

## Fast Expanding Markets in the Middle of the Eurocrisis: A Greek Fairy Tale

Mark Esposito and Terence Tse | Today's Manager

**Success stories are becoming more frequent among start-ups in technology clusters. With the potential to become a fast expanding market (FEM), technology clusters in Greece are forming a pocket of growth in an otherwise challenging economy.**



**Fast Expanding Markets (FEM)** is a broad concept by design. It aids managers and policymakers in locating new sources of economic growth that are not captured by macroeconomic analysis. At the same time, companies and governments can provide the resources necessary to develop FEM. Greece has been an excellent example of how support from governments and institutions have provided the seeds for an FEM.

Despite Greece's economic challenges of a debt-to-gross domestic product (GDP) ratio of 176 per cent and a 58 per cent unemployment rate among youth under the age of 25, formal leadership and support has helped to shape an FEM in technology clustering. Between 2006 and 2013, the number of export-oriented tech start-ups in the country has gone from a handful to over 200.

As part of Europe's economic and social cohesion objective, there has been a great focus on investing and developing information and communication technologies (ICT), as there is a correlation between productivity growth, innovation, and regional development.

Therefore, a number of policies to secure the Internet, expand infrastructure, and provide safer access of the Internet have been in the works. Greece in particular, has struggled with increasing the use of Internet and E-commerce markets due to lack of skills, infrastructure, information constraints, and limited perceived value of being online. But between 2006 and 2010, there has been a 30 per cent increase in the number of Internet users. The number of users in 2006 was 3.8 million and by 2010, that number increased to 4.97 million.

Borrowing from Professor Michael Porter's concept of clusters, professors and other experts began attempting to solve Greece's problem with 'brain drain' by forming knowledge and technology clusters. In 2006, Corallia, the Hellenic Technology Clusters Initiative, received seed money from both the Greek government and European Union (EU) to launch a cluster focussed in micro-electronics.

To date, Corallia has grown from 13 to over 130 members, consisting of start-ups, companies, academic labs, and other institutions.

As a group, the cluster produced more than US\$260 million in exports in 2011, including items such as sensor networks and solar energy equipment.

OpenFund, the only Greek venture capital fund started in 2008, was given €7 million in public funds from the EU's European Investment Fund and private investors, dedicated to financing small- and medium-enterprises (SMEs), with a total €10 million to give out. In our estimation, SMEs are best positioned to create FEM due to their smaller scale and more agile nature.

As a group, start-ups in the Greek technology clusters are poised to grow exponentially in the long-term. For example, Upstreams Systems, an older start-up founded in 2001 gained traction between 2011 and 2013 to become one of the five largest mobile marketing companies worldwide. Sales included 40 export markets, revenues grew by 32 per cent, and employees grew by 20 per cent.

Velti, another mature start-up from 2001 in the ICT sector, operates in 32 cities globally with over 500 employees. In 2011, Velti raised US\$150 million in an initial public offering on the National Association of Securities Dealers Automated Quotations (NASDAQ) Stock Market.



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The economic value of the clusters is also evident in newer respective start-ups. Last year, Constelex, a four-year-old start-up that makes light amplifiers for fibre-optic networks, was acquired for €650 million.

Taxibeat, a company started in 2010 to help mobile phone users find taxis, operates in five countries, including Rio de Janeiro, São Paulo and Mexico City. In Rio de Janeiro, they have quickly become the dominant player in the market, based on volume and revenues. Since inception, the company has raised over €1.7 million.

Another cluster start-up, Pinnatta, has attracted funding from Greece, the United States, Russia, Europe, and Taiwan. In one more marked success, the company BugSense used its US\$100,000 from angel investors to make a developer application (app) to monitor programming bugs. It is now being used by five per cent of all Android apps, and its customer list includes Soundcloud, Skype, and Yahoo! Inc.

Success stories are becoming more frequent among the start-ups in these technology clusters. Moreover, these start-ups enter new technology markets and industries with potential to become FEM as well. In Greece, the technology clusters are forming a pocket of growth in an otherwise challenging economy. We believe these clusters offer new business opportunities to managers and policymakers to accelerate growth in the aftermath of the recent financial crisis, more than what the international community has ever been able to recognise.

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