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Which economic and financial priorities for fostering growth and innovation in the EU?

Distinguished guests, it is an honour to stand in front of you and talk about such an important topic: digital innovation in Europe. For the next 10 minutes I will try to share some facts to summarise where we stand and also share with you a few actions or priorities that Europe perhaps should consider. I would also say that it is fitting to do this in Helsinki, because Finland is the country that gave us the Global System for Mobile Communications (GSM), 5G and the Linux operating system. Not long ago, this city hosted what was then the fifth-largest company in the world by market cap. More importantly, the Symbian operating system had, at that time, almost 70% market share and was effectively the platform for mobile technology. We also know that, today, those platforms are with Google through Android and with Apple through iOS. Nevertheless, Helsinki has stayed an innovation hub in mobile technology and is today a leader in mobility as a service, as one example.

My background is that I serve companies – not only tech companies but also other institutions – on how they aspire to digitise, apply new technologies and so forth. Even if it is easy to be very negative – and we have already heard some remarks on how Europe is falling behind – I would also like to stress that these companies are working very hard and are all very ambitious in terms of how they try to do their things to digitise and apply these innovations. Europe has some strengths to build on.

In respect to financial markets, Europe is where digital innovations in the B2C banking system are being applied the most. The Nordics are clearly a leader in terms of a cashless society. Comparing the UK to the US, 50% of sales in banking today in the UK are digital compared to 20% in the US. The UK has launched open banking. It is still early days but other countries are copying this. In many B2B verticals, Europe is still the beacon of innovation, particularly in areas such as manufacturing. If you look at how AI is being deployed in robotics, for example, Europe is still clearly one of the leaders.

We also have talent. Europe has almost six million software developers – one million more than the US. We have many of the leading educational institutions in the world in the areas of science. Looking at the start-up scene, European start-ups are being financed much more than just a few years ago. Early-stage financing in the tech world is up almost 400% compared to just five years ago. In the AI space the number of small start-ups in Europe is relatively comparable to the US. It is easy to be negative when you have these conversations and I will share a few facts for why I also think that Europe has some catching up to do. It is important, however, that we do not forget that we still have many things to build on as we implement this catch-up.

Why then do we still risk falling behind? One thing is that, while Europe has many start-ups, in terms of the scaling of these start-ups and in terms of the larger, leading companies, the picture is, of course, very different. Europe only has 10% of unicorns while the US has more than 50%. In terms of top global AI companies, Europe only has four of the top 100 while the US has three quarters. In terms of the total venture capital (VC) funding that goes into AI, Europe attracts only 11% while the US attracts almost 40% and China 50% of total funding.

I started talking about platforms. As we all know, platforms are becoming extremely important. If we look at the key B2C platforms in tech, whether it is search, entertainment or social media, or B2B platforms such as the cloud, these platforms are no longer hosted in Europe but in the US or China through companies like Apple, Google, Alibaba and Tencent. The combined market cap of the 5 largest tech companies in the US right now is 10-times larger than the combined market cap of those in Europe.

You could then ask: why does it matter? I think it matters greatly in areas like R&D, because these companies are merciless in spending on R&D, which is hard for European companies to match. Acquisitions are another example. Google has made 300 acquisitions of start-ups – some small as well as some large – over the last five years. No European company can match that as it is now. US tech companies also pay much higher wages, quite frankly, than European ones, which means that they also attract much of the talent that we would like to drive start-ups here in Europe. Immigration is one lever. Interestingly, in the US, more than half of the privately-held unicorns were founded or co-founded by someone who was not born or raised in the US.

We have also studied digital in terms of incumbents, not just in start-ups or younger industries. We did a survey of 1,600 executives in Europe, the US and China, just to compare what they are spending on digital innovation. While I said that European companies are working hard and investing a lot, the US still invests, on average, approximately 30% more to digitise and deploy frontier technologies in their companies.

I genuinely believe that, for Europe not just to maintain but also increase its growth, we need to shift gear on digital innovation. McKinsey likes to model things, and we have even tried to model what we believe might be the effect of AI if we were to diffuse this with success in the economy. Our estimates show that Europe could add €2.7 trillion to its gross domestic product (GDP) by 2030 if it were to successfully deploy AI through productivity improvements. This is approximately 20% additional growth to GDP, which is, quite frankly, massive.

Let me then share some actions or priorities. The first point that I will talk about is scaling. As I mentioned, we have as many start-ups, if we look at the really small ones. In terms of seed investing over the last 12 months in Europe, our number is comparable to the US. However, we have a challenge when it comes to scaling and creating future platforms. It might sound like an easy solution but I believe that allowing for more consolidation is an important lever.

Taking the banking landscape today, the top five banks in the US have a market cap that is three-times higher than the top five in Europe. Even more important is the telecom-operator landscape. Operators are very important because they are the ones that create the standards on which many of these innovations can take place. In the US, there are now, effectively, six operators, but the two largest ones hold an almost 60% market share. If you do innovation in the US, you will deal with two carriers. I might be insulting T-Mobile by saying that they have 17% market share, but you deal with three carriers: AT&T, Verizon and, to some extent, T-Mobile. In Europe, there are more than 100 operators. Even though they are not all large, and the 12 largest in Western Europe hold the same amount of market share as the top 3 in the US, it is still a much more fragmented landscape and it does not make it easier for these digital companies – either incumbents or start-ups – to scale.

The second point is late-stage VC funding or growth investing. I do not have a good explanation for this; most likely some of you know more about financial markets than I do. In terms of late-stage VC funding, however, the US attracts roughly six-times more than Europe, so there is something around how the scaling takes place, as well as the funding of that scaling, which is very different in Europe and the US.

The third point that I would like to stress is perhaps a soft thing but still very important. It is not easy to scale. We invited the CEO of Zalando to one of our meetings to talk about how they achieved this. What they argued was that the biggest hurdle to their success in terms of scaling in the way they have done across Europe was finding managers able to do it. There are very few managers in Europe who know what it takes to scale, and to scale at the pace that is often required to win in these markets. Their solution to it was to bring people back from North America. They brought managers back from the US who had done this with other institutions. It is not something that we can solve by regulation, but it is something that you should keep in mind. It is not easy to do this. It is damn hard, and it is often more convenient, quite frankly, to lower the ambition slightly and to not grow as quickly.

For Europe, we have a real chance as the B2B verticals are now going to be disrupted, as we have seen in B2C. Many of these verticals are European strongholds. These are verticals where we have the leading companies that are often global niche players that absolutely dominate. As these are now being disrupted, it is a massive opportunity for Europe. We could own and really hold some of these platforms. It is, however, also a threat. Some from the US and China are deploying new technologies into these verticals at a pace that we do not see to the same extent across these verticals in Europe.

A point that has already been addressed is continuing to accelerate the Digital Single Market, which was launched in 2015. This is a fantastic initiative that will help start-ups as well as incumbent companies as they digitise. I still think that there is a way to go. Again, when you meet executives, this is one of their asks whenever you have a discussion with them, so I encourage all of you to see what you can do for this to work more efficiently.

While I do not know how much you can solve by regulation, you can be an enabler because you can simplify the interfaces and create application programming interfaces (APIs) between these hubs. That is about making sure that we have a more integrated ecosystem in Europe between these very strong hubs. I would not advocate for having just one or two hubs in Europe. One of the strengths of Europe is that we are rather decentralised. We have already developed several very strong tech and innovation hubs, but I do not think we have a sufficiently strong ecosystem between them. This goes back again to scaling as well as making sure that talent and technology are deployed quickly enough and where it has the highest return.

There are a couple of governmental areas. One is on talent. When you ask executives about what is holding them back from deploying AI, for instance, the number one thing that they raise is capability: they just do not have enough talent. How we are going to not only repurpose our education system but also address reskilling our workers is, of course, going to be a massive point. This is a challenge not only for Europe but everywhere.

Lastly, we should not underestimate what all of this does to society. I am based in Paris, so I have experienced the Yellow Vests first-hand outside of my apartment for almost half a year. Particularly in Europe, you could argue that inequality is not as high as it is in some other parts of the world. We have a social contract and quite well-functioning welfare states. I still believe that, as we deploy all these new technologies, it is important that we address our welfare and education systems while also holding businesses responsible for making sure that we bring everybody along and that there is not too much tension in society; otherwise, it will be very hard to deliver on this innovation ambition.

Let me conclude by saying that I believe that Europe can do this. We have always proven to be early adopters of new technologies, both as consumers and as businesses. However, I do think that it will take an ambitious approach. To succeed in this, Europe will have to play offence rather than defence. We need to spend as much time talking about what our strengths are as we do this and not just about where we have gaps. It requires cross-functional cooperation. Neither businesses, governments nor regulators can do this alone. It is very important that there is a joint vision and ambition for how we are going to achieve this.
That was my last word. ■