

# IO1 – A1

Transnational Report  
in Poland, Germany and Sweden



<b>Document Title</b>	Transnational report
<b>Intellectual Output</b>	1. Financial Check Training Course – FCT Course
<b>Activity</b>	1
<b>Deliverable</b>	3
<b>Delivery Date</b>	January 2018
<b>Organisation</b>	FyG Consultores
<b>Country</b>	Spain
<b>Approval Status</b>	Final
<b>Language version</b>	English

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Funded by the  
Erasmus+ Programme  
of the European Union

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## Poland

- A. **Budgeting:** What are start-ups doing today in terms of the most common practices for creating a cash budget

According to a research conducted in 2014 by Tomasz Wnuk-Pel, the majority of companies in Poland use budgeting techniques from the handbooks, such as formalization of investment or NPV. Anyway, some Polish companies also use methods that handbooks do not recommend such as Payback or ARR, but it is true that users are a lot lower in these cases.<sup>1</sup>

- B. **Finance:** What are start-ups doing today in terms of the most common practices for obtaining financing & launching of crowdfunding campaigns

It is impressive to see that the majority of start-ups in Poland usually finance themselves with their own resources. The research that was conducted in 2017 shows that 62% - 68% of start-ups are financed from their own resources.<sup>2</sup>

The most popular sources for start-ups in Poland is venture capital. However, finance also comes in many cases from public funds from the European Union funds (PARP and NCBiR). Those two types of financing are the most popular in Poland (24% of start-ups use this funding, only after own funding), and many start-ups are at a very young phase have success in establishing thanks to it; despite of it, EU funding is not the most planned funded to be received according to Polish start-ups, venture capital is. And actually, venture capital is the most used private financing.

In 2016, 22% of Polish start-ups received venture capital funding. Not only that, more than half of start-ups (59%) planned to ask for venture capital, showing how it is the private method (and the method in general) that start-ups prefer in Poland. After it come Business Angels, which in 2016 became the 17% of start-up funding. It is interesting to see the size of the gap between Business Angels and the next method of financing used, Accelerators, that only accounted for 7%. Finally, at the end of the list comes crowdfunding, which is the least used method (only 2% of start-ups used it in 2016).

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<sup>1</sup> Tomasz Wnuk-Pel (2014) *The Practice and Factors Determining the Selection of Capital Budgeting Methods – Evidence from the Field*, University of Lodz, available online at <https://www.sciencedirect.com/science/article/pii/S1877042814060704>

<sup>2</sup> Beauchamp M., Kowalczyk A., Skala A., *Polskie Startupy. Raport 2017*, Warszawa 2017 Fundacja Startup Poland, available online at [http://startuppoland.org/wp-content/uploads/2017/09/SP\\_raport2017\\_single\\_fix.pdf](http://startuppoland.org/wp-content/uploads/2017/09/SP_raport2017_single_fix.pdf)



However, it is interesting to see that crowdfunding is not the least searched method of financing (11%); this means that although start-ups look to use it over other options such as regular loans, it is more difficult to achieve it in Poland.<sup>3</sup>

**C. Cash flow management:**

- a. What are start-ups doing today in terms of Forecasting practices
- b. What are start-ups doing today in terms of Cash flow statement analysis practices
- c. What are start-ups doing today in terms of Cash flow ratios calculation practices
- d. Usage of cash flow automation tools by Start-ups
- e. Adoption of e-Invoicing by Start-ups

Start-ups in Poland mainly work in B2B business and due to that they reach permanent income. Only 37% of B2C get similar income as B2B. Most of the Start-ups create the product and sell it outside of the country. The product is prepared to be exported and this action assures high incomes.<sup>4</sup>

Depends on how many people works in a specific Start-up many of them in Poland use new applications that facilitate the way to organise a cash flow. Applications are design in the way that is easy to understand by young and adults.

E-Invoicing is still not very popular in Poland as many Start-Ups are afraid of this kind of system. Most of the Start-Ups have their own administration person that deal with all financial issues.

In 2020 in Poland will be obligatory to issue the e-Invoice by the company.<sup>5</sup>

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<sup>3</sup> Agnieszka Skala and Eliza Kruczkowska (2016) *Polish Startups Report 2016*, Startup Poland, available online at <http://startuppoland.org/wp-content/uploads/2016/09/Startup-Poland-Raport-2016-03-ENG.pdf>

<sup>4</sup> <https://businessinsider.com.pl/technologie/nowe-technologie/raport-polskie-startupy-2017/k81w0r0>

<sup>5</sup> <https://www.mr.gov.pl/strony/zadania/wsparcie-przedsiębiorczosci/e-przedsiębiorczosc/e-fakturowanie/>

**D. ICT-enabled Business Development:**

- a. eProcurement adoption by Start-ups
- b. eCommerce integration by Start-ups
- c. Use of virtual marketplaces by start-ups

In Poland 52% of customers prefer to see the product before they buy it and that's why the eCommerce is not that much popular inside Start-Ups in Poland. 53% of people that might buy online are women. From all products that people buy online the majority are clothes, jewellery and accessories.<sup>6</sup> Start-ups in Poland very slowly begin with eCommerce and try to convince their clients as it's a safe way to buy they product. Most of the Start-ups have a physical shop and after some time they open an online shop. Very popular among polish Start-ups is Facebook where they promote and sell their products.<sup>7</sup>

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<sup>6</sup> <http://antyweb.pl/e-commerce-w-polsce-2017/>

<sup>7</sup> <https://mamstartup.pl/e-commerce/8658/omnichannel-w-polskim-e-commerce-93-sklepow-ze-sprzedaza-wielokanalowa>



## Germany

### A. *Budgeting*

Budgeting is living an “unpopular” moment for many German start-ups, since there is an spreading opinion that considers the traditional model of budgeting as quite rigid for companies in the sense of acting as a management tool to reach the objectives of the company. However, the traditional model is still one of the most used models in Germany right now. Companies spend more than 4 months planning the budgeting, which is usually done annually. Controlling traditional budgeting can become very complex, which leads to more human resources invested on it, and the focus is always in the past, which according to some opinions leads to an insufficient vision of the future.

For this reason, it is becoming increasingly popular around financial magazines and start-ups to recommend or create alternative versions of the traditional budgeting.

### B. *Finance*

- a. Obtaining financing
- b. Crowdfunding

The **German State** is one of the main pillars of start-ups funding of the country. They offer a grant specially for start-ups, although in order to apply for it companies have to meet different requirements. Also, there are different start-up loans available from the KfW Bank.

The most important way of private financing in Germany, however, is probably **Venture Capital**, with almost \$3 bn. funding reached in 2015. It is followed by Business Angels, which accounted in 2015 for around 24% of private investment.

Moving on to **Corporate Venture Capital**, Germany was in 2016 the country in Europe in the highest amount of corporate venture capital. Not only that, important German companies announced an increase of their investment in this.

Germany also counts with important **incubators and accelerators**, but it is interesting to see that, although the country has an important GDP and its economy is observed by the rest of the EU, the number of incubators and accelerators available is not as important as other member states. For

example, considering the most important hubs, countries such as the UK, France or Spain have a large number of important European Hubs than Germany, according to the Telefonica report of 2013.<sup>8</sup>

**Crowdfunding**, one of the newer ways of funding for start-ups, is seen in Germany as a legit alternative to traditional funding measures. Crowdfunding is raising in Germany; looking at numbers, in the first semester of 2016 it was received a total of €67.6 mil., compared to €50.7 mil. in 2015.

All information related to Germany has been obtained from GISEP.<sup>9</sup>

**C. Cash flow management:**

- a. Forecasting practices
- b. Cash flow statement analysis practices
- c. Cash flow ratios calculation practices
- d. Cash flow automation tools
- e. e-Invoicing adoption and tools

According to Thiess Buettner and Bjoern Kauder, forecasting practices in Germany tend to overestimate the revenues of the companies, although the level of difference towards 0 is minimum, meaning that the forecasting is relatively objective.<sup>10</sup>

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<sup>8</sup> Telefónica Global Affairs and New Ventures, 2013,  
[https://www.telefonica.com/documents/341171/361539/The\\_Accelerator\\_and\\_Incubator\\_Ecosystem\\_in\\_Europe.pdf/28761bd6-2221-4b79-827d-c4cb37a77b11](https://www.telefonica.com/documents/341171/361539/The_Accelerator_and_Incubator_Ecosystem_in_Europe.pdf/28761bd6-2221-4b79-827d-c4cb37a77b11)

<sup>9</sup> Chiara Sommer, High-Tech Gründerfonds (2016) *Financing for Startups*, available online at <http://gisep.co/guide/financing-for-startups/>

<sup>10</sup> Thiess Buettner and Bjoern Kauder (2010) *Revenue Forecasting Practices: Differences across Countries and Consequences for Forecasting Performance*, available online at [https://www.sbs.ox.ac.uk/sites/default/files/Business\\_Taxation/Events/conferences/symposia/2010/Buettner-paper.pdf](https://www.sbs.ox.ac.uk/sites/default/files/Business_Taxation/Events/conferences/symposia/2010/Buettner-paper.pdf)

**D. ICT-enabled Business Development:**

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Germany is the second EU member state with the largest estimated value of ICT-enabled services exports, according to the ESA. More concretely, it is used for selected businesses, although the financial use raised up to more than \$23 billion in 2014. <sup>11</sup>

Germany is one of the European countries with highest use of eCommerce, especially in clothing, books and home electronics. The rise of the European eCommerce in general and in Germany in particular is key for the start-ups, which feel the need to focus their energies also in this area. <sup>12</sup>

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<sup>11</sup> U.S. Department of Commerce, Economics and Statistics Administration, Office of the Chief Economist (2016) *ICT-Enabled Services Trade in the European Union*, available online at [http://www.esa.doc.gov/sites/default/files/ICT-Enabled%20Services%20Trade%20in%20the%20EU\\_0.pdf](http://www.esa.doc.gov/sites/default/files/ICT-Enabled%20Services%20Trade%20in%20the%20EU_0.pdf)

<sup>12</sup> Ecommerce News Europe (2017) *Ecommerce in Europe*, available online at <https://ecommercenews.eu/e-commerce-per-country/e-commerce-in-europe/>



## Sweden

- A. **Budgeting:** What are start-ups doing today in terms of the most common practices for creating a cash budget

Oppositely to other countries, start-ups in Sweden are trying new budgeting methods that differ from the traditional ones. Budgeting in Sweden varies a lot depending on the company and many start-ups are experimenting with different methods in order to find the more suiting for their concrete case. However, this situation cannot be seen in absolutely every Swedish company; according to some research by the Stockholm School of Economics, budgeting may differ depending on the orientation of the start-up; more concretely, according to their investigation in 2011, sales driven companies experiment more in terms of budgeting than technology driven start-ups. Sales driven start-ups look for budgeting that takes care not only of present problems as traditional forms do, but also looks to solve new challenges, a point of view associated with more innovative budgeting methods.

It can be said with this that in Sweden is possible to see a mix of budgeting methods, but most importantly, that innovative budgeting is finding its way into the Swedish start-ups.<sup>13</sup>

- B. **Finance:** What are start-ups doing today in terms of the most common practices for obtaining financing & launching of crowdfunding campaigns
- a. Obtaining financing
  - b. Crowdfunding

When talking about **public financing** a start-up in Sweden, there are some points to bear in mind. The first one is to look up at ALMI, which provides a grant that does not have to be paid back as long as the funding is used for the right purposes. ALMI also provides different types of loans, incubators and help with venture capital. For this reason, ALMI is a step that many start-ups use when looking for their first investment, since it is very attractive for them not having to return the initial grant.<sup>14</sup> There are other types of support regularly used by start-ups, such as VINNOVA (Innovation Agency), which intends to help Sweden improve in terms of innovation and research and to do so, provides funding to innovation projects and research among others<sup>15</sup>; or the Venture Cup, a national business plan

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<sup>13</sup> Axel Ingvarsson and Ru Zhang (2011) *Balancing between Control and Creativity: Budget Use in Five Swedish Startups*, Stockholm School of Economics, available online at <http://arc.hhs.se/download.aspx?MediumId=1397>

<sup>14</sup> ALMI, available online at <https://www.almi.se/English/>

<sup>15</sup> Vinnova, available online at <https://www.vinnova.se/en>

competition organised by a non-profit organisation that encourages the creation of new entrepreneurs<sup>16</sup>.

Regarding **private financing**, venture capital and business angels are the most used types. Venture Capital are usually not very fast in making decisions, but they are easy to contact and they usually advise start-ups. As to Business Angels, they are pretty open although as in every country they like to minimise risks.

It is possible to find other types of financing in Sweden, such as **crowdfunding**, incubators or accelerators. However, it is true that the number of accelerators available in Sweden is much lower than in other countries of the EU such as France or Spain; this data is interesting taking into account the fact that Sweden has one of the most important start-up environment in the EU.

Looking concretely at crowdfunding, in 2015 it still did not have any legal definition in Sweden; in some cases, it is not even completely clear which public body should be in charge of reviewing it. This means that Sweden, although it is one of the most important points in other areas, fails to promote crowdfunding compared to other countries such as Denmark, and it is still unknown for many start-ups due to the lack of legal regulation, failing to provide this tool to local entrepreneurs.

However, even with these difficulties, crowdfunding companies in Sweden have been working to promote this method along the country.<sup>17</sup>

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<sup>16</sup> The Venture Cup, available online at <http://www.venturecup.se/what-is-venture-cup/>

<sup>17</sup> Michal Gromek (2016) *The Current State of Crowdfunding in Sweden*, Crowdfunding Hub, available online at <http://www.crowdfundinghub.eu/current-state-crowdfunding-sweden/>



**C. Cash flow management:**

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Cash flow management is one of the main issues to be taken into account by start-ups in Sweden; one of the main reasons why start-ups fail in this country is due to a lack of ability to manage their cash, turning into problems of liquidity and ending up in a start-up failure. Unfortunately, there are not a lot of studies on how to improve the cash flow management of start-ups. According to Antonina Kunze and Pille Peri, Swedish start-ups should turn to “Working Capital Management” (WCM) as a possible option for start-ups to avoid liquidity problems; many of them already use it, but not all of them.

In their study about the WCM and the cash flow management of start-ups, they could see that all the practices followed have the intention of surviving, not obtaining some profitability. Also, start-ups in Sweden use cash flow pressure collection techniques as a way to obtain liquidity more rapidly from their buyers, since they usually are in more need than a regular, large company.<sup>18</sup>

**D. ICT-enabled Business Development:**

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Sweden is gradually stopping using cash over the last years, being nowadays the most cashless society in the world; nowadays it is becoming normal not only to only use a card or the phone to pay for anything, but to find banks with no cash to get. Of course, this means that the non-physical currency integration by start-ups is incredibly high, since everything can be paid without using solid currency; according to an article on the subject, even balloons on the street can be paid with card.<sup>19</sup>

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<sup>18</sup> Kunze, Antonina and Peri, Pille (2015) *Working Capital Management in Start-ups - An Exploratory Research on Swedish Start-ups*, Lund University, Department of Business Administration, available online at <http://lup.lub.lu.se/luur/download?func=downloadFile&recordId=7456161&fileId=7456163>

<sup>19</sup> Maddy Savage (2017) *Why Sweden is close to becoming a cashless economy*, BBC News, available online at <http://www.bbc.com/news/business-41095004>

Also, eCommerce is constantly increasing in the country, with around 94% of citizens having access to internet; in 2016 the value of eCommerce in the country was around 10.5 billion euros, which means that start-ups need to catch up and offer an eCommerce option to their buyers, who are more and more assuming that they can buy from their houses. <sup>20</sup>

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<sup>20</sup> eCommerce News (2017) *eCommerce in Sweden*, available online at <https://ecommercenews.eu/e-commerce-per-country/e-commerce-sweden/>

