

INNOVATION SHIP
BULGARIA | Digital
2019



2019 **EDIT** national report on digital micro, small
and startup business in Bulgaria by **MOVE.BG**

MOVE.BG

20 Serdika str., Sofia
tel. +359 87 8796848
www.move.bg
www.edit.bg

The authors would like to express their gratitude
to all participating national and local partners
for their crucial role in the conducting of
InnovationShip| Digital 2019 survey in their
respective economies.

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© **Lidiya Kabatliyska**, Center for Modeling
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MOVE.BG

is a think and do tank and a platform for value creators. **MOVE.BG** is looking for innovative solutions for social transformation, working for sustainable development, affirming a culture of constructive dialog, participating leadership, and shared values. Since its establishment in 2013 **MOVE.BG** has partnered with over 60 Bulgarian and foreign organizations and has worked with more than 2,200 volunteers. The founders of **MOVE.BG** launched **EDIT** - a program which aims to support digital innovation as a driving factor in the local economy.

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EDIT

EDIT stands for Economic Development via Innovation and Technology and was initiated in 2016 by the **MOVE.BG** Foundation in partnership with a broad coalition of startup ecosystem stakeholders in Bulgaria. **EDIT** was created to address the needs of the micro, small and startup businesses in the information technology industry forming the fastest growing and most innovative economic sector of Bulgaria. **EDIT** conducts the annual national survey measuring economic data of Bulgaria's top digital and innovative businesses. **EDIT**'s program includes variety of activities such as online trainings, topical researches, reports, policy recommendation papers, conferences, and field work across the country in support of the innovative economy in Bulgaria.

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CENTER FOR MODELING SOCIOECONOMIC SYSTEMS

The Center for Modeling Socioeconomic Systems is a unit within Sofia University "St. Kliment Ohridski" that aims at leveraging innovative and interdisciplinary approaches to solve concrete economic and business problems. The major focus of activity is the processing, analysis, and modeling of economic data using advanced scientific tools and methodologies. The major research fields of the Center are business analytics, risk management, digital industry, and economic and managerial decision-making.

Digital Directions from Bulgaria



SASHA BEZUHANOVA

Founder and board chair of
MOVE.BG & Initiator of **EDIT**

We are living in a time of the fourth industrial revolution where global digital connectedness and the development of technology are driving a rapid transformational disruption across every sector of the economy and in society. By 2022, over 60% of global GDP will be digitized, as the International Data Corporation (IDC) forecasts.¹

An estimated 70% of new value created in the economy over the next decade will be based on digitally enabled platforms. There is a clear trend in the usage of digital native IT environments. Cloud deployments incorporate edge computing increasingly while AI (artificial intelligence) emerges as the new UI (user interface). Digital trust systems based on blockchain technology become the new smart ground for operating supply chains and securing the loyalty of customers.

The competitiveness of countries, regions, and businesses in the world of tomorrow depends on the ability to secure an environment for the development and fast adoption of innovation in the market. It is not a coincidence that the European Commission plans to invest an unprecedented amount of budget - EUR 100B in support of the innovative research and businesses via the upcoming program Horizon Europe.

Another clear trend - the digital business community across the world engages closer than ever in searching for solutions for current global challenges such as climate change, closing the digital gap, transformation of healthcare, food, and education sectors. Moreover, social innovation becomes part of the agenda of businesses and leadership. Bulgarian digital innovators are developing advanced tech and business solutions in line with the big trends in

the global economy. **The InnovationShip 2019** survey proves the next level of maturity of the Bulgarian startup ecosystem and reaffirms the role of Bulgaria as a key center of gravity for innovation in the region.

Those positive dynamics can be further strengthened if public authorities create a special policy in supporting infrastructure for startups and SMEs. Modernization of the university programs in line with the technological and societal development trends can expand the potential of the innovators of tomorrow significantly. The study confirms those needs.

The globalized world gives a chance for countries to play a greater role on the world economic landscape than their political borders formally assume, by creating a facilitating environment where innovative companies could grow to mature businesses locally and operate on a global basis. Bulgarian startups carry the technological capacity and topical engagement to drive the change of the economic portrait of Bulgaria and to position it as one of the key hubs for innovation in Europe and the world.

The InnovationShip 2019 survey proves this.

A handwritten signature in black ink, appearing to read 'c. troy'.

¹ A US-based market intelligence company.



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EXECUTIVE SUMMARY

THE OVERVIEW

For the fourth consecutive year, the **InnovationShip 2019** survey presents the most comprehensive and detailed mapping of the Bulgarian digital ecosystem. This year's data is collected from 233 different companies that filled an online questionnaire. The companies surveyed are young, and fully 31% of all participants were established in 2018 and 2019. Their average age is less than 5 years. As for the geographical distribution of the digital ecosystem, it broadly follows that of the overall economy, with high concentration in larger cities. In the case of the digital companies, **the over-concentration in the capital is becoming even more intense – a total of 82% of companies are situated in Sofia** - with a growth of 11 percentage points compared to the results in 2018. Plovdiv, Varna, and Ruse are the other Bulgarian cities with high concentration of digital activity. The majority of 45% of all participants' teams are comprised of up to 10 people.

THE BUSINESS MODEL

Rather few of the companies forming our participant basis offer solely a product (21%). The vast majority either combine both product and service (47%) or have focused exclusively on providing a service (32%). 84% of companies confirm that what they go out on the market with has an innovative component. **Almost half (47%) of companies offer a global innovation, 18 percentage points more than 2018.** Companies are mostly involved in platform building (42%), big data analytics (28%), machine learning and AI (32%), cloud computing (25%) and since 2019 – automation systems (25%). This is followed by blockchain/API and Connectivity/IoT. It is clear that those areas of concentration form some of the most crucial segments of the emerging deep tech innovations.

THE SOCIAL IMPACT

57% of participants in the survey share that having a social impact is a major focus of their organization. **The top three causes that startups focus on are formal and informal education (14.6%), environmental sustainability (13.9%), and healthcare and healthy living (11.6%).**

The least popular cause seems to be urban regeneration or rural development (4.1%), with poverty and inequality also scoring a surprisingly low 5.4%.

THE FINANCIALS

31% of the participants are companies founded in 2018 and 2019 and half of them have still not registered any revenues. Of the overall sample, about a quarter has had no revenue in their time of existence. A major segment of surveyed companies – 27% have an annual revenue of less than 25 000 euro, which serves as evidence for the large number of newcomers in the digital ecosystem and hints at the growing interest for entrepreneurship in the field. 14% of the companies have a revenue of 51-150 thousand and another 14% are ventures that make 151-500 thousand euro. The companies that have managed to pass the 1 Million threshold include 10% of the respondents. 2% of companies report revenue of more than 10 Million euro, which is about four times more than they were in the previous year.

The results also show that 54% of the companies have a positive cash flow which is somewhat less than the 59% reported in last years' survey.

THE MARKETS

Interestingly, there has been a withdrawal from the national market – compared to the 81% of companies that operated on the Bulgarian market, this year they are 74%. Although there is a slight drop, digits are still high and 26% of companies that are planning on expanding to new markets, have Bulgaria on their agenda. 65% of this years' participants currently sell in Europe and the region. Only 18% of companies get most of their revenue from export. However, 60% of the companies that do sell on foreign markets have them as a primary revenue source.

THE PEOPLE

74% of companies plan to expand their team in the next twelve months. Similar to the previous year, software engineers and developers are the hardest to find and 49% of companies declare that finding employees in this field is the biggest challenge. When talent is scarce, companies have found innovative ways to recruit capable people. Most startups are founded by a small number of people: 24% of companies are started by a sole founder. The majority were created by two people – 37%. 21% of companies have 3 founders and 9% have four. Only 3% of companies in the survey have been started by more than 5 people. 66% of founders are not new to the startup stage, and 16% of startups have both Bulgarian and foreign founders and 3% are founded only by foreign nationals.

THE CHALLENGES

The lack of funding is identified by 36% of companies as their biggest problem. Although both Bulgarian and international investors seem to be interested in the startup stage, funds are still insufficient. Another obstacle, outlined by a third of all companies in the survey is talent shortage, which is closely related to the tight labor market in the country. 43% of the participants in 2019 declare that they would benefit from a better e-government. The establishment of a legal framework for companies in the digital ecosystem is a top priority - 52% of companies insist on the need for such legislation. The promotion of investment in startups through preferential tax treatments in order to attract investors and business angels has progressively been gaining importance and is now a priority for 45% of companies.

RECOMMENDATIONS

The extensive data collected in this year's edition of InnovationShip provides an intimate insight into the Bulgarian ecosystem and reveals some challenges that persist. To remedy those, we outline a few key first steps:

■ **Improve the legal framework** for digital and digitally-driven SMEs, including decrease in regulation, preferential tax treatment of angel investment, and extending the possibility for deferral of social security contributions to these companies.

■ **Expand the range and scope of electronic government** and e-services in order to decrease the administrative burden on innovative companies.

■ **Improve the access to funding** through institutionalized means such as VC funds and expand the outreach to individuals and organizations that have not received funding in previous years, thus diversifying the pool of new companies.

■ **Further strengthen diversity policies** as the gender gap in the digital ecosystem is not yet closed.

■ **Foster a stronger educational system and research sector** that can meaningfully contribute to the development and commercialization of innovative business ideas.

The recommendations that would help the small digitals are essentially horizontal in nature and thus favorable to all SMEs irrespective of their sector.





METHODOLOGY

The methodology for data collection is based on an online survey composed of 59 questions which cover aspects such as the main business activity, financial indicators, markets, the team structure, and the challenges that participating companies face.

Between July and October 2019, 233 companies which met the criteria for micro, small or medium enterprise or a startup offering a digital product or service participated in the survey. A number of questions in the survey include the option for multiple answers, therefore some of the visualized results exceed 100%.

The design of the survey allows for automatic skipping of questions depending on their relevance for the particular company. As a result, some of the conclusions are valid for fewer than the total number of respondents. The design of this study, the development of the questionnaire and the preparation of this report are a product of **MOVE.BG**. The Center for Modeling Socioeconomic Systems at Sofia University "St. Kliment Ohridski" processed the data collected through the survey.





PROFILE

For the fourth consecutive year, **the InnovationShip 2019** survey presents the most comprehensive and detailed mapping of the Bulgarian digital ecosystem. This year's data is collected from 233 different companies that filled the detailed questionnaire prepared and administered by **MOVE.BG's** digital platform **EDIT.BG** in partnership with Sofia University's Center for Modeling Socioeconomic Systems. This sample features a large number of newly arising startups (61%), a significantly higher number than the much smaller participation in the survey of 2018 (45%). 33% of the sample are dedicated to established companies with 7% of the respondents representing other players in the ecosystem – NGOs, public units, academia.

STARTUPS AND THE CITY

The companies surveyed are young, and fully 31% of all participants were established in 2018 and 2019. Their average age is less than 5 years. As for the geographical distribution of the digital ecosystem, it broadly follows that of the overall economy, with high concentration in larger cities. In the case of the digital companies, the over-concentration in the capital is becoming even more intense – a total of 82% of companies are situated in Sofia - with a growth of 11 percentage points compared to the results in 2018. Plovdiv, Varna, and Ruse are the other Bulgarian cities with high concentration of digital startup activity.

Massive overconcentration in Sofia – fully 82% of respondents based there.

The participants in the survey are open to adopting new trends – 19% of them work remotely and have no physical office space, and 20% have chosen to work from a co-working space. The classical office arrangement suits 56% of them, 1% are located in an incubator or accelerator, and 4% operate from multiple locations around the globe.

19% of companies work remotely and 20% - out of a co-working space.



It is typical for startups and SMEs to operate in small numbers, thus 28% of all companies have teams of 3 employees or less. The majority of 45% of all participants' teams are comprised of up to 10 people. Only 3% have yet managed to become more numerous than 100. This comparable to the number of firms that declared having over 10 Million worth of revenues – a little less than 2%

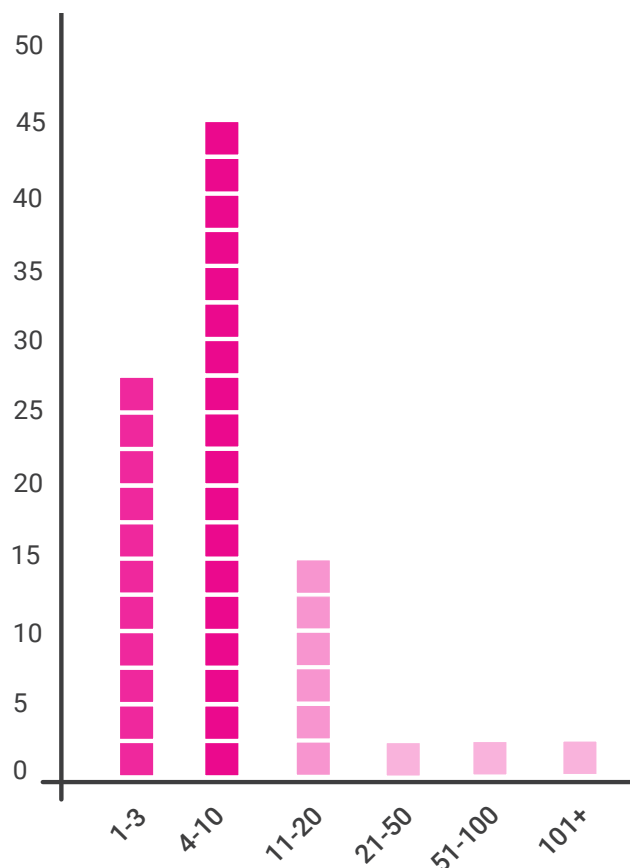


Figure 1: How many people work in your company?

The sample covered a large number of companies at different stages of development. This allows a better understanding of the problems that companies face in different stages in the context of the Bulgarian digital ecosystem. The startups represent 24 % of the 233 company-wide sample. Seed companies, which alone represent 36%, form a 60% worth majority together with startups. Companies in their growth stage are as many as the seed companies (36%). Thus only 3% of the sample are later stage companies that have already reached and exceeded the threshold of 10 Million USD worth of revenues.

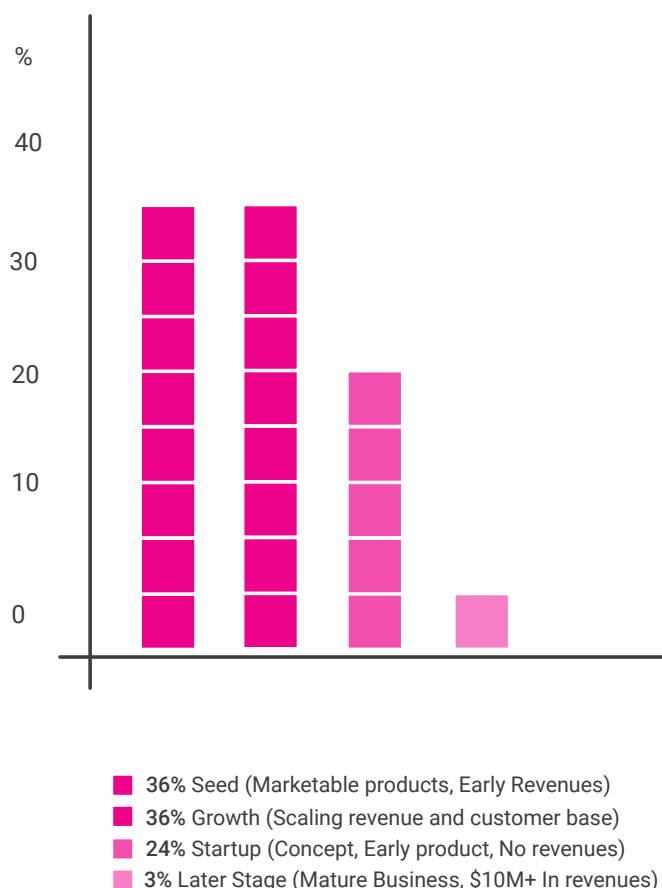


Figure 2: Stage of development of the company

SERVICES... AGAIN

Rather few of the companies forming our participant basis offer solely a product (21%). The vast majority either combine both product and service (47%) or have focused exclusively on providing a service (32%). Once they have conquered a share of the market with their service, many companies proceed to launch a product of their own, a strategy that might bring about the results we observe. A notable trend is that the companies that offer exclusively a product are somewhat less than reported in last year's **InnovationShip** – product-only companies are now 21% down from 26% in 2018.

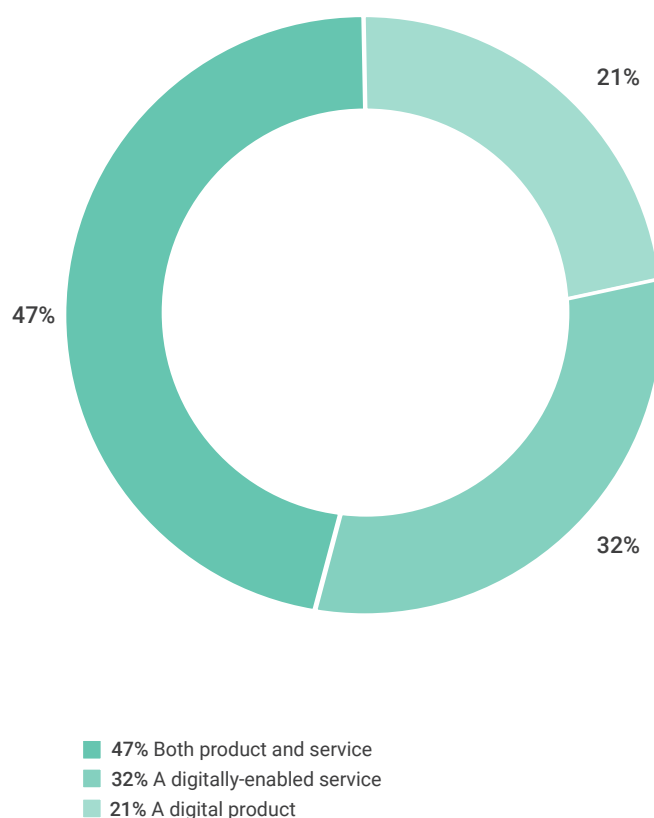


Figure 3: Which mostly describes your core business?

79% of companies have either an exclusive service offering or offer services in addition to the product offering, up from **74%** in last year's survey.

INNOVATIONS FOR THE WIN!

The results of this year’s survey confirmed the last year’s finding that Bulgarian digital companies are remarkably innovative. 84% of companies confirm that what they go out on the market with has an innovative component. 15% of the companies are pioneers on the local market, 12% - in the region and 9% - Europe-wide. Almost half (47%) of companies offer a global innovation, 18 percentage points more than 2018. For only a year the ecosystem has developed to the extent where innovation is nothing new. These impressive numbers demonstrate the awareness of companies that novel products are one of the keys to success.

47% of companies offer a global innovation, 18 percentage points more than 2018.

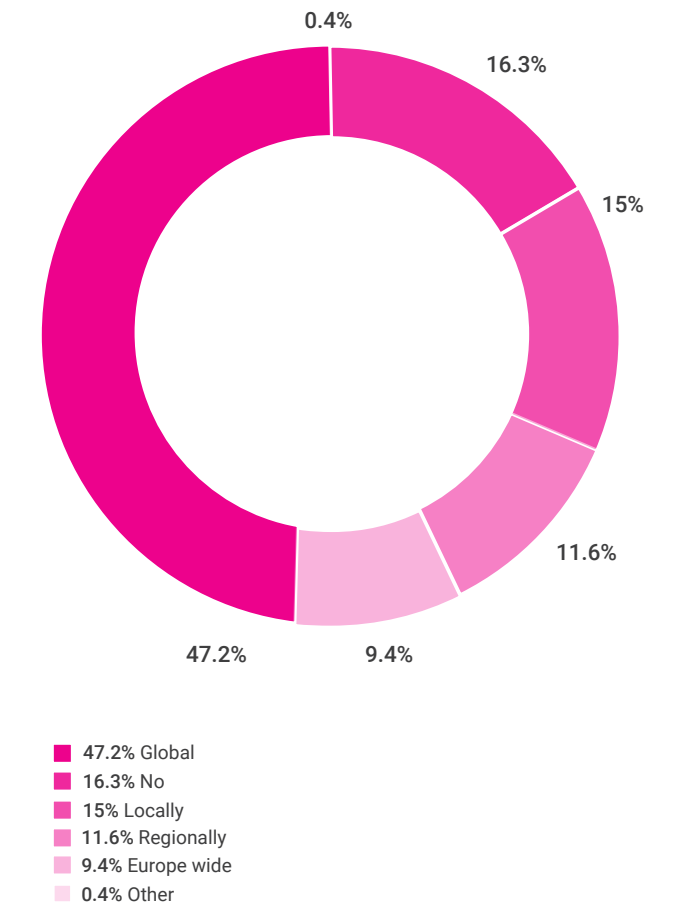


Figure 4: Are you offering an innovative product or service?

Unsurprisingly, innovation is intimately connected with product-based offering. We observe no product companies in the segment that have no innovative offering, and most product companies report that their innovation is global in scale and entirely new to the world. While these results show the inherent startup optimism, they still underlie the importance of the product as a carrier of the new.

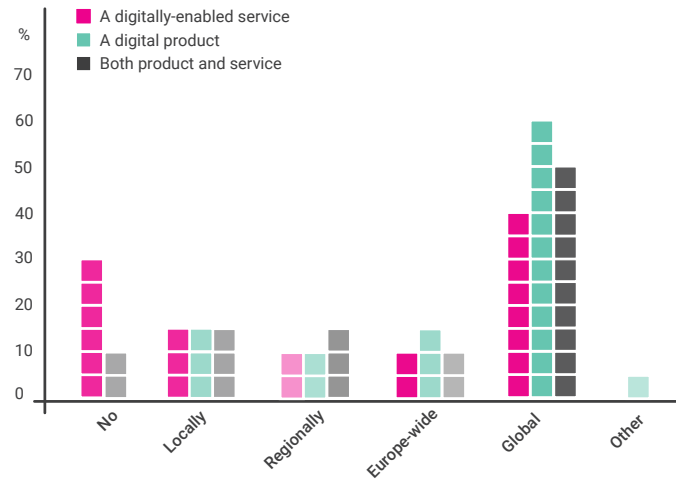


Figure 5: Percentage of innovative offering across business models

DEEPENING TECH

Hot trends on the European and American market are easily transferrable to the Bulgarian one. The overviews of companies' specialization and preferred technologies used both in the 2018 and 2019 **InnovationShip** survey indicate that although there is still a high interest for the leading categories, some types of specialization have become increasingly popular. Companies are mostly involved in platform building (42%), big data analytics (28%), machine learning and AI (32%), cloud computing (25%) and since 2019 – automation systems (25%). This is followed by blockchain/API and Connectivity/IoT – one in five companies offer any of the latter. Less attention is received by offerings in virtual reality, and information security. The least number of companies is interested in offerings in the field of biometry, which is highly specialized and requires expert knowledge in numerous areas. Nevertheless, biometry has seen a slight decrease since last year, which shows that seemingly the Bulgarian market in the field follows the global trends with certain lags.

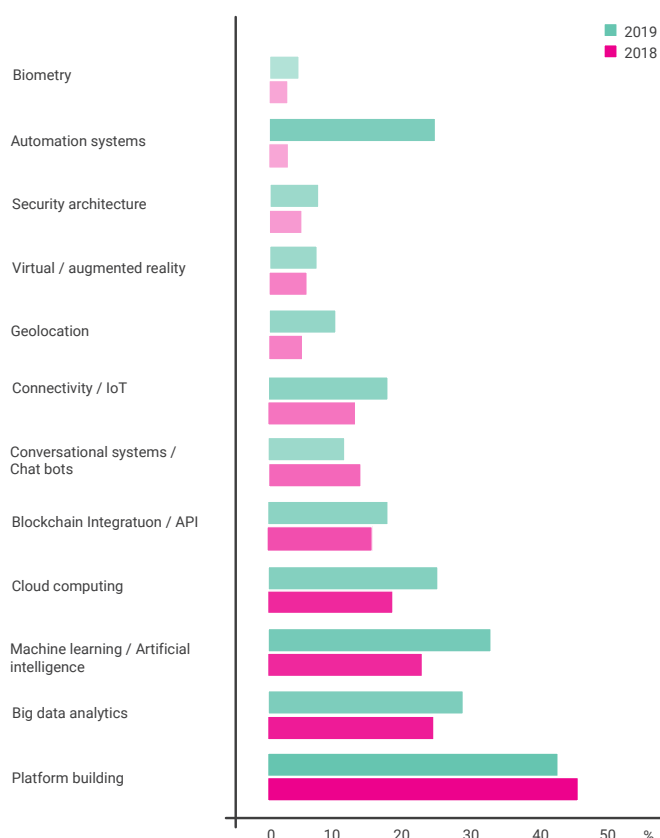


Figure 6: Tech companies are mostly focusing on

It is clear that those areas of concentration form some of the most crucial segments of the emerging deep tech innovations. This hold particularly true for the Artificial Intelligence, internet of things capabilities, and automation systems that heavily leverage research in those fields. Those are the first trends of a possible emergence of a new wave of deep tech startups in the Bulgarian digital ecosystem. The fields that lag behind this revolution seem to be virtual reality and biometrics – a persistent trend from the last two editions of the **InnovationShip** survey.

First trends of a possible emergence of a new wave of deep tech startups in the Bulgarian digital ecosystem.

There also seems to be a growing specialization among the small digitals. Of them, 34% focus on offering their solutions to the tech industry, and 24% focus on the financial sector. The third most popular industry to focus on is somewhat surprisingly education with 22% of companies reporting it as a primary target. Among the top ten we observe both business-related sectors, as well as those usually connected with social welfare (education, health and social work, culture and entertainment). This shows the growing interest in social entrepreneurship and further supports the results obtained about the social impact of the companies.

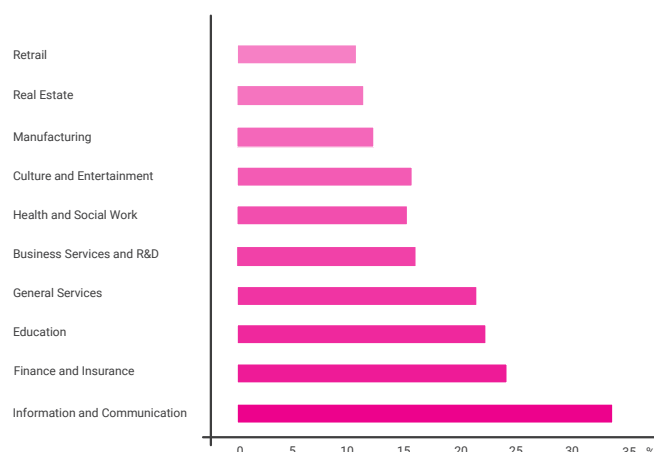


Figure 7: Top 10 industries that companies focus on

STARTUPS ON A MISSION

For the second year in a row, **the InnovationShip** survey, honoring the relevance of sustainable development and social entrepreneurship, examines the importance of social impact for companies in the Bulgarian digital ecosystem. 57% of participants in the survey share that having a social impact is a major focus of their organization.

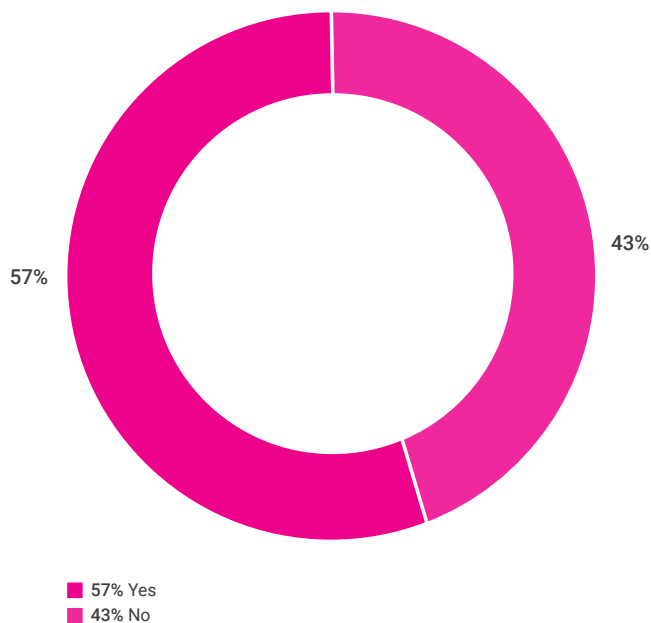


Figure 8: Is having a social impact a major focus of your organization?

57% of participants in the survey share that having a social impact is a major focus of their organization.

The surprisingly high numbers in both this year's edition and last year's one beg the question of what respondents understand when they mean social impact and what areas this is focused on. To investigate this into more detail a new question on the specifics of the impact debuts this year.

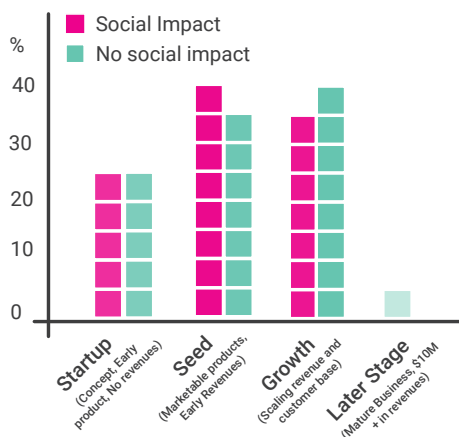


Figure 9: Social impact of companies per their stage of development

The digits have grown since 2018, when social impact was already at a high of 45%. Contrary to the popular misconception that only big organizations can be socially impactful, data shows that more than half of companies in every growth stage prioritize sustainability and do their fair share in order to have a positive impact.



Figure 10: Focus areas of the social impact generated among startups that report having impact

Results show that more than 16.3% of the startups who reported impact consider just generating employment as a social impact.

The top three causes that startups focus on are education **14.6%**, the environment **13.9%**, and healthcare **11.6%**

While there is undeniably great merit in that, this alone does not necessarily and in all instances further a social cause. The top three causes that startups focus on are formal and informal education (14.6%), environmental sustainability (13.9%), and healthcare and healthy living (11.6%). The least popular cause seems to be urban regeneration or rural development (4.1%), with poverty and inequality also scoring a surprisingly low 5.4%.



SHOW ME THE MONEY

In order to be successful, companies should not only have a meaningful product, but also find the right product market fit that also generates a sustainable cash flow. While difficulties abound, many succeed in overcoming the lows and embracing the highs. In this section we review the financial performance of the digital companies in Bulgaria.

NO MORE COUNTING DOLLARS, WE'LL BE COUNTING STARS

It is no surprise for a company to launch and gain no or very little revenue during the first years on the market. This is also underlined by the data behind the 2019 InnovationShip survey. 31% of the participants are companies founded in 2018 and 2019 and half of them have still not registered any revenues. Of the overall sample, about a quarter has had no revenue in their time of existence.

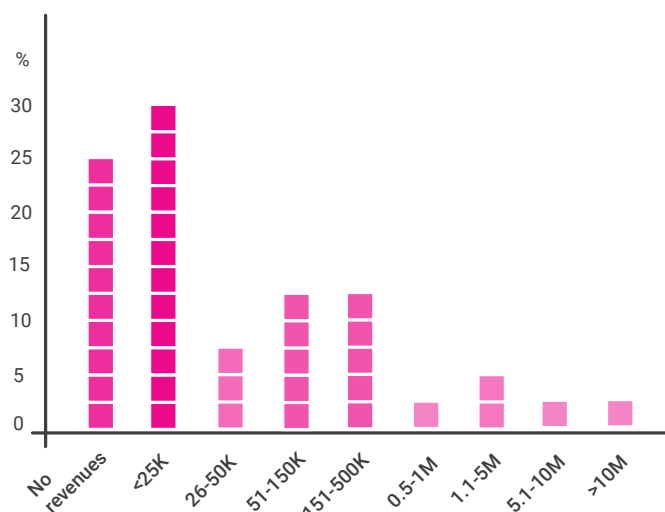


Figure 11: Distribution of revenue across the sample

A major segment of surveyed companies – 27% have an annual revenue of less than 25 000 euro, which serves as evidence for the large number of newcomers in the digital ecosystem and hints at the growing interest for entrepreneurship in the field. 14% of the companies have a revenue of 51-150 thousand and another 14% are ventures that make 151-500 thousand euro.

In 2019 **54%** of the companies have a positive cash flow, down from **59%** in 2018.

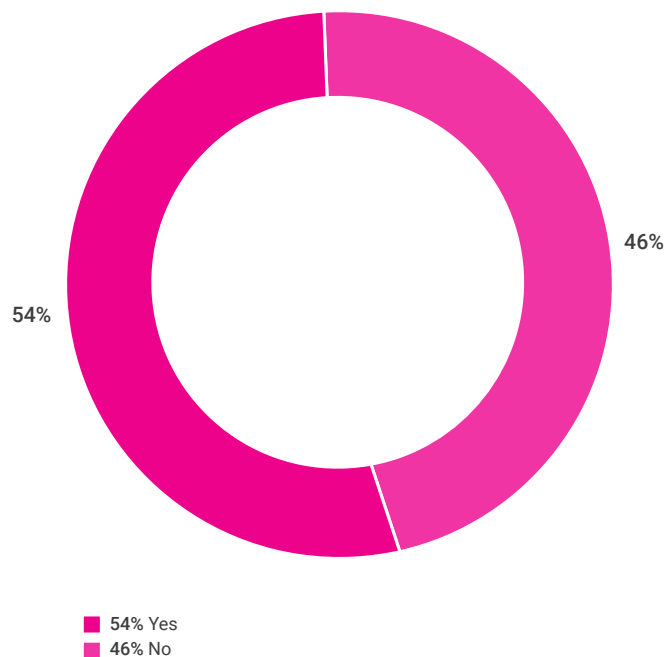


Figure 12: Was the company cash flow positive in the last fiscal year?

The companies that have managed to pass the 1 Million threshold include 10% of the respondents. 2% of companies report revenue of more than 10 Million euro, which is about four times more than they were in the previous year. The results also show that 54% of the companies have a positive cash flow which is somewhat less than the 59% reported in last year's survey. Different business models have different positive-negative cash flow ratios and it becomes clear when examining data that digital product companies' way to break even is the toughest.

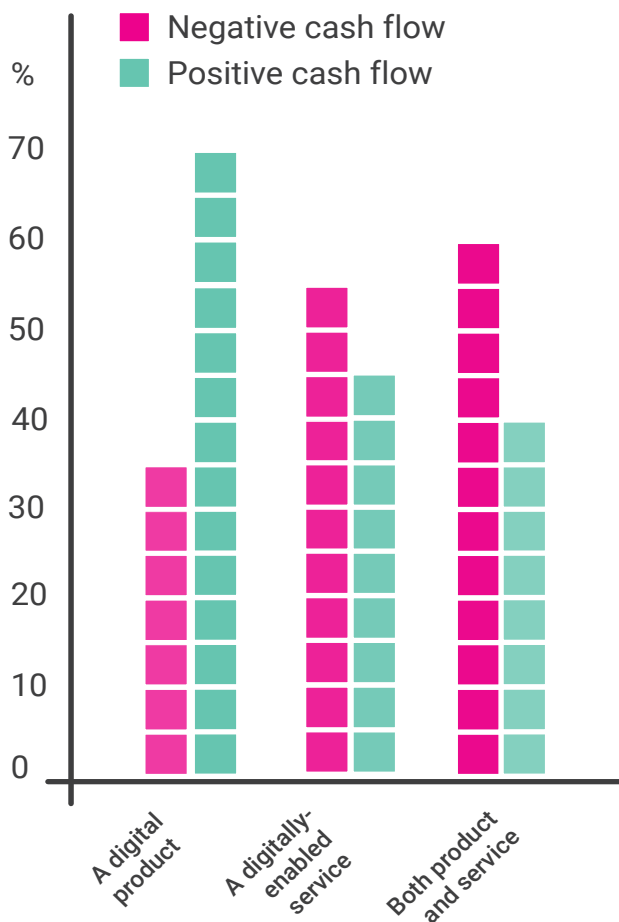
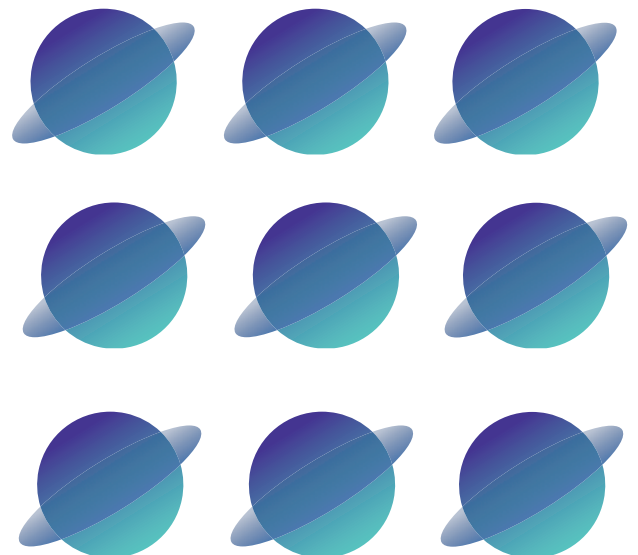


Figure 13: Financial results across business models
Figure

66% of these companies have a negative cash flow and only 34% manage to cover their operational costs and possibly make a profit. 46% of companies that provide digitally-enabled services have a positive cash flow. Companies with both a service and a product component in their offering seem to succeed most at maintaining their cash flow positive – 62%, whereas only 38% suffer losses.

62% of companies that offer both products and services are profitable contrasted with **34%** of product companies.



OUR BETTER ANGELS

When it comes to financing one's ideas, there are numerous possibilities in the Bulgarian digital ecosystem. The most preferred one, however, is financing with founders' savings. The proportion of entrepreneurs who believe enough in their idea to finance it singlehandedly has grown since 2018. This year they are 44%, as opposed to last year's 40%.

The second most popular way to gather starting capital is not to gather any. This option is what 20% of companies have chosen – to seek no funding and finance their endeavors through the operation of the company and invest their time, thus bootstrapping their way to success. 6% of all founders have counted on their family and friends for a helping hand when starting their business.

44% of founders use their own private savings to fund their startup, up from **40%** in 2018.

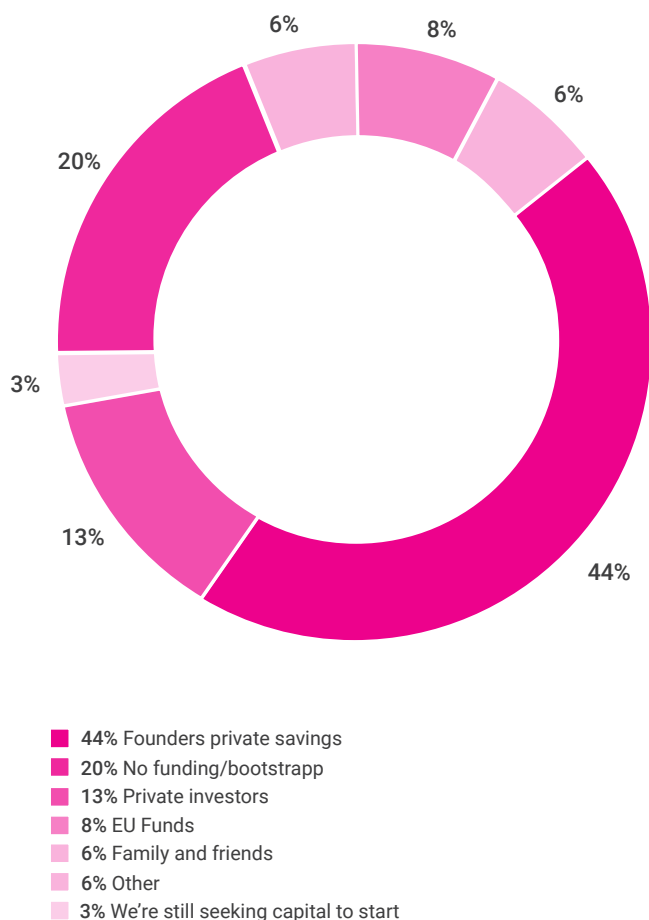


Figure 14: What was the major source of your starting capital?

Overall, an overwhelming proportion of all businesses have started without the support of European programs, investors' capital, crowdfunding or any source of external capital. This makes a staggering 73% of all companies within the ecosystem that have no recourse to institutionalized forms of startup funding like private or public investors, state help, or EU funding. Even when looking for investors, startups are more likely to choose a private investor rather than a state-supported one.

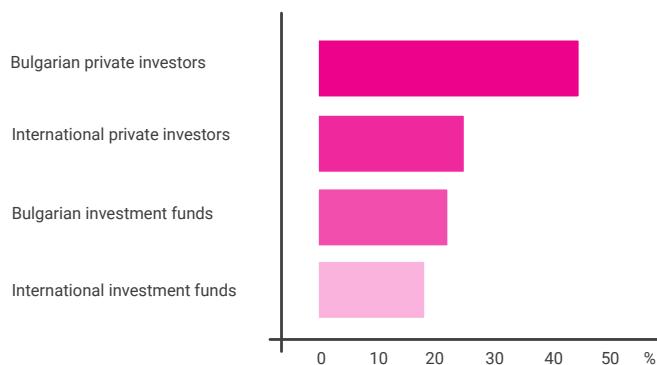


Figure 15: Sources of additional external capital raised

Data shows that 33% of the companies have successfully completed their additional rounds for raising capital. In 2018 they were 18%, which is a significant increase. As last year, Bulgarian private investors have taken the lead, taking over 42% of external capital raised. International private investors have contributed 22%. Private investors contribute significantly more than investment funds, with only 21% of external capital originating from Bulgarian investment funds and 16% – from international ones.

I NEED A DOLLAR, DOLLAR

More than half (58%) of all respondents are planning on having another round of fundraising over the next 12 months. The number is a lot higher than the one in 2018, which might indicate that more startups have reached the point of justifying their product-market fit and scaling up to continue their process of growth and expansion.

58% of all companies are planning to raise funds over the next 12 months.

SHINING BRIGHT

The vast majority of companies expect a positive growth in the future – 86% and some of them are very optimistic about the rate of their revenue increase.

86% of companies expect revenue growth this year.

The number of optimists in the ecosystem has grown by only one percentage point, however the trend is positive as opposed to the decrease from 2017 to 2018 (the expectations of revenue increase then dropped by 5 percentage points).

There is an additional trend in data that merits further attention. The data shows that digital product companies are the biggest optimists – they are the ones that expect the highest revenues in: 42% expect three-digit revenue growth overall; 30% - above 100% and another 12% - above even 200%. Once a product has succeeded in finding the right market and customers, scaling up seems to come easier, however the process of finding the perfect fit is rather slow and difficult.

30% of product companies expect to grow above 100%, and 12% of them – above 200%.

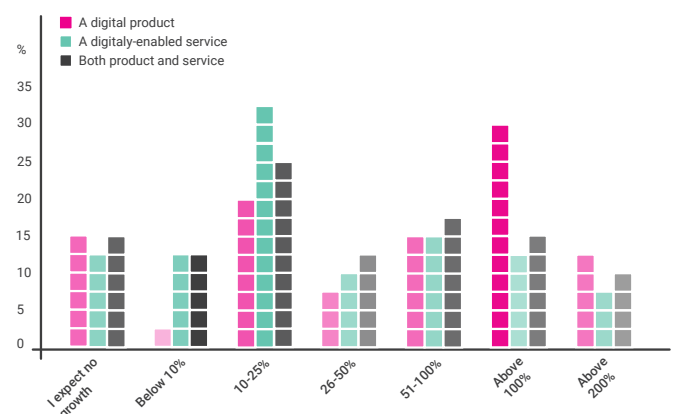


Figure 18: Revenue growth expectations per core business type

16% of product companies are seemingly in this process and expect no revenue increase in 2019. Digital service companies and companies that offer both products and services also expect excellent performance over the next twelve months. Most digitally enabled service companies expect at least 25% growth, and about one in five service companies expects at least to double. The trends in companies that offer both products and services largely mirror the service dynamics.

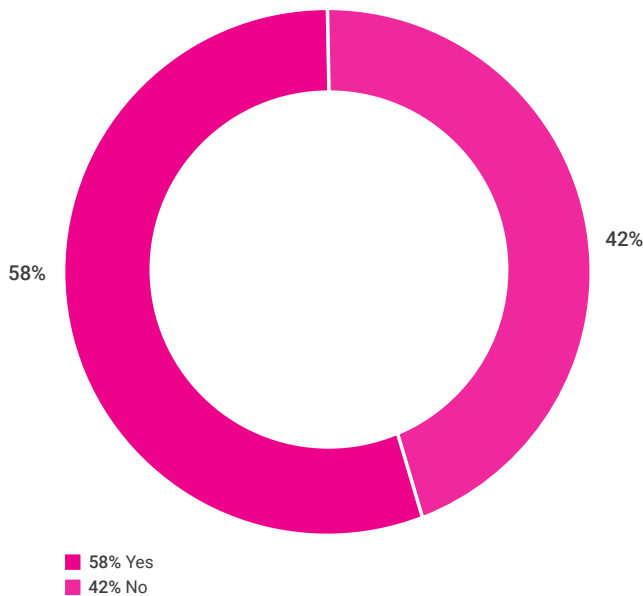


Figure 16: Are you planning fundraising in the next 12 months?

Nearly two in every three companies that are planning on raising external capital in the upcoming 12 months have intentions of investing it in team expansion, which reflects the importance attributed to human capital in the Bulgarian digital ecosystem. 51% of respondents affirm the intention to use additional external capital raised for further Research & Development, probably in order to enhance their products' competitive advantages. 61% of companies plan on entering new markets and 51% - on improving their marketing approach.

Two in three raising companies plan to invest in team expansion.

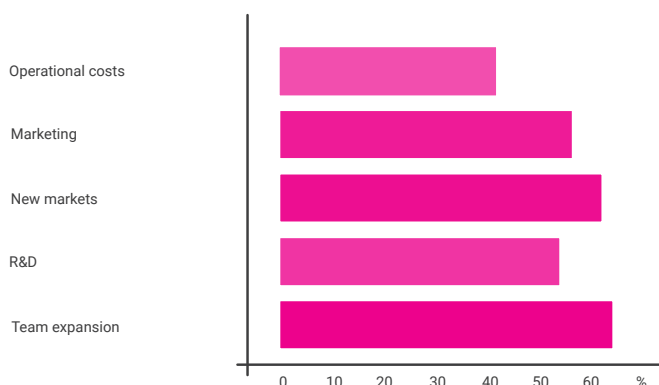


Figure 17: Uses for the additional capital to be raised



ALL AROUND THE WORLD

The 2019 **InnovationShip** survey indicates that establishing export markets is one of the priorities of almost all participants. Moreover, many of them are already successfully operating on international markets. This trend, however, is nowhere near a surprise and it was already visible in the **InnovationShip** surveys of 2017 and 2018.

THE GLOCAL PLAYERS

Interestingly, there has been a withdrawal from the national market – compared to the 81% of companies that operated on the Bulgarian market, this year they are 74%. Although there is a slight drop, digits are still high and 26% of companies that are planning on expanding to new markets, have Bulgaria on their agenda.

26% of Bulgarian companies do not operate on the national market, up from **19%** in 2018.

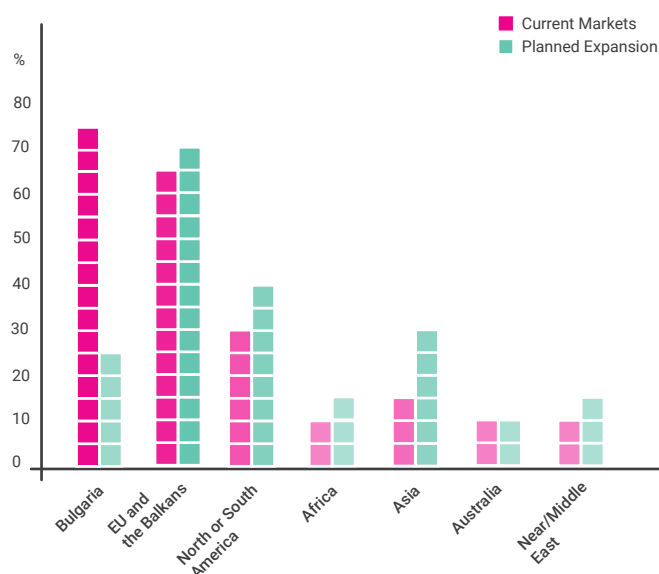


Figure 19: Current markets and planned expansions over the next year



These results point out that the national market is nowhere near being uninteresting for innovative companies in the ecosystem and many prefer to start locally before undertaking their process of internationalization. Numerous companies in the sample have chosen to expand to markets within the Balkan region and the European Union. This interest is probably driven not only by the geographical proximity, but also similarities in the legal and market structure within these countries. 65% of this year's participants currently sell in Europe and the region. Still a large number of companies have focused parts of their activity toward North and South America. The vast market of the Americas has attracted 30% of participants and another 42% are planning on expanding west. A lot fewer companies compete on the Asian, African or Australian markets. Only 10% compete in Africa, 15% - in Asia and 12% - in Australia.

A significant part of companies have been declaring plans of an expansion to the Asian market and this has given a result of 6 percentage point of increase compared to the result of InnovationShip 2018 (9%). Perhaps the positive trend has been set as 30% of companies in 2019 are planning an Asian expansion in the next 12 months. This brings us to outline several expansion routes, apart from the aforementioned exportation plan to Asia. The companies that still do not compete on European and regional Balkan markets intend to do so soon. 42% of companies will attempt at expanding to the Americas and one in every 5 companies will direct their efforts towards the Near and Middle East. Some companies, however, have lost their interest in this market, as compared to 2018, their number has dropped by about 10 percentage points.

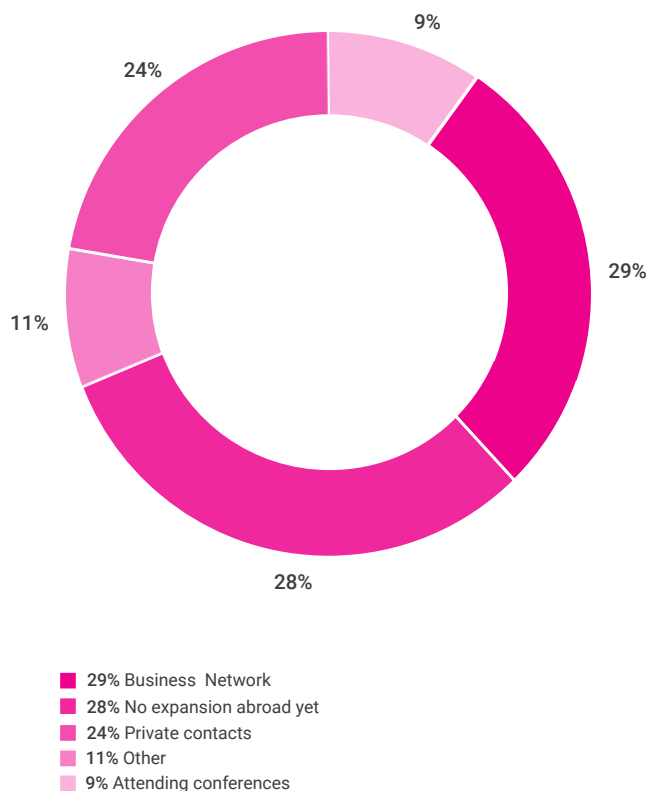


Figure 20: What has helped / is helping you most to expand abroad?

Expanding to international markets is a large step for small digital companies. Thus, in order to increase their chances of successfully starting to operate on a new market, companies follow numerous strategies. Respondents report that the most preferred means of facilitating new market expansion are business networks. 29% of companies declared that this is what helped them expand abroad. Nearly a quarter have relied on private contacts and only 9% have succeeded thanks to attending conferences. Very few companies have relied on their investors' contacts in order to expand their business to new markets and only two companies have found academic networks helpful, which is a rather unexpected result. This comes to prove that many conventional ways to start operating abroad are irrelevant for the business model of small digital companies in the Bulgarian ecosystem.

Using business **29%** and personal networks **24%** are viewed as best for expanding abroad.

It is noteworthy that operations on the Bulgarian market are not only the primary but the only source of income for half of the participants in the survey. This underlines the importance of the national markets for small digital companies and hints that the digital ecosystem is somewhat thriving on Bulgarian soil.

49% of the digital companies have revenue only from the Bulgarian market.

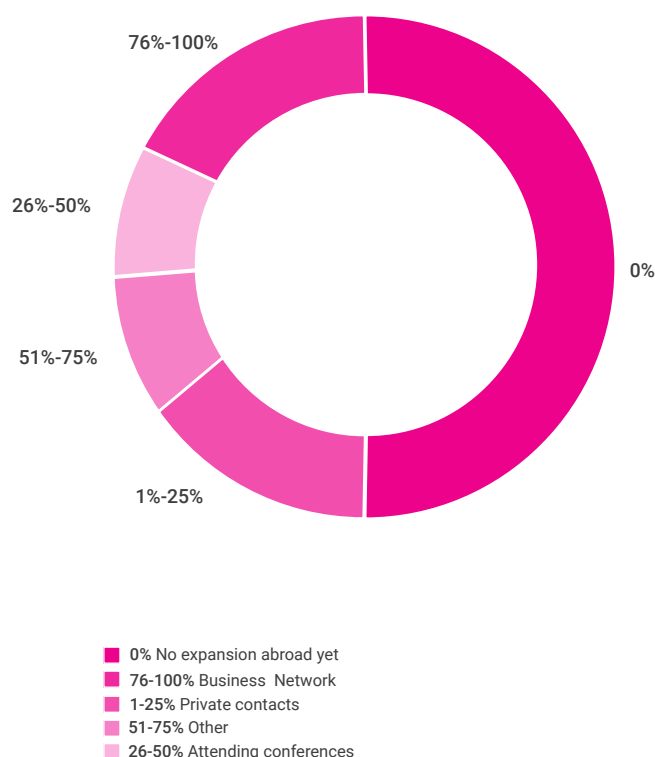


Figure 21: Share of revenues coming from exports

Only 18% of companies get most of their revenue from export. About a third of participants have decided to diversify their revenue from Bulgarian and international markets. 16% of them earn up to a quarter of their annual revenues from export and equal proportions of 9% earn either up to half or up to three quarters from export. However, 60% of the companies that do sell on foreign markets have them as a primary revenue source.



THE DREAM OF THE TEAM

The labor market in Bulgaria is particularly challenging (with an unemployment of 4.2% for the second quarter of 2019, according to the National Statistical Institute) and has been in a similar state for several years. This is why companies' hunger for talent is growing and young digital companies are facing difficulties in most aspects of their process of recruitment. Some specifics of the search for human capital are presented below.

I NEED A HERO

Building a star team is crucial for the success of a digital company in its early stages of development. In the very beginning founders have a lot on their own hands, but once the business starts expanding, they feel the need to find the right people to help them make their now common dream come true.

InnovationShip 2019 results show that talent scarcity is nothing new to small digitals in the Bulgarian ecosystem. Similar to the previous year, software engineers and developers are the hardest to find and 49% of companies declare that finding employees in this field is the biggest challenge. This digit is, however, a lot lower than the results from the survey in 2018, whereby 59% of companies were struggling to find the right developers and software engineering specialists, which might mark a positive change and talent redirection.

In 2019, **49%** of the companies are struggling to find software engineers or developers, down from **59%** in 2018.

Business development specialists are also far from abundant on the Bulgarian labor market – 28% of companies have had hard times recruiting specialists in this field. There is also significant talent scarcity in sales, declare 27% of companies.

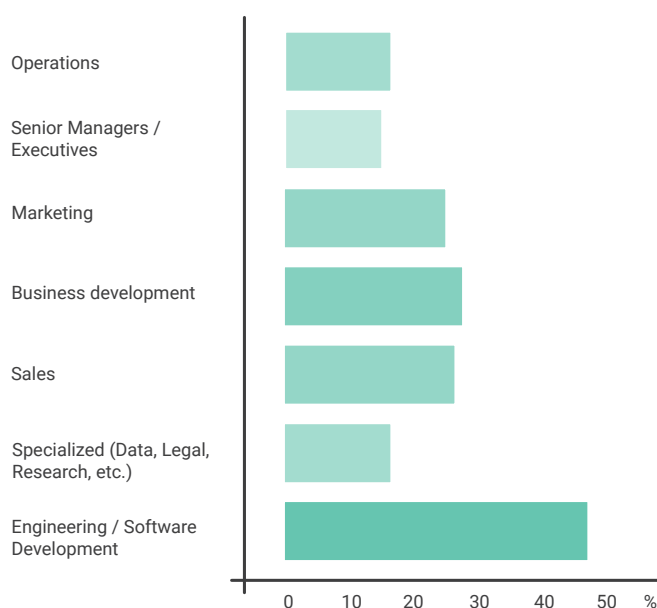
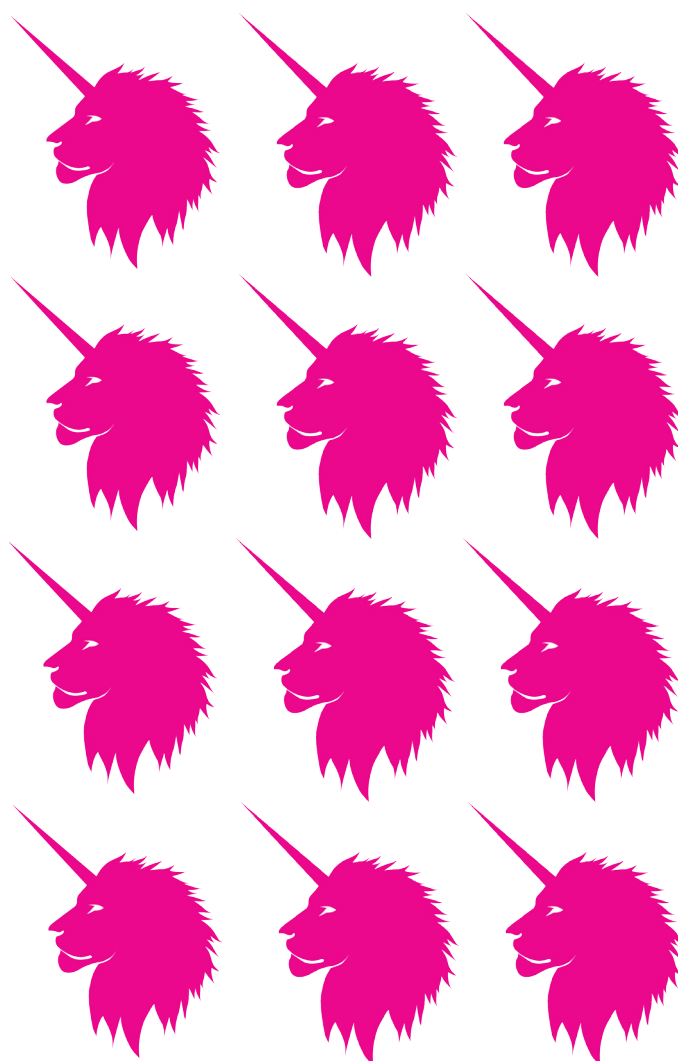


Figure 22: What talent is hardest to find?

Marketing specialists are also not an easy find and a quarter of all participants share that they had difficulties when looking for such. Employees specialized in operations are considerably abundant and only 18% of companies had issues with their recruitment. In 2018, however, it was even easier to recruit people with such talent (only 10% of companies had any complaints). The talent that is easiest to find, however, is senior management. Only 15% of companies that took part in a survey had any problems when expanding their managing team. On the business side, companies are looking for sales, marketing and business development experts.

74% of companies plan to expand their team in the next twelve months.

Despite to the shortages on the labor market, 74% of companies are planning on taking up recruitment action in the next 12 months. This group of companies is up by 20 percentage points since 2018. To add to that, 20% of companies will hire new people in case that their business is doing well. According to last year's data, 40% of companies were intending to recruit depending on development. This demonstrates that many companies have seen positive development and are now ready to expand. Many companies are now relying on foreign talent in order to fill any gaps in national offering. 29% of participant already have non-nationals on their teams and 16% have foreign founders or co-founders.

29% of companies report that they have foreign nationals on the team.

WELCOME TO THE MATRIX

When talent is scarce, companies have found innovative ways to recruit capable people. The majority of them (61%) have relied on referrals from people they know – founders, investors, employees, friends, etc. In some cases all it takes is a good word and great talent behind it.

61% of companies rely mainly on referrals when hiring, up from 54% in the previous year.

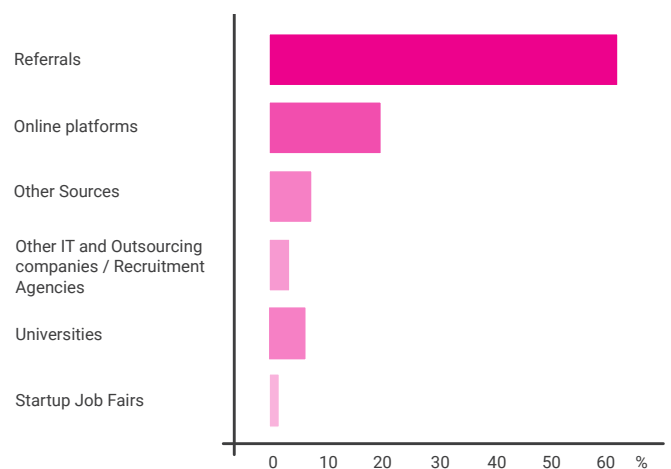


Figure 23: What is the main talent source for the company?

The second most preferred means of finding talent are online platforms. Far behind the first choice, they are used by 19% of the companies surveyed. Other conventional ways of hiring seem to be of little importance. Recruitment agencies, for example, are the main talent source for only 4% of companies and universities provide talent for 8% of companies. Startup Job Fairs have proven useful to as little as 1% of candidates.

The fact that traditional ways of finding talent are somewhat ignored, does not fully prove their irrelevance for companies in the digital ecosystem, but rather hints that they should undertake changes in order to comply with the needs of young companies and possibly unlock much more business value for all market participants.

OOPS, I DID IT AGAIN

The fuel of the startup rocket ship are the ones who believed in the idea in the very beginning. These are founders and the first employees. This is why it is worth exploring trends concerning the founding patterns of startup companies in the Bulgarian digital ecosystem. Most startups are founded by a small number of people: 24% of companies are started by a sole founder. The majority were created by two people – 37%. 21% of companies have 3 founders and 9% have four. Only 3% of companies in the survey have been started by more than 5 people.

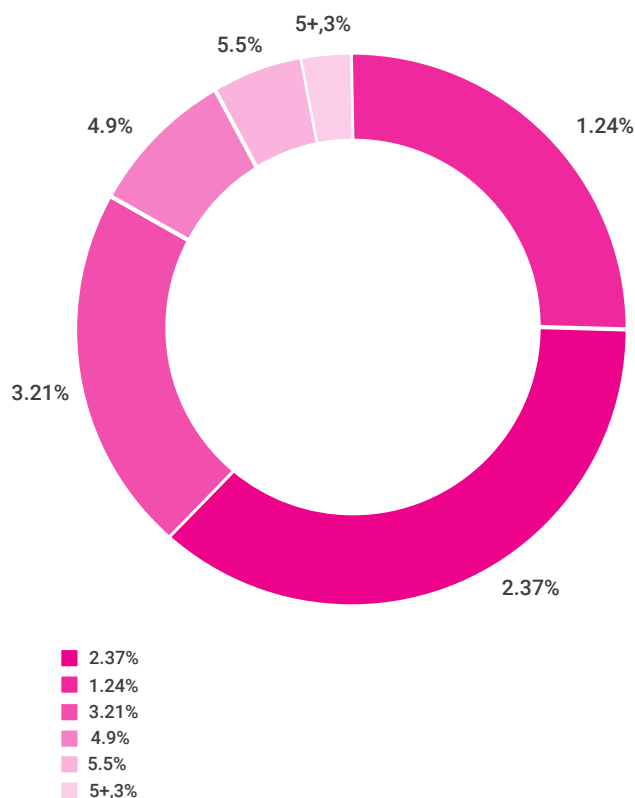


Figure 24: How many founders have started the company?

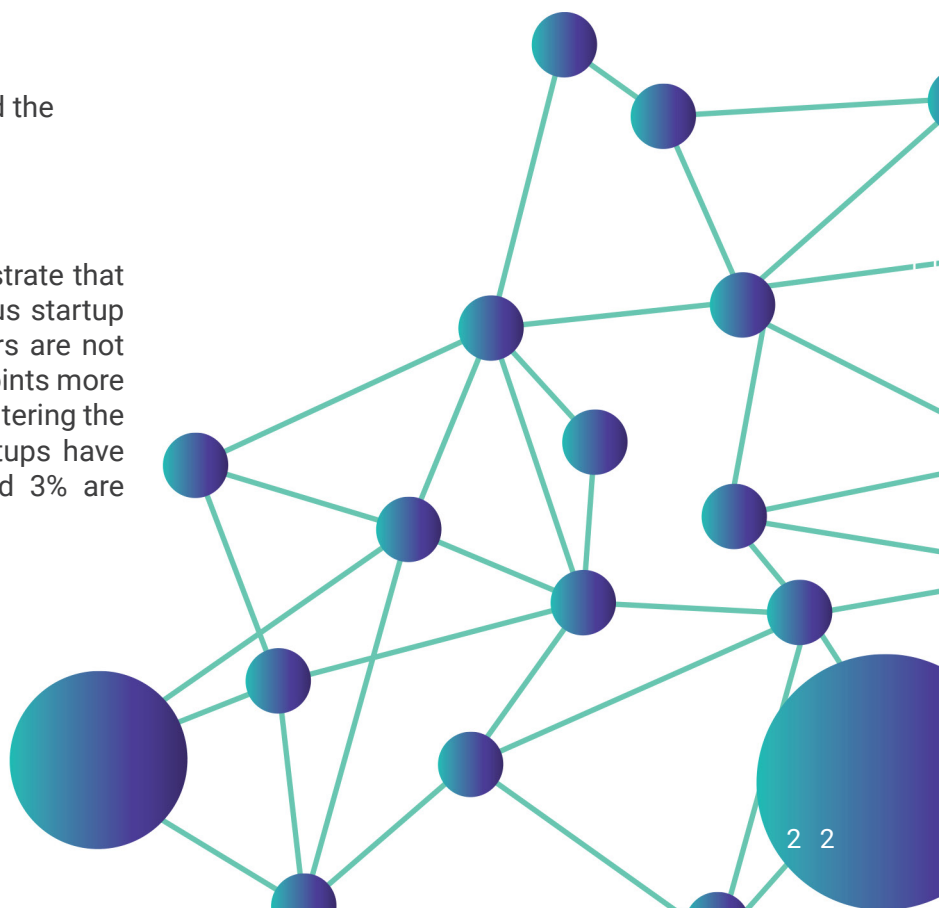
This year's InnovationShip results demonstrate that in 2019, even more founders have previous startup experience than last year. 66% of founders are not new to the startup stage, 20 percentage points more than last year. Foreign founders are also entering the Bulgarian digital ecosystem. 16% of startups have both Bulgarian and foreign founders and 3% are founded only by foreign nationals.

66% of founders have previous experience as entrepreneurs up from **46%** in 2018.

The gender profile of company founders demonstrates that even in the startup stage, there are some gender differences and women continue being somewhat underrepresented. Despite that, there is a positive trend in the number of female founders.

Although the number of companies with only male founders is very high (70%), it has shrunk by 7 percentage points in comparison with 2018. Around a quarter of companies have both male and female founders. The proportion of companies founded only by women is still very low (6%).

30% of the companies have female founders, up from **23%** in the last year.



The presence of women is much higher in the teams of companies. Only a quarter of participants declare the lack of female team members and another quarter have less than 25% of female presence. In 31% of companies, female employees are from 26% to 50% and 12% of companies have up to 75% of female presence. In 15 companies we asked, females comprise more than three quarters of the team.

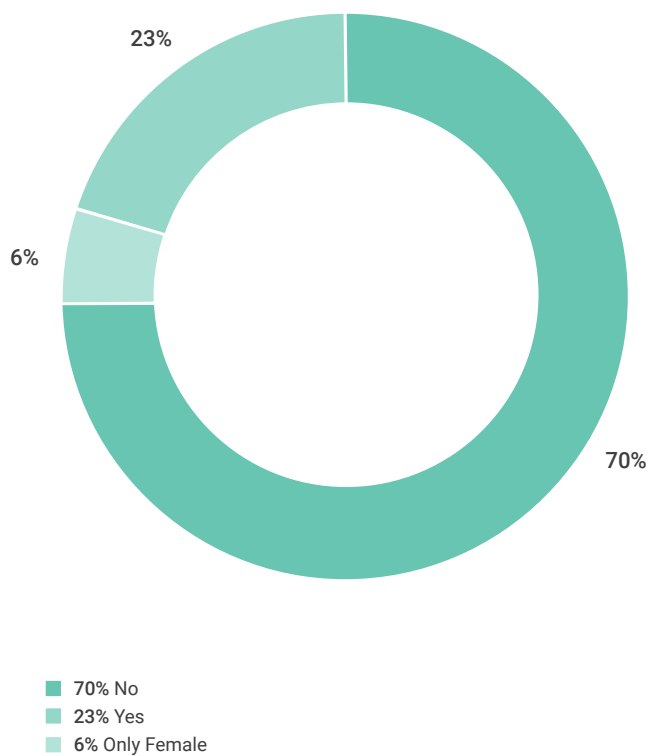


Figure 25: Are there female co-founders in the company?

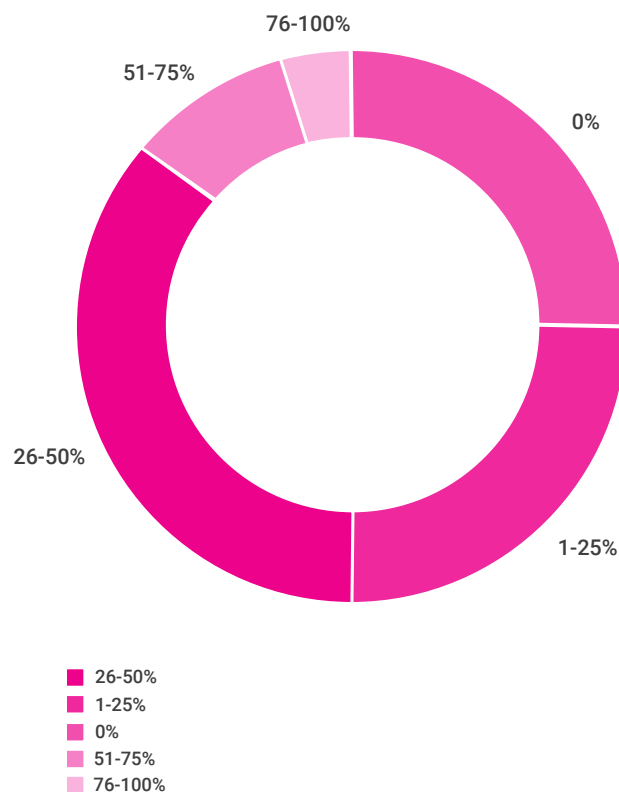


Figure 26: What is the percentage of female team members/employees?



SOS: SAVE OUR STARTUPS

Many small Bulgarian startup companies grow to become very successful. The road, however is paved with numerous challenges they have to overcome. Some of the problems identified by the community have been outlined by the survey.

SUCCEEDING FORWARD

The lack of funding is identified by 36% of companies as their biggest problem. Although both Bulgarian and international investors seem to be interested in the startup stage, funds are still insufficient. Another obstacle, outlined by a third of all companies in the survey is talent shortage, which is closely related to the tight labor market in the country. Companies that are not competitive enough to attract foreign talent, suffer from the effects of the low offering in the country.

36% of companies report lack of funding as their biggest difficulty, and 33% struggle to find talent.

31% of participants report the lack of institutional support as the major obstacle they face and 25% identify administration as a major drawback. Both obstacles identified are closely related to the situation in the public sector and thus if regulations and administration are modified in order not to be a burden for startup companies, the latter's chances of success will improve.

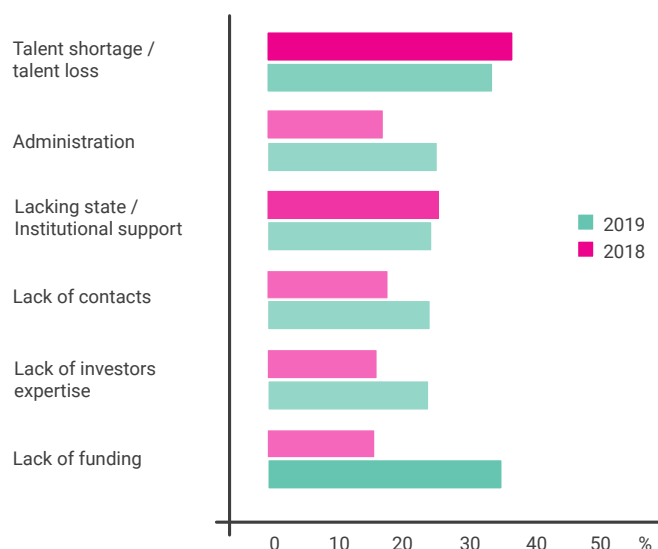


Figure 27: Biggest obstacles the company has faced in Bulgaria

The lack of investors expertise is a problem to only 24% of companies and 22% complain about the lack of contacts. These rather low digits show that some of the major conditions for a healthy and thriving digital ecosystem are accomplished. Despite this, some worrying trends remain persistent. Most notably – the lack of institutional support and difficulties with the administration loom large and are increasing. The new trend of insufficient funding will likely improve as new investment funds start or expand their operations over the next twelve months.

In 2019, **36%** of digital companies report that they struggle to find sufficient funding, up from just **16%** in 2018.

GROWING TOGETHER

Data reveals that there are some public initiatives that could be undertaken in order to facilitate the growth of companies in their early stages of development. In order to follow the development of companies' perceptions, we have compared data from **InnovationShip** surveys carried out in the current and two previous years. The companies in the 2019 sample will be most helped by the following initiatives:

- Establishing a specific legal framework to target digital and digitally driven startups (52%)
- Promoting investment in startups through incentives for business angels such as preferential tax treatment of investments (45%)
- Expanding the scope and quality of e-government services (43%)
- Fiscal incentives in the form of interest-free deferred payment of social security contributions within a 3 to 6 month period for startup digital or digitally driven SMEs (40%)
- Establishing a regulatory framework for the development of collective financing methods (28%)
- Ensuring the predictability and sustainability of tax policies (26%).
- Providing favourable conditions for the acquisition of working documents and citizenship for foreigners inclusion of entrepreneurship courses in the programs

of universities and promotion of hackathons (23%)

There are some clearly identifiable trends throughout the results. Expansion of the scope and quality of the e-government has been of high importance for Bulgarian digital companies. 43% of the participants in 2019 declare that they would benefit from a better e-government. The numbers have been high throughout the past two years – 34% in 2018 and 39% in 2017. The establishment of a legal framework for companies in the digital ecosystem is a top priority - 52% of companies insist on the need for such legislation, whereas only a third of companies saw its importance in the previous years.

The provision of favorable conditions for foreigners when acquiring work permits (23%) has dropped out of the agenda of top priorities for digital companies and now stands at 23%, compared to 39% in 2018. The promotion of investment in startups through preferential tax treatments in order to attract investors and business angels has progressively been gaining importance throughout the last two years and is now a priority for 45% of companies.

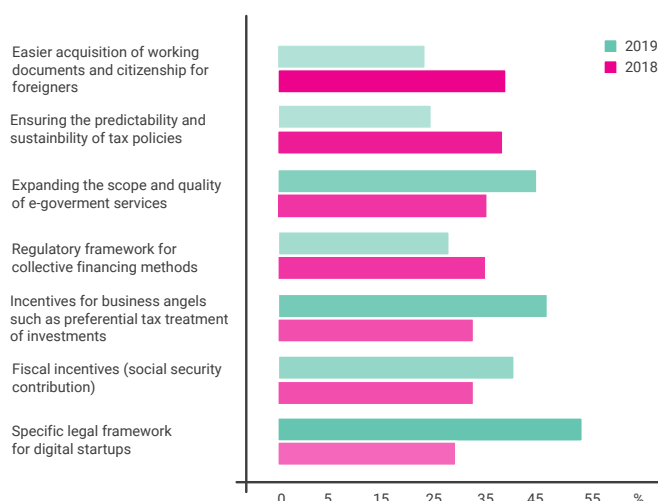


Figure 28: Proposed institutional measures for supporting digital SMEs and startups

A favorable national business environment will help Bulgarian companies expand nationally and internationally. This is one of the main reasons why companies insist on the importance of measures that allow them to grow without having to bear the burden of bureaucracy. Growing together is all about thriving in an organized, well-regulated ecosystem that benefits its many stakeholders, and this is what most young digitals are aspiring to.

RECOMENDATIONS

The extensive data collected in this year's edition of InnovationShip provides an intimate insight into the Bulgarian ecosystem and reveals some challenges that persist. Most notably, the role of the state in supporting the small digitals remains limited and the educational and research sectors do not seem to fully contribute to sparking innovation in the country.

Therefore, the major **public policy recommendations** are as follows:

- **Improve the legal framework** for digital and digitally-driven SMEs, including decrease in regulation, preferential tax treatment of angel investment, and extending the possibility for deferral of social security contributions to these companies.

- **Expand the range and scope of electronic government** and e-services in order to decrease the administrative burden on innovative companies.

- **Improve the access to funding** through institutionalized means such as VC funds and expand the outreach to individuals and organizations that have not received funding in previous years, thus diversifying the pool of new companies.

- **Further strengthen diversity policies** as the gender gap in the digital ecosystem is not yet closed.

- **Foster a stronger educational system and research sector** that can meaningfully contribute to the development and commercialization of innovative business ideas. Limited recourse to academic institutions is a persistent problem in both current and previous editions of the study and needs to be overcome through targeted financial and non-financial measures.

The recommendations that would help the small digitals are essentially horizontal in nature and thus favorable to all SMEs irrespective of their sector. As in **InnovationShip 2018** the usual calls of the companies are not for industry-specific handouts but for an across-the-board improvement of the business environment that can foster innovation and stimulate an acceleration in growth.

INNOVATION SHIP BULGARIA | Digital 2019

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