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MAPPING VICTORIA'S STARTUP ECOSYSTEM

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launchvic

dandolopartners

WORDS FORE

MINISTER

I am pleased to bring you the very first Mapping Victoria's Startup Ecosystem 2017 Report delivered by LaunchVic in partnership with dandolopartners and Startup Victoria.

This is the first time we've been able to comprehensively map Victoria's startup ecosystem across different sectors of the economy, drawing on data collected from 1,137 Victorian startups and scaleups.

The report grants us great insight into Victoria's startup ecosystem and will enable us to measure performance in to the future and compare Victoria to other jurisdictions. It also highlights that Victoria has the key ingredients necessary to enhance what is already a vibrant and dynamic startup ecosystem and compete globally.

This is a great resource for policy makers and startup community leaders who play an important role in championing the strengths of the Victorian startup community both locally and internationally. We also expect the data will be useful to early stage founders wanting access to infrastructure.

Startups contribute to a more competitive, innovative and globally connected economy; and they are critical to creating the jobs and industries that will support our state for decades to come.

Thank you to the many people who contributed to this report and to Victoria's startup community which participated in and raised awareness of the work being undertaken. Now more than ever it is important we keep the momentum going to ensure we have a globally competitive startup ecosystem right here in Victoria.

Philip Dalidakis

Minister for Small Business, Innovation and Trade

LAUNCH VIC

LaunchVic is very proud to have funded this important piece of work. This report, the first of what will be an annual report released by LaunchVic, will be a great and insightful resource for anyone who wants to better understand Victoria's startup community.

The information in this report was gathered through a survey of startups and scaleups across the Victorian economy. As a result of this work, we have a clearer sense of what Victoria's startup landscape looks like – both in terms of the individual firms within our startup community and the wider ecosystem that supports firms to grow.

We have also collected some great demographic information that provides a fuller picture of who the founders driving our startup community are; including their background, experience and education.

Thank you to the extraordinary number of firms that took an interest in this work. LaunchVic defines a startup as a business with high impact potential that uses disruptive innovation and/or addresses scalable markets. We identified over 1,600 firms right across the economy that meet this definition, and I am pleased to say that 1,137 of these firms responded to our survey.

Interestingly, this number is larger than some existing estimates of Victoria's full startup and scaleup population – often more narrowly focused on digital technology firms and something we are hoping to shine a light on in future reports.

I'd also like to thank our partners in this work, dandolopartners and Startup Victoria, for a great collaborative effort.

Dr Kate Cornick

CEO, Launch Vic

STARTUP VIC

The Startup Victoria community has grown to over 17,000 startup enthusiasts over the past seven years. This makes us the largest and the oldest group of our type in Australia. We are a non-profit set up to encourage more people to be founders and to help founders to be more successful.

We believe:

- The strongest ecosystems are built and led by founders
- Transparency is critical
- Everyone benefits from a 'give before you get' culture
- That encouraging a culture of high performance and growth will result in higher quality outcomes
- Serendipity is critical. This is why we host events, as you never know who you might meet

There hasn't been a better time to start a business in Victoria. Government and industry collaboration with startups is high and all eyes on are the future of technology. Collaboration with a Government grants program like LaunchVic is a perfect example of the collaboration and commitment to the future of entrepreneurship in Australia.

We are excited to deliver to the community a digital startup landscape that will enable members across diverse areas of business to connect, collaborate and lift each other up regardless of the stage of their startup journey. The data mapping of our buzzing ecosystem will enable transparency across industry silos, creating global visibility to capacity that exists across the country, enabling opportunities for investment collaboration and growth.

You can't be what you can't see!

Georgia Beattie

CEO, Startup Victoria

ECOSYSTEM AT A GLANCE

Victoria has a large and diverse startup ecosystem, with proven successes.

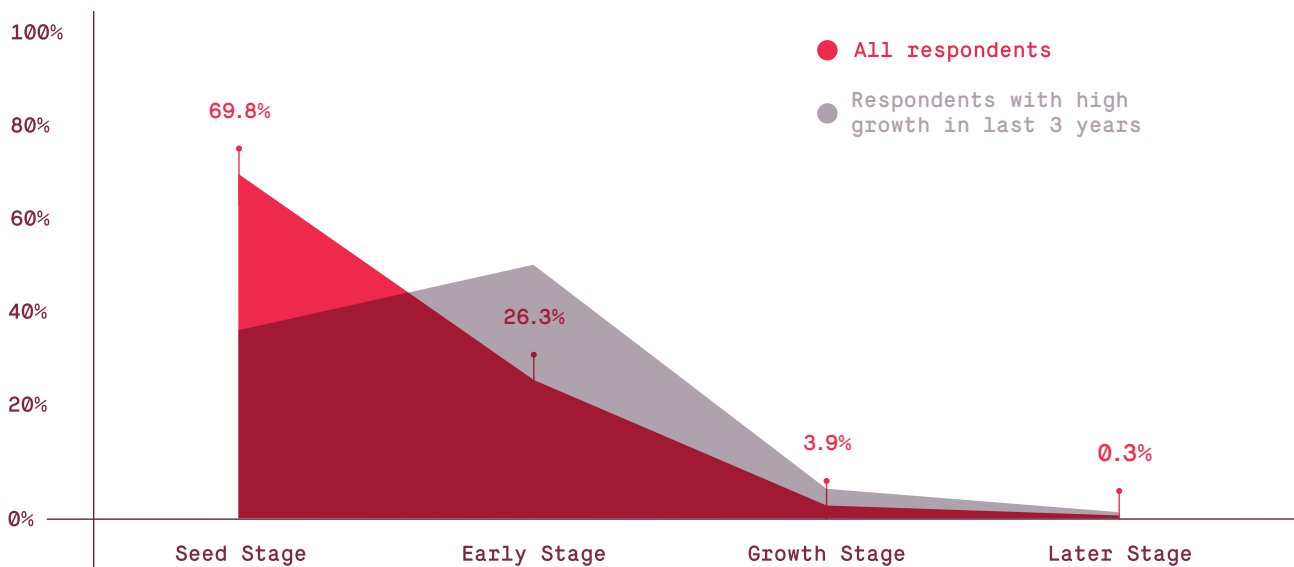
Pipeline of firms¹

Thriving startup ecosystems contain a strong pipeline of firms – from seed stage firms with significant growth potential to later stage firms that are tackling large international markets.

Our mapping of the startup ecosystem shows that Victoria has a wide distribution of firms at all stages

of development, and is well placed to transform startups into high growth firms and economic output across the broader economy. Victoria has a significant number of seed stage firms that are high growth² – or aspire to be high growth – and a strong body of firms at later stages, in line with the national pattern.

Firms by stage of development



¹ Each firm was assigned a stage of development based on their current revenue and staff size (whichever was the greatest).

Seed stage – Revenue \$0 - \$1m; Staff size 1 - 5

Early Stage – Revenue \$1m - \$10m; Staff size 6 - 30

Growth stage – Revenue \$10m - \$100m; Staff size 31 - 100

Later stage – Revenue \$100m - \$1b; Staff size 101+

² For the purposes of our analysis, we defined 'high growth' as firms that have grown their employees, revenue or customer-base by an average of more than 20% per year for the past three years.

Victoria's Unicorns

Victoria has a strong track record of transforming startups into high growth firms. Already, three 'unicorns' have emerged, each valued at more than \$1 billion – more than any other state in Australia.

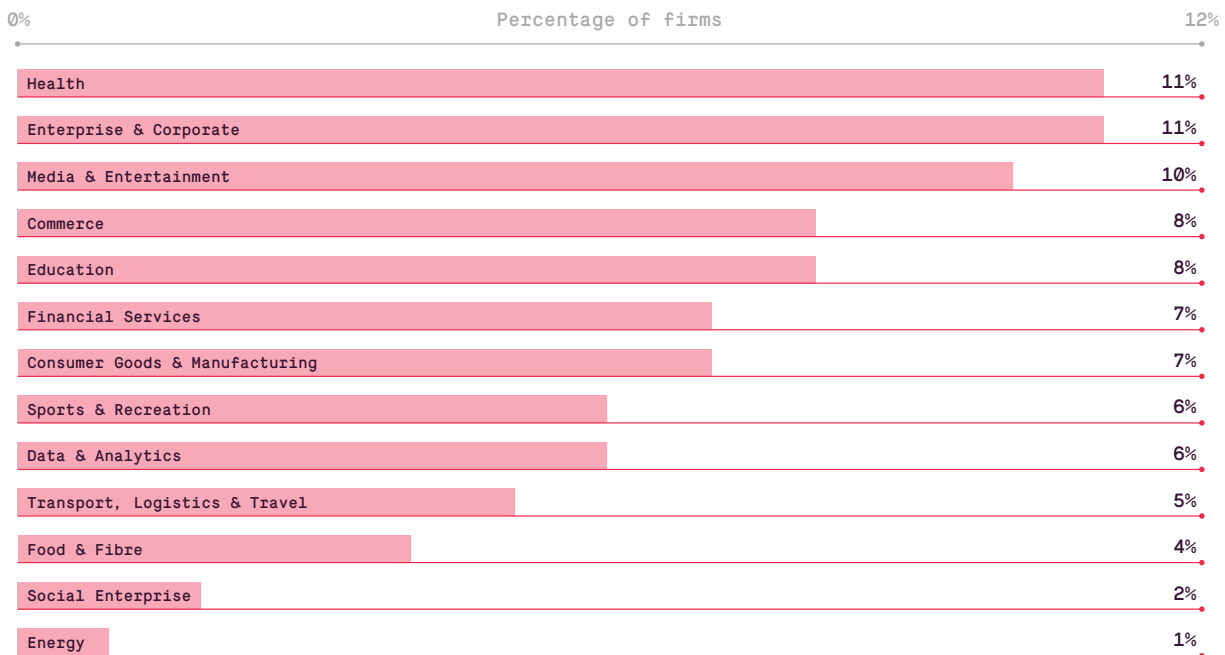
Valuation³



Sectoral mix⁴

Victoria has a sophisticated and diverse sectoral mix – without over-reliance on any one sector. At the same time, Victoria has developed specialisations in a few key sectors including Health, Enterprise & Corporate Services and Media & Entertainment.

Firms by sector



³ Valuation based on reported ASX market capitalisation as at 22 June 2017.

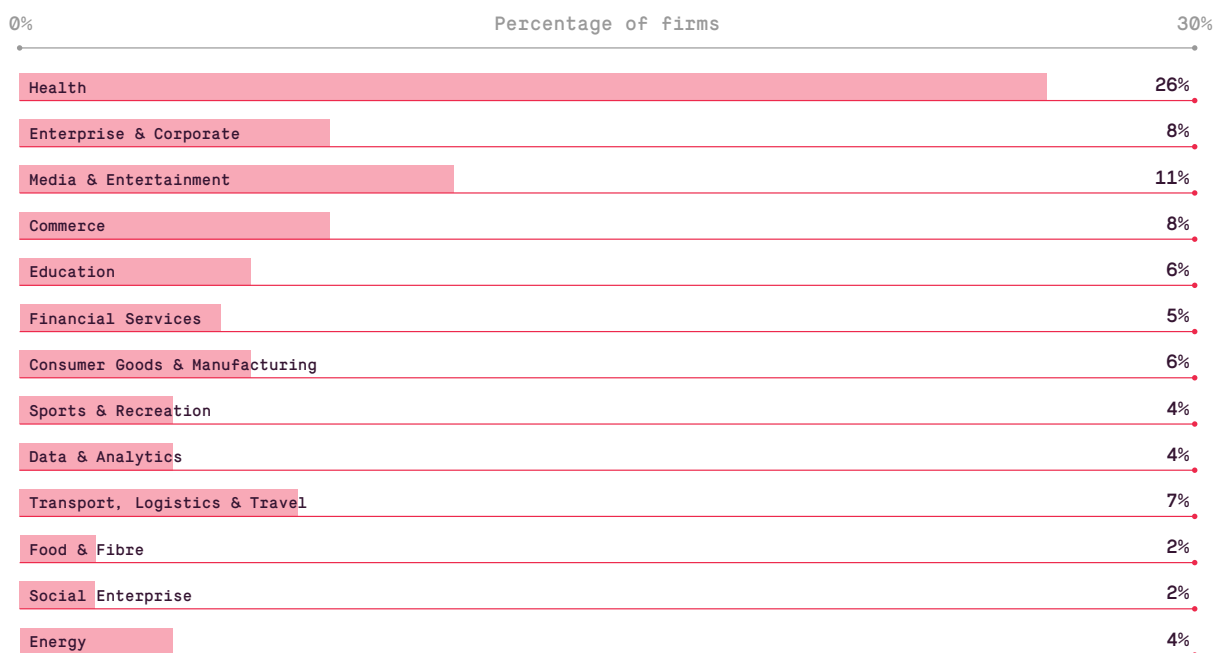
⁴ 14% of firms were categorised as 'other'; consisting of professional services, design and real estate.

Employment

Health is a major creator of jobs in Victoria. Startups and scaleups in health provide a disproportionately large number of jobs for the number of firms in

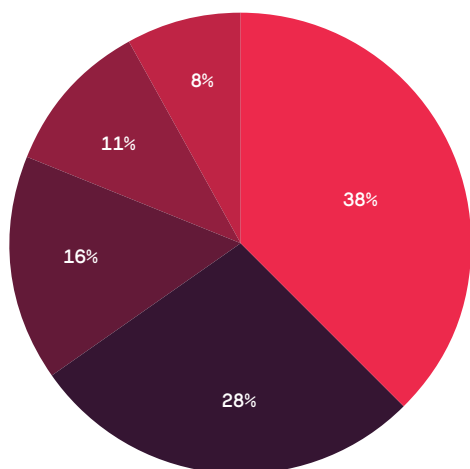
the sector. Otherwise, employment is generally in line with the proportion of Victorian firms in each sector.

Total employment by sector



Customer and product / service types

Customer types targeted by firms⁵



- Business Customers (B2B)
- Consumer Customers (B2C)
- Government Customers (B2G)
- Marketplace
- NFPs

Business customers are the largest customer type targeted by Victorian firms (38%), followed by consumers (28%).



80%

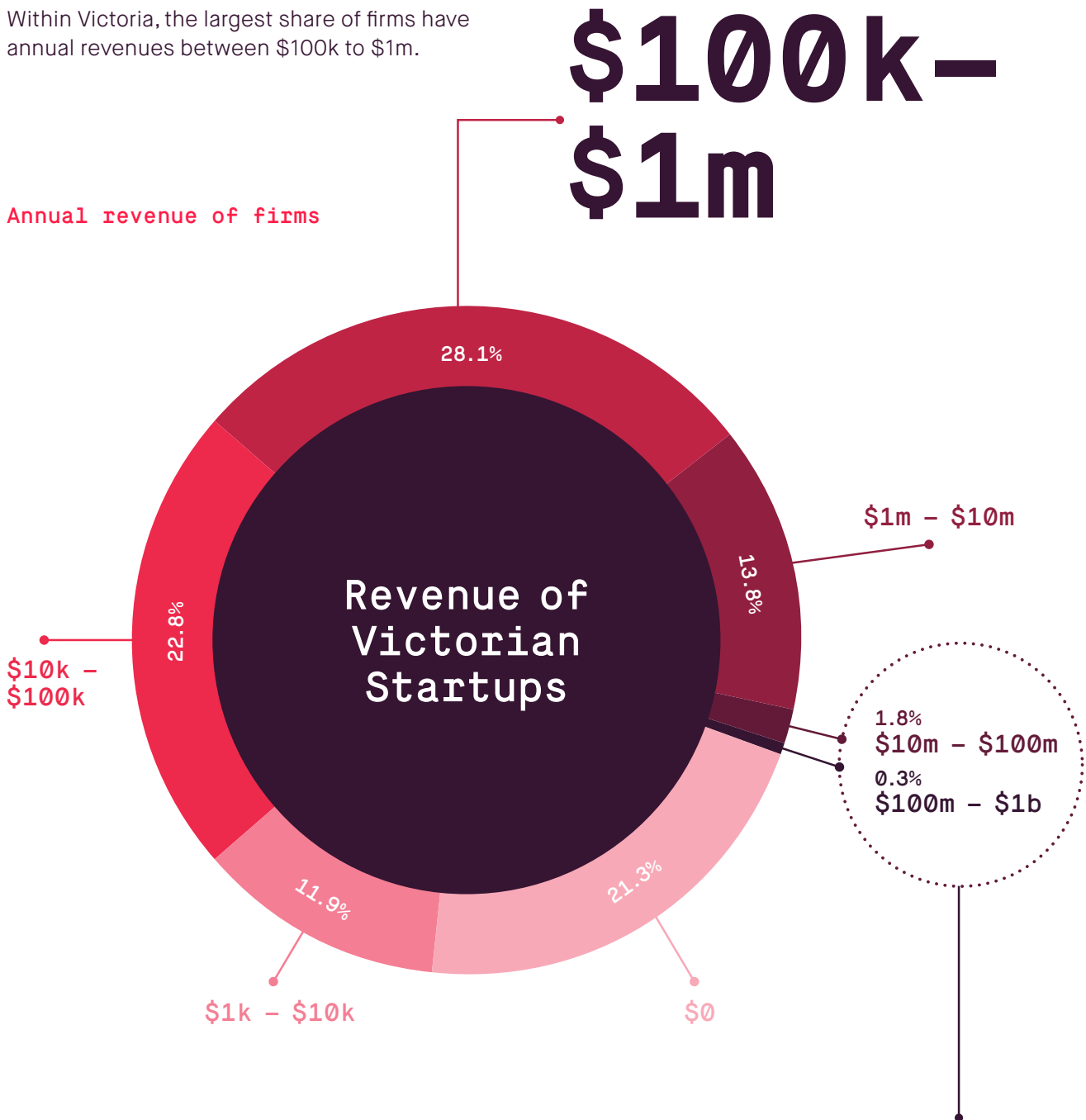
Of firms provide a digital product/service⁶

⁵ Respondents could nominate multiple customer types.

⁶ The major exceptions to this are firms in the biotechnology, pharmaceuticals, energy, food & fibre and hardware & manufacturing sectors.

Revenue

Within Victoria, the largest share of firms have annual revenues between \$100k to \$1m.



A small share of Victorian firms in the market (2.1%) have annual revenues of over \$10 million.

> \$10m

2.1% of firms

A SNAPSHOT OF VICTORIAN FIRMS

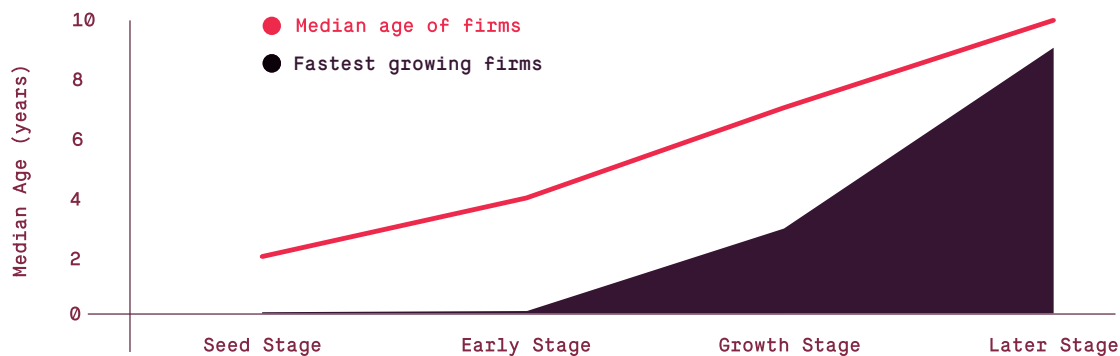
There is a lot to celebrate about Victorian startups.

Age of firms

The journey from founding a startup to growing it into a successful later stage company is often a long one, full of challenges with changing market places and technology.

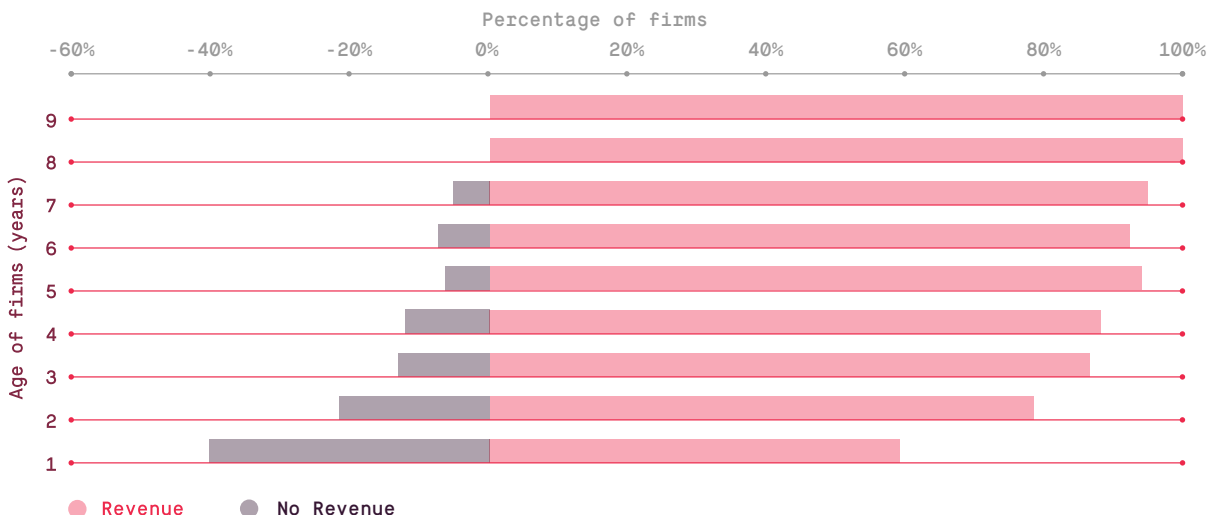
Some Victorian firms are making quick progress through the early and growth stages of development. The firms that reach later stage take approximately a decade to do so.

Median age of firms



Revenue

Most firms in Victoria are revenue positive even at a young age, successfully executing a monetisation strategy early on.



Revenue (continued)



One third of all firms report that they are bootstrapped, including firms in growth and later stages of development.

Capital

Well-functioning capital markets are important to growing the pipeline of successful high-growth firms in Victoria. Being able to gain access to the right capital at the right time enables firms to grow, innovate, export and create jobs.

Victorian firms report that the average timeframe for raising external capital is 5 months. The median amount Victorian firms raise from Angel investors is \$250,000 and \$1.5 million from Venture Capital.

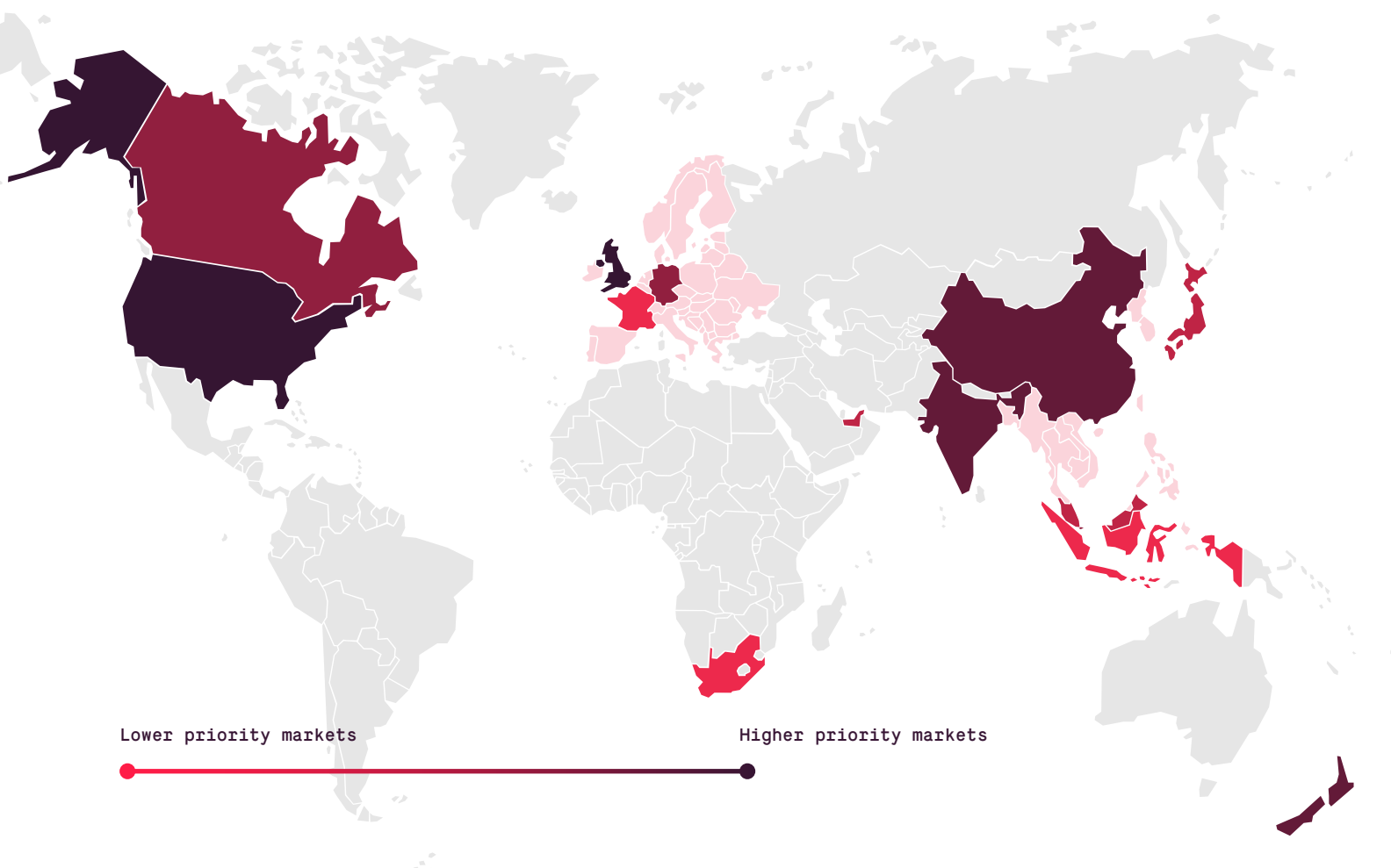
	Months to raise funds	Median amount raised (\$AUD)
Seed Funding	4	60k
Incubator / Accelerator	3.7	31k
Angel Investor	5	250k
Venture Capital	5.7	1.5m

Exporting



Building export markets – and building export-ready firms to take advantage of those export opportunities – lies at the heart of Victoria's future prosperity. Research shows that typically our export companies are our most dynamic and productive businesses.

Victorian startup and scaleup firms are already thinking global: over two thirds of firms are exporting and report the US and UK as their largest target markets, followed by China and New Zealand.



However, the domestic market still remains a key focus for most firms, with only 38% of firms reporting that the majority of their customer base is outside Australia. This suggests that Australia is an important beachhead market for Victorian firms.

62%

of firms with majority
Australian customer base

ECOSYSTEM INFRASTRUCTURE

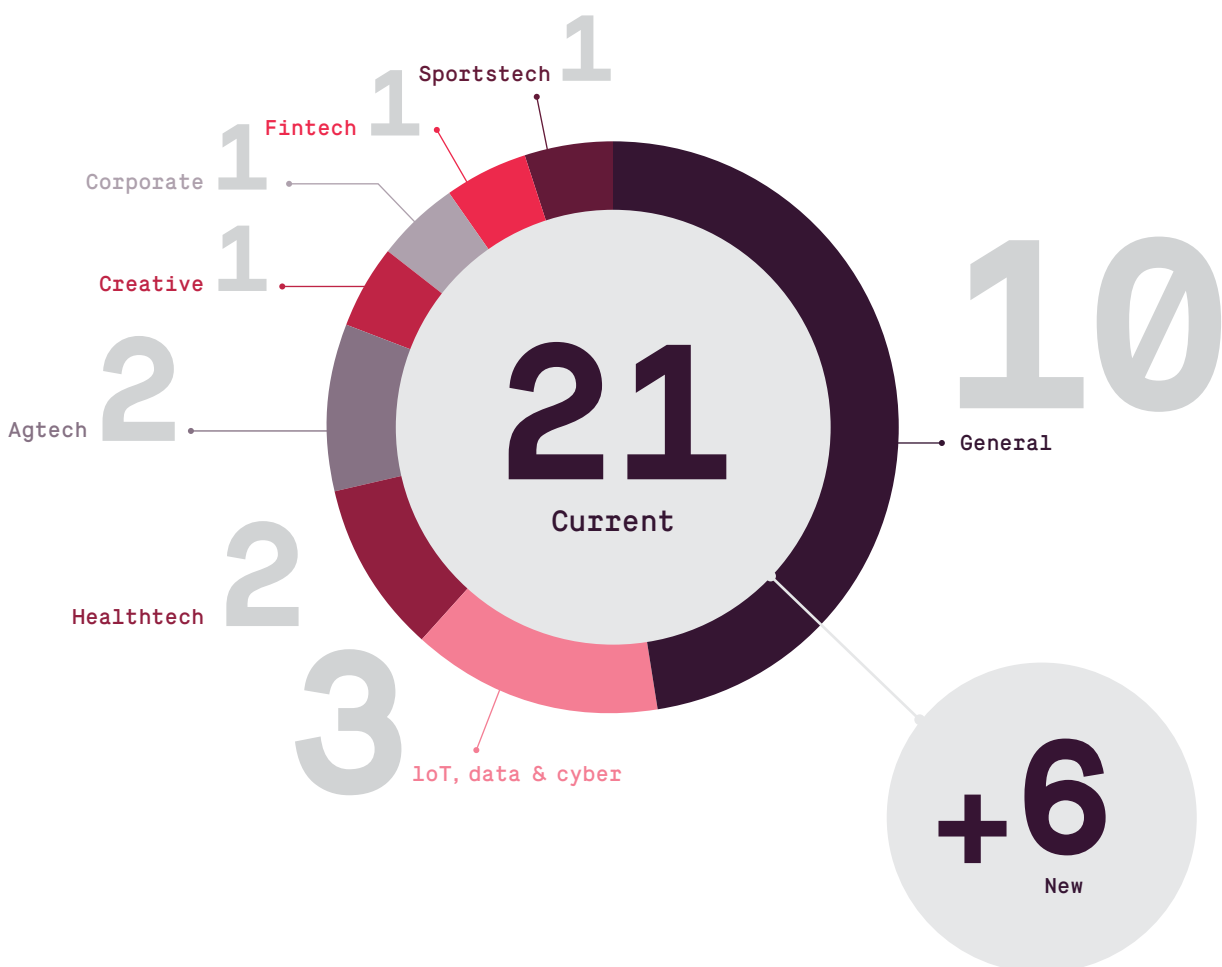
Victoria has the key ingredients necessary to grow a strong and supportive startup ecosystem in Victoria.

Accelerators

Victoria has a strong supply of startup accelerators. They represent a diverse range of sectors: nearly half of all accelerators focus on specific sectors.

Accelerator supply will become even stronger over the next 12 months, with the launch of six new accelerators.

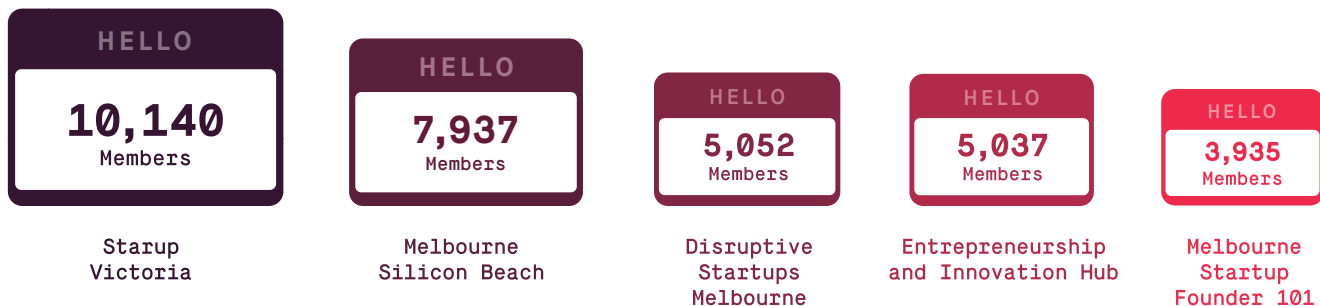
Current startup accelerators



Meetups

Victoria has 190 meetup groups specifically focused on startups and entrepreneurship. A further 460 are focused more broadly on tech. Startup Victoria is the largest meetup group with over 10,000 members.

Largest startup / entrepreneur focused meetup groups⁷



Co-working spaces



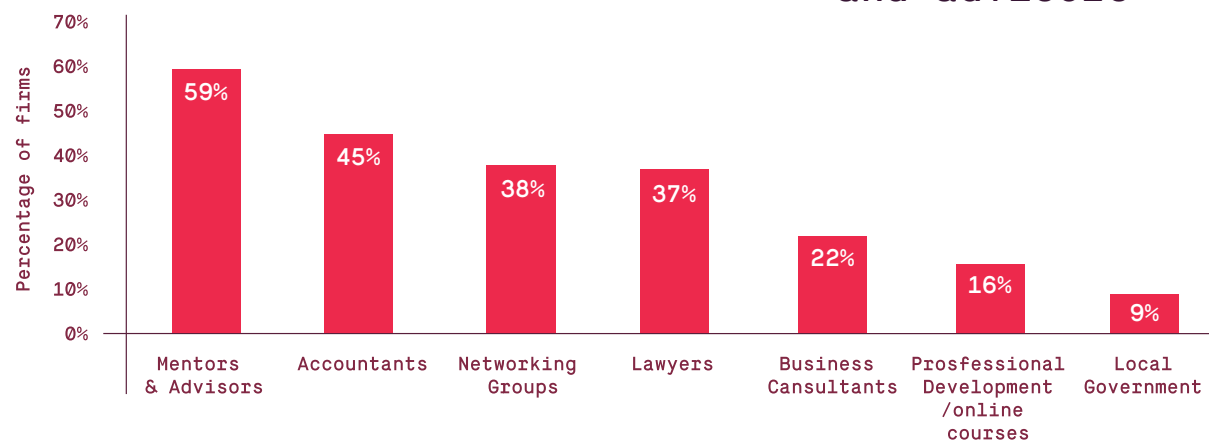
There are over 150 co-working spaces in Victoria, servicing the needs of startups across a range of sectors. Melbourne based co-working spaces tend to be located where startups are located.

Professional support

Firms are accessing a range of professional support, with over half all firms drawing on advice from mentors and advisors.



Professional support accessed by firms



Support from mentors and advisors

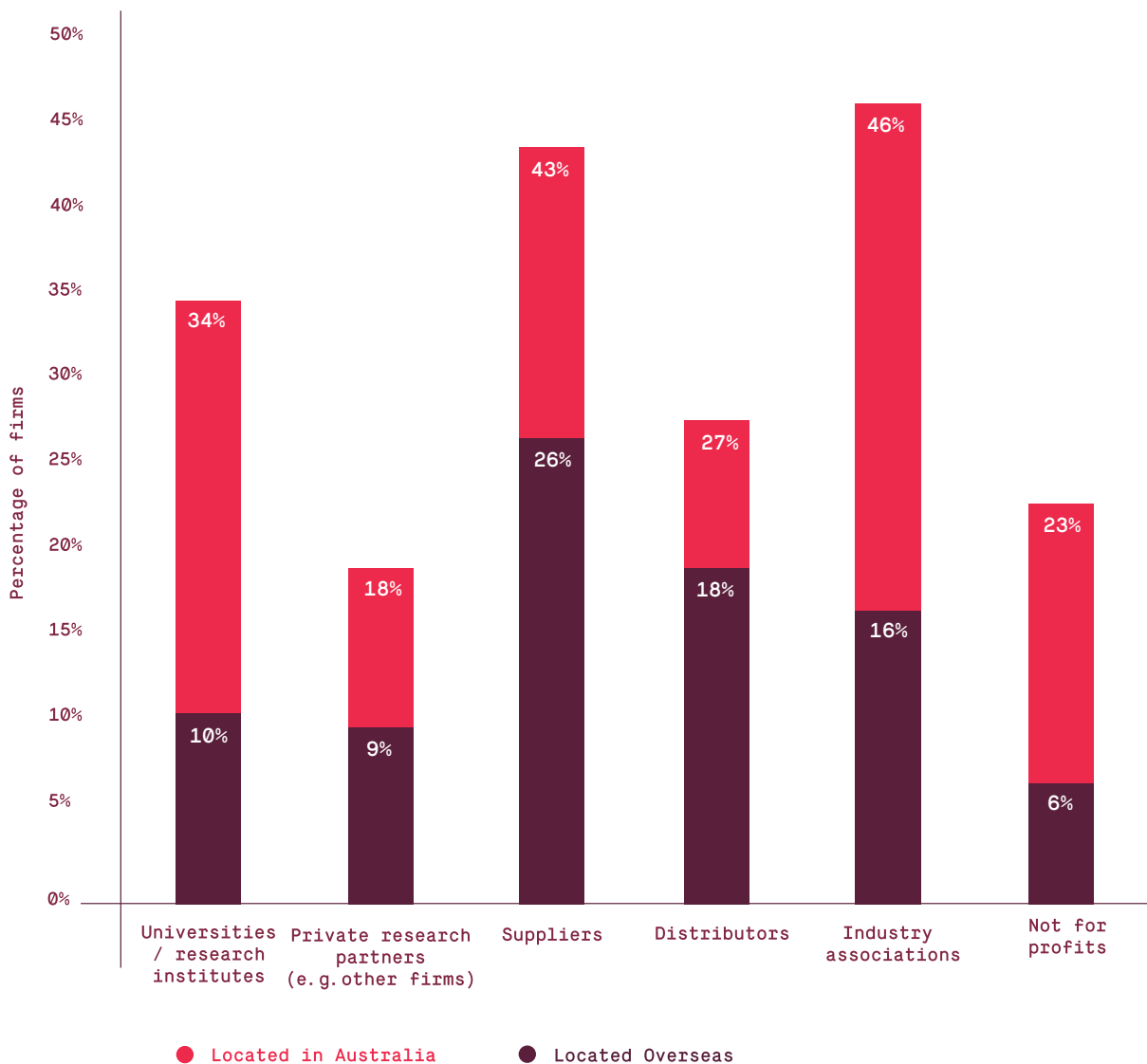
External connections



81%

Have partnerships
with external
organisations.

Firms are well connected, with 81% of firms reporting that they have partnerships / relations with external organisations. The most common external connections are with industry associations and suppliers.



FACTS ON FOUNDERS

Founders in Victoria tend to be well-qualified and have strong levels of experience.

Gender

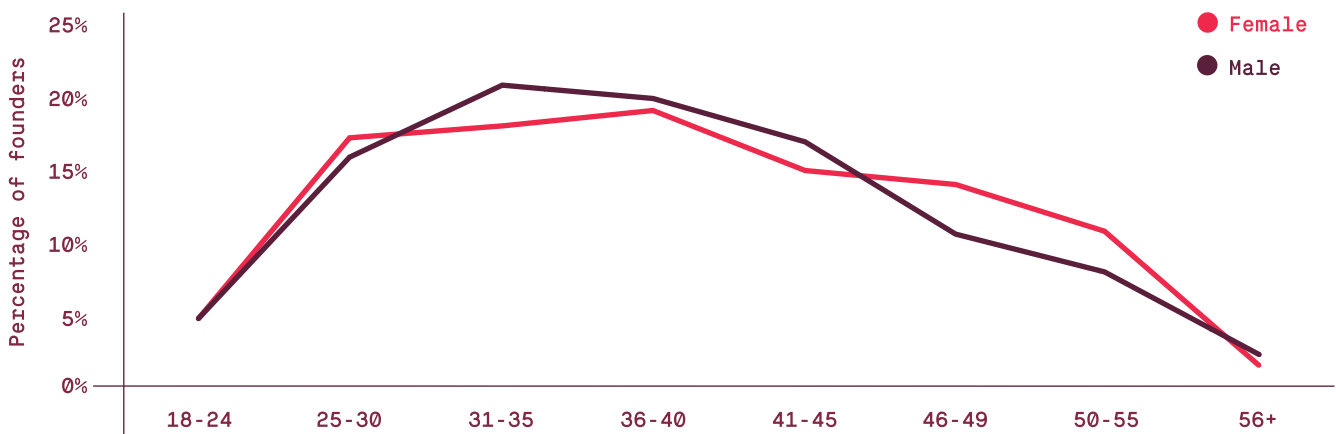
Approximately three quarters of founders are male.



Age



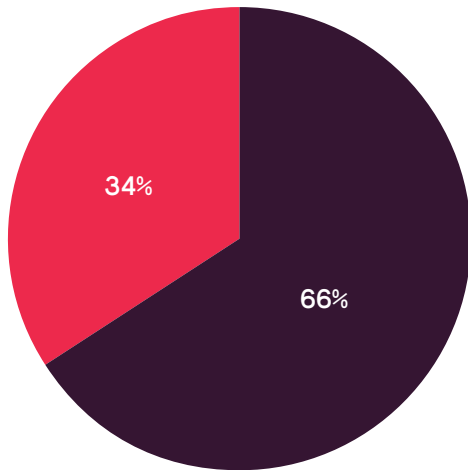
The average age of all founders is 36. Females are more likely than males to establish a firm past the age of 45.



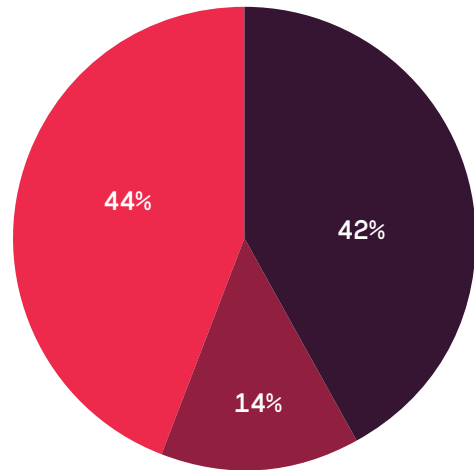
Birthplace of founders and their parents

Two thirds of founders are born in Australia.

The majority of founders (56%) have one or more parents born outside Australia.



- Born outside of Australia
- Born in Australia



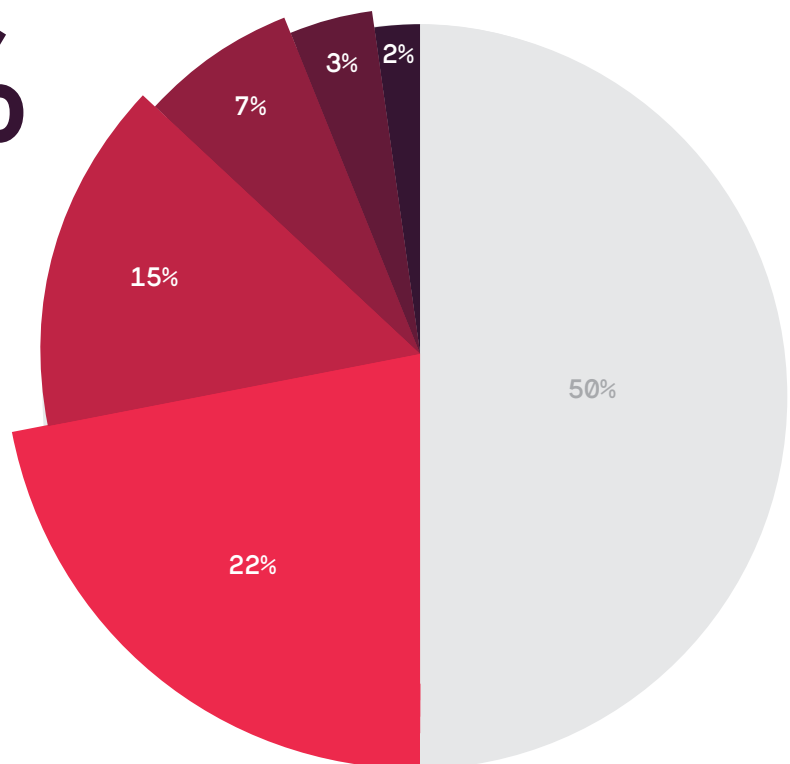
- Both parents born in Australia
- One parent born in Australia
- Neither parent born in Australia

Experience of founders



Have previously started a business

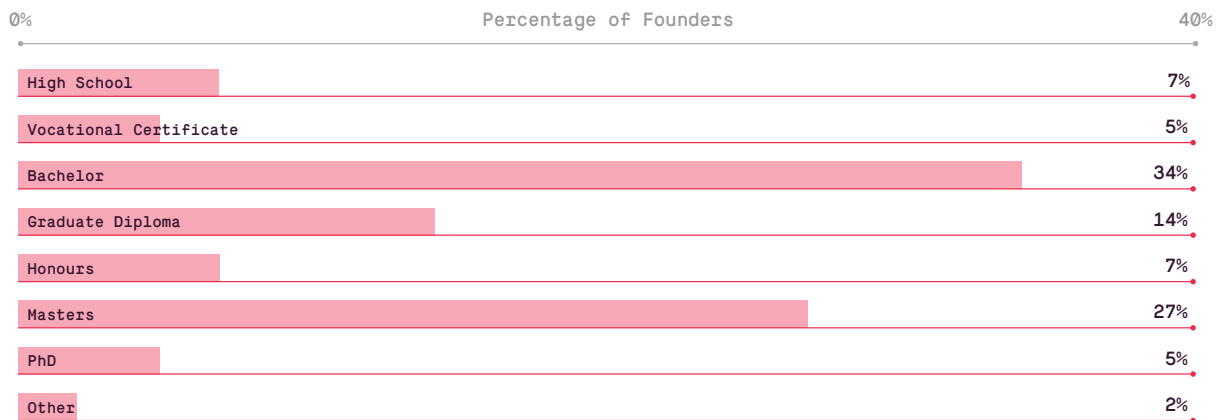
- Never started
- 1 previous startup
- 2 previous startups
- 3 previous startups
- 4 previous startups
- 5 previous startups



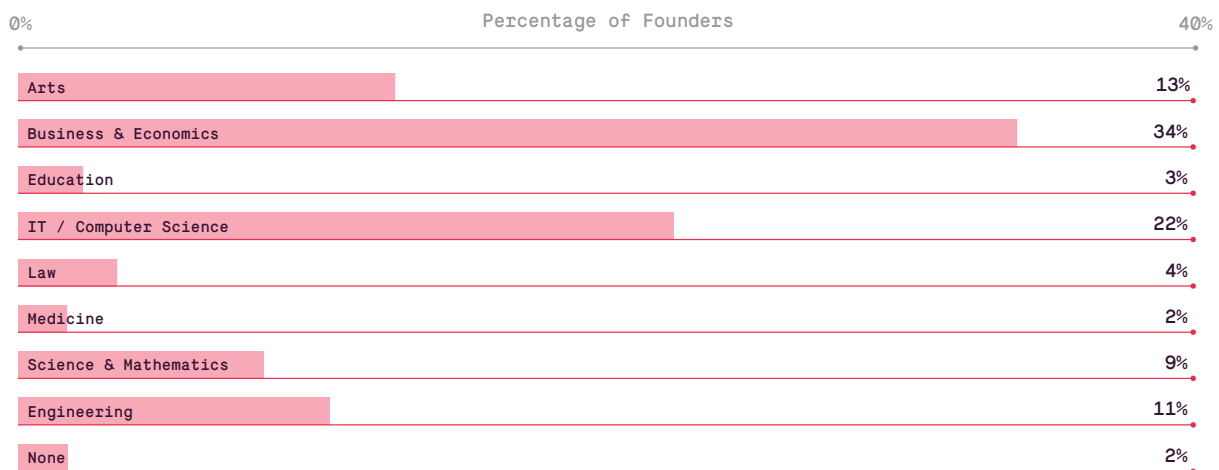
Educational background



The majority of founders (54%) have a Graduate Diploma or higher.



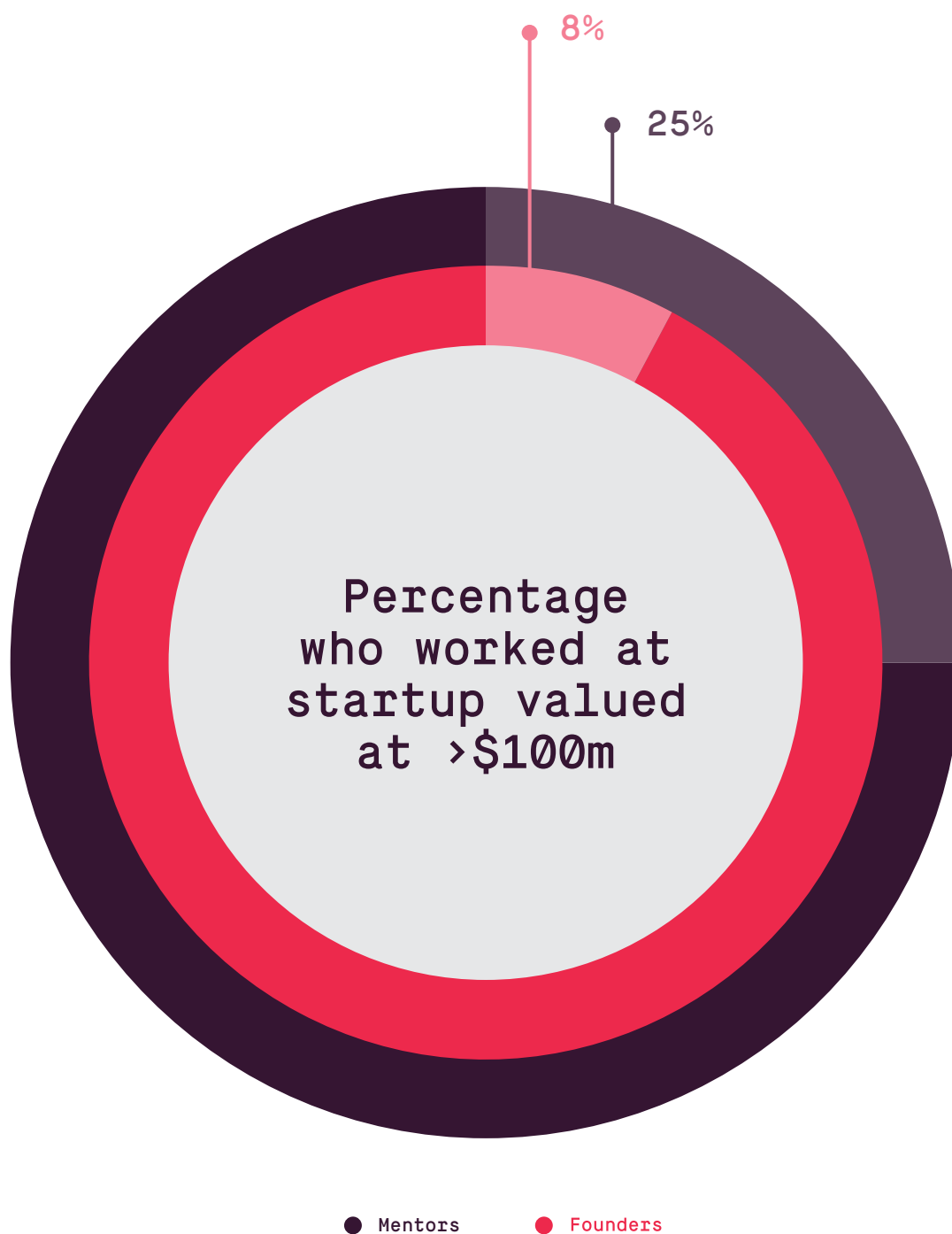
Most founders have an educational background in Business & Economics or IT & Computer Science



Mentors

One quarter of founders are drawing on their mentors and advisors who have had experience working at startups valued at greater than

\$100 million. Only a small proportion of founders (8%) have previously worked at a startup that reached a valuation over \$100 million.



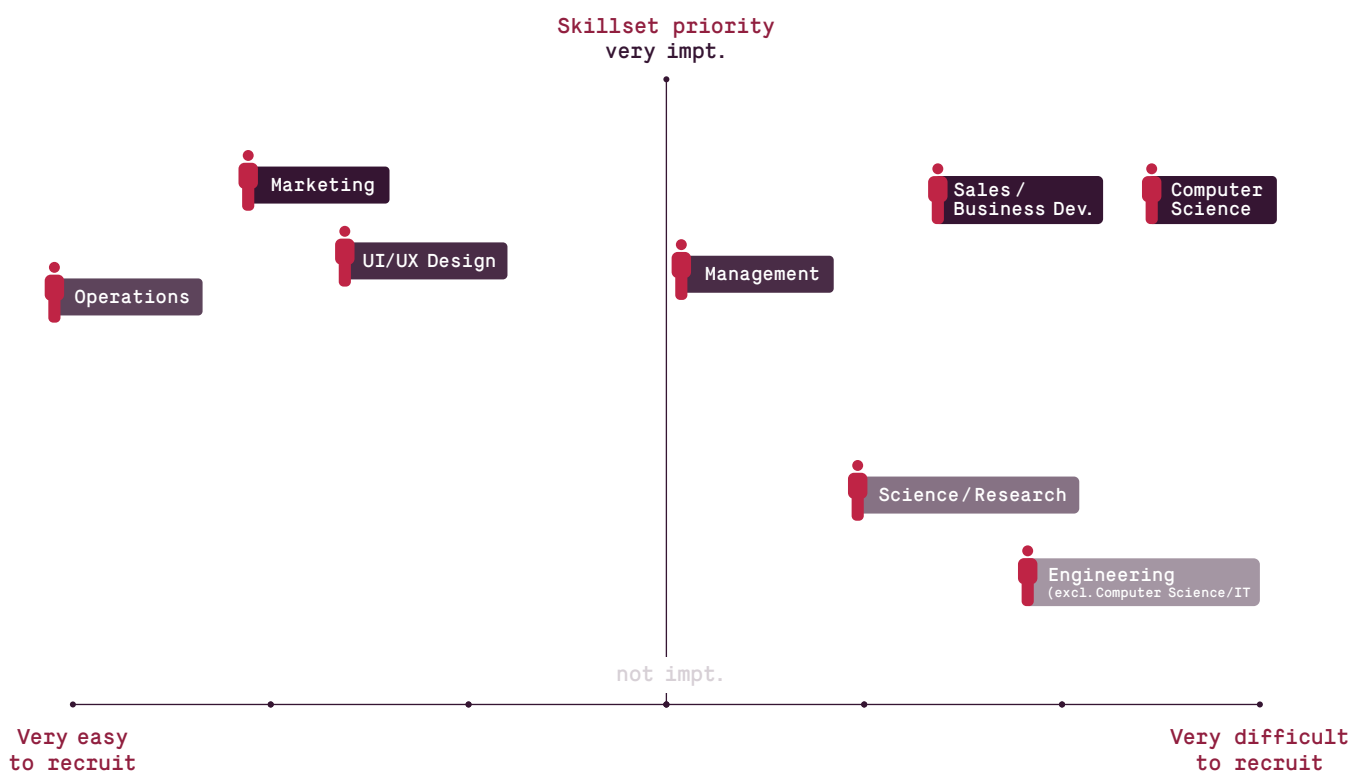
AREAS TO IMPROVE

There are some areas to focus on if we are to extend and deepen a vibrant startup and scaleup ecosystem that supports entrepreneurs to build high-growth businesses.

Talent and skills

A skilled and talented team is the engine room of a thriving startup. Much of the difference in success between startups comes down to differences in the composition and capability of teams. Firms need to be able to access and recruit for a range of skillsets as they grow and develop.

In Victoria, the two skillsets considered most important by firms – Computer Science / IT and Sales / Business Development – are also the areas firms face the most difficulty recruiting talent. Science / Research and Engineering are also considered relatively difficult to recruit for, but a lower number of firms report needing these skills.

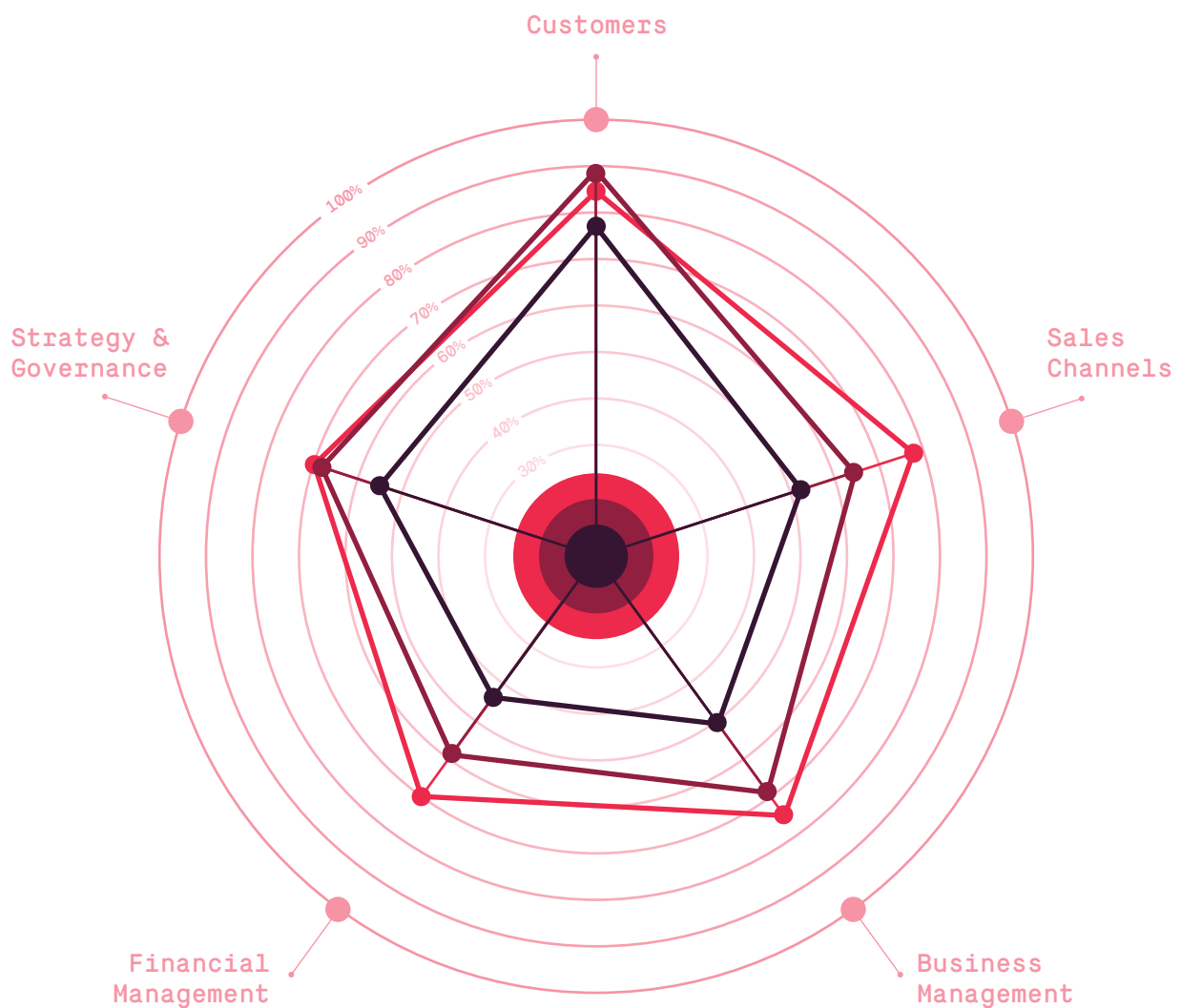


Capability

Successful firms that scale tend to have established systems or processes across a range of operational capabilities. This includes systems or processes to improve customer relationships, develop sales channels, identify growth drivers, manage finances and set strategy.

Among Victorian firms, capability across these areas increases as firms develop. However, even for growth stage firms, self-identified capability remains low across the board with the exception of systems and processes relating to customers. Firms believe capability around strategy and governance and financial management is particularly low.

Percentage of firms with systems or processes



● Capability Areas

● Seed Stage

● Early Stage

● Growth Stage

Exit strategy



The majority of firms have not considered their exit strategy or intend to remain as private companies. There is no clear pattern underlying this result – there are firms at all stages of development and rates of growth that do not have a defined exit strategy.

Firms intending to exit tend to be seeking an acquisition.

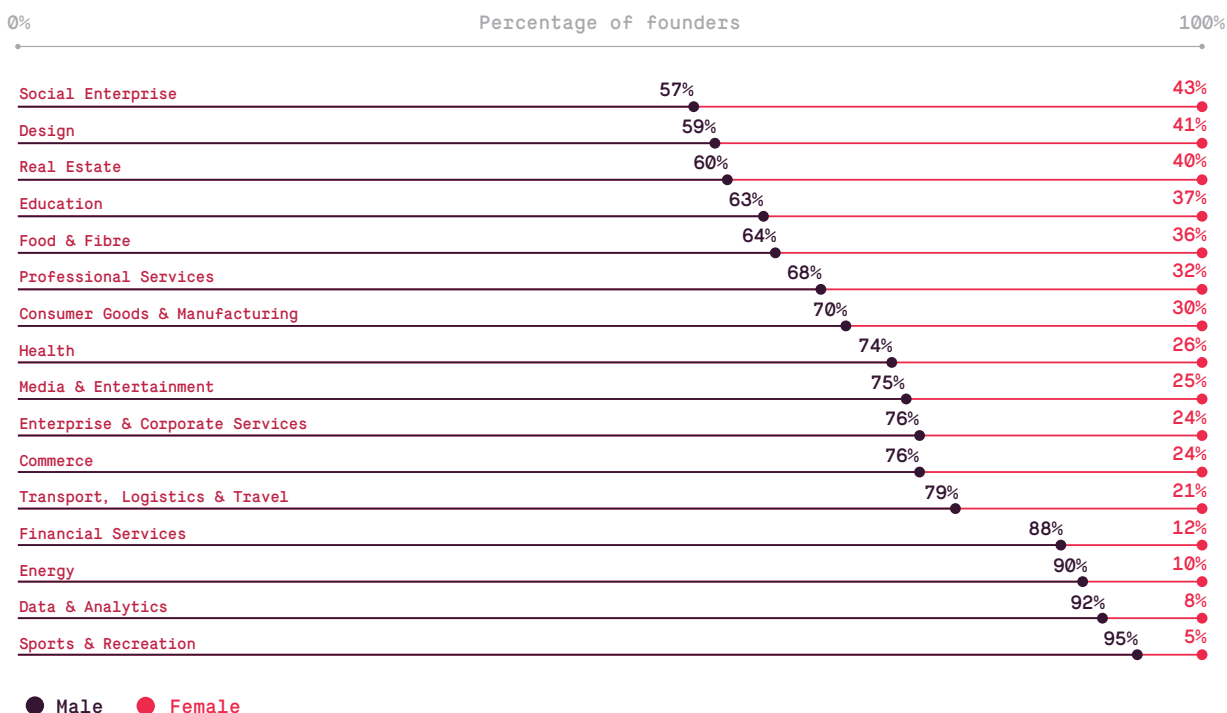


Founder diversity

The gender gap among founders is large. Social enterprise, Design and Real Estate have the greatest gender diversity, but they still include a majority of male founders.

The gender gap among founders seems to have been shrinking across firms established in the last seven years.

Gender diversity across sectors

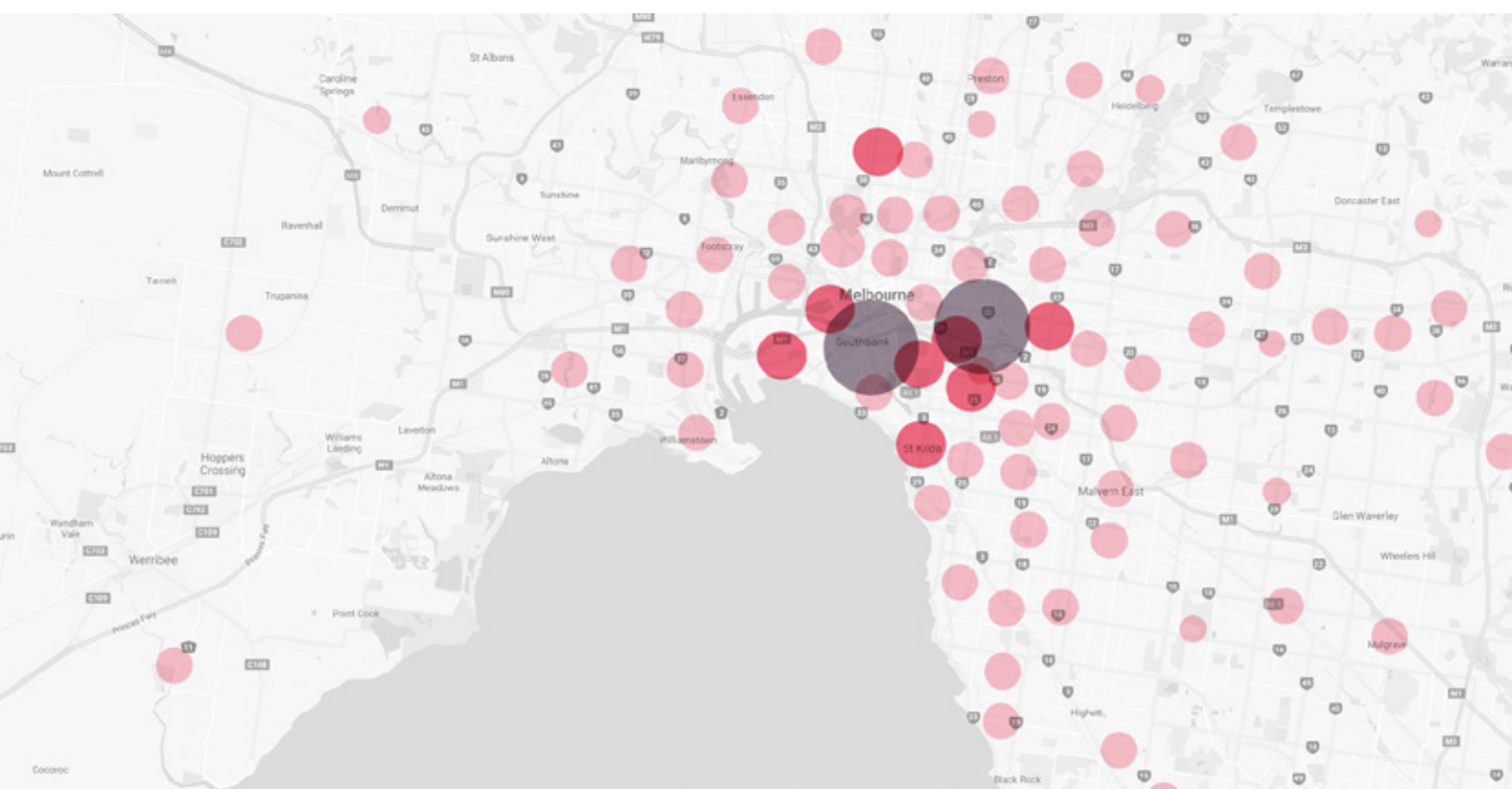


Geography

97%
Based in Melbourne

Ninety seven percent of firms are based in Melbourne. The majority (71%) are located outside the city centre – primarily within inner city and south eastern suburbs. There is a relatively low concentration of firms in the west of Melbourne.

Distribution of respondents



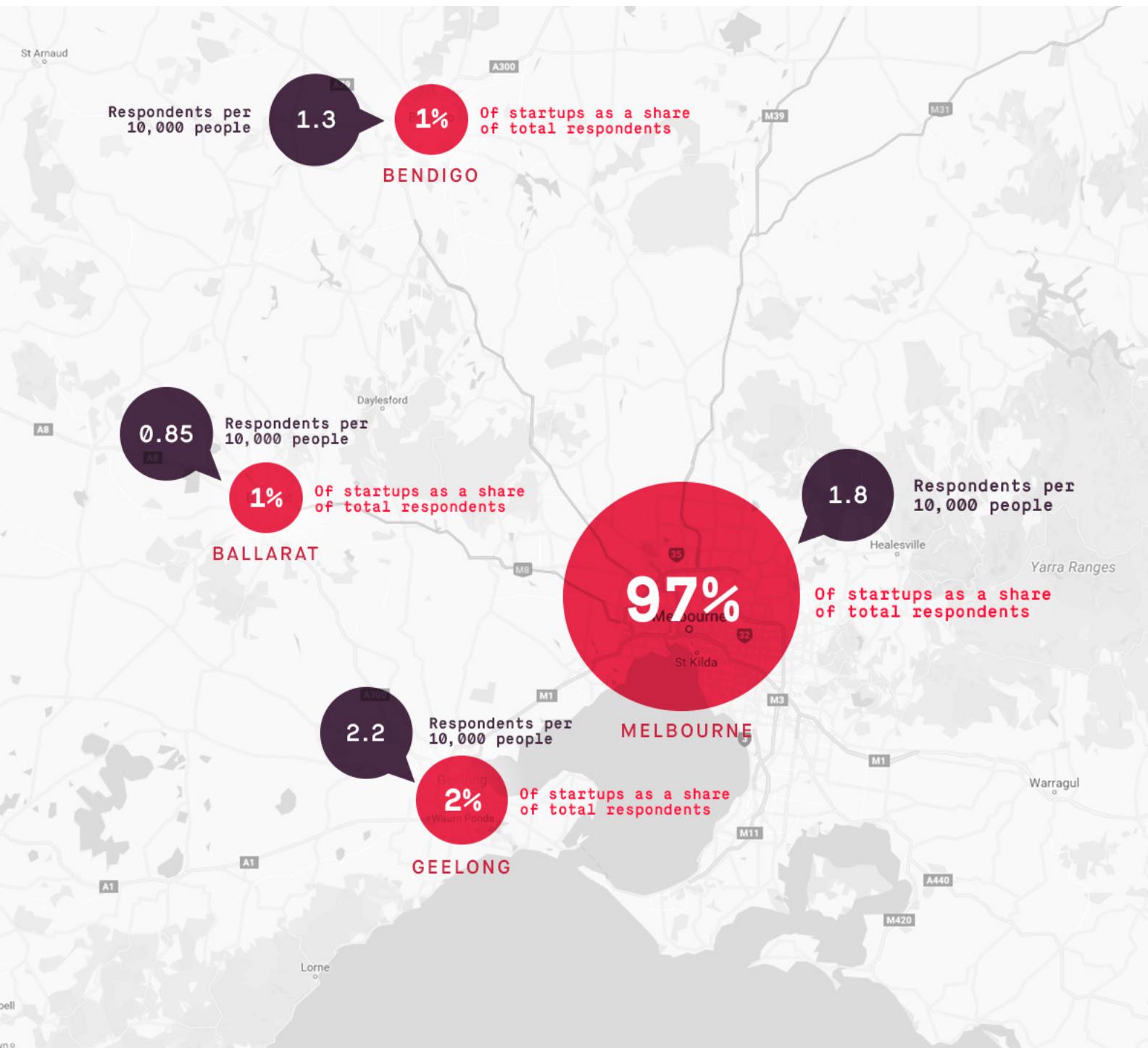
Top 10 locations in the greater Melbourne area

Richmond
South Melbourne
Prahran
St Kilda Road
Southbank

Collingwood
South Yarra
Docklands
St Kilda
Brunswick

Responses by regional location

The 3% of firms outside Melbourne are distributed across three regional centres: Geelong, Bendigo and Ballarat. Geelong based firms had very high response rates to the startup survey.



MENTS ACKNOWLEDGE

We would like to extend our sincere thanks to the many contributors to this project, including:

- Professor Pia Arenius, RMIT
- Association of Australian Medical Research Institutes
- Australian Private Equity and Venture Capital Association Limited (AVCAL)
- City of Melbourne
- Rod Glover, Consultant
- Craig Hill, Executive Director, Australian Sports Tech Network
- Colin Kinner, Spike Innovation
- Alex McCauley, CEO, StartupAUS
- Rohan Workman, Director, Melbourne Accelerator Program

Finally to Victoria's startup community, including those that completed all or most of the survey as well as those that helped raise awareness of this important project.

A collaboration between:



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