Why Europe isn't creating any Googles or Facebooks

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This is a Friday Jan. 27, 2006 file photo of Co-Founder and CEO of Skype Niklas Zennstroem listens during a plenary entitled 'Digital 2.0:Powering a Creative Economy' at the World Economic Forum in Davos, Switzerland. Europe's success stories include online calling service Skype, which started as a Swedish-Estonian venture, and the Swedish commercial music streaming service Spotify, which has over 60 million users worldwide. Two years after Skype started, it was sold to eBay for $2.6 billion and eventually Microsoft acquired it in 2011 for $8.5 billion. (AP Photo/Michel Euler, File)

Micha Benoliel grew up in France and launched his first technology startup there, but he never forgot the atmosphere of adventure and optimism in San Francisco, where he studied in the early 1990s.

So when he came up with an idea for a smartphone app that could send messages without Internet or cellular connections, he went back to California in 2011 to pursue his dream.

"I knew the only way to change the world was from here," says Benoliel, the CEO of Open Garden, the maker of the FireChat messaging app.

As technology upends industries and lifestyles at breakneck pace, the Old Continent is not producing any of the online giants like Google, eBay or Facebook. Its best and brightest prefer to emigrate to Silicon Valley, or sell their ideas on to U.S. firms before they have a chance to establish themselves.

The European Union's top executives in Brussels are trying to rectify that with a long-term plan of reforms and incentives but face an uphill battle. The 28-nation bloc is, above all, lacking in the risk-taking culture and financial networks needed to grow Internet startups into globally dominant companies.

"In the U.S., especially in Silicon Valley, they are up for any crazy idea," said Benoliel, 43. "Successful businesses often come from crazy ideas."

Europe's relatively cautious attitude to investment stands out as one of the biggest hurdles—and among the most difficult to change.

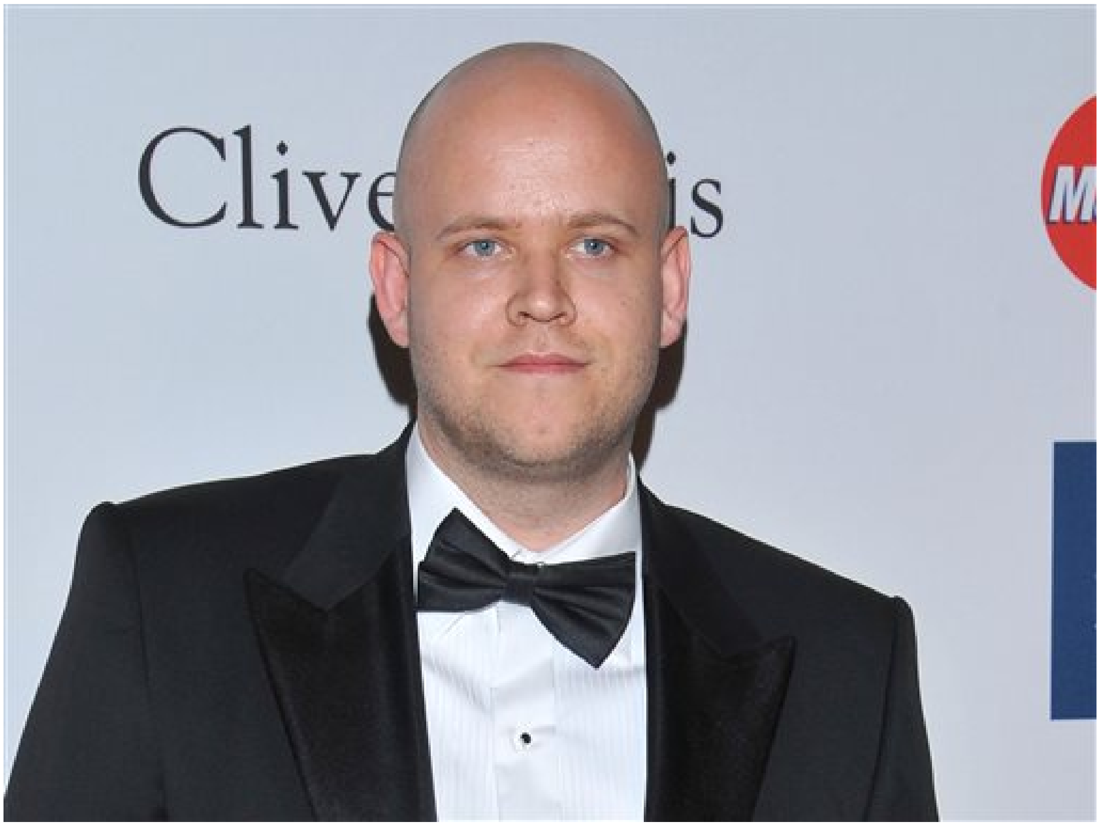
Investors in Europe want to see that a young company can generate revenue from the start. Europe's many high-technology companies are focused on manufactured goods that can be sold right away to generate revenue—industrial equipment, energy turbines, high-speed trains, medical devices, and nuclear energy.

By contrast, Internet companies often have little to no revenue at the beginning. Twitter and Facebook, for example, first focused on building up their user numbers. Only once they were established as global forces did they put more attention to making money, through advertising and other strategies.

This difference in mentality stands out as one of the key reasons that Europe has fewer venture capital firms and less investment in startups than the U.S. or Asia.

Over the past five years, U.S. venture capitalists spent $167 billion on new business ideas compared with some $20 billion by their European counterparts, according to the National Venture Capital Association.

Last year alone, U.S. investment in startup companies was $50 billion, with nearly half of that amount in Silicon Valley. The European equivalent paled at $4 billion.



In this Feb. 11, 2012, file photo, Spotify CEO Daniel Ek arrives at the Pre-Grammy Gala & Salute to Industry Icons with Clive Davis honoring Richard Branson, in Beverly Hills, Calif. European success stories include online calling service Skype, which started as a Swedish-Estonian venture, and the Swedish commercial music streaming service Spotify, which has over 60 million users worldwide. (AP Photo/Vince Bucci, File)

Asia, which has seen the rise of Internet retailer Alibaba in recent years, also outshone Europe, with venture capital totaling $22.5 billion in 2014, according to Preqin, a data analysis company. That figure is set to surge further this year, with $23 billion invested already by the end of August.

Early investment is crucial for startups to be able to get their products to market quickly. With technology, several competitors often work on the same idea and race to get out their product first and make it stand out.

"These are very fast-moving, winner-take-all industries, so if you are slow on the uptake then you will be done from the beginning," said Anand Sanwal, CEO of CB Insights, a New York research firm that tracks Internet startups.

Part of Europe's struggle to compete in online technology is not specific to itself, but a reflection of how Silicon Valley has been able to create a community of tech specialists and venture capitalists who can meet easily, exchange ideas and strike up new collaborations.

"It's really a venture capital oligopoly where a few people who have tons of cash agree among themselves to invest in something and that can't be done in places where investors don't meet in the same way," said Anssi Vanjoki, a professor at Finland's Lappeenranta University of Technology who was chief of mobile phones at Nokia when the company was the world's top handset maker.

It takes time to foster such communities. Even within the U.S., other cities and regions have tried and failed to replicate Silicon Valley's success, with the exception perhaps of Seattle, Washington, where Amazon and Microsoft are based.

Europe's startup culture has been further hindered by the fact that in many EU countries it often takes more paperwork, time and money to do business than in the U.S. For example, the stronger social safety nets make it harder to fire a worker, which in turn makes it a riskier proposition to expand staff for a startup.

The markets of Europe also remain fragmented. Expanding operations across the continent is made more difficult because business laws and languages are different from one country to the next. By contrast, starting off in the U.S. gives a company a single English-speaking market of 320 million people within which to grow.

Some European companies have made the extra push and reached global proportions, though none has hit the rarefied levels of Google and Facebook.

Local success stories include online calling service Skype, which started as a Swedish-Estonian venture, and the Swedish commercial music streaming service Spotify, which has over 60 million users worldwide. Two years after Skype started, it was sold to eBay for $2.6 billion and eventually Microsoft acquired it in 2011 for $8.5 billion.

Meanwhile, the Finnish are cornering the market for mobile gaming. After Nokia's cellphone demise, a startup culture flourished in Finland, helping to create a booming mobile game industry with companies like Rovio and Supercell, which created the hugely popular Angry Birds and Clash of Clans games.

In 2013, Supercell sold a 51 percent stake to Japan's SoftBank and GungHo for 1.5 billion euros.

Niklas Zennstrom, the Swedish co-founder of Skype and now CEO of Atomico, a technology investment firm based in London, says things are improving. "Since I started Skype in 2002, the market has changed tremendously for the better," he said recently at a European venture capital conference in Geneva.

The EU's executive Commission in Brussels has a long-term plan to speed things up and help European startups become the next big Internet company.

It aims on the one hand to make a more unified EU market by reducing red tape and differences in business laws. On the other, it is taking a tougher stance on dominant Internet companies, particularly Google, to foster competition.

Experts say that while the policies might help, they are unlikely to be enough in themselves.

"Legislation will always create a context for growth, whether that's through taxation or incentives, but the real value comes from connections between people and a focus and real desire on solving real human problems," says Duncan Lamb, who was a software designer at Nokia and is now the new design director at TransferWise.com, a financial services online company based in London and Tallinn, Estonia.

"It's 100 percent about people."

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