

Link: <http://www.forbes.com/sites/ciocentral/2013/10/02/how-central-eastern-europe-is-transforming-from-outsourcing-to-a-real-tech-hub/>

How Central Eastern Europe Is Transforming From Outsourcing To A Real Tech Hub

By Balazs Szabo

Rubik's Cube, the household match, insulin, parachutes, and contact lenses. These are just some of the innovations that came from the countries of the former Communist Eastern Bloc of Europe. Hungary, the Czech Republic, Poland, Romania, Serbia, Croatia and Bulgaria are famous for their human capital and innovation. This has been the legacy of CEE, but the question young business people are asking is when is this latent potential going to flourish into the kind of tech startup boom well underway in Western Europe and the U.S.? Sooner than you think, if you ask the leaders of the entrepreneurial scene in the region.

Central Eastern Europe consistently ranks at the top of the world ranks in educational achievement in math, science and technology. In 2013, 16 out of the 24 finalists of Google's annual Code Jam programming competition were from Central and Eastern Europe according to Bloomberg. This region also accounted for 8 of the 13 winners at this year's ACM International Collegiate Programming Contest, [as a Bloomberg report shows](#). In the US, by comparison, companies struggle with hiring good programmers. As a result, a growing number of deals are so-called acqui-hires, done for the sole purpose of securing skilled staff in order to build leading technical teams.

Building on these resources, companies had been going to global outsourcing brands like EPAM to combine great technical talent in CEE with business opportunities in the US and Europe. Beside the arbitrage of human capital in technology, in the past few years several startup success stories have emerged across CEE. These include AVG and Avast from the Czech Republic, Nordeus from Serbia, Filestube from Poland, BitDefender and Soft32 from Romania, and Prezi, Indextools, LogMeIn, and Ustream from Hungary.

Obstacles of the future development

Despite a few internationally known companies that managed to be acquired or initiate a successful IPO, hands on entrepreneurial experience is still rare in the region. In other European countries, outside the traditional business hubs of London and Berlin, startup success stories have resulted in a boost to the regional startup ecosystem. A good example is the so called "Estonian mafia" that resulted from the acquisition of Skype by Microsoft. Founders and early employees of the

company made a fortune, but re-invested their money in new startups that helped the tech community in Estonia to grow. Today there are hundreds of startups in Estonia, a country of 1.3 million, working to gain market traction. The Central Eastern European region is still waiting for such a boost.

Challenges in the region

One of the biggest challenge of the region is a conservative mentality that is adverse to risk. As Stephane Gantchev, Venture Partner of LAUNCHub said. “Lots of people are teased by a secure job in a big tech company instead of chasing their dreams and founding a startup. We need more education in entrepreneurship, customer development, digital sales and marketing, pitching.”

Andreas Tschas, the Co-Founder of Pioneers Festival, one of the biggest entrepreneurial festival in the region also addressed the lack of role models. “The scarcity of entrepreneurial experience is definitely one big challenge. There are still very few serial entrepreneurs who made an exit and who are investing back into the region with their money and their knowledge.”

Another difficulty is caused by the geographical distance from main tech hubs that offer high value added resources (investors, clients, mentors, advisors) that help startups develop products better and faster, while increasing their valuation. As Ivan Burazin, entrepreneur, organizer of Shift Split said, “in places like Silicon Valley you can as easily get into contact with potential investors, clients mentors and advisors that could potentially help grow your product faster and better.”

Maxim Gurvits, an early stage VC with Teres Capital says, “I think this is the biggest problem in getting to and establishing Product Market fit. Once beyond that stage, most CEE startups do well, but getting to that stage in the absence of an ecosystem is hard.” Operating in markets remote from tech hubs can greatly undermine this.

Ernő Duda, serial entrepreneur from Hungary and CEO of Solvo Biotechnology as well as President of Hungarian Biotechnological Association, emphasized the challenges that investors’ face. According to Duda, “venture capitalists should involve entrepreneurs as advisers or partners to help them build successful companies.” However, most investors in the region have private equity or investment banking backgrounds, without any hands-on experience building

companies. The result is that they avoid risk and have limited knowledge of how to help entrepreneurs build successful companies.

The journey towards a tech hub

Most successful startups coming from the region have their development center somewhere in CEE and are doing business development in the U.S. This way they establish a direct connection with the market while having access to highly skilled technical teams in CEE. “You can build up a company for much less [in CEE] than you can in the Valley or Western Europe.” said Ivan Burazin CEO of Codeanywhere.

Capital to the region is improving thanks largely to European Union initiatives. The JEREMIE program developed in cooperation with the European Commission, offers CEE countries such as Hungary and Bulgaria the opportunity to finance startups by means of equity, loans or guarantees. Says Maxim Guzvits: “If you compare to Israel, it’s quite a similar story – that ecosystem was 25 years in the making. The history of Israel is similar in many ways, especially in the way government-run funds, very similar to our own JEREMIE program, used to kickstart support for scalable product startups, after which the first successes paved the way for private interest to fund innovation.”

Quality entrepreneurial events attract global thought leaders. Examples include the Pioneers Festival in Vienna, the Singularity University European Summit in Budapest, the How To Web in Bucharest, the Shift Split in Croatia and the Kairos Society, a global student-run entrepreneurial organization that is also experience success in the region. “There are a lot of good initiatives facilitating the development of the entrepreneurial culture such as events and active local communities sharing knowledge and connecting people,” said Andreas Tschas.

More of the international accelerator programs (500 Startups, Startup Sauna or Seedcamp) are visiting the region more often to coach and mentor startups. They also provide seed investment for the right companies and access to their global network. “I believe there is great momentum and a critical mass of experience coming from success stories like LogMeIn, Ustream and Prezi that will put Budapest among the global entrepreneurial tech hubs,” said Peter Arvai the Co-founder and CEO of Prezi.com

When can the CEE region get there?

Peter B. Zaboji, serial entrepreneur, investor, Founder of the European Entrepreneurship Foundation, and mentor to the Budapest startup community predicts: “We are 10 to 15 years behind Western Europe, but our ecosystem is starting to grow. It will become more significant as the young generation speeds up in learning languages and gaining business experience, which is essential to connect into the global economy.”

“We are very positive about the future of the startup and investment scene in CEE. The arrival of seed funds have filled a very important gap and give an initial boost to the best regional entrepreneurs. We see more and more companies from the region raising series A and follow on rounds from top tier European and American venture capital firms,” said Stephane Gantchev, Venture Partner of LAUNCHHub.

CEE needs more successful business exits, and more serial entrepreneurs taking an active part as investors or mentors of new startups. Marton Szőke, founder of Indextools became a business angel after selling his company to Yahoo. Today he funds and supports young companies. Szőke says: “I learned pretty fast after I sold my company that I needed to do something to keep my brain in motion. I wasn’t ready to get back to day-to-day work and but I missed the days when I kept thinking on various business models, go-to-market strategies and product design. So it was quite obvious that I should start working with young entrepreneurs seeking for money and advice. I guess this is what angel investors do.”

More success stories are needed in CEE. They serve to motivate people and show them that creating a winning startup is possible. CEE needs more successful entrepreneurs to function like a “CEE mafia” giving birth to hundreds of high value added companies ready to serve global markets.