THE EUROPEAN EXPANSION REPORT

How US Software Companies Win (and Lose) In Europe
2023

Frontline

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About Frontline

Frontline Growth is the only VC fund for North American companies looking to expand to Europe.

We invest in IPO-track B2B software companies at Series B-D, and provide hands-on support to Founders and Leadership teams to ensure fast and frictionless European expansion. Our portfolio includes Lattice, Navan, Vanta, Attentive and MosaicML, to name a few.

INTRODUCTION

In 2020 we published our first European Expansion Report, where we studied the expansions of nearly 200 US software startups over the previous 15 years. We analyzed over 300,000 data points, from hiring patterns to HQ selection and go-to-market strategies. The rapid rise of the European startup ecosystem over the last few years has made European expansion an urgent priority for top-tier founders, and an attractive growth lever in a challenging economic climate. Given the amount of change, we decided it was time to revisit our analysis to understand what aspects of European expansion are the same and what has evolved.

Our original report explored five core topics CEOs are faced with when considering expanding into Europe – the size of the opportunity, the right time to expand, choosing the best location, GTM strategies, and hiring decisions. We've refreshed our research with an even larger, updated dataset, explored additional questions around European expansion, and incorporated new survey data we've collected from dozens of EMEA GMs at top US tech companies, both private and public. We're excited to share our 2023 European Expansion Report.

Is European Expansion Still Relevant in 2023?

The answer is Yes. Europe is a huge market, representing up to 40% of global revenue for public software businesses, and the strength of today's European tech ecosystem makes ignoring the region a costly mistake. Startup CEOs face an array of challenges, and in the midst of juggling all of their responsibilities it can be tempting to put off discussions around expanding into Europe. The emphasis on efficient growth has led some to de-prioritize international markets, often on the recommendation of board members. Companies with remote or distributed teams may mistakenly consider themselves "default-global" despite not having a deep understanding of the markets they aim to serve. And the rise of Product-Led Growth (PLG) business models has led some CEOs to believe that traditional market-based go-to-market strategies are not applicable to them. These are just some of the common misconceptions CEOs should be aware of.

Not only is the European opportunity as large as ever, but it's becoming increasingly difficult to navigate the competitive landscape as formidable European companies emerge across every sector. Talent decisions are more critical than ever, as the modern business environment requires experienced, high-quality leaders capable of managing in adverse conditions. And the cost of making mistakes with expansion, both in terms of capital and time, carries more dramatic implications now that we've left behind the days of cheap and readily-available capital.

STRUCTURE OF THIS REPORT

As the public market correction reverberated through the private technology sector, most companies have spent the last year adjusting away from a "growth at all cost" mentality, to a focus on productivity and efficiency. This recalibration of fundamental business metrics is healthy. However, it has also led some CEOs to over-adjust to the detriment of growth. This includes pausing or delaying plans for expansion into new geographies.

Deciding how to balance growth investment with efficiency can be difficult and intimidating. This report is organized around six topics to help CEOs focus on the decisions that matter most:

1. **Market & Expansion Data**
2. **Timing**
3. **Go-to-Market**
4. **HQ Location**
5. **Talent, Org Design and Culture**
6. **Product Localization**

For each section, we've analyzed the latest market data and offered our perspective with "The Frontline View."

KEY FINDINGS

While there are a lot of new findings from our research, four primary observations stand out:

The consequences of delaying European expansions are higher than ever

Increased availability of capital and the strengthening of the European startup ecosystem has raised the stakes, making the decision on when to expand to Europe more critical than ever for CEOs of high-growth US companies.

Europe accounts for up to 40% of global revenues for top performing US companies at IPO

The market opportunity in Europe remains larger than most CEOs appreciate. The majority of companies aren't capturing this and continue to leave tremendous value on the table.

Capital Market volatility is a strong predictor of European expansion rates

Capital market oscillations over the past decade are clearly reflected in expansion decisions and help predict how expansion rates will fluctuate in the future.

London, Dublin & Amsterdam are increasingly dominant as headquarter locations

When deciding where to land, companies increasingly concentrate in these top three cities, which now account for 90% of first offices in Europe.

When it comes to European expansion, experience matters more than innovation. Many of the problems you'll encounter are both known and solved, so it helps to have people on your side who've done it many times before. We hope our work steers you in the right direction.

This report should be a resource for any executive interested in European expansion, but we've aimed to make it particularly relevant for high-growth CEOs. Europe remains a critical market for every startup looking to build a global category-leading company, and successful European expansion must be a priority for any CEO on the path to IPO.

01.

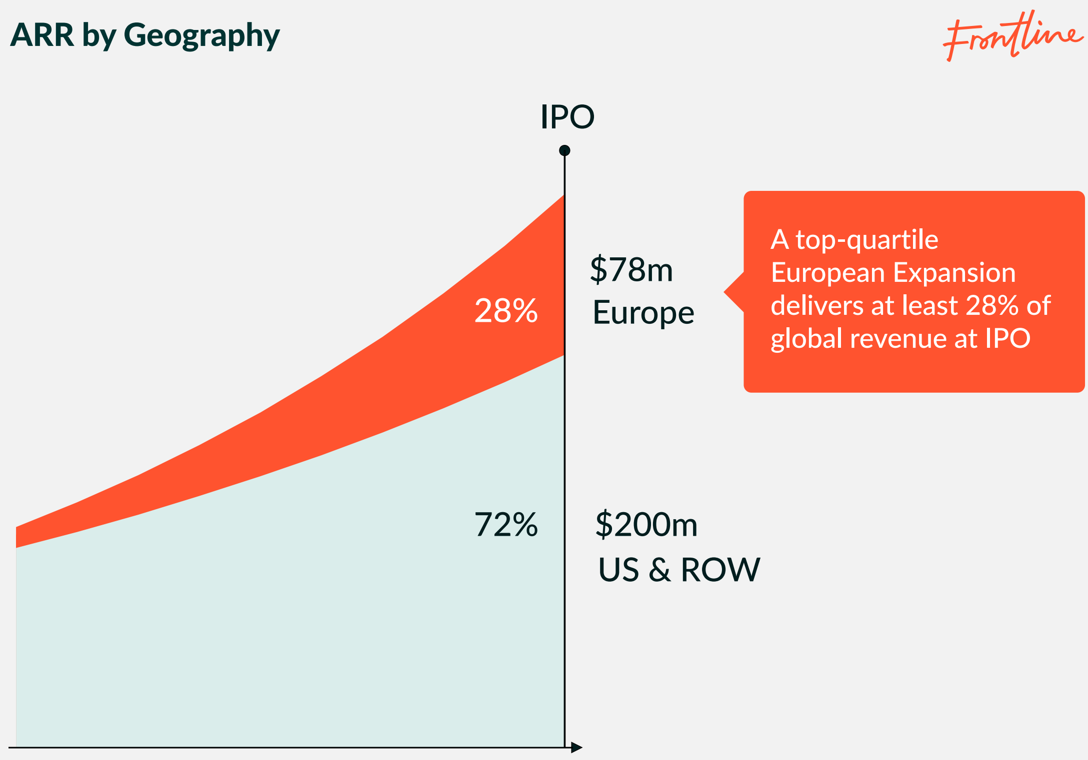
STATE OF EUROPEAN EXPANSION IN 2023

EUROPEAN EXPANSION REMAINS A KEY GROWTH LEVER FOR US COMPANIES

The European market is one of the largest in the world, with a population of over 740 million people and a combined GDP of approximately $18 trillion. For category-leading companies, Europe continues to represent a huge contribution to total revenue, with the top-quartile of companies reaching at least 28%, and most successful software companies generating over 40%, of their global revenue from Europe by the time they go public. That's around $80m ARR for a typical company going public today.

In the years leading up to IPO, US growth rates start to slow while European revenue growth accelerates. Expansion therefore improves companies' growth endurance — the ability to sustain revenue growth at scale. Thanks to international revenues, companies arrive at IPO growing 5% faster year-on-year than they would have with their US business alone.

ARR by Geography



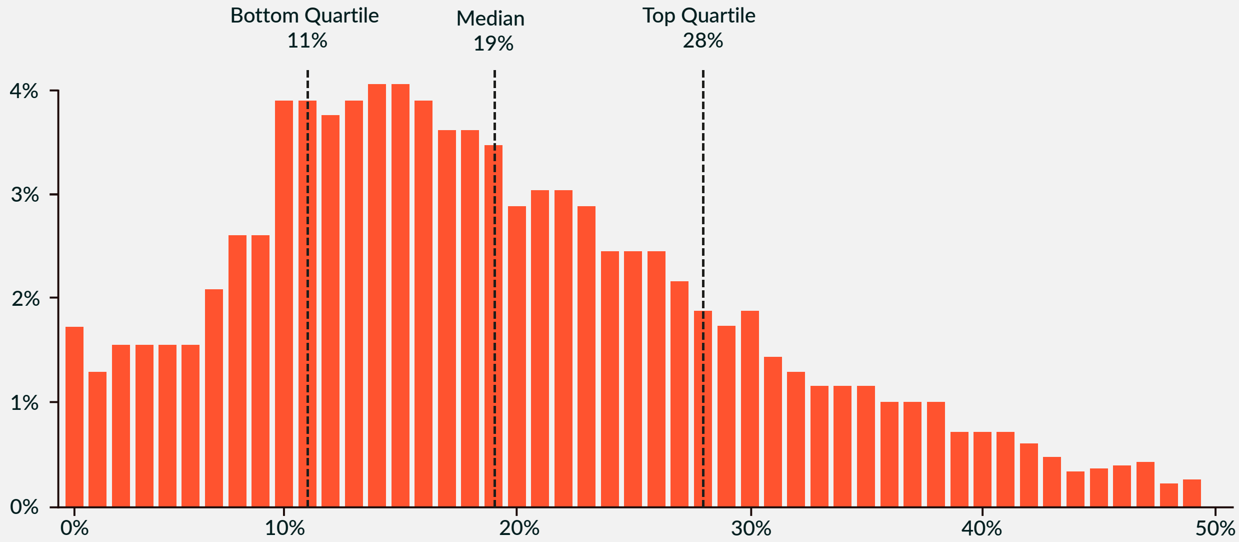
Revenues by geography reported in company S1s
ARR contribution from Europe for top quartile expansions

MOST US COMPANIES AREN'T CAPTURING THE VALUE

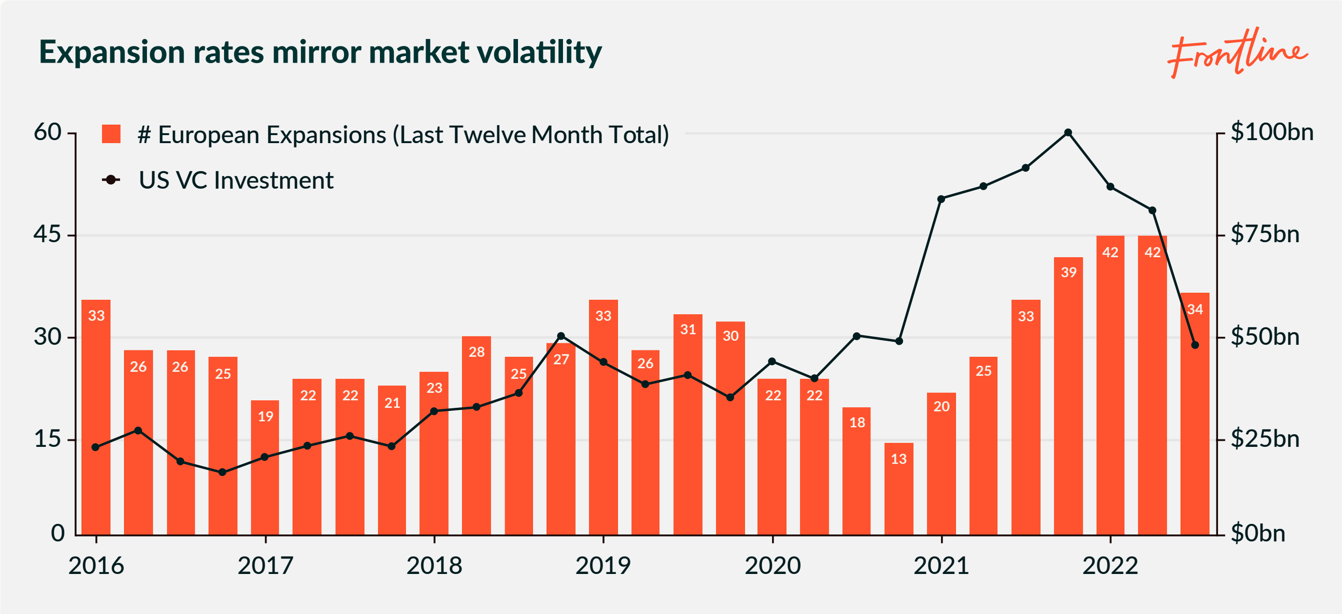
When we dig deeper into the data, Europe as a percentage of global revenue varies dramatically. The difference between the bottom quartile and top quartile represents a 17% increase in ARR. This gap also translates directly to Enterprise Value (EV) creation. We studied the history of S1 filings for SaaS IPOs over the last 10 years and found that European expansion has a material impact on exit value. For the median company, Europe provided a 31% boost in EV at IPO, while top-quartile expansions delivered a +55% lift in EV. For a company going public today, that's roughly $740m in incremental EV.

Despite the potential upside from Europe, companies arrive at IPO with vastly different shapes to their European business. Some have seized the opportunity, but the laggards are leaving substantial value on the table. Investing in Europe long before an IPO sets you up to maximize your Enterprise Value in public markets.

Distribution of companies by % of revenue from Europe



Source: Frontline Ventures Analysis of 50 B2B Software IPOs



Sources: Frontline Ventures analysis of 210 US B2B Software Expansions, PitchBook

EXPANSION RATES MIRROR MARKET VOLATILITY

Looking at European expansions on a quarterly basis, it's easy to see that expansion rates have followed the market turbulence over the last three years. Unsurprisingly, there was a decline in the number of European expansions as the pandemic unfolded throughout 2020. But in 2021 and 2022, levels quickly picked back up as delayed expansions materialized and companies looked to accelerate growth, fueled by a seemingly limitless availability of capital.

When we look deeper at the types of expansions, however, it turns out that Engineering-focused expansions have remained somewhat stable, whereas Sales-focused expansions are generally more volatile and reactive to market conditions. Engineering-focused expansions are core R&D spend. These expansions are about acquiring talent and are often focused on building a high-quality engineering team in a more cost-effective European market. Sales-focused expansions, on the other hand, are aimed at new customer acquisition and require incremental Sales and Marketing investment with a longer time horizon for return than investing in an established market.

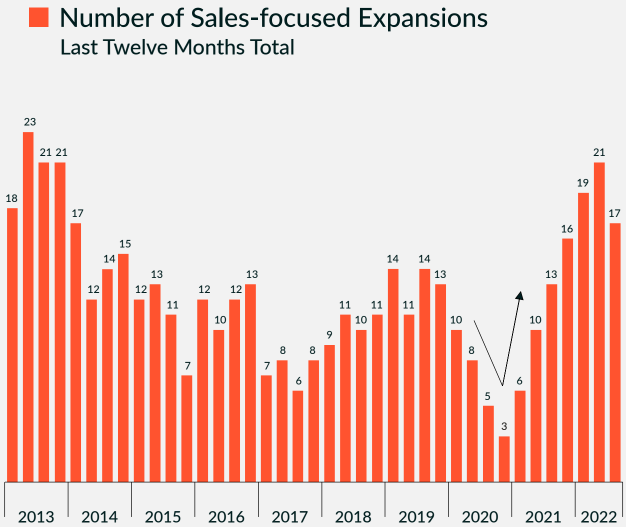
Throughout 2022, most startups adjusted plans to grow at a slower but more efficient rate, resulting in delayed investment in new growth areas. The latest data from Q3 2022 indicates that the rates of both Sales-focused and Engineering-focused expansions are slowing. As capital markets dried up, many companies pulled back investment across the board, and most conducted layoffs and took other cost-cutting measures to reduce burn and drive productivity.

It's reasonable to expect that European expansion rates will continue to mirror market volatility. However, this doesn't mean expansions aren't happening. Drops in expansion activity typically indicate delayed — not canceled — plans. Even when market conditions are less favorable, many companies are still investing in expansion.

EMEA plans need to sit within the company's broader strategy. If your product drives productivity or there's greenfield opportunity, grasp the moment. You might be one of the few that can accelerate while others pull back.

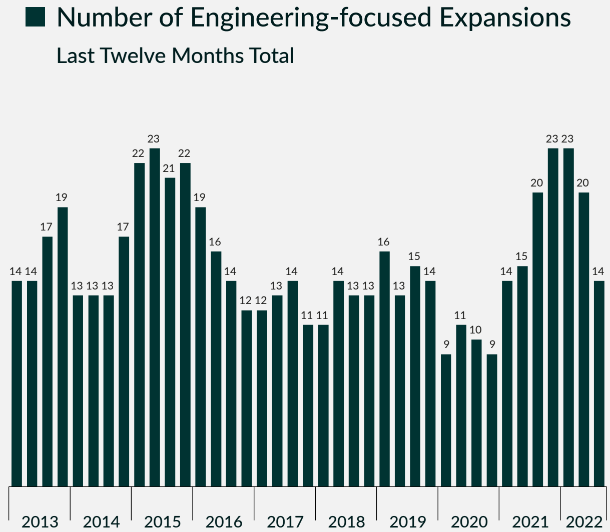
Wendy Harris,
SVP International, Gong

Sales-focused expansions follow market volatility



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

Engineering-focused expansions remain stable



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

THE FRONTLINE VIEW

Why aren't more companies fully capturing the value of the European markets?

On one hand, the wide variance in performance is not surprising, as many of the best companies still make a slow start in Europe. We've seen lots of misfires, with companies setting up HQ in remote jurisdictions for tax purposes, hiring English-speaking reps to sell in non-English territories, expanding too rapidly, or moving too late. Shifting from a laggard to a leader is achievable for nearly all high-growth software businesses. The main determinants of success for most companies are a handful of critical decisions and behavior changes that need to occur early in expansion.

At the same time, the amount of value being left on the table is shocking. Europe has been a core growth lever for decades, yet most US-based founders underestimate the size of the opportunity and overestimate their ability to capture it. Startup board members often have limited experience running a truly global company, and even fewer have direct operational experience leading expansion into European markets. We regularly work with founders who are being encouraged by investors to focus on the US market longer, under the misguided belief that Europe will be waiting down the road. But the evolution of the European tech ecosystem makes this a risky strategy. More on this in our Timing section.

Throughout 2021 and 2022, there was a dramatic shift towards fully-distributed and remote employment models. In addition, PLG go-to-market models grew in popularity. But having a distributed engineering team is not the same as strategically expanding into new markets. And for all the benefits of distributed employment, it is quickly becoming a blindspot for CEOs who have hired remotely in Europe and think they've cracked the continent.

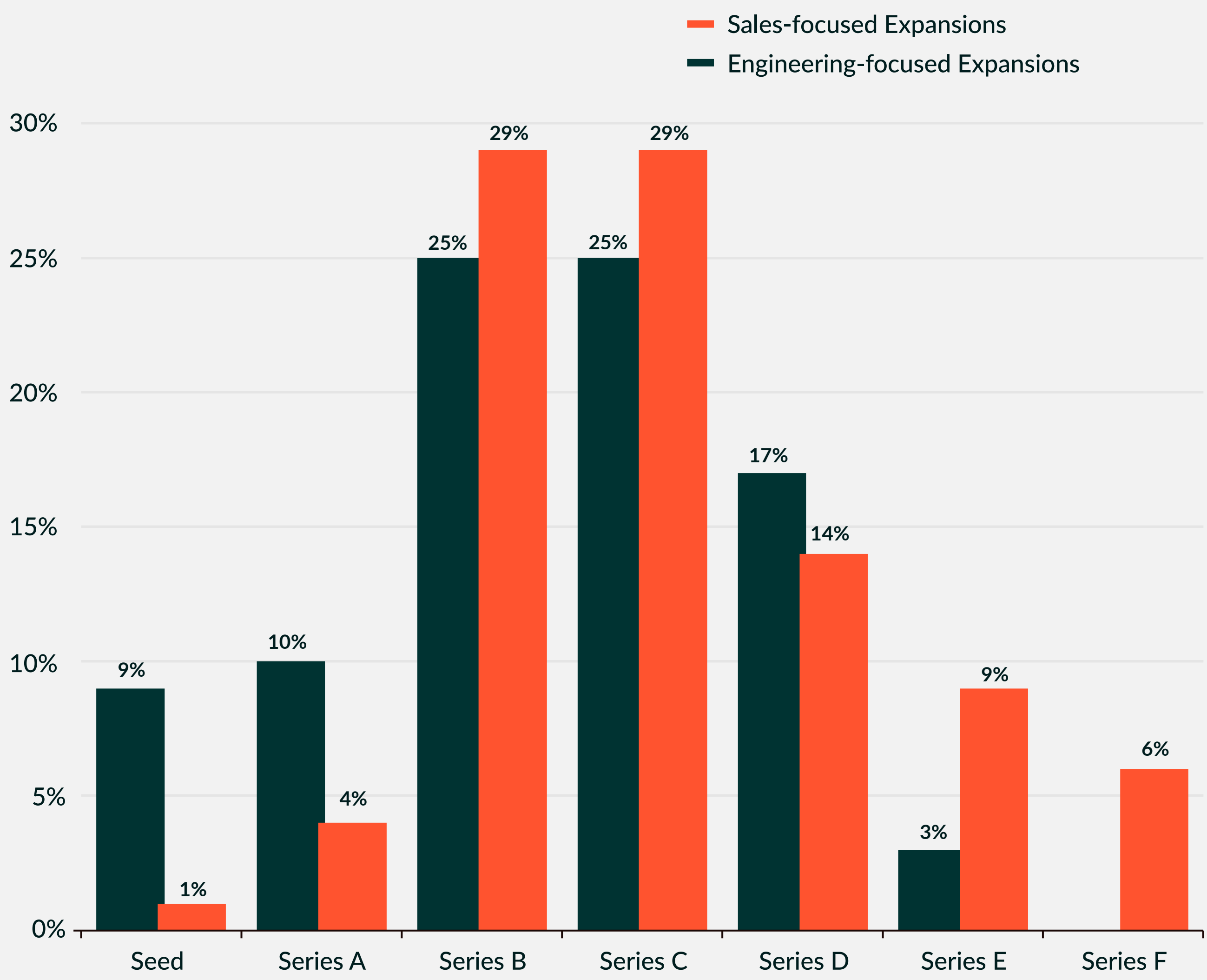
02.
TIMING

EUROPEAN EXPANSION TIMING HAS REMAINED STABLE

Deciding the right time to expand internationally has always been a key decision for CEOs. As the largest addressable market outside of the US, Europe is usually the first region considered. Despite changing expansion rates over the years, the data around expansion timing relative to a company's age has remained consistent.

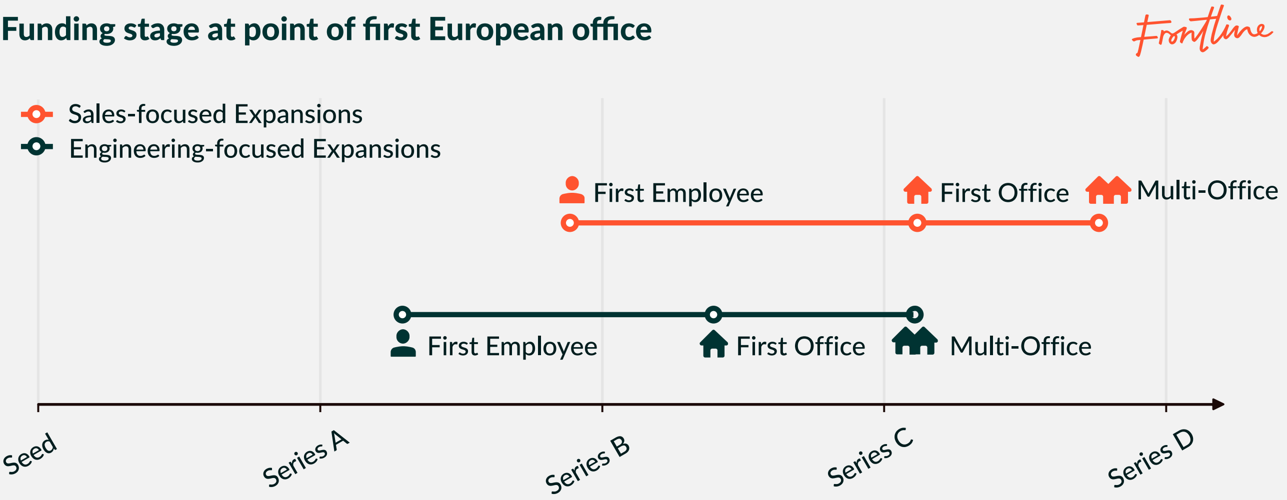
On average, US companies hire their first European employee two to three years after founding and typically wait even later to open their first European office — six years after founding. After opening their first office, it's another 18 months before expanding to two additional locations across Europe.

Funding stage at point of first European office



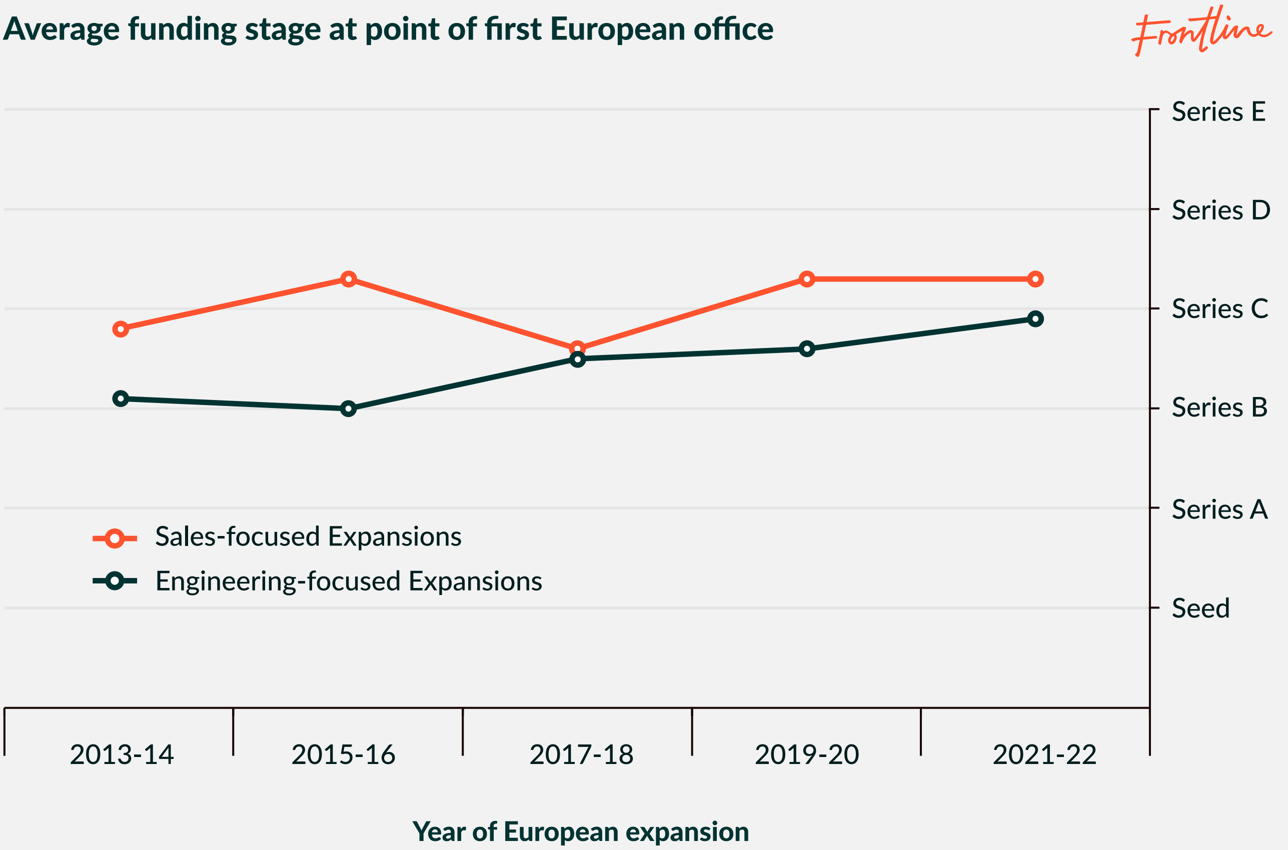
Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

Funding stage at point of first European office



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

Average funding stage at point of first European office



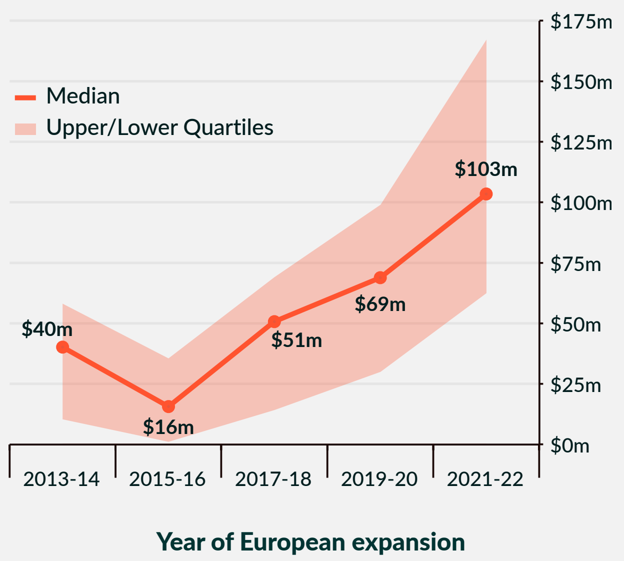
Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

However, timing patterns vary depending on the focus of expansion. Product and Engineering-focused expansions have continued to happen between Series B and C on average, while Sales-focused expansions happen slightly later, between Series C and D. This isn't surprising, since it's important to establish a repeated go-to-market motion in the US before looking to export it overseas.

COMPANIES LANDING TODAY HAVE RAISED OVER $100M

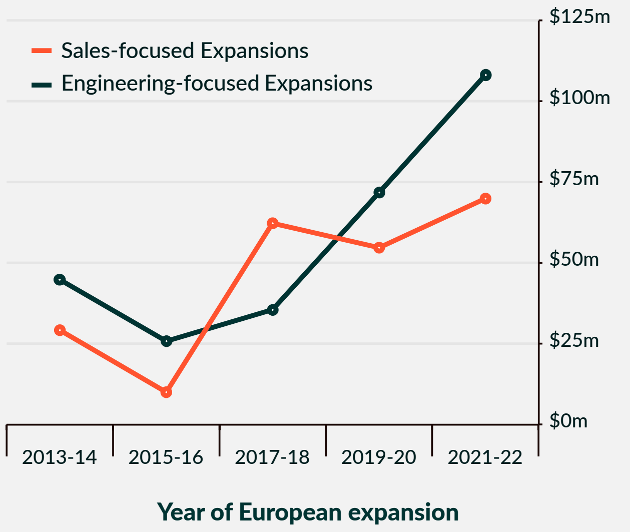
When we look at fundraising patterns, we see a striking evolution. Due to growing round sizes, companies expanding today have raised significantly more capital than their predecessors. Average funding raised at the point of expansion has doubled over the last five years, from $51m to $103m.

VC funding raised at point of European expansion



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

VC funding raised at point of European expansion



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

EXPANSION TIMING IS INCREASINGLY IMPORTANT AS THE EUROPEAN ECOSYSTEM STRENGTHENS

The European landscape has become a significant influence on expansion timing for US companies. The startup ecosystem in Europe has been expanding at a staggering rate. Venture capital raised by European companies has increased tenfold over the last decade, scaling to over $90B in 2022, despite a drop from the heights of 2021. At the same time, the number of companies being founded in Europe is now close to that of the US.

The quality of companies Europe is producing has improved as well. The European startup ecosystem has matured well beyond its previous reputation as a copycat factory that was established during the early 2000s. Instead of clones built with the goal of acquisition by a US player, there is a new breed of companies being produced. They're led by globally ambitious founders, bringing novel business models or technically differentiated products to market, backed by global venture funds with deep pockets.

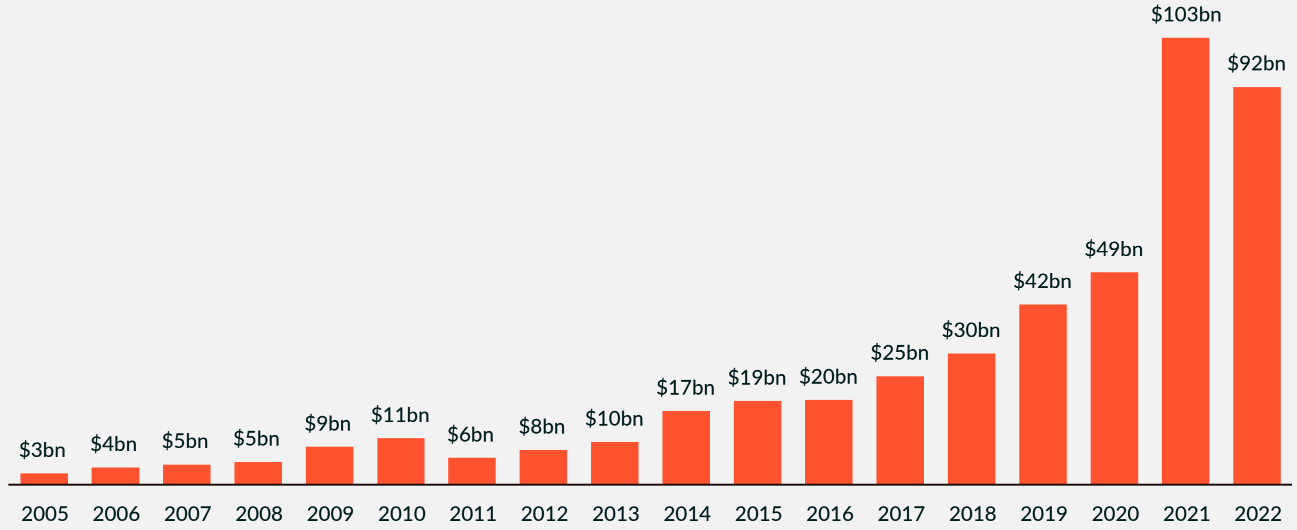
These factors have combined to narrow the window of opportunity for European expansion. Expanding too early risks destabilizing your US business, but expanding too late leaves the door open for local competition to capture market share. To avoid being caught flat-footed, founders need to keep a closer eye than ever on the European market and how competition is developing.

The strengthening of the European startup ecosystem has raised the stakes for US companies and made the decision of when to expand more difficult than ever.

It's a decision that should be made with deep consideration and expert advice. And once you decide the timing is right, it should be a company-wide priority with proper commitment and resourcing across your team. It's not only a decision about Europe, but one of the most important decisions a CEO makes on the path to building a truly global business.

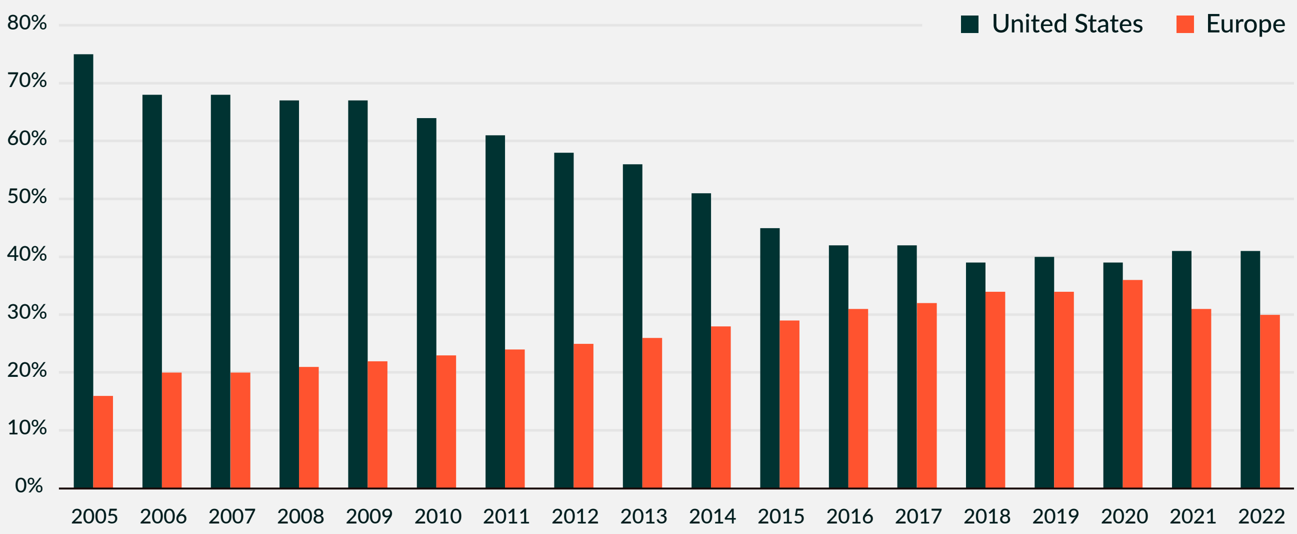
Expansion timing is increasingly important as the European ecosystem strengthens

Total VC raised by European companies



Source: PitchBook

Global share of startups raising at Seed stage



Source: PitchBook, Seed Rounds defined as raises under $5m

	Copycats	Competitors
	2000s → 2010s	2010s → 2020s
Approach	Mimic a successful US player	Bring a unique product / technical innovation or novel business model
Target Markets	Already proven product categories or business models. Often consumer internet or low R&D B2B Software categories	New technology categories
Ambition Level	Aim to establish foothold in European market before exit to leading US player	Aim to become the global leader
Leadership	Led by mercenaries: typically former Bankers / Consultants hired in	Led by missionaries: Founders motivated by making wide-scale impact
Funding	Backed by European Venture Studios specializing in copycat development	Backed by global Venture Funds, typically as well capitalized as US competitors
Threat to US Incumbent	US incumbent risks losing market share in Europe	Poses an existential threat

THE FRONTLINE VIEW

Expanding too early can quickly become a management distraction and detract from the performance of the domestic business. Our experience working with dozens of European expansions has highlighted five qualifying criteria that the most successful companies meet before landing in Europe.

These can serve as a framework for CEOs to consider whether you're ready to go:

1. Your US Go-To-Market is humming
If you haven't found a way to sell the product in a repeatable fashion to your ideal customer in the US, you're not going to do so overseas. And until your US business is stable you won't be able to dedicate enough attention and resources to Europe.

2. You're well funded
When resources are tight, it's tempting to start with a few sales reps and/or a junior manager to "pick the low-hanging fruit." Successful expansions — ones that optimize for success in year five rather than year one — come with significant up-front investment, including senior people on the ground. This kind of funding usually comes at Series B or later.

3. You're seeing inbound demand from Europe
You probably have low brand awareness in Europe, so it helps if there exists even a small community of advocates or customers to build on. In the case of freemium models, leading indicators of demand are an essential starting point — where they don't exist it may be required to "seed" the market remotely before attempting to sell there.

4. The executive team is strong and deep
It doesn't need to be fully built out — there will be gaps of course — but it helps if you've got one or two execs who could plausibly still be at the table when you're a public company. You'll need one of them — often a co-founder, CRO, COO, CFO type — to be responsible for the European expansion before local hires are made.

5. Globalizing the company is a top personal priority for the CEO
International expansion is not a short-term project; it is a decades-long process of globalizing the company to fulfill its true potential. Europe is just the first step. Viewed through this lens, it requires a mindset shift and behavioral changes at HQ. That starts with you, the CEO. If globalizing the company isn't a top priority for you personally, you'll never build a truly global company.

03.
GO-TO-MARKET

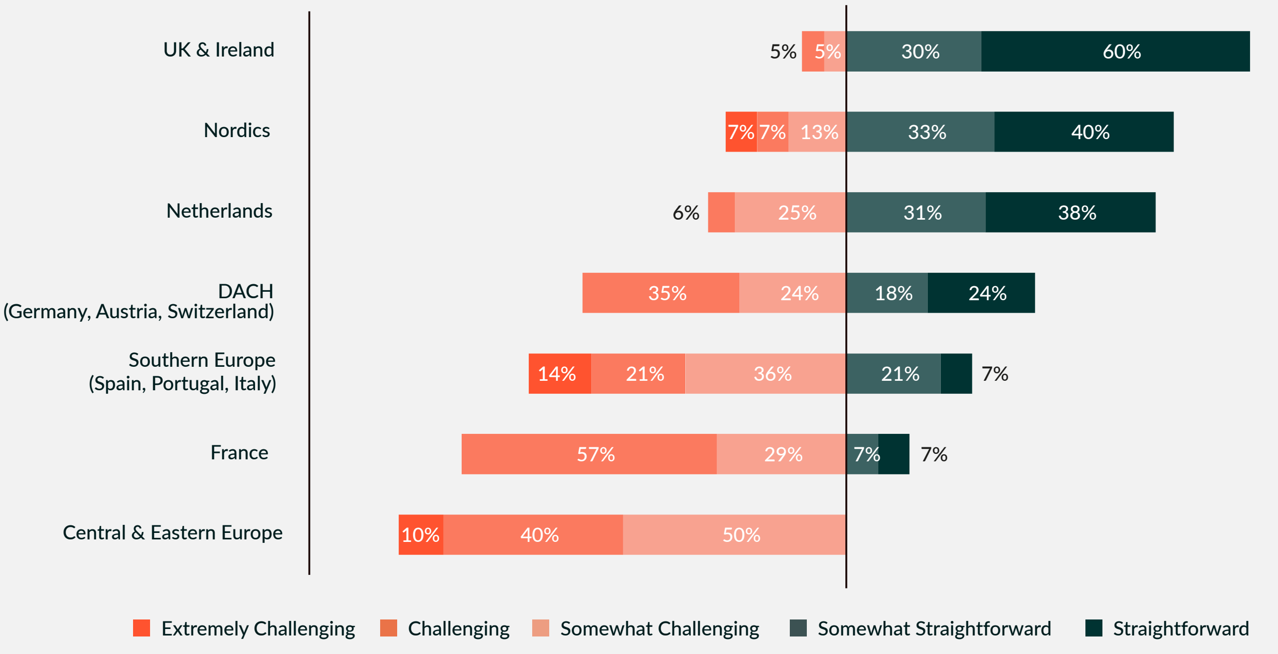
UK & IRELAND IS THE OBVIOUS FIRST MARKET FOR MOST US COMPANIES

Europe, and more broadly Europe, Middle East and Africa (EMEA), is a fragmented and heterogeneous market. To capture its full revenue potential, companies need to successfully scale across multiple countries that each present their own nuances and challenges.

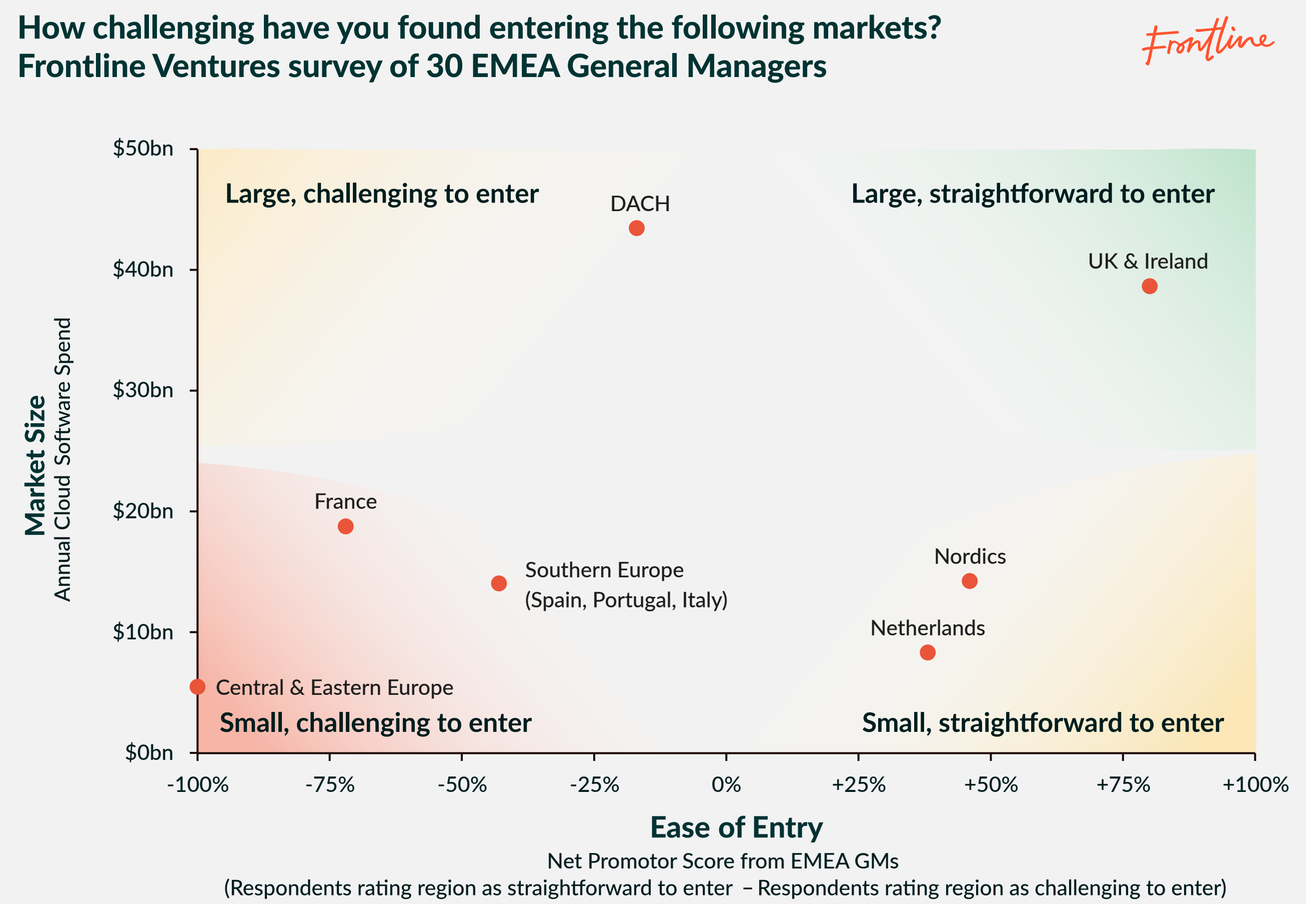
We surveyed existing and former EMEA General Managers on their experience expanding into different European territories. The UK & Ireland, Nordics, and Netherlands are consistently rated as the easiest markets to enter. This is unsurprising, as cultural business norms allow companies to sell in English and buyer behavior is most comparable to that of the US.

The UK & Ireland (UK&I) is not only the most straightforward to enter, but it also presents the largest addressable revenue opportunity for most companies. While Germany's GDP is the largest in Europe, more stringent regulatory and business requirements make entering the market more challenging. As a result UK&I is the obvious first choice for companies expanding into Europe.

How challenging have you found entering the following markets?
Frontline Ventures survey of 30 EMEA General Managers



Frontline Ventures Survey of 30 EMEA General Managers



NPS Source: Frontline Ventures survey of 30 EMEA General Managers, Market Size Source: Eurostat

SEQUENCING SUBSEQUENT MARKETS IS A TRADEOFF BETWEEN MARKET SIZE AND EASE OF ENTRY

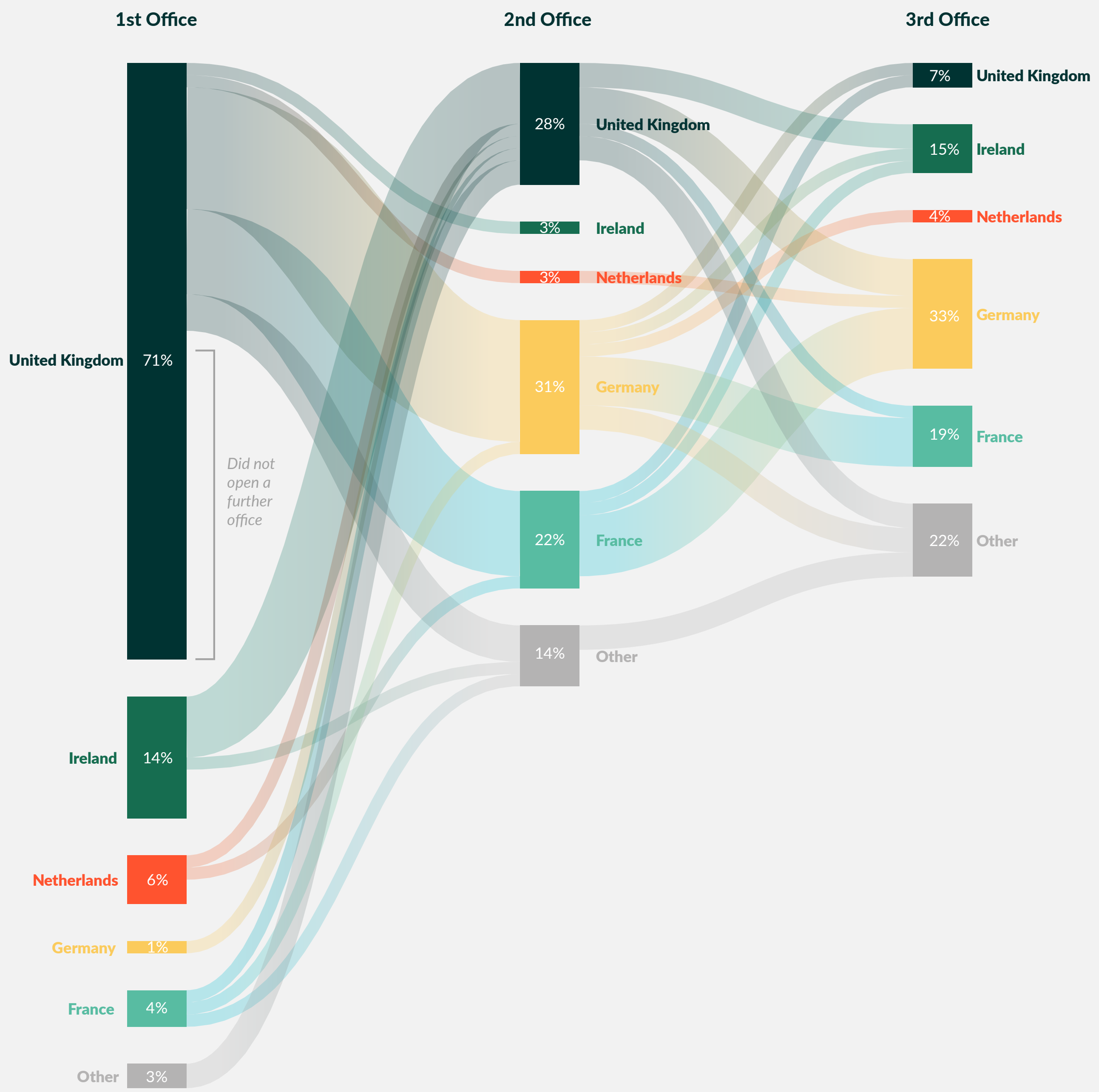
There are multiple paths companies can take when expanding beyond the UK&I, and sequencing expansion into subsequent markets is a tradeoff between market size and ease of entry. DACH (Germany, Austria & Switzerland) and France are the two next largest markets, but they're more challenging to enter — typically requiring German- and French-speaking sales teams, deeper product localization, a local presence and a longer ramp-up time to learn local nuances in buyer behavior.

Some companies choose to tackle these large markets head-on, prioritizing them after the UK, and some opt to sell first into the Nordics and Netherlands before expanding further across Europe. The Nordics and Netherlands are far smaller revenue opportunities, but are more comparable to the US and UK. Business is regularly conducted in English and they can typically be sold to from a first office base without a local presence.

Examining the popularity of different locations for setting up a first, second, and third office reinforces the sentiment expressed by EMEA GMs. The UK & Ireland are clearly the preferred first landing locations for most startups, with 86% of companies choosing to establish their initial presence in one of the two countries.

Germany and France are the most popular choices for second office locations, with 31% of companies opting for Germany as their second office location, compared to 22% choosing France.

First, Second and Third Office Locations

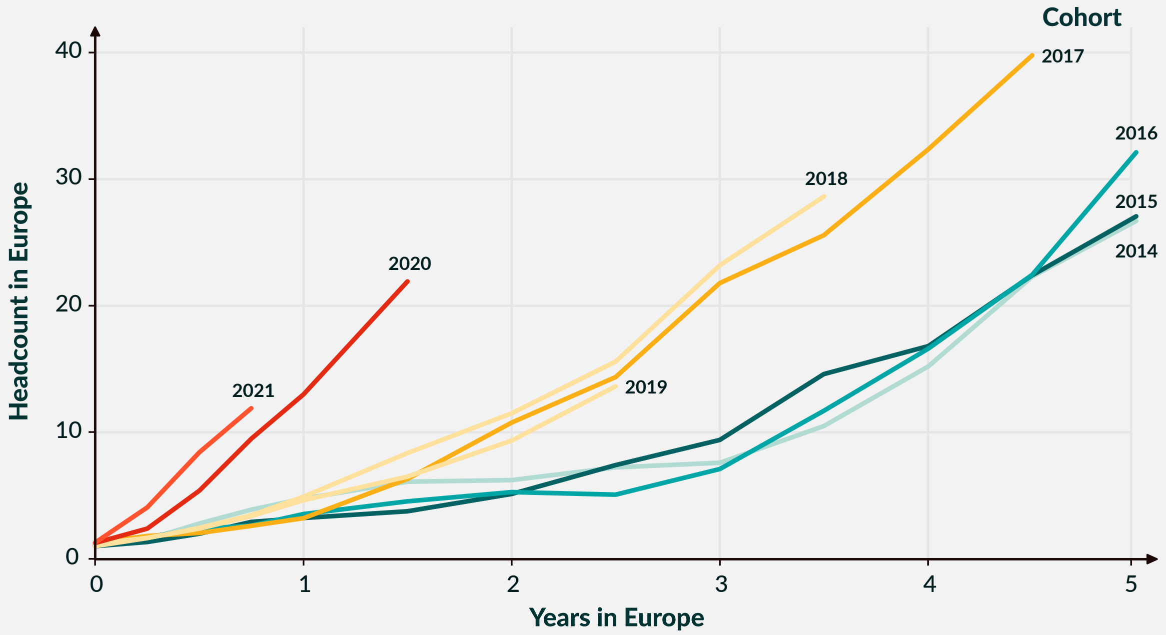


Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

COMPANIES ARE ROLLING OUT ACROSS EUROPE AT A FASTER PACE THAN EVER BEFORE

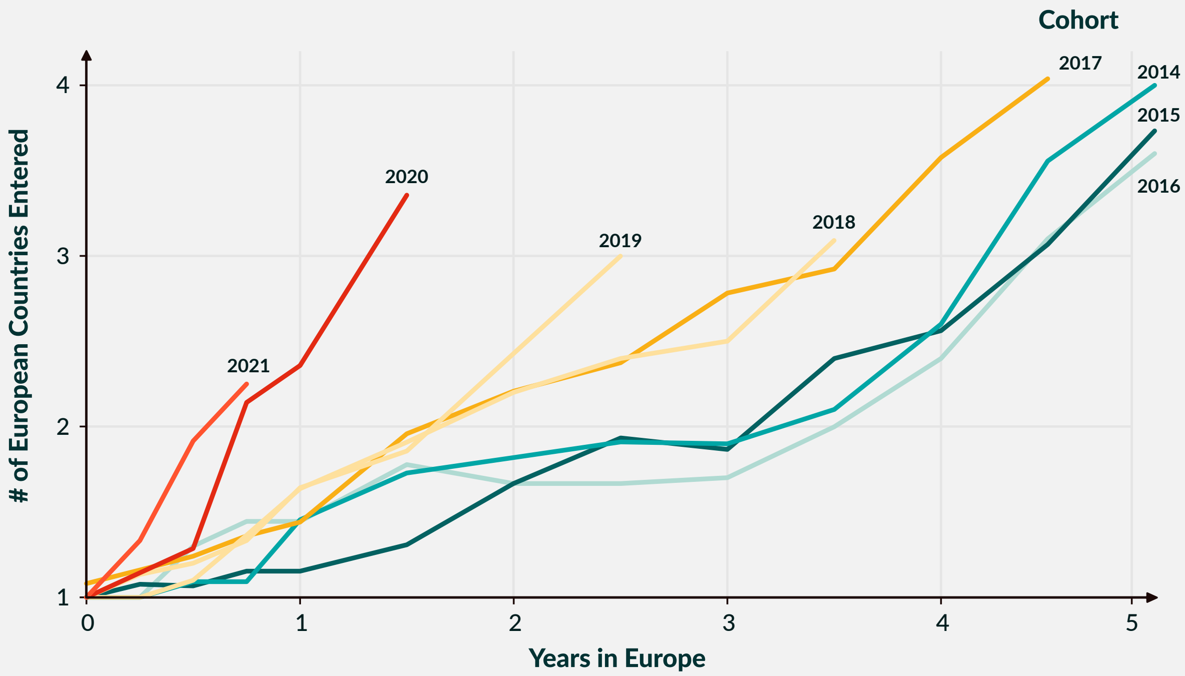
Although the stage at which startups have been landing in Europe has remained stable, the pace at which they've been scaling across multiple countries is rapidly accelerating.

Newer cohorts are scaling in Europe at a faster pace



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

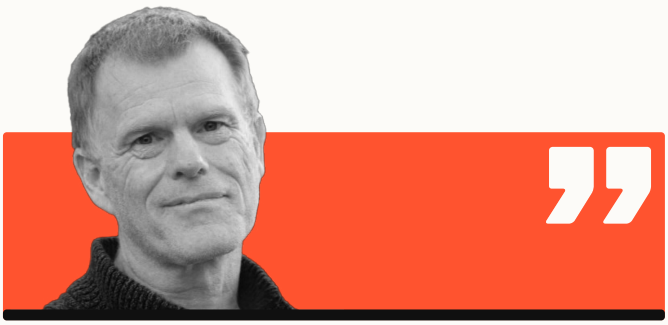
Newer cohorts are expanding into more countries earlier in their European expansion



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

For the past decade, market conditions have rewarded growth at all costs, and companies expanding in recent years have had the financial firepower to open new territories at an aggressive rate. Most companies that expanded into Europe in 2020 added a second office within one year, and a third office within 18 months. Similarly, European headcount growth for companies that have expanded since 2020 has accelerated as well.

Expanding across multiple countries in a compressed time frame is challenging. On first landing in Europe the company is adjusting to a new organizational structure, new operational processes, and go-to-market changes. Layering in the second and third steps of international expansion too early can unsettle a new European operation as well as HQ. As companies increase their focus on capital efficiency, we expect to see rollout speeds revert towards historical averages. While this is likely to lead to a slower initial revenue ramp, it may reduce the amount of costly rollbacks and increase the odds of long-term success in Europe.



We followed a product-led growth journey in the US – word of mouth, then marketing and finally sales. The key to success in Europe was not to skip marketing and jump directly to sales, but to retrace the steps we'd taken in the US.

Johann Butting,
SVP Sales, Slack
Former VP EMEA, Dropbox

THE FRONTLINE VIEW

By the time companies expand into Europe, many have forgotten the efforts that made them successful in the early days. The business is growing, things are working and there's momentum across the company. But this is all after years of product development, grassroots brand-building, market education and iteration on sales and marketing motions. When the time comes for European expansion, companies frequently make the mistake of assuming everything that's working in the US will port over to Europe. We call this "success amnesia".

It's tempting to jump straight into sales and skip over local marketing, community development and brand-building efforts. But underinvesting in these areas is frequently the hidden culprit of a poor GTM expansion in Europe. For example, our data shows that 50% of companies don't have a single marketing resource in Europe a year after landing.

Hiring in these areas might have a less immediately quantifiable ROI than hiring another quota-carrying sales rep, but it's important not to forget the breadth of investment required to achieve success in each new market. Recognizing this early is the path to sustained success in Europe.

Looking to scale into new customer segments while simultaneously expanding internationally is another common mistake. A well-defined go-to-market sequence typically starts simple, with an initial focus on a single market and your sweet spot segment — the set of customers to whom you have a proven track record of selling in the US. Once you've established a stable beachhead in Europe, it can serve as a platform to build from, either into additional markets or expanded customer segments.

International expansion is already challenging enough without adding additional variables that can increase the likelihood of failure. Introducing more moving parts can also make evaluating the performance of the expansion difficult. If you are already able to repeatedly sell to a segment in the US, understanding performance benchmarks and identifying areas for improvement becomes more straightforward.

04.
HQ LOCATION

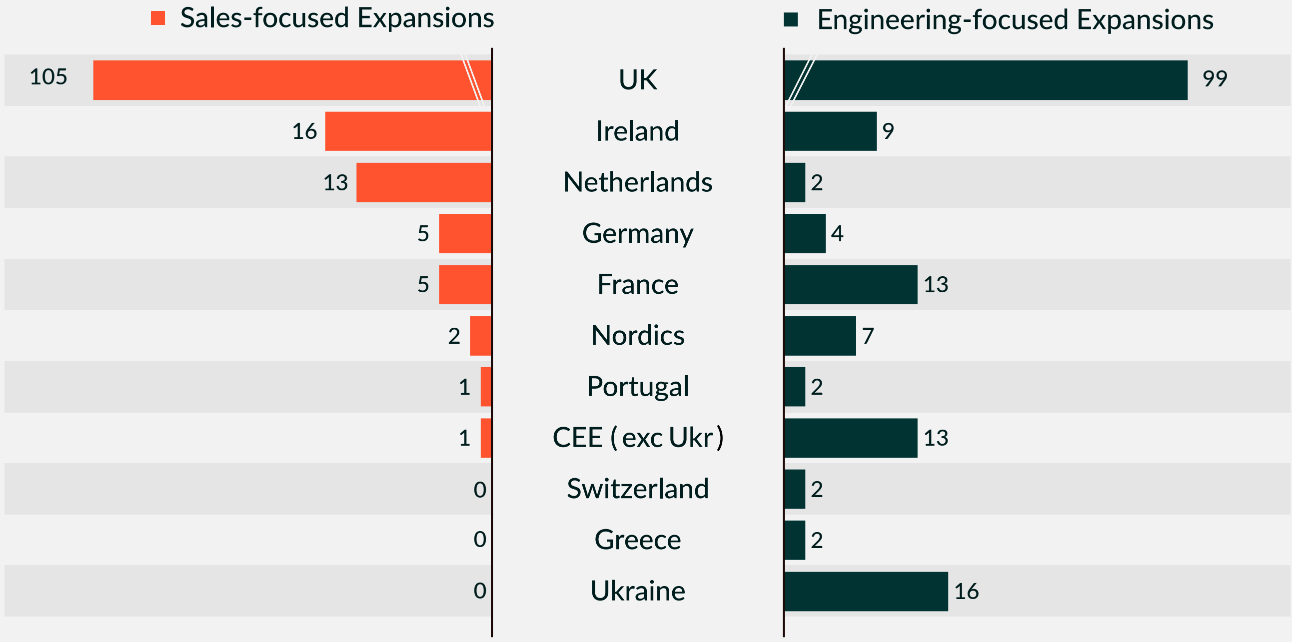
EXPANSION LOCATIONS DIFFER FOR SALES-FOCUSED VERSUS ENGINEERING-FOCUSED EXPANSIONS

For Sales-focused expansions, the UK, Ireland and Netherlands are the most popular choices as a first base in Europe. These locations all provide access to the UK market, have deep pools of junior-to-mid-level sales talent, and offer more employer-friendly environments compared to France or Germany.

For Engineering-focused expansions, the data shows wider variation when choosing a European HQ. While the UK is still the most popular location by a wide margin, more companies look to France, the Nordics and Central & Eastern Europe to build out engineering operations.

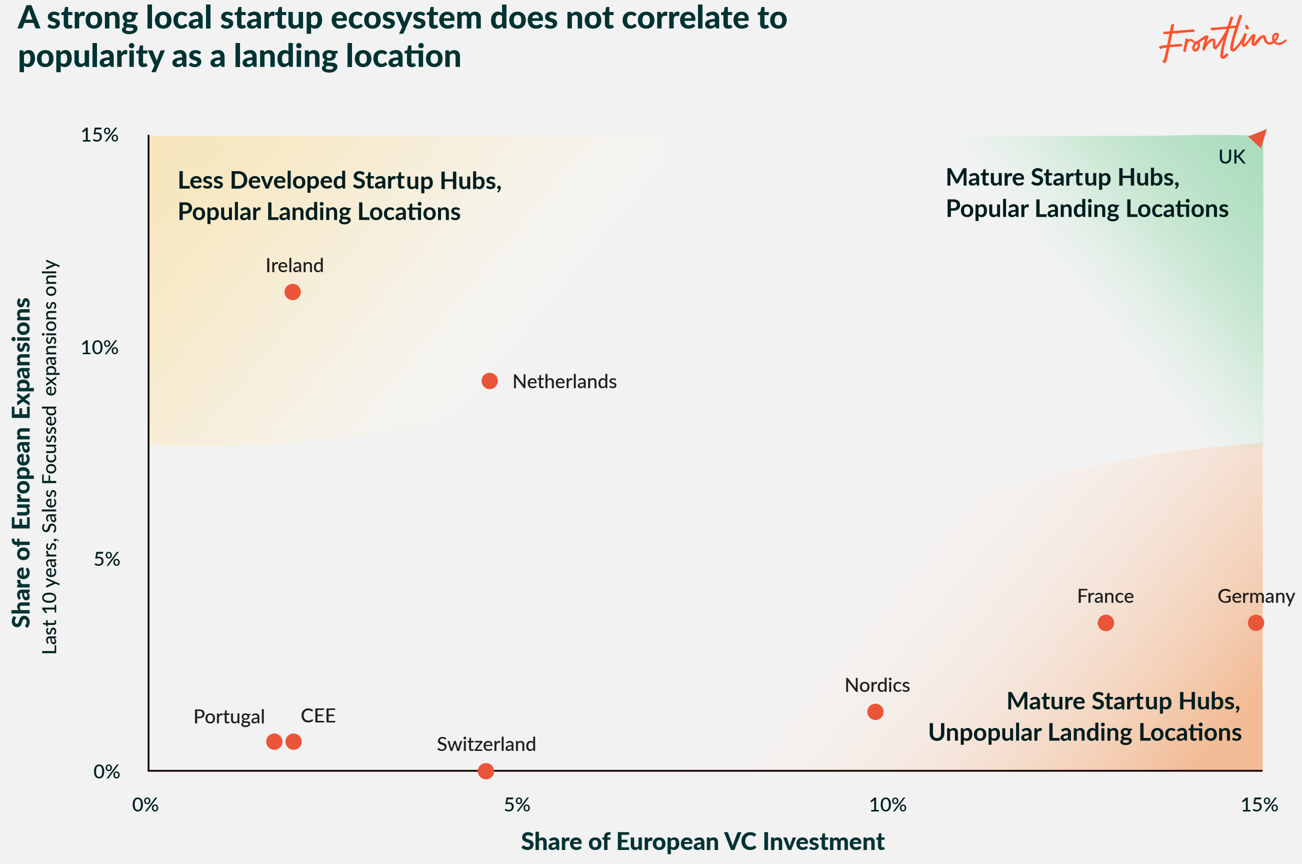
Notably, Ukraine has been the second most popular location for US companies setting up an engineering team in Europe. Escalation of the Ukraine-Russia conflict in 2022 has had a direct and widespread impact on the employees of many US companies, and it's uncertain what proportion of the flow of European expansions that have historically landed in Ukraine will shift to other locations.

Sales-focused expansions concentrate into fewer landing locations than Engineering-focused expansions



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

A strong local startup ecosystem does not correlate to popularity as a landing location



Source: PitchBook and Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

EXCEPT FOR THE UK, TOP HQ LOCATIONS DO NOT ALIGN WITH TOP EUROPEAN STARTUP HUBS

Many American founders expect that Europe's main startup hubs are also the most popular HQ locations for US tech companies. However, cities that attract the most VC funding and have the most developed startup ecosystems are not always the most popular locations for US startups to expand. The notable exception here, of course, is the UK, which dominates the share of VC dollars as well as European headquarters.

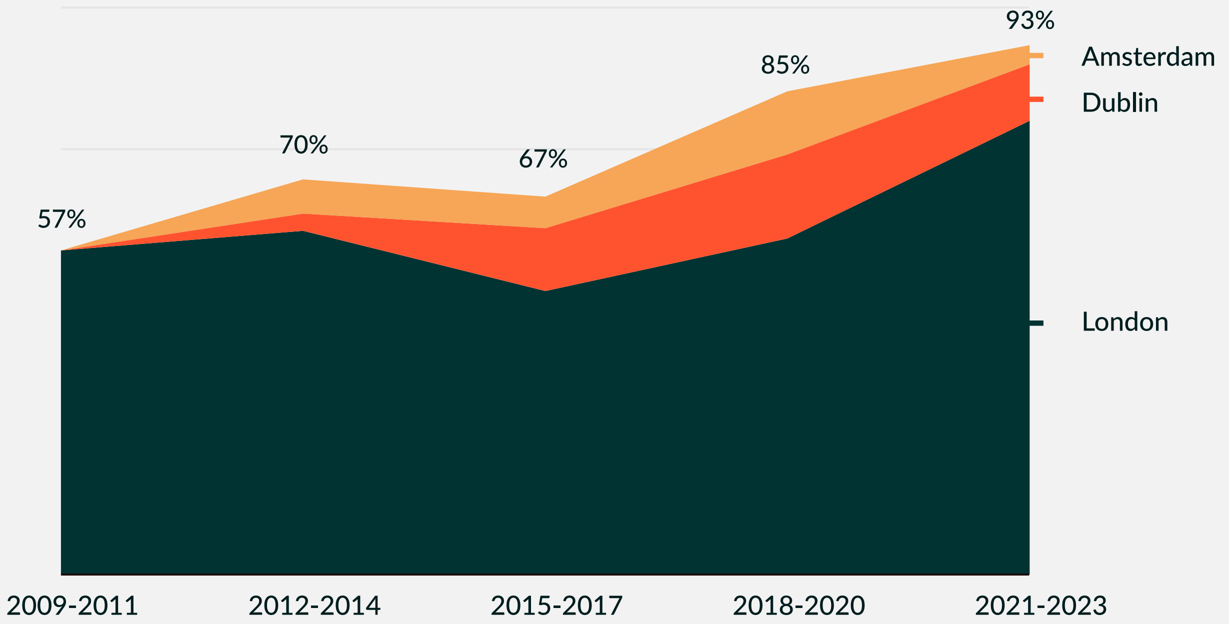
But outside of the UK, there's little correlation. France and Germany don't control a large share of expansions. Instead, countries such as Ireland and the Netherlands punch above their weight. For decades, these countries used low corporate tax structures as an incentive to compete with larger countries. While this strategy attracted tremendous direct foreign investment for years, global minimum tax alignment has reduced these advantages. However, Ireland and the Netherlands have developed such strong ecosystems surrounding US companies, including deep multilingual talent pools, that they remain top locations for establishing a European HQ.

LONDON, DUBLIN & AMSTERDAM ARE INCREASINGLY DOMINANT AS FIRST LANDING LOCATIONS

London, Dublin and Amsterdam have always been the most popular first landing locations for US startups, and they have only extended their dominance in recent years. Today, 90% of Sales-focused expansions land in one of those three locations — up from 57% only ten years ago. London's popularity dipped following the Brexit referendum in 2016, but has since recovered to maintain its status as the most favored location by a large margin.

Additionally, these three have gained a compounding advantage as US technology companies continue to cluster in these cities. New expansions can easily co-locate next to partners and customers, and companies can tap into a network of experienced talent. The deepening of the talent pools — especially at management and executive levels — make it increasingly hard for otherwise attractive locations, such as Berlin or Paris, to break into the club. For US companies expanding today, selecting a landing location is a decision between these three cities.

Split of landing locations



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

THE FRONTLINE VIEW

Deciding on a European HQ should be driven by who your customers are and what type of team you need to build. Or more simply put, what does your go-to-market motion look like?

For companies selling into enterprise customers through field sales teams, London is likely to be the default answer. However, for companies targeting Mid-Market and SMB customers, Dublin has a deep talent pool with experience scaling inbound sales teams to cover most of Europe from a single location.

Along with Amsterdam, London and Dublin have generally favorable business environments — employment law is employer-friendly, policy is stable, and they're well connected with frequent direct flights to the US. The main difference between the top three locations is the availability of more generalist senior talent, where London has a substantial advantage.

Selecting your European headquarters is a decision that's costly and difficult to unwind. Even if you are currently working with a distributed team and have no plans to invest in a physical office right away, you still need to think about where your customers are, where the talent you need is concentrated, and where you can best access markets and opportunities for long term growth. Although decision making has become increasingly decentralized in a post-COVID world, selecting the right location for a European headquarters is a critical step on the journey to becoming a global business. We've pulled together this cheat sheet to help better evaluate the top locations, and our more detailed guide to each city can be found here.

		London	Dublin	Amsterdam	Paris
	Summary	Best location to serve enterprise clients. Great availability of talent across functions and seniority, but the most expensive city to operate in	Go-to location for companies with an inside sales motion – deep junior talent pools, low operating costs and low corporate tax rates	Historically viewed as an inside sales hub, but has a growing PM & Eng community and is a base for leading creative industries	Typically used as a second or third European office location to serve French-speaking markets
Customer Access	**Enterprise**	Large local market. Enterprise customers within walking distance	Limited local market. Possible but challenging to service UK businesses	Limited local market. Possible but challenging to service UK businesses	Large local market, requires a local presence to effectively sell into Enterprise
	SMB/MM	Can serve large proportion of total EMEA market			Gives access to large SMB/MM market, but higher operating costs and smaller English-speaking talent pool
Talent	**Talent**	Excellent talent pools across all functions	Depth of inside sales, CS, and junior engineering talent, but limited senior leadership	Good talent pools across functions with a spike in Product & Eng leadership	Good talent pools across all functions
	Field Sales				
	Inside Sales & CS				
	ENG & PM				
	Leadership	Good availability of leaders with multifunctional and global experience	Small but high-quality pool of senior leaders		Good availability of senior mgmt, but rarely selected as a European HQ
Costs	**Compensation**	$$$	$$	$$	$$$
	Real Estate	$$$	$$	$	$$$
	Corporation Tax	19.0%	12.5%	25% (15% on first €245k)	27.5%
	Coffee Price				
Business Environment	**Employment Law**	Employer-friendly — stronger employee protections than the US, but weaker than the rest of Europe		Employee-friendly — less hiring freedom, contract flexibility and termination processes than UK&I	
	Policy Stability	Less political stability than other large EU economies	Stable — FDI is high political priority	Stable – no major uncertainty on business-facing policy	
	Connectivity	Multiple direct flights daily to US and rest of Europe	Daily direct flights to US and rest of Europe	Daily direct flights to US and rest of Europe	Multiple direct flights daily to US and rest of Europe

05.

TALENT, ORG DESIGN AND CULTURE

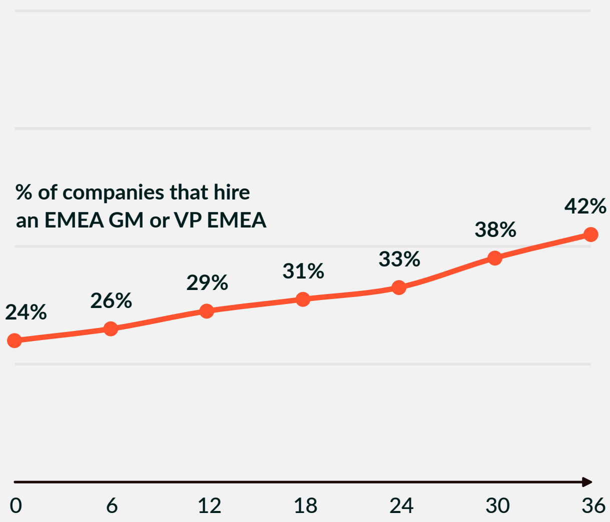
MOST COMPANIES SELECT A VP-LEVEL FUNCTIONAL LEADER TO OVERSEE EXPANSION

A common misconception of many CEOs is that the path to Europe starts by hiring a regional General Manager (GM) and delegating the rest. In fact, the data shows that only 24% of companies hire a generalist GM (EMEA GM or EMEA VP) as part of their landing team. And even three years after opening an office in Europe, only 41% of companies have a General Manager in place.

A more popular choice is making a VP-level hire within a specific function to lead the European expansion.

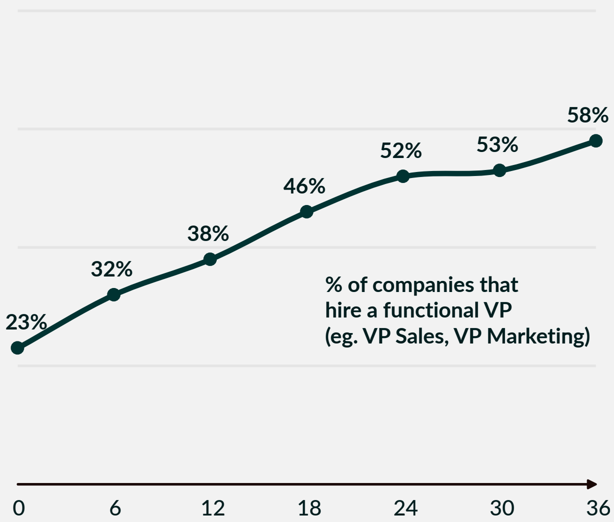
Where companies did hire a GM, this was typically a seasoned leader with c.20 years of work experience, and a third of the hires had previously held a General Manager role.

Only 42% of companies hire a General Manager within three years of landing in Europe



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

A higher proportion of companies instead choose to make a VP level hire within a specific function



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

Functional VP hires on the other hand, such as EMEA VP Sales, typically had slightly less operating experience.

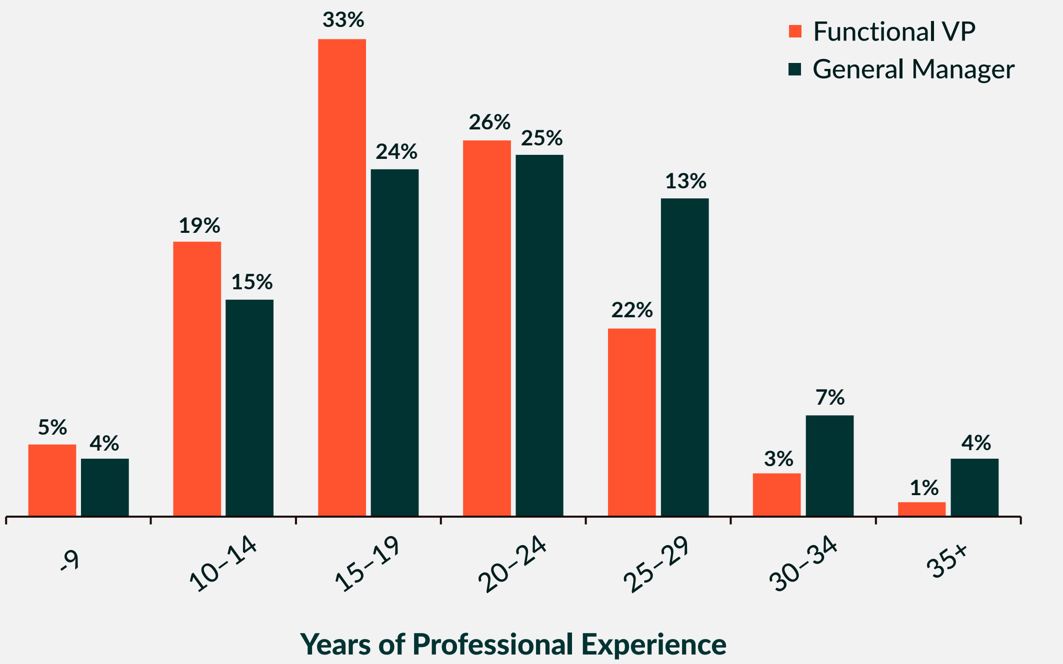
US CEOs are also often overly focused on hiring from a handful of companies familiar to them. However, the data shows that senior European candidates were actually sourced from a wide pool of companies. Of the 122 GM hires made, candidates were hired out of 116 different companies.

While the differences between GM and VP profiles may seem nuanced, it can have a large impact on the outcome of a European expansion. Similarly, limiting your candidate scope to a narrow distribution of companies can lead to missing exceptional local talent with unique regional insight.

The GM role is about elevating beyond sales leadership, building the infrastructure and working cross-functionally to ensure you're set up to scale across EMEA.

Colm O'Cuinneain,
GM EMEA, Greenhouse

Years experience at point of hire



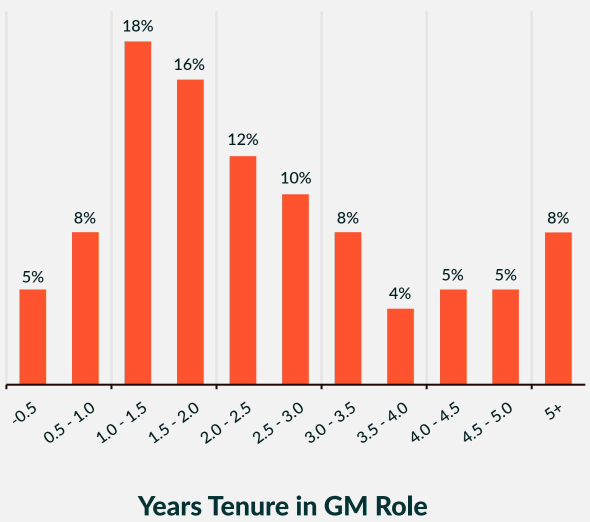
Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

ONLY HALF OF EMEA GMS LAST LONGER THAN 2 YEARS

Getting the first senior hire right is crucial — yet half of companies get it wrong. The data shows that 47% of General Managers depart the company within two years of being hired. In fact, the average tenure of EMEA GMs is the lowest it's been in the last 10 years.

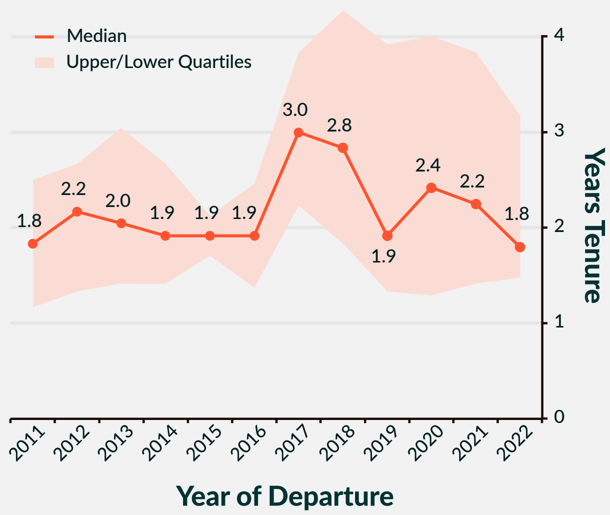
High turnover rates in this position demonstrate how challenging it is to evaluate EMEA GM candidates, and how rapidly things can go wrong eight time zones from HQ. The stakes are high for the first senior person hired in Europe — they're charged with building the team, driving revenue, seeding culture, and being the external face of the company across a range of topics.

Tenure in EMEA GM Role

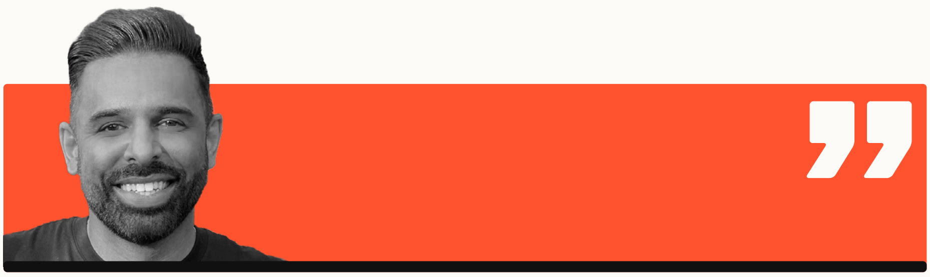


Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

Average tenure of EMEA GMs



Source: Frontline Ventures Analysis of 210 B2B Software Expansions



Having local marketing report into our Chief Marketing Officer ensured EMEA initiatives had exec-level visibility at HQ and made building support for new initiatives more straightforward.

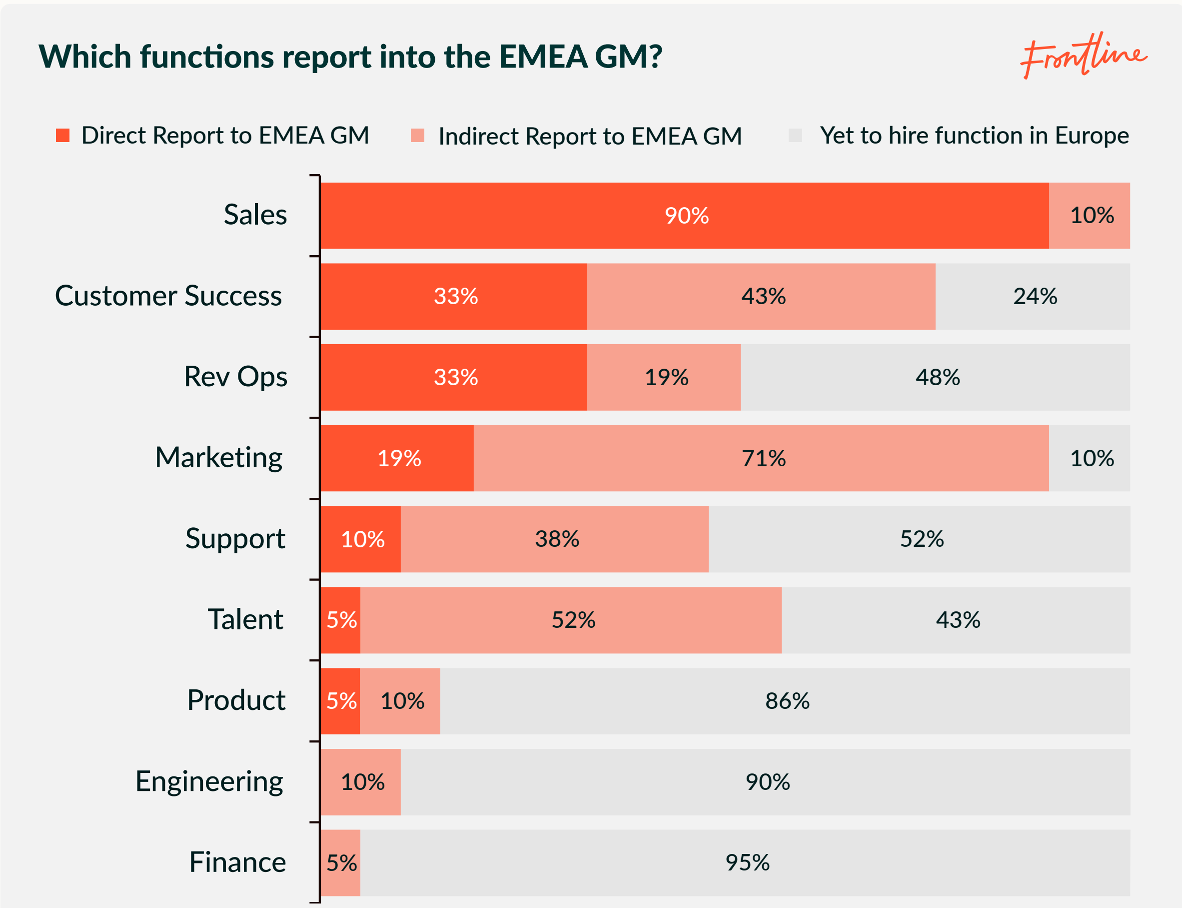
Anup Khera,
VP & GM International, Attentive

CLEAR REPORTING LINES AND FUNCTIONAL OWNERSHIP ARE CRITICAL TO SUCCESS

While there are multiple international org structures that can work successfully, a lack of clarity on reporting lines, decision-making authority, and accountability regularly leads to problems across regional teams and headquarters. The executive team needs to determine who at HQ will be responsible for Europe well in advance of the expansion. The majority of companies (45%) choose to have the European leader report into the CRO or VP Sales, and the next most popular option is to directly report into the CEO (25%). Typically structures that involve a VP of International can work for 12-18 months but tend to evolve into a more functional structure, such as a CRO or COO.

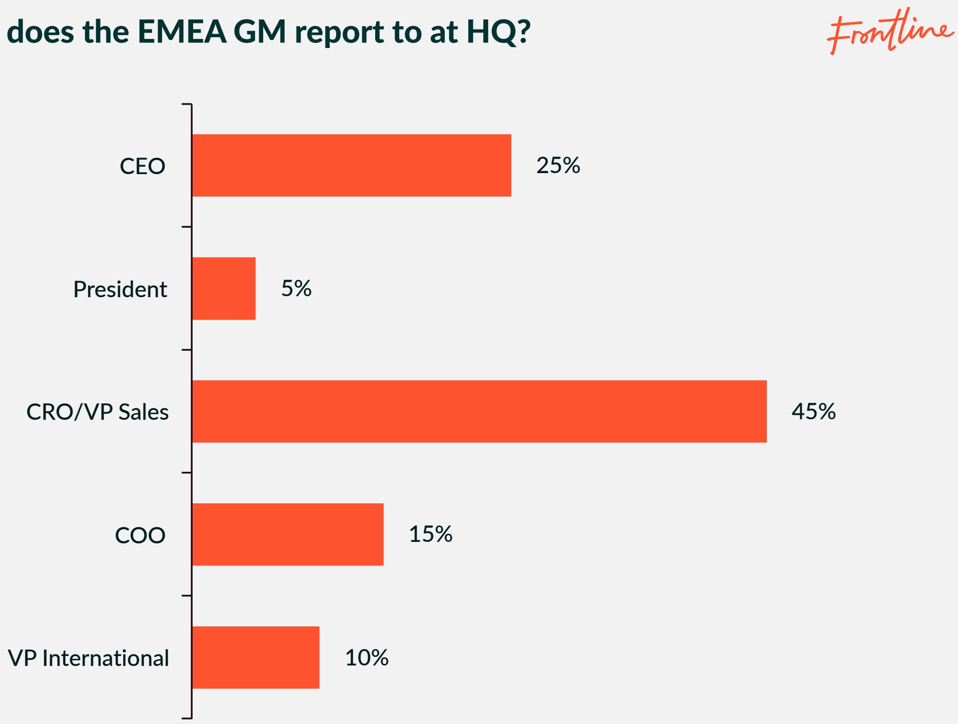
Another important question CEOs face is functional reporting within the regional team. The overwhelming majority (90%) of companies choose to have Sales report directly to the EMEA GM, but much fewer transition direct reporting lines for the remaining GTM functions. Notably, while Marketing and Customer Success typically maintain direct reporting lines into HQ, they often also have an indirect (dotted-line) reporting line into EMEA leadership.

Whichever org structure you choose, clarity and transparency are critical. Any vagueness on accountability and decision-making authority that exists is only exacerbated with distance from HQ. Failing to grapple with these issues as an exec team at HQ before the expansion creates management debt that compounds as the European organization scales. Conflict between functions can be difficult to resolve in Europe if this is not established up front, and even then CEOs should expect to maintain active involvement during expansion, as the only executive with truly cross-functional visibility.



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

Who does the EMEA GM report to at HQ?



Source: Frontline Ventures Analysis of 210 B2B Software Expansions into Europe

THE FRONTLINE VIEW

So what is the ideal leadership and landing team structure for expanding into Europe?

In our experience, the most successful sequence for landing in Europe is to hire a local VP-level functional leader and pair them with a top performer from HQ, then bring in a senior regional GM between 12-24 months after landing. Unfortunately, many CEOs hire a senior GM too early or wait too late.

A key piece of the best executed expansions is a transplant from HQ that moves to Europe for the first one to two years, but unfortunately they are rarely included. Only 13% of companies include an employee from HQ as part of their landing team. Sometimes the person with the right combination of performance, leadership and cultural DNA doesn't exist. Sometimes they do, but aren't interested or able to relocate. But often it's considered too complicated or not considered at all.

While it's a tactic only used by a small minority of companies, it's a great way to accelerate onboarding of new hires, seed the culture of a new office and ensure strong communication with teams at headquarters. While transfers are not usually senior employees ready to lead European expansion, they are high-performing junior team members that have gained a few years experience, understand the company's values and have relationships and influence that allow them to help shape the European organization as well as represent it credibly with their colleagues at headquarters. In addition to the business benefits, this can serve as an exciting career development opportunity for future leaders in the company.

When the time comes to level-up your regional leadership, a General Manager with multifunctional experience will not only ensure next quarter's numbers are hit, they should be able to scale the broader capabilities needed to build a sustainable and successful regional business. By waiting until the initial team is established and things are slightly derisked, it will also allow you to attract a higher-caliber GM with the experience capable of leading Europe to 30% or more of global revenue.

06.
PRODUCT LOCALIZATION

The European market is host to a lucrative English-speaking, culturally aligned customer base. US companies often experience market pull from these early-adopters with minimal product or marketing adaptations. However, to truly win in Europe, localization is essential.

DELIBERATE PRIORITIZATION AND DYNAMIC PRICING MAXIMIZES ROI

Simultaneous rollout of a localized product across multiple markets is complex and often unnecessary. To ensure ROI on localization efforts, plan and prioritize localization markets incrementally.

Create a plan detailing the cost and expected ROI for achieving your 'MVP' localized product in each market. Segment the product's surface area by user group and frequency of usage to reduce costs — for example, if an administrator uses 50% of a product and end users only use 5%, translating the admin portion would cost disproportionately more relative to the value accrued. Adapting pricing for a highly localized product may also be considered, as customers are often willing to pay a premium. According to CSA Research, nearly two-thirds of business users are willing to pay up to 30% more for a localized product.

TRANSLATION ≠ LOCALIZATION

Adapting a product for new local markets has upstream product and engineering implications. Software development best practices must be in place to avoid long-term challenges.

Use UTF-8 encoding, store text in resource files, program dynamic UI expansion into the software and avoid concatenated strings. Configure the backend to work with local inputs, ensuring search in foreign languages and multi-currency offerings are supported. Integrate localization into CI/CD, test translations as part of the release QA and develop a policy for incorporating customer feedback on translations in production. These are just some of the priority considerations. Engineers with localization experience will be required as well as high-quality translators, often contracted via agencies or translation management companies (e.g. Smartling, Lokalise).

> # BUSINESS USERS ARE WILLING TO PAY UP TO 30% MORE FOR A LOCALIZED PRODUCT

COMPLIANCE AS A SALES STRATEGY

Compliance requirements vary locally, depending on the sector. Unsurprisingly, financial services, healthcare and energy often attract the most stringent regulations. Engaging local legal counsel enables companies to understand regulations and licensing requirements.

Data privacy laws such as GDPR on the other hand are sector-agnostic, so ensuring compliance is a critical step to take ahead of European expansion. GDPR regulations should never be a blocker, with products such as Vanta making compliance easy for any company. To date, a large portion of the regulatory activity has skewed towards B2C, with B2B companies receiving less attention. However, the risk of failing to attract revenue from sophisticated European customers due to compliance shortcomings, is arguably greater. Getting the appropriate legals in place should be viewed as a GTM requirement to unlock new markets.

Localization spans the entire customer journey. It's a multifunctional effort that considers every customer touchpoint.

Stan Massueras,
GM International, Lattice

DATA PRIVACY

B2B software startups selling into or building a presence in Europe must comply with GDPR regulations, regardless of their location. CEOs should first determine whether their company is deemed a data controller or processor. Most B2B software startups will be classified as processors. By ensuring these key agreements are in place, you can land European customers faster and gain a reputation as a mature, informed company:

1. Data Processing Agreement (DPA):
Sets out the parameters on which data is processed and will likely cost in the range of $5k – $10k. Templates are available online for reference from companies such as Slack, Amazon.

2. Standard Contractual Clauses (SCC):
Describes how a company will handle data exports from Europe. There is a standard template module for processors.

Transfer Impact Assessment (TIA):
Explains why the data is not subject to particular risks and why it's lawful to transfer data to the US.

Different industries and countries in Europe have varying levels of conservatism towards GDPR compliance. For instance, conservative customers from the DACH region in traditional industries like Industrials are likely to be the most cautious. CEOs should not exclude these potential customers but should be aware that not having the necessary compliance can negatively impact product adoption among these customers.

CLOSING THOUGHTS FOR CEOS

Viewing European expansion as a short-term project is a missed opportunity. Instead, consider Europe the first, critical step on a multi-year journey to becoming a truly global, category-leading company.

When it comes to European expansion, much has changed over the past few years. However, the most important thing remains the same — Europe is a critical market for every company with global ambitions and successful expansion requires execution and experience.

The last three years have been exceptionally volatile for the entire world, and the demands on CEOs of high-growth companies have been particularly stressful. As capital markets have retreated and performance is now measured in terms of efficient growth, it's tempting to narrow scope and concentrate only on the US market.

But the European startup landscape has changed, and delaying expansion when your business is ready will lead you to concede market share to high-quality local competitors. The new capital environment also means that avoiding costly mistakes is essential. Execution is critical, and requires CEO engagement and company-wide prioritization.

Given the size of the opportunity and the high stakes involved, CEO leadership is key. European expansion can't be avoided or delegated. In times of adversity, the best CEOs surround themselves with experts and partners, embrace difficult decisions, and lead through action. In no place is this more important than globalizing your company.

Frontline has been ridiculously helpful to Lattice in concrete ways. The whole team is phenomenal and they are easily one of the most helpful investors I've ever worked with.

Jack Altman
CEO, Lattice

We grew from 0-150 people in Europe, built a world-class culture and scored a major strategic partner, all in 18 months. Such a fast start is only possible when you put strong foundations in place and Frontline were instrumental in helping us do that.

Ariel Cohen
CEO, Navan

ABOUT FRONTLINE GROWTH

Frontline Growth is a VC fund designed for US companies expanding to Europe. We invest in B2B Software companies, as a co-investor in Series B-D rounds.

Frontline Growth helps category-defining US companies succeed in Europe, by providing hands-on support with expansion timing, developing a European Go-To-Market plan, and finding senior talent.

The fund is led by ex-operators with decades of expansion experience. Stephen McIntyre was VP EMEA at Twitter, scaling it from $0m to $250m in revenue. Brennan O'Donnell led US to Europe expansions at SurveyMonkey and Yammer, and was most recently CRO at Airtable. Stephen and Brennan both held numerous leadership roles in Google during the company's early years of expansion in Europe.

In addition to the deep operating experience of our partners, our LP base includes a world-class group of European Tech Execs from Slack, Cloudflare, Dropbox, Stripe, Segment, Looker, Google, Facebook, LinkedIn and Workday, to name a few.

STEPHEN MCINTYRE
Partner,
Dublin

BRENNAN O'DONNELL
Partner,
Palo Alto

JAMIE BRISTOW
Principal,
London

RUTH SHERIDAN
Associate,
London

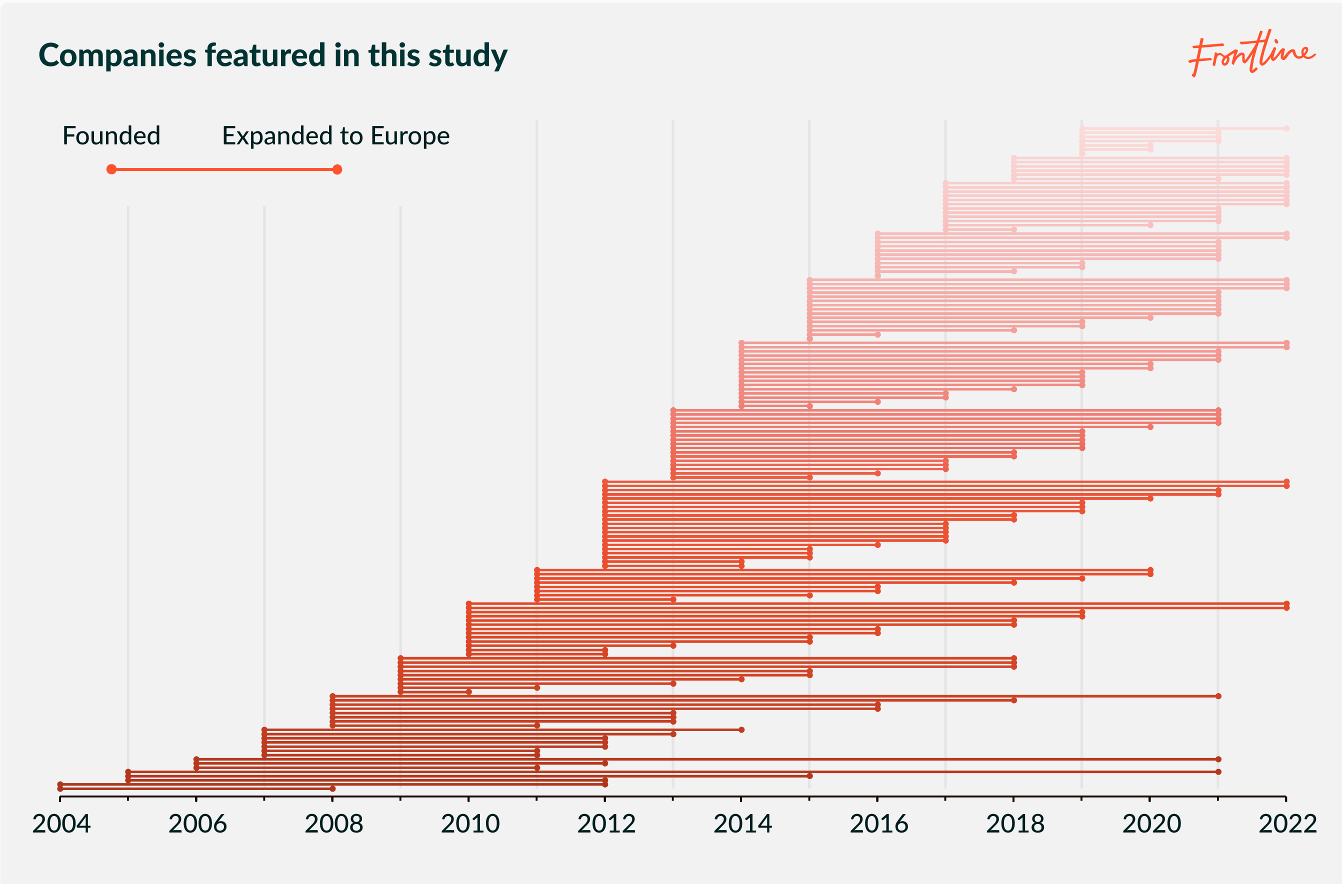
SELECTED PORTFOLIO COMPANIES

Lattice
NAVAN
attentive®
mosaicML
Vanta
greenhouse
Forethought
people.ai
kandji

METHODOLOGY

This study analyzed 210 VC-backed B2B Software companies that expanded into Europe since 2010. A full list is provided below. We gathered over 300,000 data points on these companies' hiring patterns, their HQ location selection and their leadership hires, to inform the insights and conclusions in this report.

Alongside this quantitative analysis, we conducted a structured survey of 30 current EMEA General Managers, and carried out interviews with current & former VP Internationals and EMEA General Managers. We'd like to thank all the individuals that contributed to this report.



BEHIND THE DATA: WHO WE ANALYZED

2U
Abnormal Security
Ada
Aetion
Affinity.co
Airbyte
airSlate
Airtable
Aisera
Algolia
AlphaSense, Inc.
Amplitude
AppOmni
Arista Networks
ASAPP
Astronomer
Automation Anywhere
Aviatrix
Beacon Platform
Beyond Identity
Beyond Limits
BigCommerce
BigID
BigPanda
Bill.com
Black Knight
Boulevard
Brightcove
Callsign
Capitolis
CaptivateIQ
Carta
ChannelAdvisor
Chronosphere
Clarifai
Class
ClickUp
Cloudbeds
CloudBees
Cockroach Labs
Contrast Security
Copado
Cornerstone OnDemand
Couchbase
Coursera
Cresta
Current
CyCognito
Dashlane
Databook
Databricks
Datadog
Dataminr
DataRobot
DataStax
dbt Labs
Deel
Devo
Docker, Inc
DocuSign
Domino Data Lab
DoubleVerify
DriveWealth
Dropbox
Eagle Eye Networks
EasyPost
Everlaw
Evertec
Exabeam
fabric
Firework
Fivetran
FloQast
Front
FullStory
G2
Gigamon
Glia
Gong
Gorgias
Grafana Labs
Grammarly
Gro Intelligence
H2O.ai
Harness
HOVER Inc.
HubSpot
Hugging Face
Humu
Hyperscience
Illumio
Immuta
Incode Technologies
Incorta
Inovalon
Instabase
Intapp
Interos Inc
InVision
Iterable
Jeeves
Jobber
JumpCloud
Kandji
Karat
KATERRA
KeepTruckin
Kong Inc.
Labelbox
Lacework
Lucid
Marqeta, Inc
Medallia
Menlo Security Inc.
MetaMap
MINDBODY, Inc.
Mixpanel
MobileIron
Modern Health
MongoDB
Monte Carlo
mParticle
Mux
Netlify
Netskope
New Relic, Inc.
Nutanix
Obsidian Security
Okta, Inc.
Olo
OwnBackup
Pantheon Platform
Panther
Paylocity
People.ai
Pipe
Plaid
Primer.ai
Procore Technologies
Productboard
Proofpoint
Prove
Rapid7
RelationalAI
Remote
Replicated
Resilience
Retool
RingCentral
Rstudio PBC
RudderStack
Salsify
Salt Security
SandboxAQ
Scale AI
SecurityScorecard
Seeq Corporation
Sendbird
Sendoso
Sense
Shippo
Shogun
Sift
Signifyd
Slack
SnapLogic
Snowflake
Snyk
Sourcegraph
SparkCognition
Splashtop Inc.
Splunk
Sprout Social, Inc.
Squire
Starburst
Sysdig
Tealium
Teleport
Tenable
ThreatLocker
Timescale
Toast
Transmit Security
tray.io
Tufin
Tulip Interfaces
Twilio Inc.
Vanta
vArmour
Vectra AI
Veeva Systems
Vendr
Veritone, Inc.
Very Good Security
Vivun
Viz.ai
VMware Tanzu
Watershed
Webflow
Weights & Biases
Wix.com
WorkFusion
Yellowbrick Data
Yugabyte
Zendesk
Zscaler
Zymergen, Inc.