparation for the changes introduced. Consultation of draft legislation allows potential problems to be identified and the best possible solutions to be developed. We hope that the public sector will use the widest possible form of cooperation with startups.

It is interesting to note that relatively many startups demonstrate difficulties in participating in public tenders. Since the beginning of 2021, the new Public Procurement Law has been in force, which introduces many positive solutions for small and medium-sized enterprises as well as innovative, cutting-edge products and services and, as a result, may be an opportunity for startups to sell innovative products and services. The new Public Procurement Law has introduced important changes for startups, in particular: a reduction in court fees for complaints in appeal proceedings in public procurement proceedings, which is likely to make it more accessible to use a complaint against a ruling of the National Appeals Chamber, a new threshold for public procurement, full electronization of procurement or allowing the SME Ombudsman to file an appeal on behalf of contractors-startups in public procurement. It is likely that the startups’ assessment of the difficulties related to public tenders and their failure to take advantage of the solutions provided by the current legislation is still due to the inadequacy of the startup’s product for the subject of the contract, the time-consuming nature of the proceedings, the lack of information on tenders taking place and the lack of general knowledge on how to participate in tenders.

The results of the survey show that 8% of the respondents do not indicate the existence of legal barriers to business development, but in our opinion the barriers we asked about (such as difficulties with foreign expansion, insufficient investment incentives, bureaucracy, public tenders, costs of hiring employees) affect all startups operating in Poland. Startups that focus on growth usually have less time to monitor the legal and institutional environment.

Legal barriers affecting business operations often hinder both startups and large corporations and negatively affect the entire startup and innovation ecosystem. Despite the many positive changes in legislation affecting small and medium-sized entrepreneurs, most barriers have existed for many years. Startups’ dissatisfaction with the functioning of the legal environment can result in the closure of operations,
limited business growth or the relocation of the company to another country. This is a clear call for the elimination of entrepreneur-unfriendly regulations (especially those that overly bureaucratise our day-to-day operations and unnecessarily increase employment costs) and for changes in public sector practices (protracted procedures and inability to introduce new legislation efficiently).

A summary of the analysed regulatory barriers identified by startups this year, boils down to the call, raised repeatedly by the Startup Poland Foundation, for simple procedures and predictable regulations - this is necessary if Poland wants to keep its startups on the market and encourage foreign ones to operate on its territory.

Marta Pawlak
Head of Legal & Public Policy Advisor
Methodology

The “Polish Startups” report was created for the eighth time. Previous editions are available for download at www.startuppoland.org. With each successive edition we reach more and more startups, which can be explained by increased recognition of the report, growing awareness among founders, who are more willing to share information about their companies, and the demand of the market for this type of data. For the creation of this report, an online survey was conducted using the SurveyLab tool. The report with the results of the survey was created automatically, in real time. The survey was conducted in the period July-August 2022. The closing of the survey and downloading of the survey report took place on August 31, 2022.

We managed to reach 2,171 opinion leaders. Among the respondents, the vast majority were startup founders. The survey also included startup managers, and employees, although in significantly smaller numbers. The selection of surveyed entities was random, with no indication of preferred characteristics of the startup, such as industry, development stage, business scale, company size, or number of employees. Responses provided by entities operating in the market for longer than 10 years were not taken into account. The definition of a startup adopted in the survey methodology included only entities with a market tenure of less than a decade.

Footnotes

1 www.medium.com/blog-transparent-data/polskie-firmy-2021-raport-340fd0954163
3 Transakcje na polskim rynku VC w Q3 2022 (pfrventures.pl)
The survey for the Polish Startups 2022 report was created thanks to the courtesy of Surveylab
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