

PROMISING STARTUPS SHARE REMARKABLE CHARACTERISTICS

Deloitte and Vlerick Business School look back at ten years of the Rising Star Competition and identify the characteristics of a promising tech startup.

Brussels, 26 February 2024 - Promising tech startups adopt a global market approach from the outset. They also typically have a business model that is easily replicable internationally. Furthermore, they are characterized by greater financial scalability. And finally, they invest more in their growth - and they show a greater appetite for risk compared to similar companies in terms of age, sector, size, and location. This is according to a study by Vlerick Business School and Deloitte that takes stock of 10 years of the Rising Star Competition, an annual list of the most promising technology companies in Belgium. The study examines what makes these companies so unique and how these Rising Stars evolve in the years after they enter the competition.

Rising Stars target the global market and have a replicable business model

Companies that target a global market from the start and have an easily replicable business model achieve faster growth. These companies build their business model with a global market in mind, setting up production and distribution so that it can be rolled out globally with minimal customization and cost. Digital companies, which can deploy their core technologies across different markets and sectors, particularly benefit from this model. However, this also requires companies to take local market preferences and regulations into account, which sometimes requires adjustments in products or services. Nevertheless, an easily replicable business model allows companies to scale up quickly and efficiently in international markets.

"A good example of the advantage digital companies have in terms of replicability is Metamaze, one of the finalists of the 2023 Rising Star Competition - a company that uses AI to automate document-based workflows. Although their service has many different applications, ranging from finance to logistics to manufacturing, all the solutions are based on the same core technology. Moreover, they can roll out their applications to multiple countries relatively easily - as evidenced by the fact that today they are already active in 15 different markets despite the company having been in active existence for only 3 years," said **Veroniek Collewaert, Professor of Entrepreneurship at Vlerick Business School.**

Rising Stars have greater financial scalability

Companies that pursue greater economies of scale and higher gross profit margins often achieve stronger growth. This concept transcends the idea that scaling only means growth in turnover. True scaling means exponential growth in output without commensurate increase in costs, leading to "increasing returns to scale".

"This principle is essential for the financial health, efficiency and competitiveness of growing companies. The idea is that when turnover doubles, costs do not increase at the same rate. This applies to all core costs in a company and is crucial for increasing profit margins. Large companies have successfully applied this by increasing their offerings and reducing unit costs. A lot of digital companies illustrate how economies of scale are significant in the tech sector, where a one-off investment in software enables a global offering with relatively little additional cost," said **Sam Sluismans, Programme Leader Deloitte's Technology Fast 50.**

Rising stars invest more in growth and take greater risks

Rising stars invest heavily in their growth, resulting in both employee growth and net value added. For instance, they grow from 5 to 18 employees on average in five years, while their peers* grow from 4.5 employees to 7 in the same period. As a result, net value added also grows faster than comparable companies. Rising stars take it from 183,000 euros to 1.3 million, compared to 86,000 euros to 172,000 euros for their peers*.

To achieve this rapid growth, they also use more funding, both in the year they participate in the Rising Star Competition and in subsequent years. On average, this amounts to EUR 400,000 per year compared to EUR 20,000 per year for their peers*. This growth leads to negative and lower EBITDA from participation until four years after. However, from the fifth year after participation, the EBITDA figure evolves positively again and they also show themselves to be more profitable than their peers*.

"These findings show that Rising Stars have a clear vision for global growth from the start, a process that does not happen without significant investment and time. These young, promising companies are therefore willing to accept lower profitability compared to their peers. This underlines their commitment to laying a solid foundation for accelerated growth in the future, but also entails risks. For instance, Rising Stars have a slightly lower survival rate than their peers*, 95% vs 98%. The bankruptcy rate is also slightly higher as a result, 4% vs. 3%,"* says **Veroniek Collewaert, Professor of Entrepreneurship at Vlerick Business School**.

** Companies similar in terms of age, sector, size and location.*