

THE DRIVE SOUTH: WHY SOUTHERN EUROPE IS TAKING POLE POSITION ON TECHNOLOGY GROWTH

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Executive summary

OCO Global and talent.ai are pleased to present our analysis on growth in the Southern Europe technology sector.

Firstly, why are we doing this?

The European tech market has been suffering from several tensions:



Tensions on talent attraction and retention: tech companies are finding it difficult to fulfil their hiring needs. Traditional expansion locations for technology centric hiring in particular Eastern Europe are now experiencing signs of market saturation. This leads to the need to explore new locations that still have growth opportunity.



Tensions on salaries: inflation is not a new thing for the technology market. Salaries have been growing significantly over the past 10 years leading to narrowing alignment between Eastern and Western Europe. There are very few cost effective locations anymore in Europe!

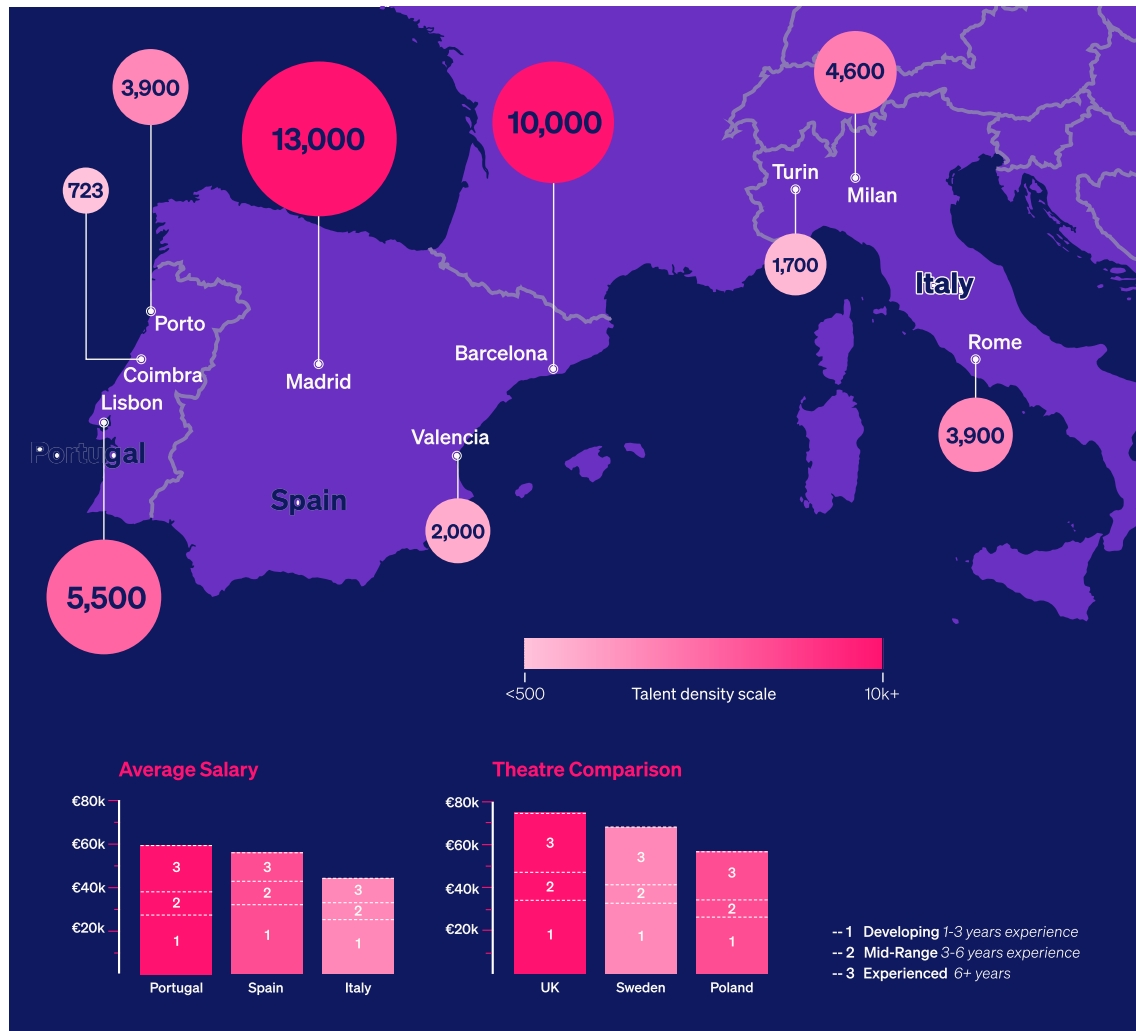


Geopolitical tensions: the war in Ukraine has been obviously a game-changer for many business leaders, redefining the vision of risk in Europe particularly in the Eastern region.

Southern European Software Engineering Talent Density & Salary Comparison

Engineering & Developer talent pools employed within the technology industry.
Minimum of 2 years working experience.
Working experience of one programming language;
Javascript, Python, Bash, Go, Pearl, Ruby, PHP, C#, Swift or R.

*Source: Radr by talent.ai



For some time, Southern Europe has been a maturing region. Portugal for example has a skilled labour force, lower average salary coupled with a Western Europe level infrastructure. The country is now home to 80,000+ IT specialists and welcomes the largest tech summit - Web Summit in annually.

Other Southern European neighbours are following Portugal's lead.

Spain has already started to shine, led by significant tech growth in Barcelona and Madrid. But there are locations which are evolving quickly including a fast growth tech scene in Málaga as one example.

When compared to its Southern European neighbours it's definitely Italy however that has the largest growth potential. With a sizeable labour force, its educational system and local ecosystem, Italy is showing all the signs of being a hot-spot for tech.



SECTION 1

EXISTING TALENT

LANDSCAPE —

EASTERN

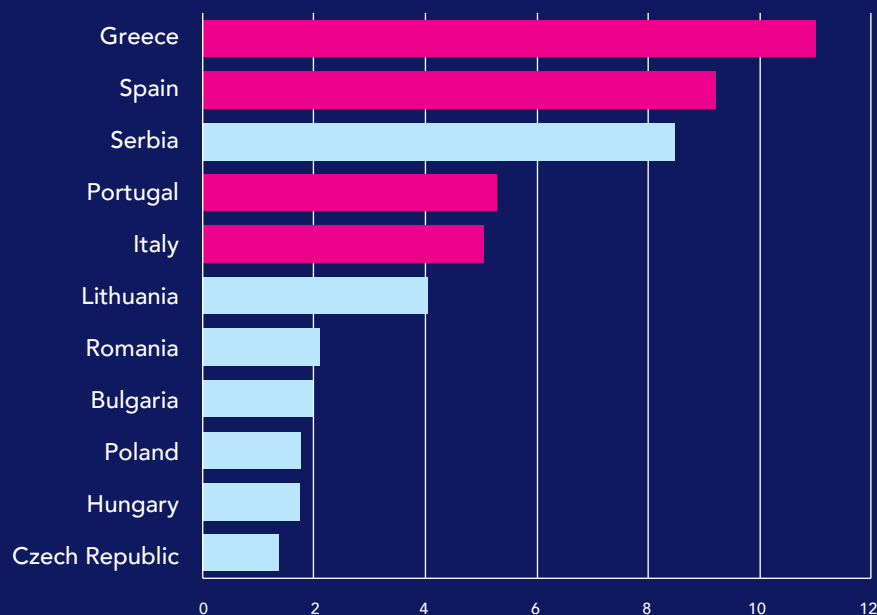
DOMINANCE



Central and Eastern Europe locations such as the Czech Republic, Hungary, Poland and the Baltics have commonly attracted tech investments due to their sizable and cost-effective skilled workforce. However, after a few decades of intensive expansion, these countries are close to reaching market saturation. This has ultimately been positive news for talent in these locations. For those with University educations, the unemployment rate now sits below 2% and salaries in the technology sector have increased on average by 10% year on year.

Unemployment with advanced education

(% of total labor force with advanced education)



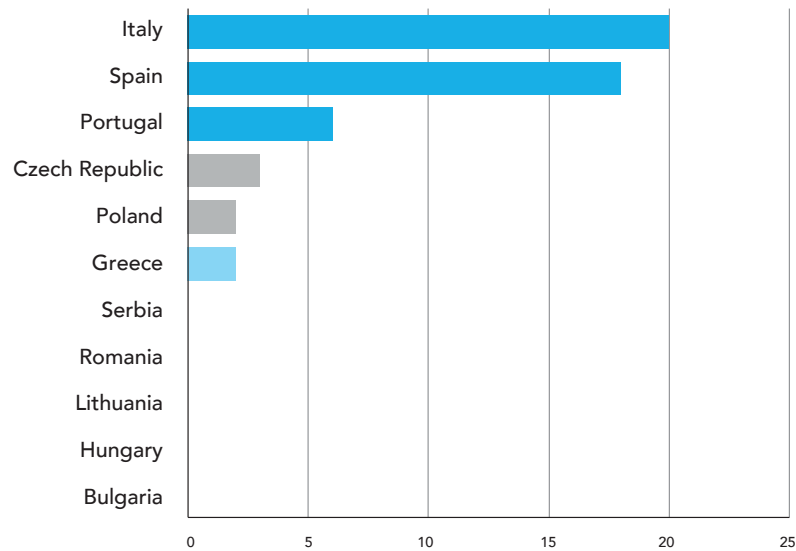
Source: fDi Intelligence from the Financial Times based on Economist Intelligence Unit; International Labour Organization

The rise in salary, living standards and career opportunities has had the knock on effect of making onboarding talent in the region more challenging. Because of this, investors and scaling companies have tended to venture further East. Companies follow a familiar strategy as they look to monopolise cost savings whilst opening new untapped talent markets. To this end, countries in the former Russian block and Turkey have attracted increased investments during the last 5 years.

Unfortunately due to the recent conflict in Ukraine and the associated risks this brings, company thinking is being reshaped. As the situation in Ukraine continues to develop and evolve, where should organisations look to scale for safer growth options?

In this study, we examine the potential of the Southern European region comprising Portugal, Spain and Italy. This well-established region has traditionally strong educational institutions as well as strong institutional support for growth in the technology sector. As an interesting comparison, Italy counts ten times more Universities specialising in Software Engineering than Poland, long held as one of Europe's most highly regarded producers of Technology talent.

Number of top 500 universities in computer science and engineering

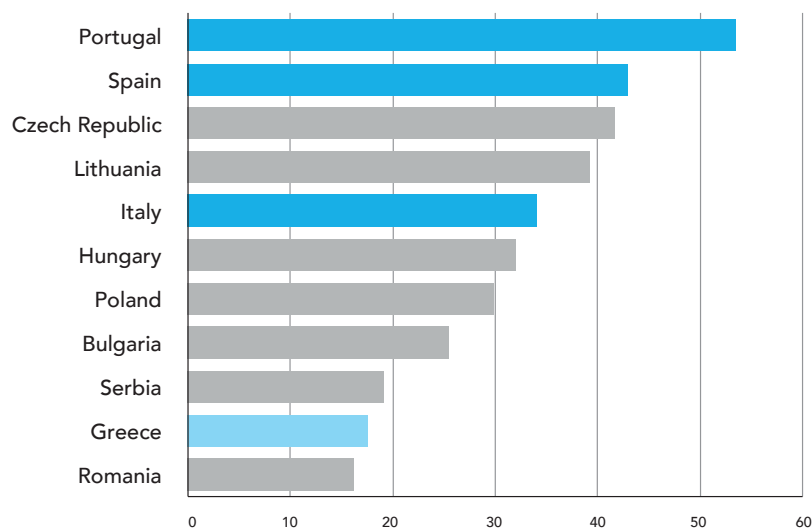


Source: fDi Intelligence from the Financial Times based on Academic Ranking of World Universities (ARWU) from Shanghai Jiao Tong University (GSE-SJTU)

Additionally, most people need little introduction to the fact that Mediterranean countries are well known for having an abundance of summer sun and mild winters. This clearly makes it a magnetic location for people looking to settle in a new environment where work life balance can be prioritised.

Does your country attract talented people from abroad?

(0 = not at all; 100 = attracts the best and brightest from around the world)



Source: The Global Talent Competitiveness Index from INSEAD based on World Economic Forum, Executive Opinion Survey

So with so much potential which location might be best equipped to provide much needed critical resources? We look more closely at each of the countries in detail.

SECTION 2

PORTUGAL'S RISE: A BLUEPRINT OF TECH SUCCESS IN THE SOUTH OF EUROPE



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The shining star of Southern Europe

Being home to hundreds of tech operations and scale-ups accounting for more than 80,000+ professionals, Portugal's Tech ecosystem has been significantly growing over the past years.

Many of the worlds biggest and well-known brands have been part of this journey, such as Microsoft, Volkswagen Digital Solutions, Mercedes-Benz, and Google who have opened all digital centres in the country over the past few years.



Source: AICEP

So, why this success?

What are these companies looking for in Portugal?

We can identify 5 key success factors:



Available workforce vs.
Eastern Europe



International
mindset



A strong push from the
government to build
a well-structured IT
ecosystem



Quality
of life



(Still) lower cost
vs. Western Europe

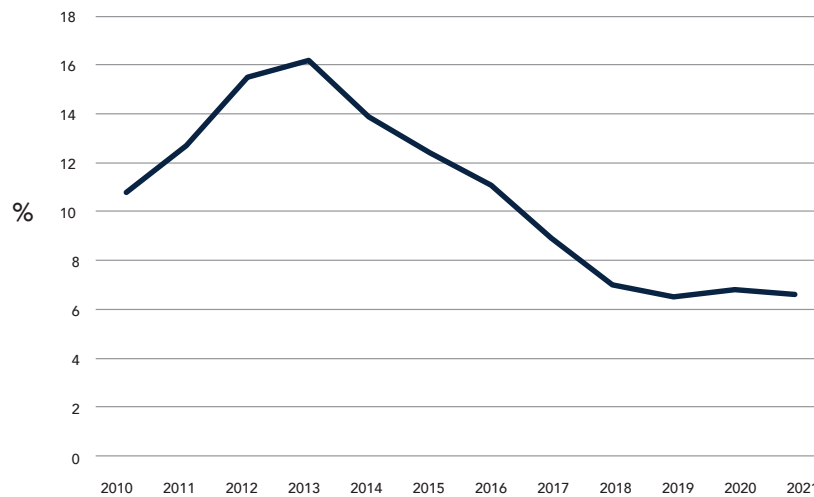
Available Workforce

At the top of the financial crisis of 2008, the unemployment rate reached 16% in Portugal, with strong consequences on youth unemployment and overall investment in the country.

This is one of the main reasons for the strong success of Portugal since 2015. With the availability of skilled human resources starting to strain in places like Czech Republic, Poland and Hungary, a lot of young and skilled people were waiting for new jobs elsewhere in Western Europe.

Unemployment rate in Portugal

In % - 2010-2021



Source: World Bank

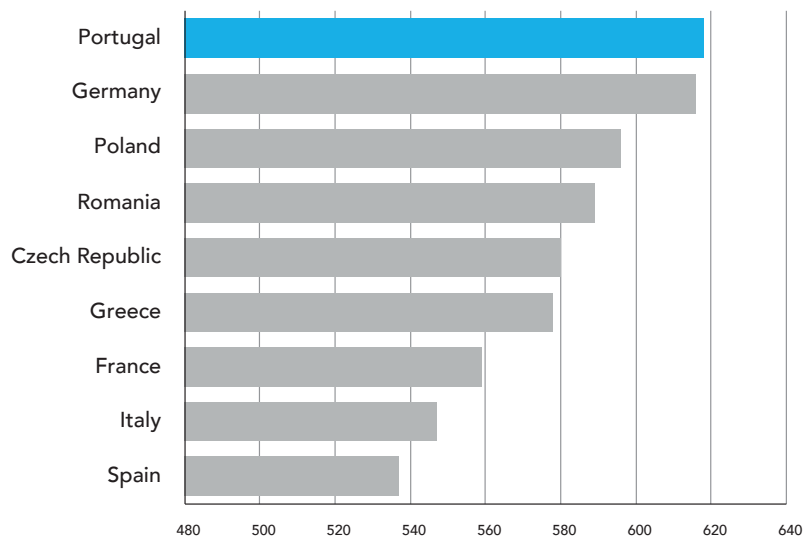
Tech and services companies benefited and started to invest and grow. Today, unemployment has fallen to 6%, which has the net result of increasing salaries and renewed competition for tech sector talent.

An international mindset, appealing to foreign investors

Foreign companies came to Portugal in the first place to find available people but also to find English-speaking talent willing to be part of cross-border projects.

English Proficiency Index

(0-800, max = 800)



Source: EF English Proficiency Index

As the data demonstrates, Portugal has a very high rate of English proficiency when compared to both its Southern European neighbours as well as Eastern European countries including Poland.

Strong governmental push

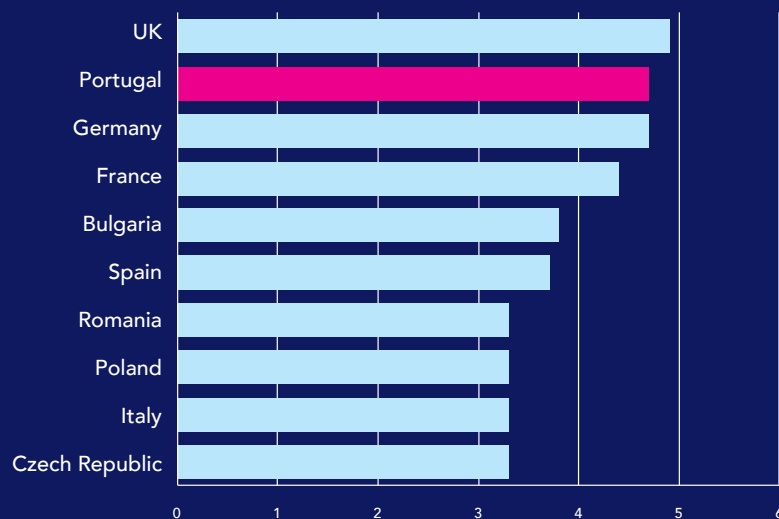
To support growth, the Portuguese Government has been providing infrastructure support to new companies and start-ups, including offering incentives to broaden its Tech ecosystem further

The best example is the Tech flagship, Web Summit, which has hosted more than 40,000 people each year in Lisbon since relocating from Dublin in 2016.

In addition, new projects are popping up such as the **Beato Creative Hub in Lisbon** which is a 50,000 sqm dedicated to start-ups and future unicorns.



Importance of ICTs and Tech to government vision of the future (1 = no plan 7 = clear plan)



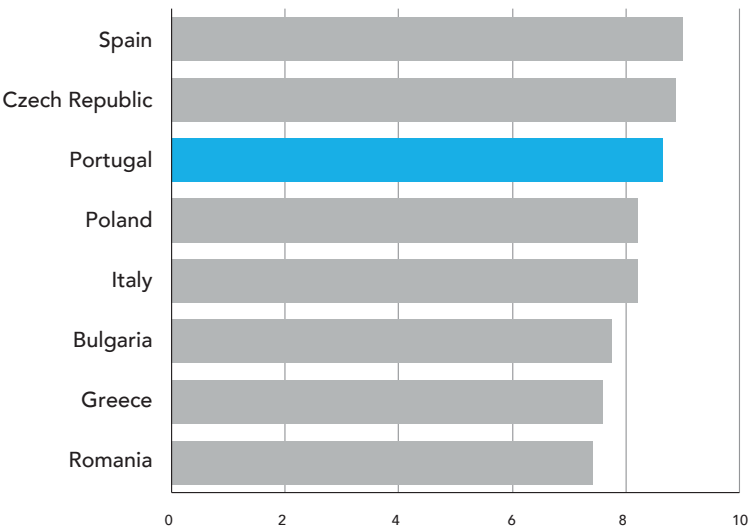
Source: Global Information Technology Report, World Economic Forum

Portugal, an attractive place to live

Portugal benefits from the Mediterranean premium, meaning a natural attractiveness that Central and Eastern Europe struggle to compete with.

Country quality of living index

Rating 0-10 (0=lowest quality of living; 10=highest quality of living)

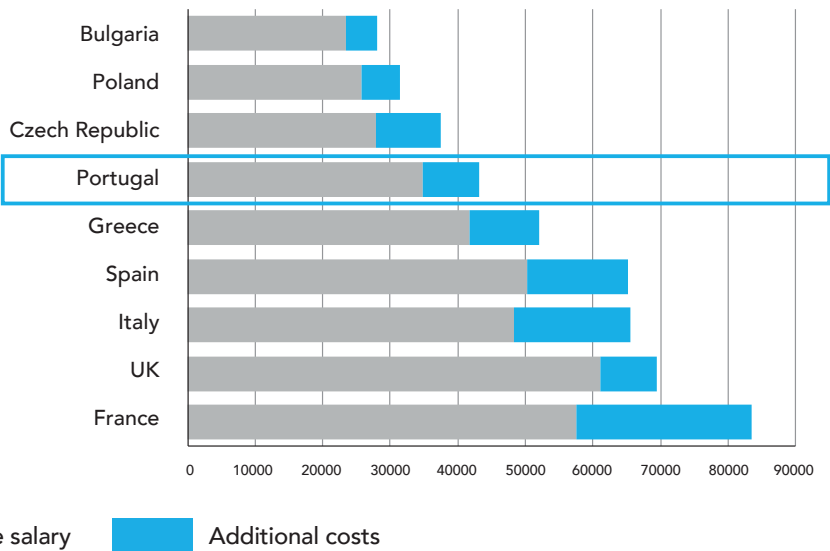


Source: fDi Intelligence from the Financial Times

Even though market saturation has increased costs over the past year, Portugal remains a cost-competitive location, in particular versus Western Europe. It is still 37% cheaper to hire a software engineer than the UK and has comparable salaries compared to the Central Europe region.

Annual costs for employer – Software development engineer

USD per annum



Base salary Additional costs

Source: fDi Intelligence

SECTION 3

THE CONTENDER: SPAIN'S PUSH FOR TECH RECOGNITION



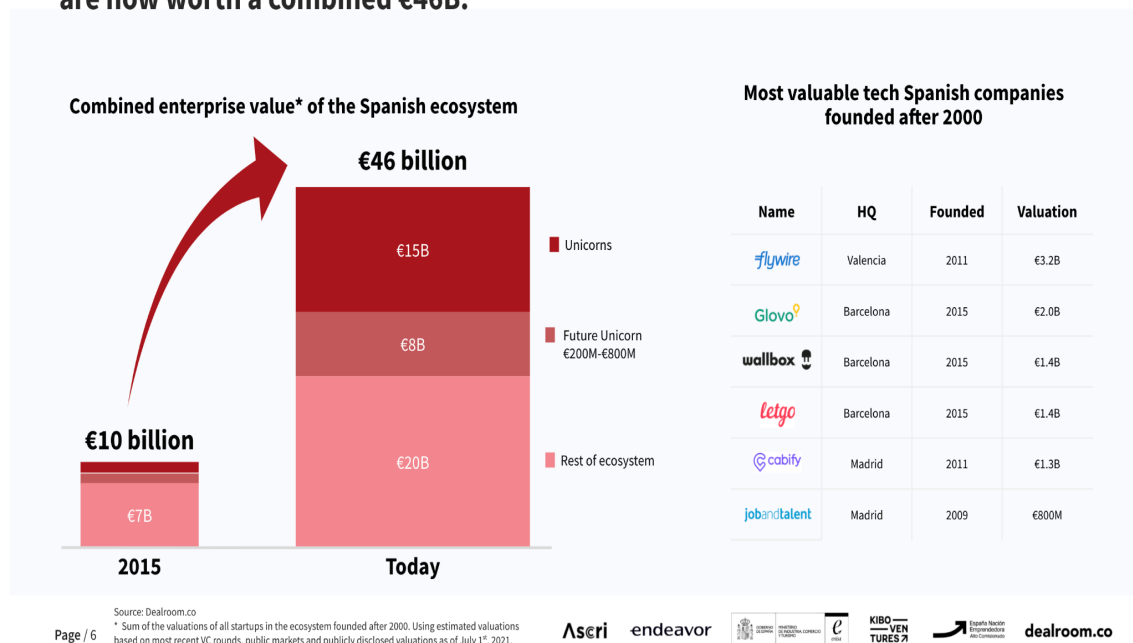
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Always been regarded as one of the most attractive Southern European countries in terms of natural beauty and cultural interest. Spain is a country that always ranks highly in terms of lifestyle and work-life balance. Recently however the country has been seen to be awakening as a Technology hub. With both established organisations tapping into the local talent pool as well as early-stage companies setting up and expanding with increasing regularity.

This hasn't happened overnight, in fact, the country has witnessed year-on-year technology revenue growth for close to a decade.

The Spanish startup ecosystem has grown 5x in value since 2015. Spanish startups are now worth a combined €46B.



Government support for tech and startups

The importance of the growing technology sector to the overall Spanish economy is clear. In 2021, Spanish Prime Minister, Pedro Sanchez travelled to Silicon Valley in order to meet the leadership of global brands including Apple, Intel, Qualcomm, Paypal and Zoom. High on the agenda were investment incentives for these global brands to participate in the continued digitalization of the country.

The Government has also laid down administrative goals for the country to become a leader in areas of developing technology including Cyber Security, Quantum Computing and Artificial Intelligence. To succeed in this, the government are supporting the sector with a number of innovative measures including;

- An upcoming Startup law that aims to help new tech companies with tax exemptions, removing obstacles for founders, and simplifying the process of starting a business for entrepreneurs
- A new law recently enacted allows highly skilled digital nomads to work remotely and live in the country, improving the scope of in-country talent
- Increased investment, the government has pledged to invest over €4.5 billion in 2023 to boost startup communities.

Growth Hubs

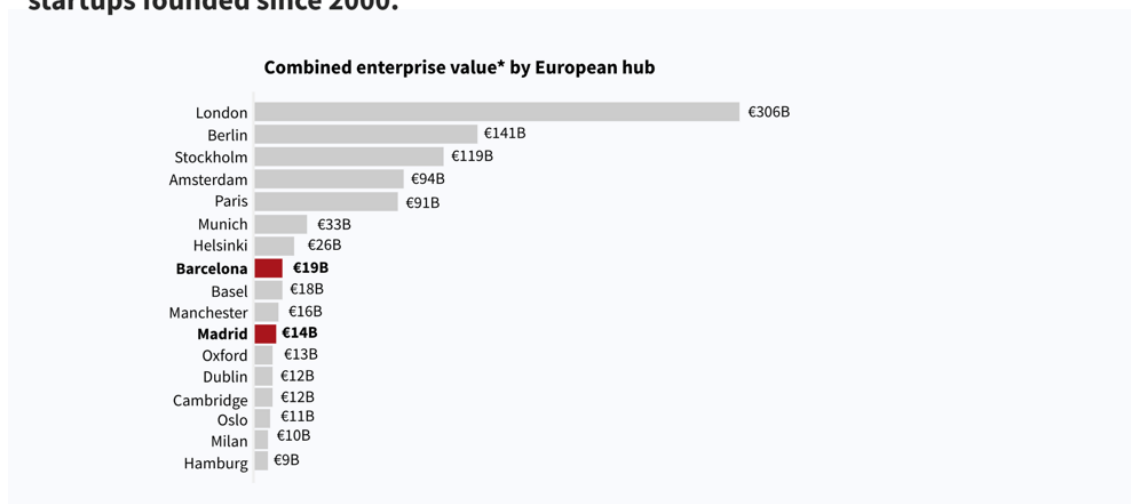
The country is also delivering on a strategy to build and support multiple Technology hubs with the aim of diversifying the sector outside of the obvious locations of Madrid and Barcelona. To date, fast-growth tech hubs are emerging in Valencia, Andalucía as well as the North West region. Each of these hubs has classically been built around a Technology centric University. The strategy has been widely supported and is proving to retain talent, preventing the so-called brain drain as well as helping to attract investment from international business.

This being true, Madrid and Barcelona are still very much the honey pots for established startups. Both cities boast a healthy ecosystem of talent and can point to numerous business growth successes.

The country has now “birthed” 9 separate Unicorns across at least 3 different home locations;

- **Barcelona:** Travelperk, Glovo, Edreams and Wallbox were all created in the Catalan capital. These and other scaling organisations helped generate an impressive combined enterprise tech value of €19 billion in 2021
- **Madrid:** Unicorns created in the capital include Devo, Jobandtalent, Cabify and Idealista. Madrid’s technology scale up sector was worth at least €14 billion in combined enterprise value by the end of 2021
- **Valencia and Málaga:** In the rest of the country, Unicorn scale up FlyWire was created in Valencia before officially relocating its HQ to Boston, USA. In Málaga, the local ecosystem has been significantly enriched through major local investments from Google, and Vodafone. Ernst & Young also recently committed to increase its presence in the Málaga Techpark from 500 to 2,500 employees by 2025.

Barcelona and Madrid are the most valuable Spanish startup hubs, based on startups founded since 2000.



Source: Dealroom.co.
* Sum of the valuations of all startups in the ecosystem founded after 2000. Using estimated valuations based on most recent VC rounds, public markets and publicly disclosed valuations as of July 1st, 2021.

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SECTION 4

THE NEXT BIG THING: ITALY'S UNTAPPED TECH POTENTIAL



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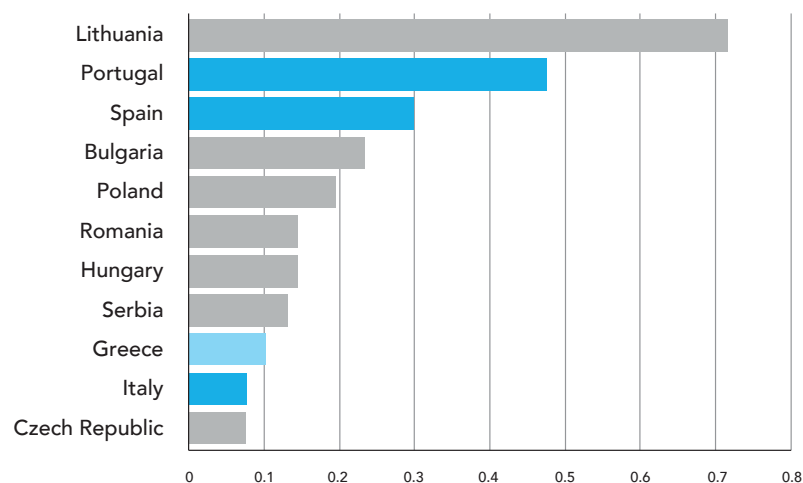
The potential hidden diamond

Traditionally, Italy has been world renowned for luxury brands, its automotive sector as well various food and produce exports. Like its Southern European neighbours, Italy shares many natural advantages: culture rich cities, warm weather and a beautiful coastline. Recently, however, it's the evolution of its tech scene that is really beginning to catch people's attention.

Despite being one of Europe's largest economies, Italy's tech sector has seen a slow rise. Over the last 5 years, the country ranks 12th in Europe in terms of Venture Capital investment. Globally, the country sits outside the top 30. It has also ranked poorly in terms of the amount of international funding it has received.

Number of greenfield FDI projects in software and IT services attracted into the location

FDI attracted since 2003, per 100,000 population.

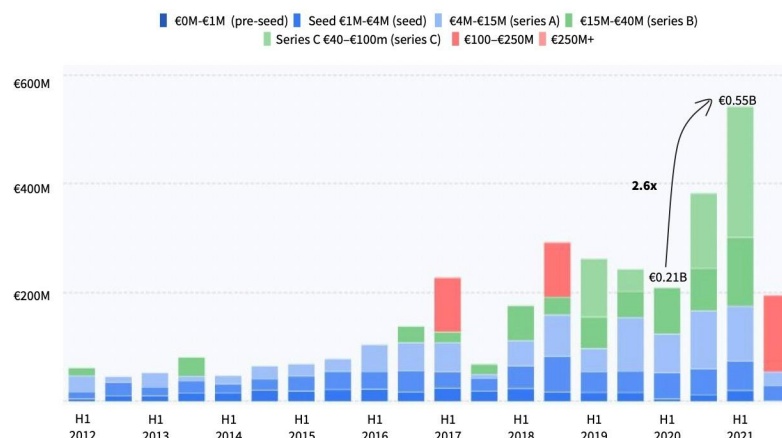


Source: fDi Intelligence from the Financial Times based on fDi Markets

However, there is room for optimism as the Government is laying foundations to help the country to accelerate out of its rather modest technology history.

In the last two years alone Italy has broken its own records in VC funding and celebrated the birth of two Tech unicorns. The country has also made significant improvements to laws focused on creating a friendly business environment for growth in the technology sector.

Venture capital funding in Italy in H1 has grown 2.6x from last year...



Source: Dealroom.co

Government - The Enabler

The Italian government is fostering development in the tech sector with considerable determination. It recently created one of the most favourable startup laws in the EU, adding tax breaks and exemptions for new companies. At the same time, enabling international technology talent to relocate to Italy with increased simplicity.

Having realised the impact that a burgeoning technology sector has had in other comparable countries, the administration is focused on nurturing their own tech ecosystem.

Since June 2020 the government has directly created the **Fondo Nazionale Innovazione** from which it directly invests in new tech companies. This fund is a €1 billion investment program to boost the ecosystem with a goal to reach a €3 Billion valuation by 2023. The FNI is divided into 7 programs, covering everything from AI to Biotech as well as Accelerator programs such as **Accelerator Imprese** and **Digital Xcelerator**. These programs offer learning tools, mentorship, networking and advisory support for startups and SMEs.

Startups can also access funds from the **ENEA Tech foundation** and the **Recovery Fund**, which are both publicly organised institutions looking to support startups during their growth stage.

The **Italian "Start-Up Act"** has also been put in place to help tech hubs and startups gain early scale. This creates one law to empower tech startups and companies by making it easier to start corporations through significant tax breaks and exemptions. The government has created tailor-made labour laws with access to further economic and bureaucratic incentives.

The national administration has also taken steps to make it easier for skilled technology professionals to come to work in Italy from other parts of the world. The country has recently premiered a new **"digital nomad visa"** creating relocation flexibility for people with sought-after tech skills.

The evolving talent landscape

Italy's second-largest city, **Milan** has the most established startup ecosystem - home to over 300 companies - the highest concentration in the country. The talent ecosystem in Milan is supported by a significant output of diverse talent from five individual Universities, including one of the largest Universities in Europe - University of Milan.

The Italian capital **Rome** is developing a fast-paced startup ecosystem of its own. The city boasts as many as twenty individual technology incubators and accelerators as well as Europe's largest university - **Sapienza, University of Rome**.

In **Turin**, the city hosts world-recognized polytechnic schools that **graduate around 5,000 students every year in many different technological fields**. Turin is also gaining further recognition, as the host of the 2022 Italian Tech Week.

In the far south of the country, the **University of Naples Federico II** and tech giant Apple have jointly created a program that certifies around 400 developers a year, which has just been extended until 2025.

Italy's startup scene today

During the first half of 2022, in a supposed funding crunch, Italian startups have received close to \$1 billion in investment. This ranks close to the all-time national high of \$1.4 billion in VC funding received during 2021.

In another indication of positive development, the country also achieved its first two unicorns in Scalapay and Satispay who have reached a \$1 Billion+ valuation this year. A number of other companies also have the potential for significant growth including Casavo, Everli and Vedrai who have each received significant investment this year.

Summary

For companies looking to achieve organisational scope and scale, the Southern European region offers a highly credible expansion location. We have created this feature to showcase the attributes of each of the countries in the study. Although having differing locational features and benefits both OCO Global and talent.ai strongly advocate the possible expansion and growth opportunities in region in the years ahead.

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CONTACT



Vincent Raufast

Director Southern Europe - OCO Global

E-mail: vincent.raufast@ocoglobal.com



Loïc Blanc

Corporate expansion and site selection leader – OCO Global

E-mail: loic.blanc@ocoglobal.com



Tim Hosking

Founder – Talent AI

Email: Tim@talent.ai



Mary Superlano

Content specialist – Talent AI

E-mail: mary@talent.ai

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