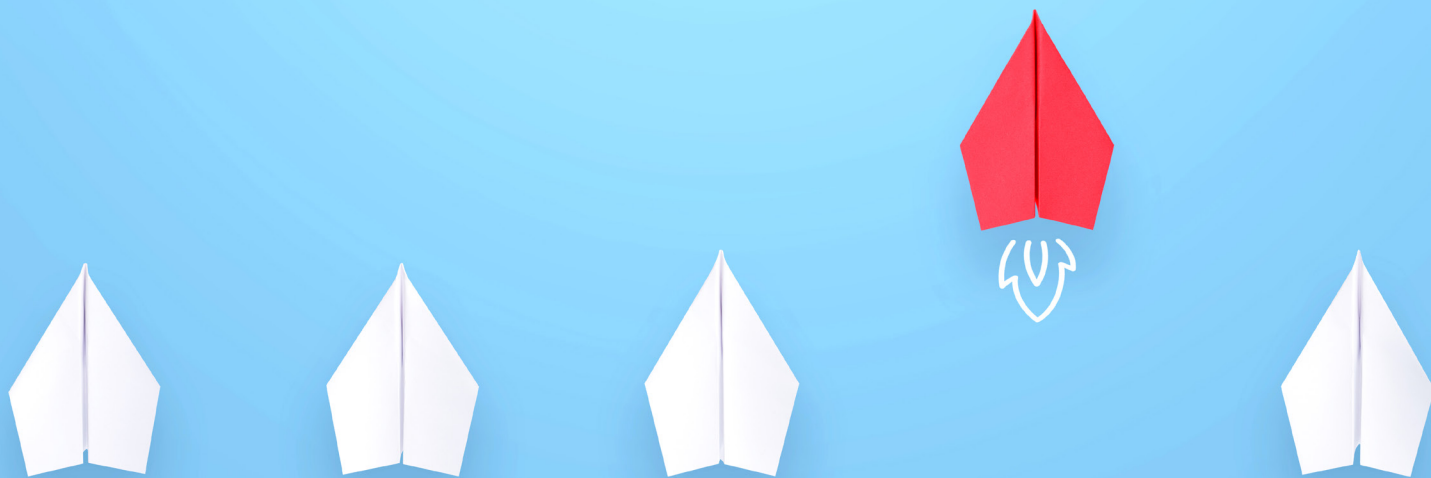


Technology, Media & Telecommunications Practice

Building a world-class Dutch start-up ecosystem

A strategy to both increase the number of start-ups and facilitate their ability to scale can elevate the Netherlands to a global leader in the world of entrepreneurship ecosystems.

This article is a collaborative effort by Tobias Henz, Laura Hofstee, Peter Jacobs, Mohcine Ouass, and Sven Smit, representing views from McKinsey's Technology, Media & Telecommunications Practice.



A robust entrepreneurship ecosystem has the potential to be among the fundamental drivers of a nation's economy and a linchpin of its society. Dutch start-ups are already thriving in many ways, but countries such as the United Kingdom, Sweden, and the United States are more competitive along key metrics of start-up success. The Netherlands has an opportunity to build a strategy that encourages the participation of a more diverse group of founders, which will lead to even more entrepreneurial activity than already today. Additionally—and where the most significant share of value creation lies—is the opportunity to facilitate start-ups' ability to scale. Together, these strategies can transform the entrepreneurship ecosystem in the Netherlands into a pillar of the national labor market and an engine of value creation and innovation, with start-ups founded in the Netherlands between 2022 and 2030 potentially contributing an estimated €250 billion to €400 billion market capitalization.

Although Europe has many high-performing companies in aggregate, European companies underperform relative to those in other major regions: they are growing more slowly, generating lower returns, and investing less in R&D than their US counterparts. This largely reflects the fact that Europe missed the boat on the last technology revolution, particularly in the area of value and growth in information and communications technology, and on other disruptive innovations.¹

Within Europe, the Netherlands is highly regarded on several metrics of start-up success. Still, the Netherlands has the potential to become not only a leader in the region but also the engine that helps make Europe a global leader in entrepreneurship. First, the Netherlands is facing the next wave of global challenges, including food insecurity, energy resilience, climate change, and health access, and solutions to these challenges may lie in the next generation of start-ups. Second—and perhaps even more important—are the many factors that favor the Dutch entrepreneurship ecosystem.

The Netherlands ranks fourth in terms of start-up value creation in Europe, and among cities, Amsterdam is one of Europe's fastest-growing start-up hubs.² Another metric of a country's success in entrepreneurship is the total number of start-ups per capita. In this regard, the Netherlands is performing relatively well with a ranking of fifth in the European Union.³ Looking at the labor market in the Netherlands, homegrown start-ups have created more than 130,000 local jobs across all provinces.⁴

Still, there is potential for improvement. Equally clear is what is at stake. Failure to act puts the Netherlands' entrepreneurial standing in jeopardy. Our analysis has identified two vital factors for start-ups in the Netherlands to be more competitive with entrepreneurship ecosystems in other parts of Europe and the United States: first, bring a new and

About the research

Two main sources generated the insights for this research:

1. **McKinsey proprietary quantitative model.** All figures presented in this report are based on a quantitative model developed to predict the impact of the Dutch start-up ecosystem by 2030.
2. **Qualitative interviews.** In addition to the quantitative model, more than 20 qualitative interviews were conducted with key contributors to the Dutch start-up ecosystem in May 2022 (such as founders, investors, and other stakeholders).

¹ *Securing Europe's future beyond energy: Addressing its corporate and technology gap*, McKinsey Global Institute, May 2022.

² "Best Countries in Europe for Startups 2020," NimbleFins, October 6, 2020.

³ *State of European Tech 2021*; Dealroom, 2021.

⁴ *Netherlands' startup employment 2021*, Techleap.nl, October 2021; Dealroom year, CBRE, 2021.

Today's Dutch start-up ecosystem by the numbers

4th

in start-up value creation in Europe

5th

in start-ups per capita in the EU

6th

on the 2021 Global Innovation Index
130K local jobs nationwide

diverse set of entrepreneurs to the table to lay the groundwork, which will generate about 20 percent additional economic value over the status quo; and second, and by far the most critical lever with doubling to tripling (two to three times) the economic value generated by the start-up ecosystem, ensure that all start-ups are able to scale.

More start-ups: Priming the pipeline

Today, approximately 1,000 start-ups are launched in the Netherlands annually. This pace of founding puts the Netherlands fifth in the European Union (Estonia, Ireland, Luxembourg, and Denmark score higher) and eighth Europe-wide.⁵ To found new companies at a higher pace, the Netherlands can help paint a broader, more diverse picture of what a founder looks like. Specifically, several initiatives across five mandates can address some of the identified barriers and help increase start-up activity across underrepresented demographic groups—and from one particular institutional source.

If successful, the Netherlands could increase the number of start-ups founded each year by 35 to 45 percent, or 350 to 450 in absolute terms, on top of sustained activity of 1,000 start-ups founded annually (Exhibit 1). Its per capita start-up number

would grow from a total of about 900 start-ups per million residents by 2030. This increase would place the Netherlands in the top three of start-ups per capita in the European Union, behind Estonia and Ireland.

1. Increase the share of founders with a nonacademic background

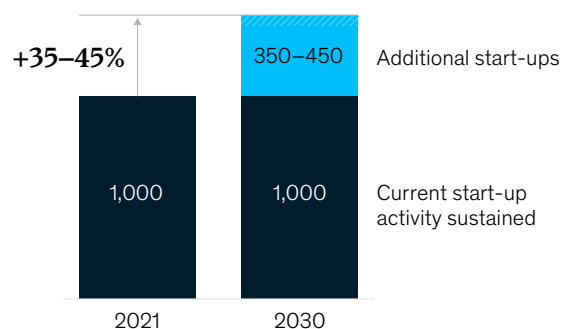
While there is potential for universities to be bigger launching pads for founders, investing in the potential of entrepreneurial-minded people without a university education is also important. In our research, we identified three potential actions that could help make a positive contribution to increasing the number of founders with nonacademic backgrounds:

- making entrepreneurship an essential part of secondary education, through for example, dedicated courses and competitions
- promoting structured mentoring programs and networking events to help enable access to knowledge, experience, and capital
- running a public campaign to highlight success stories of founders who studied applied sciences or received vocational education

Exhibit 1

Initiatives to boost entrepreneurship in the Netherlands could increase the number of Dutch start-ups by 35 to 45 percent by 2030.

Estimated annual number of Dutch start-ups founded



⁵ State of European Tech 2021; Dealroom, 2021.

Today, approximately 1,000 start-ups are launched in the Netherlands annually. This pace of founding puts the Netherlands fifth in the European Union and eighth Europe-wide.

Increasing the share of nonacademic founders by around 40 percent, from roughly 13 percent currently to 18 percent by 2030, could lead to an additional 35 to 55 start-ups in the Netherlands founded per annum by 2030.⁶

2. Increase the share of female founders

When it comes to actually starting a company, there is a significant gender gap, with only around 15 percent of start-ups founded between 2010 and 2020 having at least one female founder.⁷ The positive news is that the gender gap has decreased over time, with around 25 percent of start-ups founded since 2019 having at least one female founder.⁸ Three potential actions could help make a positive contribution toward closing this gender gap:

- promoting structured mentoring programs and networking events to help enable access to knowledge, experience, and capital
- increasing public awareness of gender bias in funding processes to encourage more inclusion
- promoting more diversity at the venture capital (VC) level to infuse greater diversity among

founder sets (for example, Fundright, a group of Dutch VCs, aims to have a 35 percent female management team by 2023)

This could lead to an additional 115 to 170 start-ups in the Netherlands founded per year by 2030, our analysis shows.

3. Double the share of founders with non-Western immigrant backgrounds

Residents with non-Western immigrant backgrounds represent 14.5 percent of the total Dutch population⁹ but only around 7 percent of start-up founders.¹⁰ Four potential actions could help make a positive contribution toward increasing this percentage:

- promoting structured mentoring programs and networking events to help enable access to knowledge, experience, and capital
- increasing public awareness of background bias in funding processes to encourage more inclusion
- promoting more diversity among VCs to infuse greater diversity in founder sets

⁶ Dealroom, 2019–2020.

⁷ Dealroom, 2010–2020.

⁸ Dealroom, 2019–2021.

⁹ Centraal Bureau voor de Statistiek, 2022.

¹⁰ *Global startup ecosystem report 2017*, Startup Genome, April 17, 2017.

- identifying talent pools by partnering with organizations with a track record of reaching migration communities

This could lead to an additional 50 to 75 start-ups in the Netherlands founded per year by 2030, our analysis shows.

4. Increase the share of experienced founders

Research has shown that the average age of a successful start-up founder is 45 years,¹¹ but early-stage entrepreneurial activity¹² is highest in the 18 to 24 age category and decreases with each successive age category. Sparking additional entrepreneurial activity among people aged 25 to 54 could not only lead to additional start-ups founded but also to more start-up successes given the work experience likely obtained by individuals in that age category. Two potential actions could help make a positive contribution to the number of start-ups with experienced founders:

- establishing dedicated programs with the aim of increasing the share of entrepreneurs with professional experience, for example, through collaboration between private employers and the public sector
- Greater public awareness of success stories of founders with working experience

This could lead to an additional 55 to 85 start-ups in the Netherlands founded per year by 2030, our analysis shows.

5. Increase the number of spin-offs from Dutch universities and research institutions

Universities in the Netherlands generate fewer business spin-offs than leading universities in the United Kingdom and United States, such as Oxford and Stanford, respectively. Three potential actions

could have a positive contribution on increasing the number of spin-offs:

- encouraging an entrepreneurial mindset among students and university staff
- providing support for commercializing research and technologies by establishing reasonable term sheets (for example, lower equity stakes for universities, as in the United States)
- establish entrepreneurship centers that are close to and affiliated with universities but that operate independently (for example, UnternehmerTUM in Germany)

Increasing the number of university spin-offs to the level of global leading universities by 2030 could lead to an additional 65 to 100 start-ups in the Netherlands founded per annum by 2030, our analysis shows.

Bigger start-ups: Successful start-up scaling

The majority of value is created by scale-ups in later stages of maturity, but Dutch start-ups lag when it comes to conversion rates in later funding rounds (Exhibit 2). Currently, the Netherlands performs worse at scaling than leading countries globally, European front-runners, and the EU average.

Comparing macroeconomic indicators for successful scaling of start-ups, the Netherlands scores below leading countries. Market capitalization of start-ups as a share of GDP is around 6 percent in the Netherlands, 25 percent in Israel, 20 percent in Estonia, 17 percent in the United States, and 15 percent in Sweden.¹³ The average start-up valuation in the Netherlands is around €5.5 million, €55 million in the United States, about €19 million in Israel, and €14 million in Sweden (Exhibit 3).

¹¹ Pierre Azoulay, et al, "Age and high-growth entrepreneurship," National Bureau of Economic Research, April 2018.

¹² Total early-stage entrepreneurial activity (TEA) rate is defined as the percentage of adults between 18 and 64 years of age who are either actively trying to start a new business (nascent entrepreneurs), or who own and manage a business younger than 3.5 years (young business entrepreneurs).

¹³ Dealroom, 2021.

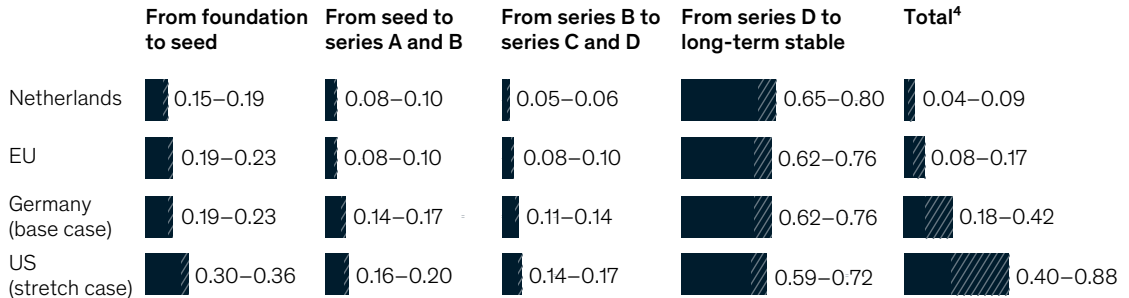
Exhibit 2

The Dutch scale-up ecosystem is not achieving its potential, with conversion rates lagging behind peers in all funnel stages.

Possible rounds of funding a start-up goes through



Average conversion rates



¹Seed rounds are among the first rounds of funding a company will receive. Round sizes range between \$10,000 and \$2 million, though larger seed rounds have become more common in recent years.
²Series A and series B rounds are funding rounds for earlier-stage companies and range, on average, between \$1 million and \$30 million.
³Series C rounds and onward are for later-stage and more established companies. These rounds are usually >\$10 million, and often much larger.
⁴Total conversion rate from foundation to long-term stable. Totals are determined by multiplying values across stages for the lower range and the upper range, and then multiplying each by 100.

Exhibit 3

The Dutch start-up ecosystem is currently underperforming on most of the scaling criteria compared with peers.

Scale-up indicators, 2021

- Worse than 20% of peer set average
- Within 20% of peer set average
- Better than 20% of peer set average
- Not available

	Sectors and regional scope		Venture capital	Capital	People	Regulation
	Market capitalization of start-ups as share of GDP	Average start-up valuation	Yearly venture capital financing volume per capita	Total financing volume of domestic investors	Share of tech jobs that are hard to fill	Employee stock ownership plans score
Israel	●	●	●	●	●	●
Estonia	●	●	●	●	●	●
US	●	●	●	●	●	●
Sweden	●	●	●	●	●	●
UK	●	●	●	●	●	●
Germany	●	●	●	●	●	●
France	●	●	●	●	●	●
Netherlands	●	●	●	●	●	●

Source: Dealroom; Index Ventures; *State of European tech 21*, Atómico, Dec 9, 2021; McKinsey analysis

By focusing on the global market from the outset, Dutch start-ups could open themselves up to a much larger market with immense growth potential.

Looking at funding available for start-ups to scale, the Netherlands has potential room for improvement. Although Dutch start-ups and scale-ups received around €2.3 billion of VC funding in 2021, VC investment per capita in 2021 in the Netherlands was only 60 percent of the investment per capita in Sweden, and less than 50 percent the investment per capita in the United States. Furthermore, only 22 percent of total financing volume in the Netherlands is local funding, versus 37 percent in Sweden and 78 percent in the United States.

To facilitate the growth of Dutch start-ups, the conditions for scaling a company in the Netherlands will likely need to be improved. We identified six scaling prerequisites that could help in this regard:

1. Focus on sectors that are both globally relevant and strong suits of the Netherlands

The Netherlands could focus on investing in sectors that are both attractive based on global demand and that draw on the country's unique expertise. Health and fintech are internationally attractive; in the United States, these sectors receive bigger shares of the total pool of start-

up funding than any other sector (19 percent and 17 percent, respectively). Health and fintech take the top two spots in the Netherlands as well, commanding 13 percent and 25 percent, respectively, of all start-up funding, as can be observed by their high financing volume in the United States (health ranked first with 19 percent and fintech second with 17 percent). These sectors also received the highest investment in the Netherlands (13 percent and 25 percent). In addition, a relatively high number of Dutch start-ups is already active in these sectors.¹⁴ Other sectors that the Netherlands could focus on, because of their know-how and high international relevance, are energy and food.

2. Adopt a global mindset from the outset

The Dutch start-up market is largely domestic in focus and, therefore, scalability within the Netherlands is limited. Our interviews with many Dutch founders suggest that their growth aspirations are focused within the country's borders. By focusing on the global market from the outset, Dutch start-ups could open themselves up to a much larger market with immense growth potential—and turn their focus to internationally relevant issues.

¹⁴ Dealroom, 2021.

Potential future Dutch start-up ecosystem by the numbers

€100

billion from current level of start-ups

+

€20

billion from additional start-ups

+

€90–

€200

billion from better scaling of current level of start-ups

+

€40–

€80

billion from better scaling of additional start-ups

=

€250–

€400

billion in market capitalization for start-ups founded 2022–2030

3. Attract top talent

Compared with the most successful start-up ecosystems, the Netherlands has a high share of hard-to-fill job openings in the tech sector, with 56 percent of the tech job openings in the Netherlands considered hard to fill, versus 47 percent in Germany, 40 percent in the United States, and 44 percent in Sweden.¹⁵ Being able to attract (international) talent is important during the scaling phase because of the increasing complexity and amount of work, and noncash compensation can help. Currently, the Netherlands ranks in the bottom quartile in terms of employee stock ownership plans (ESOPs) compared with its selected peers.¹⁶

4. VC ecosystem: Give start-ups sufficient guidance and funding, especially in late stages

Financing volume per capita in the Netherlands is below peers such as Sweden and Israel.¹⁷ At the same time, the Netherlands historically tends to build companies with a profit-over-growth business model (the “PE mindset”). Dutch VCs are less present in later rounds and hence execute fewer repeat investments. Additionally, the advisory role and guidance that VCs provide to start-ups is a key catalyst in their success. A solid and engaged Dutch VC base could increase the scalability success rate of the start-up ecosystem.

5. Capital: Investment from a variety of investors

The availability of enough domestic and foreign capital is an important catalyst for entrepreneurship activities such as attracting talent, conducting R&D/product development, and marketing. These activities are particularly

important during the scaling phase of start-ups. Attracting more capital from institutional investors could increase scalability success rate. Pension assets as a percentage of GDP are more than 210 percent in the Netherlands.¹⁸ Dutch VCs raised €220 million from Dutch pension funds between 2016 and the first half of 2021, 0.012 percent of the total Dutch pension assets.¹⁹ Twenty-two percent of total financing volume in the Netherlands is domestic financing, while in Sweden, for example, the share is 37 percent.²⁰ Having sufficient capital available will enable start-ups to scale optimally.

6. Facilitate a supportive start-up environment

Create a favorable ecosystem for start-ups to thrive by winning the race for talent and raising additional funding through, for example, the 30 percent ruling and alternative-taxation policies. In multiple other countries, including France, Spain, and Sweden, additional tax incentives exist for angel investments.

The impact

If the Dutch start-up ecosystem were to unlock these five levers for increasing the number of start-ups founded and address the six priorities for improving successful scaling, start-ups founded in the Netherlands between 2022 and 2030 could potentially contribute an estimated €250 billion to €400 billion market capitalization.

To put this sum in perspective, it is equivalent to 30 to 45 percent of the around €850 billion market capitalization of today’s AEX. In addition, these start-ups could potentially generate 165,000 to 250,000 new jobs.

¹⁵ *State of European Tech 2021*.

¹⁶ Index Ventures (note: Netherlands compared to Germany, Sweden, USA, UK, France, Israel and Estonia), 2021.

¹⁷ Dealroom, 2021.

¹⁸ *The untapped potential of Dutch venture capital*, Techleap.nl, 2021.

¹⁹ Ibid.

²⁰ Dealroom, 2021.

Building globally competitive start-ups in the Netherlands could have a significant impact on the overall Dutch economy. With sufficient scale, the start-ups of today can become fundamental to Dutch society, helping create jobs and supporting the country's ability to invest in education, healthcare, and social-services delivery. Looking

beyond the Netherlands' borders, a strong Dutch start-up ecosystem would contribute to building a European economy that is more globally competitive. Our analysis shows it will take an orchestrated effort of the full range of stakeholders—from educators and legislators to VCs, founders, and C-suite executives—to create a more prosperous and globally competitive start-up ecosystem.

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