

Early-Stage Startup Index 2024

Challenges in the Era
of Cross-Border Commerce



A Report by PayPal and Startup HUB Poland
August 2024



Introduction

We're happy to present you with the results of the second and extended edition of our 'Early-Stage Startup Index. Challenges in the Era of Cross-Border Commerce', research that raised a lot of interest last year.

Apart from startups operating in Poland, the largest market in Central & Eastern Europe (CEE), this year we've also surveyed early-stage companies from the three Baltic markets, Lithuania, Latvia and Estonia, that are considered to be the hottest startup hubs in the region.

The goal of our research was to understand the main international expansion challenges faced by early-stage startups. We surveyed various types of startups, including those that are yet planning to start to sell their products or services, as well as those selling in local and international markets. There was also a small group of startups that had no plans to sell or expand in international markets. Respondents provided valuable information about the challenges and growth plans of their businesses.

The information we received from our respondents sheds light on the specific needs and problems faced by CEE startups wanting to grow globally. It can support startups in their international expansion efforts, as well as provide interesting insights to people and entities involved in creating more efficient strategies driving the further development of the startup ecosystem across the region.

Methodology

The online survey was conducted by Startup HUB Poland foundation on behalf of PayPal in April-May 2024 among 110 early-stage startups in Poland, Lithuania, Latvia and Estonia. The survey collection was supported by community partners: Bridgio, Commercialization Reactor, DÖBRA Impact Venture Studio, Latvian Business Angels Network, Startup Wise Guys.



In today's world, cross-border sales is an important direction of growth for every company. With cross-border trade booming globally CEE startups are well positioned to take advantage of the opportunities it provides. Our research showed that nearly 80% of startups that have already started to sell their products or services are actively pursuing international markets, and nearly 90% of companies that are now operating only domestically plan to tap into new markets in the years to come.

International expansion is no easy feat. But it's worth the effort. Global economy opens so many possibilities for growth that it would be a pity for a business not to take advantage of them. Trading across borders allows for greater resilience and independence from local challenges, not to mention a larger customer base, which in turn allows for more precise pricing tailored to the capabilities of one country or the other.



Efi Dahan,
Vice President,
General Manager Central Eastern
Europe & Israel at PayPal

Startups Specifics and Plans

Core Information About Startups

The answers to the core questions reveal the specifics of the respondents. What industries and business models they operate in, what types of goods they offer, how big they are and what are the most popular funding sources they use.

Verticals

The answers to our questions were delivered by representatives of startups hailing from a wide variety of sectors, with the largest number (14%) representing health and medical services industry. Other popular sectors included Artificial Intelligence and machine learning (12%), energy (9%), and e-commerce (7%).

Types of Goods Offered and Business Models

The majority of surveyed startups (72%) provide software and services, while the remaining 28% manufacture physical products. These companies frequently employ various business models, with the most common being B2B (78%). Additionally, startups reported using B2BC (26%), B2C (25%), and B2G (13%) models.

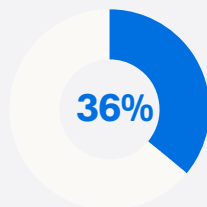
Team size

The vast majority of early-stage startups are small businesses. 88% have a maximum of 10 employees and 3% are companies with 12 to 15 team members. Only 9% of startups we surveyed employ more than 16 people.

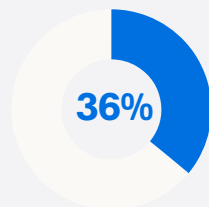
The Main Sources of Funding for Startups Are Public Grants.



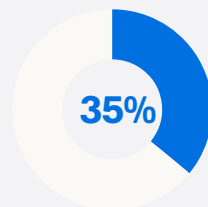
Public grants



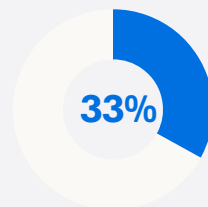
Sales revenues



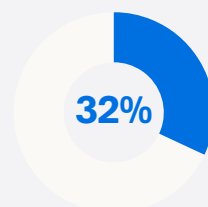
Seed funds



Own savings



Support from friends and family



Business angels

Sales & Key Cross-Border Corridors

The vast majority of startups we surveyed have global ambitions. They think big from day one and take strategic approach to developing and executing their business plan.

Sales

Of the surveyed startups, two thirds (66%) sell their products or services, while 34% are so young they aren't at the stage of selling yet. 95% of the latter plan to start selling in the years to come. 57% of them foresee it happening in 2024, with some aiming for 2025 (26%) or between years 2026-2029 (17%).

Cross-Border Priorities

Most startups we surveyed are already taking advantage of opportunities provided by the global market. Nearly 8 out of 10 companies (79%) that have already started to sell their products or services, sell cross-border, and of those who only operate domestically, 87% plan to expand internationally in the years to come.

Key Cross-Border Corridors:



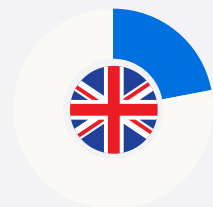
33%

US



22%

Germany



22%

UK

Strategic Plans

One of the defining characteristics of the startup industry is a desire to expand, get a high valuation and execute an exit scenario.

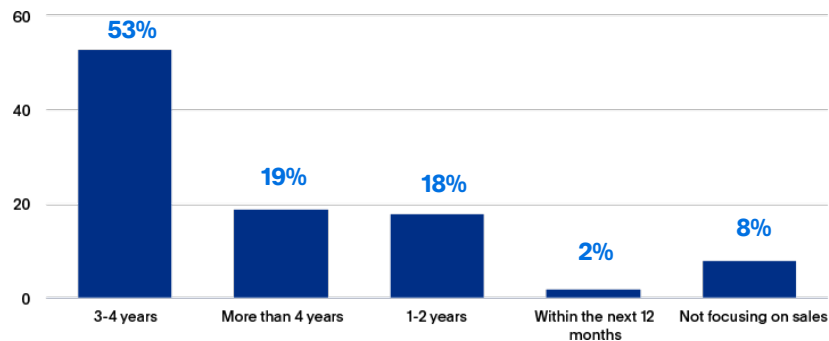
Growth Areas

Startups surveyed primarily focus on building their customer base (54%), developing partnerships and collaborations (41%), and increasing revenues (38%). Other important areas they invest their time and resources in include securing additional funding (35%), technology development (29%), and establishing brand reputation (27%).

Revenue Expectations

More than half of startups (53%) expect to reach an annual turnover of 10 million euros from online sales within 3-4 years.

When Do You Expect to Achieve 10M EUR Revenue From Online Sales?



Exit Scenarios

The most preferred exit scenario marked by 62% of startups surveyed is M&A (Merger And Acquisition) by another company.

Other possible exit strategies like Initial Public Offering (IPO) or Management Buyout were indicated by 16% and 4% of respondents respectively.

None of the surveyed startups plan on liquidation and almost one-fifth (18%) is still uncertain about their exit strategy.



In this year's edition of our survey, we asked early-stage startups in the CEE region about their plans.

The data on exit scenarios is particularly noteworthy.

A fifth (18%) of startups are uncertain about their exit strategy, while as many as 62% expect to be merged with or acquired by another company. It is notable that only 4% of startups view a management buy-out as their preferred exit strategy.

This highlights the crucial need for startups to collaborate closely with the corporate world. It could be also beneficial for companies to engage with startups that have a track record of selling across borders. Such a startup can serve as a potential business partner, having already demonstrated its capabilities in foreign markets. In my opinion it is a very moment to expand, as EU investors call for projects from Poland and the Baltic states.



Paulina Brym-Ciuba,
CEO of Startup HUB Poland

Key Challenges of International Expansion

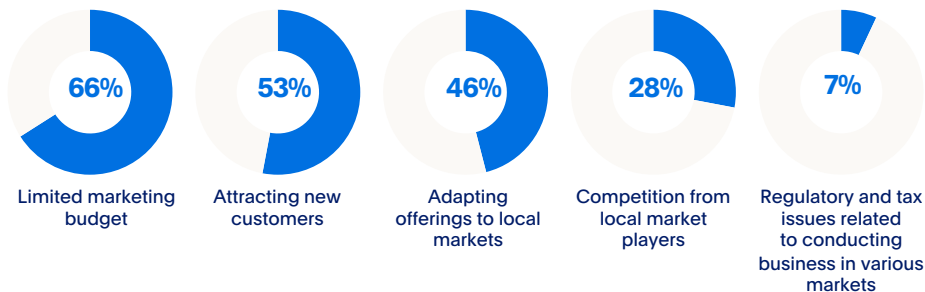
Challenges of Cross-Border Sales

Limited marketing budget and customer base continue to be the top challenges for startups wanting to expand globally.

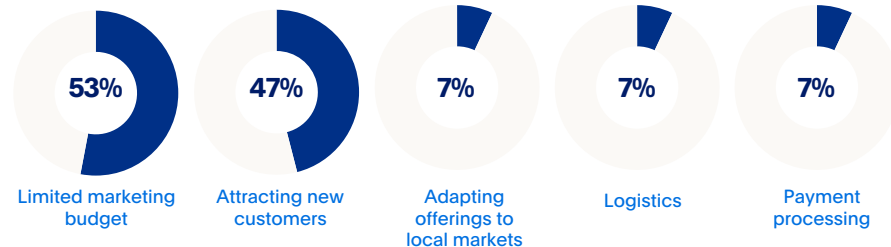
International expansion is a great way for ambitious businesses to grow, but it involves numerous challenges. Regardless of the stage of their development most startups experience similar difficulties related to international expansion, ranging from limited marketing budget and customer base to navigating cultural differences and adapting offerings to local markets.

On top of that, when asked about the key cross-border challenges they face, startups that are already selling internationally indicated regulatory issues, whereas these that haven't yet crossed the borders were more concerned about issues related to logistics and payment management.

Startups selling cross-border



Startups selling only domestically, but planning to expand



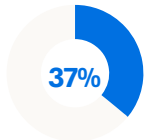
Payment Management Challenges

Payments are an important element of successful international expansion, but 61% of all surveyed startups identified payment-related issues as challenging.

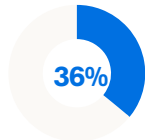
Ability to Receive Payments Quickly and Offering a Smooth and Seamless Payment Experience Are Among Startups' Biggest Concerns.

Other difficulties include technology issues related to the integration of different payment methods (31%), access to local payment options (30%) and lack of customer service and/or technical support (21%).

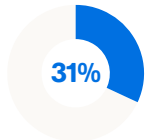
Biggest Challenges of Payment Management



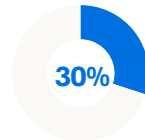
Financial liquidity – quick receipt of payments



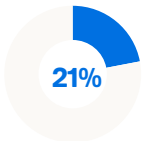
Providing smooth and seamless payment experience



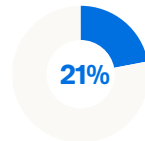
Technology issues related to the integration of different payment methods



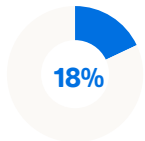
Offering local payment methods



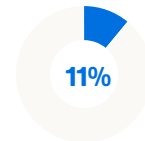
Cross-border transaction fees and/or currency spread issues



Lack of customer service and/or lack of technical support



Offering mobile payments and/or subscriptions and/or recurring payment solutions



Transaction security and fraud protection

38%

of startups that are already selling cross-border identified access to local payment methods as their biggest challenge related to payment management.

Support of External Payment Providers

With limited resources and large number of things to take care of, focusing on what's most important or profitable is not easy. That's why many startups seek support from external providers that can help them cope with day-to-day challenges and grow their business.

Improving Efficiency in Cross-Border Payments

Managing and moving money cross-border is complex and requires specialized know-how which many startups do not have in-house. As a result, many of them rely on external support. Only 26% of startups selling internationally have a team member specializing in payments. At the same time, over 50% of them cooperate with third-party payment providers. By comparison, these figures are different among startups that have not yet begun their international expansion with 40% having a team member specializing in payments and 40% cooperating with third-party providers. This may prove that payment management is a greater challenge than startups are inclined to believe at the beginning of their journey, with many turning to the support of specialized external partners. When they enter the global market, they see that they are lacking in this area and begin to attach more importance to this issue and to the assistance of external partners.

Startups Selling Only on Domestic Market

40%

have a team member
specialising in
payments

40%

work with an external
payment provider

Startups Selling Internationally

26%

have a team member
specialising in payments

52%

work with an external
payment provider

Payment Methods Offered by Startups

Bank transfers and card transactions continue to lead the way.

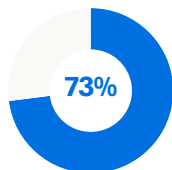
Tradition vs Innovation

Our survey reveals a diverse landscape of payment methods, reflecting both traditional and modern preferences. Leading the pack, startups offer transfers, indicating a strong reliance on this straightforward and widely understood method. This is followed by credit and debit cards. Mobile payment solutions like Apple Pay and Google Pay* are also making their mark. Additionally, startups are embracing local and alternative payment methods (APMs) such as Blik, P24, and SEPA, underscoring the importance of catering to regional preferences.

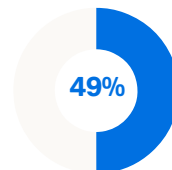
Local Payment Methods – A Key to Unlock New Markets

Offering local payment options is important because it helps build trust and credibility. All over the world, people like to pay with payment methods they know and trust. Despite this, many startups are still not taking advantage of their potential. Only slightly over 20% of companies selling abroad offer local payment methods. This means that nearly 80% of sellers who do not offer such methods are limiting their opportunities for growth in local markets.

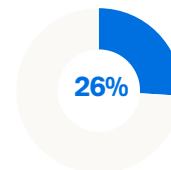
Most Common Payment Methods Offered by Startups



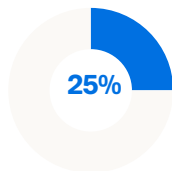
Transfer



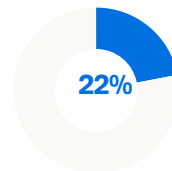
Credit/debit cards



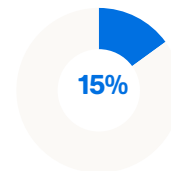
Apple Pay



Google Pay



Local payment methods/APMs
(Blik, P24, SEPA, etc.)



PayPal

Only approx. 1 in 5 companies selling cross-border offer local payment methods.

* Apple Pay is a trademark of Apple Inc., registered in the U.S. and other countries and regions. Google Pay is a trademark of Google LLC.

Expectations Towards External Payment Providers

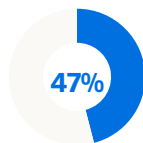
Startups have a variety of expectations when it comes to their third-party payment service providers. This is why it is so important to ensure that there is a mutual understanding between the parties.

With the increasing demand for tailored payment tools, more than 50% of startups expect their payment provider, first and foremost, to supply them with multiple solutions that cater to their needs regardless of where or how they get paid for the goods or services provided. On top of that, 47% of startups indicated that they expect their external payment provider to integrate the services quickly and easily with the systems they are currently using and 45% appreciates a user-friendly interface and simplicity. Interestingly, payment security and fraud protection seem to be critical only for less than 30% of respondents.

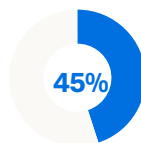
What Startups Expect From Their Payment Provider?



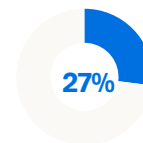
Broad range of payment solutions including mobile, subscription, and recurring payments



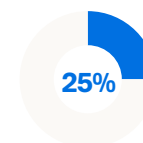
Quick and easy integration



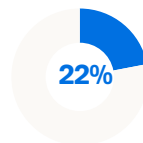
Ease of use



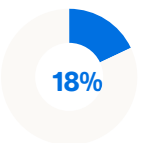
Secure payments and advanced fraud protection



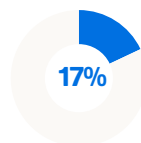
Easy and quick integration with popular e-commerce and recurring billing platforms



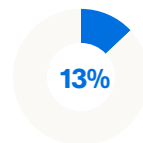
Business growth support & access to broader customer base



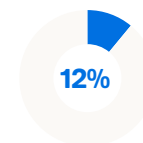
Multiple payment options



Technical support throughout integration process and afterwards



Recognized brand credibility



Excellent customer service

Cross-Border Sales & Key Challenges

Deep Dive – Market by Market



Estonia

95% of surveyed startups in Estonia have already started to sell their products and services, and the remaining 5% plan to start selling by the end of 2024. Due to the very limited size of the domestic market startup founders from Estonia may tend to think about international expansion from day one of operation. 89% of Estonian companies that have already started to sell their products, sell cross-border, and all of the remaining 11% that operate only domestically plan to expand to other markets in the years to come.

Key Cross-Border Sales Corridors in Estonia



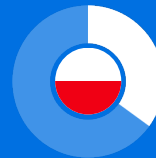
47%

Finland



41%

UK

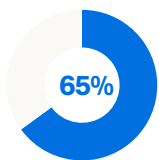


35%

Poland

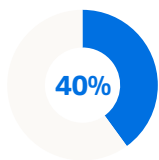
Interestingly, unlike startups from other markets we surveyed, Estonian companies did not indicate US as one of their top 3 cross-border sales destinations.

Top 3 Challenges Related to Cross-Border Sales



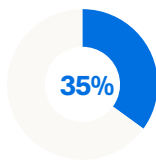
65%

Limited marketing budget



40%

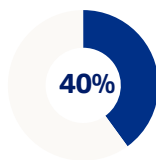
Attracting new customers / Limited customer base



35%

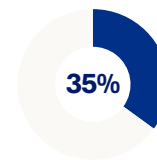
Adapting the offering to local customers' needs and requirements

Top 3 Payment-Related Challenges



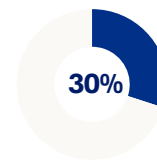
40%

Technology issues related to the integration of different payment methods



35%

Providing smooth and seamless payment experience



30%

Cross-border transaction fees and/or currency spread issues



Latvia



Cross-border selling can offer huge benefits for Latvian merchants. It is obvious there is much bigger market reach translating into massive sales growth potential. Local merchants take advantage of this opportunity. 92% of Latvian startups that have already started to sell are already actively pursuing international markets, and further 86% of these that operate only on domestic market, plan to expand internationally.

Key Cross-Border Sales Corridors in Latvia



45%

Germany



36%

Estonia

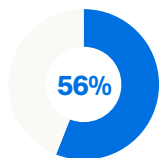


36%

US

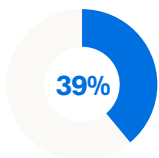
58% of surveyed startups in Latvia identified payment-related issues as challenging.

Top 3 Challenges Related to Cross-Border Sales



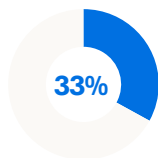
56%

Attracting new customers / Limited customer base



39%

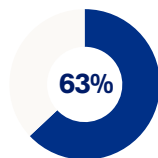
Adapting the offering to local customers' needs and requirements



33%

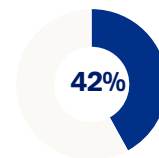
Limited marketing budget

Top 3 Payment-Related Challenges



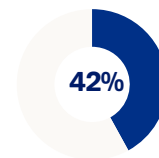
63%

Financial liquidity – quick receipt of payments



42%

Technology issues related to the integration of different payment methods



42%

Providing smooth and seamless payment experience





Lithuania

As the Lithuanian e-commerce market continues to grow, cross-border e-commerce may become increasingly important. Similarly to other Baltic countries, local players in Lithuania see a tremendous potential in expanding their reach and tapping into new markets. 81% of Lithuanian startups selling their products or services reach beyond their home market, and all the remaining 19% of companies operating only locally have international expansion in their business strategy for the years to come.

Key Cross-Border Sales Corridors in Lithuania



46%

US



46%

UK

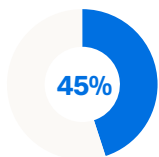


38%

Poland

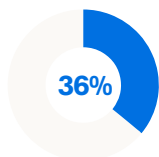
Almost every second startup in Lithuania that is actively pursuing international markets sells its products or services in US and UK, which are the most popular sales destinations for local businesses. Other important cross-border corridors explored by Lithuanian companies include Poland (38%) as well as Germany and Spain (indicated by 31% of respondents).

Top 3 Challenges Related to Cross-Border Sales



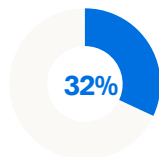
45%

Limited marketing budget



36%

Attracting new customers / Limited customer base



32%

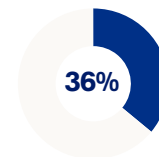
Lack of knowledge of other cultures and local customer habits

Top 3 Payment-Related Challenges



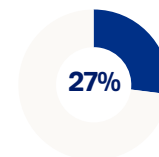
50%

Providing smooth and seamless payment experience



36%

Offering local payment methods



27%

Financial liquidity - quick receipt of payments

Poland



Unlike startup owners in smaller countries like Baltics, who think about international expansion from day one, many Polish entrepreneurs tend to first focus on establishing a strong domestic presence.

As a result, Poland, which is the largest of all four markets we surveyed, has the lowest percentage of early-stage companies selling cross-border. Only 65% of local startups selling their products or services reach international customers.

Key Cross-Border Sales Corridors in Poland



47%

Germany



47%

US

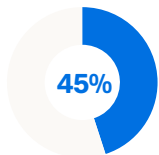


29%

UK

The Polish startup ecosystem is full of promising companies, many of which are yet to discover the tremendous opportunity of cross-border sales. By scaling their operations into new markets local merchants can increase their potential consumer base from slightly over 15 millions of people shopping online in Poland* to more than 2.7 billion online buyers globally**.

Top 3 Challenges Related to Cross-Border Sales



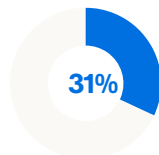
45%

Limited marketing budget



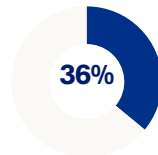
40%

Attracting new customers / Limited customer base



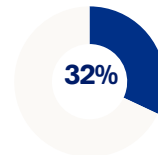
31%

Adapting the offering to local customers' needs and requirements



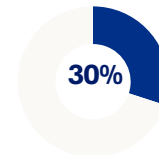
36%

Financial liquidity – quick receipt of payments



32%

Offering local payment methods



30%

Lack of customer service and/or lack of technical support

* Source: E-commerce in Poland 2024, Statista.

** Source: eMarketer, Global Ecommerce Forecast & Growth Projections, February 2022



About Authors



PayPal has been revolutionizing commerce globally for more than 25 years. Creating innovative experiences that make moving money, selling, and shopping simple, personalized, and secure, PayPal empowers consumers and businesses in approximately **200** markets to join and thrive in the global economy. For more information, visit <https://www.paypal.com>, <https://about.pypl.com/> and <https://investor.pypl.com/>

Startup HUB Poland is a non-profit organisation that was established with the mission to create a high-tech hub in Poland by bringing together outstanding Polish and international startups with inventors, entrepreneurs and scientists from around the world. It is one of the leading organisations in Central & Eastern Europe supporting startups at an early stage of development. In its activities it places great emphasis on knowledge transfer, exchange of experience and ideas in order to create a strong entrepreneurial ecosystem across the region.

For more information: www.startuphub.pl

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