



XignSys: Venture Biography



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Disclaimer

The document presents a story of an existing start-up prepared through desk research and a narrative interview with the founder. For reasons of data protection, the names of people, cities, support programmes and companies are exchanged with pseudonyms. The biography has been approved for publication by the start-up and can be used for further research by citing it accordingly (see below).

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1 ID Card

Pseudonym	XignSys
Which ecosystem?	The Ruhr
Founding date	2016
Sector	Cybersecurity
No of employees	24
(Expected) Turnover	
Male/female founder	Two male founders
Start-up phases	
idea generation	2013-2016
incubation/founding	2016-2021
consolidation/scaling	Since 2021
Funding / financial support	BAs, a VC and research project funded by the state of North Rhine-Westphalia

2 Founder(s)' Background and Motivation

Markus and Pascal, the two founders, came from the same region and used to play football together when they were children. Both studied computer science in their bachelor's at different universities. By chance, they met during the enrolment for the master programme cybersecurity at a university in the Ruhr and, since then, regularly met during their master's. Markus' parents worked in a non-academic field and were always stressed by the dependency and their bosses. Therefore, Markus always had an interest in doing something of his own.

3 Business Modell

XignSys develops security solutions for mobile phones that interact with other entities. The company has developed an app and a corresponding platform for this end. As of 2023, the most revenues came from development and consultancy projects for B2B clients. XignSys adopts their technologies to the apps and platforms of the clients and implements solutions for them.

4 Start-up development

XignSys is a spin-off from the cybersecurity institute directed by one of the professors at the university where Markus and Pascal studied. Markus started to work at the cybersecurity institute soon after he started his bachelor's degree and brought Pascal to the institute when there was a vacancy. They first worked on different projects and finally were the technological managers in a larger project dealing with security issues in the mobility sector.

4.1 Idea-Generation

The mobility project dealt with authentication-related issues, and it was Markus' and Pascal's job to implement a specific solution to settle the authentication securely. Markus and Pascal were in their masters in 2014 and were only part-time employed in the project as they were supposed to study as a priority. As a side project, they developed another solution to settle the authentication-related issue using smartphones. Paying with smartphones was a new thing at this time. It so happened that the professor and head of the cybersecurity institute was just at a guest professorship in Silicon Valley and was very open to new ideas and entrepreneurship. In particular, he reported that teams were also experimenting with smartphones there, and he encouraged Markus and Pascal to go ahead with their side project. In their spare time, they worked on an alternative solution to settle the authentication from the mobility project use case. Markus recalled his professor's role: *"Shortly after the successful development, the professor came back from Silicon Valley, where he had been a visiting professor and said: OK, how far along are you then? And we were able to say: done, and we were also able to successfully demonstrate the completion of the project. And then he said: Yes, I've just come here from Silicon Valley, and I personally never wanted to have anything to do with entrepreneurship again [he founded a company before he became a professor]. However, the professors in the USA all found startups. Do you want to spin that project off?"*

Following this, the professor helped with setting up the venture in terms of organisation, business plan development and finance: *"And then the professor came up with the idea, were we needed support, so the professor gave us the final incentive, so to speak, or said, you have to deal with this, you need a business plan somehow, these are documents that you can take, and I have a handful of contacts that you should talk to. Of course, that was super helpful. And we were able to deepen the content there and we said OK we want to do this and we want to go further. And we were actually living on a handful of Euros as students at the time. That was a real, real classic start-up phase; we lived on €700 a month and were never at home anyway, but always at the cybersecurity institute. At some point, we had an official contract with the university that we were subtenants of the institute and could move in there. That was the basic path to the business foundation."*

The professor helped by making the first contact with clients and business angels. For example, Markus and Pascal promoted their technology at an institute celebration conference, with an oral presentation and networking at the evening party. At this party, a lot of cybersecurity professionals came together from all across Germany to *"to meet again, cosily over a beer, and we took the opportunity to somehow really pitch there in rows."* Markus and Pascal first met a business angel at the party who later invested in their venture. This business angel agreed to meet the very next morning to listen to the company pitch and invited the team to join a scheduled business trip for a meeting and short pitch with a large media company the very same day. In Markus' words: *"And then we travelled to [the city] with unfinished materials, with nothing but an idea, and pitched there. Nothing came from the pitch at this company, but it gave us a lot of knowledge, or the classic cold water you jump into to get somehow better afterwards. So that's exactly what we did; we somehow went down the path and then thought about it."*

4.2 Incubation / Founding

With this "cold water" preparation and the first business plan in hand, Markus and Pascal were prepared to found XignSys in 2016: At the time, they were employed at the cybersecurity institute and finished the mobility research project with their project partners: *"So that was kind of the end of it and*

then we both went there afterwards and said to a project partner, yes, we can implement the topic that we have now theoretically done here for a little more than a handful of Euros, so that you have a prototype. They actually went for it, so we had the opportunity to register the limited company [GmbH] with this first customer and were then somehow financed for around 18 months, at least for Pascal and me. Then, we were also able to bring our first employee on board. He became our first employee at XignSys, but we already had him in our mobility project, so we kind of took him directly from the cybersecurity institute, and that's exactly the path we took. We then had him within these 18 months. We built up our own network in the classic way. We somehow travelled around Germany to all the events that took place in the area."

They required money to set up the limited company, and the first working capital was also provided by the business angel they met. In addition, their professor invested in the company as a business angel. The young venture also used the 18-month financing period for networking to gain clients and additional investors and to grow the business. Their two business angels helped with contacts and insights. Within one year, they were accepted in an accelerator programme by E.ON a large energy company and managed to win a large German automotive company, Volkswagen, to finance a huge pilot project. The automotive company paid very well and also opened access to large trade fairs. At one fair, Pascal and Markus got badges from the company that opened access to different areas and parties. At the party of the state North Rhine-Westphalia, Markus and Pascal were approached by the CIO (Chief Innovation Officer) of the state, who asked who they were and why he did not know them being from North Rhine-Westphalia and this large automotive company. They drank beer and joked around. This direct contact with the government became relevant a couple of months later.

At a private pitch to an ICT provider of a municipality, they were introduced to the CDO (Chief Digital Officer) of this city because the state of North Rhine-Westphalia had an open call for smart city solutions. The call was an initiative for selected municipalities to deal with the Online Access Act [OZG] from 2017, requiring all municipalities to offer their public services online. The law tended to support the young venture because their mobile phone prototype for mobility could also be adapted to settle online interaction with municipalities' public administration. However, the problem was that the call was almost closed, and there was limited time to apply for funding. At exactly the same time, the minister of the responsible ministry was at the university to open a new lab, and Markus and Pascal took the opportunity to talk to the minister about their company and the call.

As Markus recalls this moment: *"The minister came to the event wearing a tie, and I was wearing swimming trunks, a T-shirt and flip-flops, but then I actually sat down in the event, just joined in, and everyone was very respectful and let him eat his cake. I thought okay now you take the opportunity and go to the minister and say, yes Mr so and so we have a gigantically good idea with which North Rhine-Westphalia can position itself; it fits into this funding project of your ministry. He was very open and listened to me but responded: "yes, but you have to sit down with my employees, but I can tell you: it goes through my CIO here, but he's is going on summer vacation in 6 days. You'll have to see if you can still manage it. So I had the CIO's mobile phone number from the trade fair meeting, I went out in the evening after the event and called him. [...] And then we actually had an appointment at the ministry at 7.30 pm just 1-2 days before the CIO's holiday. We actually sat together with 6-7 people from the ministry. The city was there, the cybersecurity institute was there, we were there".*

Being encouraged in this way XignSys, the city, the cybersecurity institute and some other project partners applied for a large research grant and were successful. Backed by this substantial funding, XignSys allocated most attention away from the mobility market and private sector clients to the E-Government market, which turned out to be a problematic decision in the long run. In the short term, however, the research project generated substantial income.

Following this success, XignSys pitched at a large tech event outside the Ruhr region. Only five start-ups were invited to present their ventures to large technology companies and prestigious VC investors. With the research funding, the pilot contract from the large automotive company, two well-known business angels on board, and the right timing and narrative, the pitch went very successful, and XignSys received two large offers by VCs. *“And that was just [...] the big breakout time on the subject of smart city, and everyone said: OK, we can't build silos and so on. And then we stood up. We went on stage, ok, we're connecting silos exactly, and then we actually had two offers from VCs after the pitch. We went with the first one and raised almost €1 million in the seed round, so to speak. This happened at the same time when we received the final funding decision [Zuwendungsbescheid] from the ministry at the end of 2019.”* With this funding in hand, XignSys moved out of the university to a larger office space in a different neighbourhood of the city. The company grew to almost 40 employees, developed the E-Government solution, and built a strong network of potential clients not only in North Rhine-Westphalia but also in most other German states, standing by to implement the solution.

4.3 Scaling-up / Consolidation

The scaling-up phases started with a consolidation phase as the young venture ran into a crisis. In Markus' words: *“However, as is the case when it comes to public authorities and regulated markets, the fifth year of the introduction of the Online Access Act ended last year. The successes were simply not there and [...] there were various crises, so money had to be saved, had to be brought together and then there was the amendment to the Online Access Act, or OZG 2.0 in other words. That amendment actually completely cancelled our market. In other words, everything that had happened at state level, where we had spoken to every federal state, where everyone had shown interest, no longer existed. The market is simply gone. Everything is now being taken over by the federal government. Which of course meant that we had almost 40 employees at the time, so we had a correspondingly high cost factor, customer interest fluctuated and we then had to see: OK, how do we deal with this? We then had to lay off a third of the workforce [in mid 2022].”*

XignSys had to completely reinvent its business model to overcome the extremely difficult situation. According to Markus they asked themselves: *“OK, what can we do next? Fortunately, we were able to enter into a good partnership with the local bank here [and the bank said] OK, how can we really support the company with loans and this like? And then we opened up a whole new sector for ourselves, so to speak, because we had accumulated a super, super, super amount of knowledge, but previously only thought in terms of products and then started to prepare professional services, precisely for this topic. Exactly, the Online Access Act 2.0 had closed the market, but the topic with the whole rethink in the healthcare sector has opened up another market, so to speak. And right now, we are working on new products, but we are one of the main suppliers when it comes to software development for the major IT service providers, health insurance companies, federal companies and the like. And so we were able to reposition ourselves.”*

In addition to the consultancy and development contracts for companies and organisations, XignSys also managed to develop a focused product, a combination of software and service, which solves a small security problem. With this new product, the venture won customers quickly in 2023. XignSys is now very profitable and can repay its debts that have accumulated in the restructuring phase. To accommodate the growing demand, three new employees were hired in 2023. Backed by this positive development, Markus and Pascal plan to scale the business well-informed. Therefore, they successfully applied for a prestigious accelerator programme outside of Germany.

5 Reflection and Conclusion

The case of XignSys hints at the ambitious impact of public funding. XignSys redirected its business direction with the approval of the huge public grant to develop E-Government solutions with the pilot city and the cybersecurity research institute. While the grant allowed the growth of the business and to develop competencies, it also directed the company into the difficult market for E-Government that very much depends on regulation. With the amendment of the Online Access Law, the targeted market just disappeared, causing a substantial crisis for the young venture. In Markus words: *“But it [the huge public funded development project] was a blessing and a curse at the same time, because it meant that our development direction was somehow predetermined. The whole issue of private sector business customers was completely pushed to one side, and we entered the E-Government sector head over heels with no idea of the market. That was a blessing and a curse at the same time, but it turned out to be a major challenge over time. So we had the project that worked out well; the network partners were also good, and we were able to establish contact with the municipalities and the like. But as is typically the case. As long as there is funding available, everyone is naturally willing to participate, including the other local authorities. But when the funding was gone, [we got the response:] we have to look, we don't know how we can finance it []. But we managed to build a complete product within the funding period, which was approved by [the authority]. The [authority] assessment alone took nine months. And we were then able to win the state of North Rhine-Westphalia as a major paying customer from the funding point, so to speak. We then wanted to build on the success that we had two years ago; we spoke to all the other federal states and had a very good dialogue with them. XignSys has grown quickly, [and then came the amendment of the Online Access Law].”*

In this context, Markus also discussed the matter of project partners and real customers:

“[...] The question is also by all the public support and project funding that are available because with all government projects and products, if you are currently working in the E-Government sector, it would be much more helpful to establish a real customer relationship or create an opportunity for this than any public sponsored project. Gaining the city as a real customer in this segment would simply be much more sustainable. Project partners are always good. Of course, we have learnt a lot from this, but the sustainability only lasts until [the end of the project]. We have now been able to convert [the project partner city] to a smaller customer, which has worked out. But it's not what we were aiming for at the beginning of the project. And that's where it would really help to be included in the circle [of providers for the city], the companies that are approached. Of course, there are always only limited opportunities to award contracts locally; we know all about that, but maintaining proximity to the young companies would be extremely helpful.”

Reflecting on XignSys's initial plan to develop and offer the total product themselves, Markus now sees why this was too ambitious: *“The challenge for a young company to play in the regulated area. It is like this: in the end, it sounds so stupid, but in the end, you always buy the IBMs and Accentures of this world. We now understand why, so there are also some things that we have learned that we simply could not have done to that extent, not in terms of software, but in terms of reliability and the like, when it comes to infrastructure operations or something else like employee presentation.”* The learning is *“that we should have addressed the software developers from the start, so a cobbler should stick to his last that would simply have been better. So we come from this area with the knowledge and a language we speak, and that works quite well, and that is exactly what we are doing now. In the operation of such large services and infrastructures and the approach, i.e., in sales to the municipalities or the states, health insurance companies, simply the big companies do better”*.

Markus also comments on the support infrastructure for start-ups. When they started seven years ago, there was not much support for founding teams from the university or the city. They had contact with the local economic development team and also visited some coaching for founding teams offered by the university, but the quality of advice was rather general. Markus used the example of professional accounting and ERP (enterprise resource planning) software. Every advisor recommended they just start with a simple Excel list, and they did this. However, during the growth and especially the restructuring phase, this was very inefficient, and they needed to introduce a professional and efficient process organisation at a time when many people already worked with the company. It was a very exhausting job for Markus and Pascal. Also, issues like legal form and the development of ownership are issues that the young founders should have given more attention to in the beginning (e.g., cleaning up the cap table). Markus has the feeling that today, the start-ups in the Ruhr interact much more and help each other. This was not the case when they started back in 2014.

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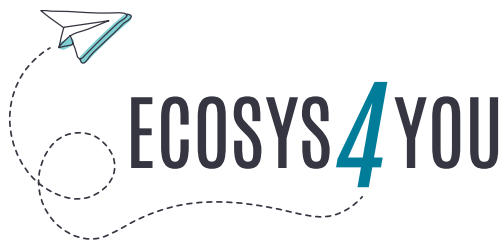
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Ecosys4you – Engaging Entrepreneurial Ecosystems for the Youth (2023-2026) strives to bridge the entrepreneurial ecosystems of the Ruhr, Germany, Varna, Bulgaria and Slovenia by connecting young founders, start-ups, HEIs and other ecosystem actors.

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