

IO1 – A1

National – Transnational Comparison Analysis



Document Title	Comparison Analysis
Intellectual Output	1. Financial Check Training Course – FCT Course
Activity	1
Deliverable	4
Delivery Date	February 2018
Organisation	FyG Consultores
Country	Spain
Approval Status	Final
Language version	English

[This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained herein.]



Index

What is B-CAPP?.....	3
Introduction to the Transnational Comparison	4
Budgeting	5
Finance	6
Cash Flow Management	6
ICT-enabled Business Development	8
Final Conclusions.....	9



What is B-CAPP?

The B-CAPP project aims to empower entrepreneurs with the financial management skills and knowledge required in order to help them run and manage their businesses successfully and effectively. As lack of financial knowledge on managing a business is considered to be one of the main reasons of business failure, this project will address this gap so that it can contribute to reducing the rate of entrepreneurial failures. This however is only one aspect of overall financial management. It needs to be complemented by smart use of ICT and not addressed in isolation. The project complements financial management with the adoption of supporting ICT tools and processes (e.g. cash flow tools, e-Procurement, e-invoicing, virtual marketplaces) as we have seen in the last years that more digital SMEs incurred a lesser decrease in turn over (reasons are more cross border activity through eCommerce, reduction in operating costs passed to customers making them more competitive, etc.).

To do so, the project intends to produce a complete training program for financial planning/management of start-ups complemented by smart use of ICT for reduction of operating costs and cross border business activity leading to increase in competitiveness.

The transnational partnership consists of 8 partners from 7 countries: Crystal Clear Soft (Greece), Civic Computing Limited (UK), ECAM-EPMI (France), Eurocrea Merchant (Italy), Fundación General Universidad de Granada-Empresa (Spain), FYG Consultores (Spain), Visoka Poslovna Skola Par (Croatia), Agentia pentru Dezvoltare Regionala Nord-Est (Romania).



Introduction to the Transnational Comparison

This report belongs to the first Intellectual Output in the B-CAPP project, and it has as main objective to serve as a comparison analysis for the current situation of the partner countries (France, Spain, UK, Croatia, Greece and Romania, from now on called “partner countries”), with the situation of interesting markets in the EU that are known for their innovative measures in relation to financial management skills and actions performed in start-ups.

During the first phase of this activity under the B-CAPP project, the project partners have conducted an analysis on their national countries regarding relevant topics related to financing, focusing on the start-ups of the country. To do so, partners focused their efforts on learning more about the situation of their country’s start-ups regarding:

- Budgeting: cash budget practices used by start-ups
- Obtaining finance in the country, and use of crowdfunding by start-ups
- Cash flow management: which methods are being used in relation to forecasting practices, cash flow statement analysis practices, cash flow ratios calculation practices, cash flow automation tools and e-invoicing adoption and tools
- ICT-enabled Business development: adoption by start-ups of eProcurement, and practices related to it; integration of eCommerce and use of virtual marketplaces by start-ups in each country

After conducting the analysis in the partner countries, the partnership analysed the situation of interesting markets in the EU, being the selected countries Germany, Sweden and Poland (from now on, called “transnationally selected countries”). These markets are attractive due to their innovation level in finance-related areas, as well as because of their location in the EU.

The situation that the partners found in their national analysis will be considered as the current situation, while the information obtained from the transnationally selected countries, which theoretically have a more innovative or interesting approach to the topics of the report, will be considered as the situation desired for the partner countries.

In the following report, it will be possible to see a final analysis and comparison of the situation of the partner countries versus the transnationally selected ones. From this comparison, it is expected to extract the main points that difference partner countries and transnationally selected countries, in order to better understand which points are related to the previously mentioned topics that should be taken into account when trying to improve the situation of the partner countries’ start-ups in relation to financial management skills.

Budgeting

According to the information obtained from the partner countries, a common understanding on budgeting can be concluded. The general use of budgeting is a rather limited one, with Excel as the most common tool for all partner's SMEs and entrepreneurship. Only in the UK there is a certain mention of other types of budgeting techniques, although in all cases there are still traditional, simple ones. In fact, in Spain it is even said that in some cases start-ups do not keep track of their budget.

In comparison, transnationally selected countries, and more specifically in Germany, as well as in the partners' countries, it can be seen that there is still a wide use of traditional budgeting. However, this trend may be starting to invert considering the general "unpopularity" of it among start-ups in the country. Regarding Poland, traditional techniques, and especially the techniques usually recommended by economics handbooks, are the ones more used. Finally, Sweden Start-ups are investing in new methods of budgeting, being this the most different version compared to partner countries; especially since 2011, many sales driven companies are experimenting with new methods of budgeting that help to solve not only current problems (as traditional methods) but also future ones.

With this information it can be said that regarding budgeting techniques among start-ups, the general level of most European countries, including both partner countries and the selected ones (apart from Sweden), is basic, with a general use of traditional techniques and in many cases without any intention of trying out new, innovative ways of budgeting. However, it is true that there is a difference between the selected countries in the transnational phase and the partner countries' information, since in the second case it is even mentioned the lack of use of any budgeting technique or the unique use of Excel, versus the use for sure of budgeting techniques, even if they are traditional.



Finance

Regarding finance activities in the partner countries, we find different points; in the UK it appears to be an over-reliance on bank debt, while crowdfunding is becoming increasingly popular. France has a similar situation, with a highlight on the selectivity that comes behind public financing options available at different levels in the country. Oppositely, Spain's start-ups find it difficult to get bank financing and traditional sources of finance, making new ways of financing increasingly popular, while Greek start-ups rely mostly on their own or their families' funding due to extremely high taxes of getting a bank loan; crowdfunding is complicated at national level, and Spanish start-ups have to look for international funding when they want to use this type of finance. Also, in Spain, there is an increasing popularity of accelerators and incubators supported both publicly and privately, as well as several public options of funding. Regarding Romania, the main funding source is the government, although crowdfunding is also becoming very popular. Finally, it should be highlighted that the investment in Croatia through methods such as crowdfunding decreased in 2016; there is a general uncertainty in the country related to this topic, which will possibly have a negative impact in the financing.

Moving to the chosen countries for the transnational analysis, when looking at Germany we find that the traditional, banking private finance does not seem to be among the most popular financing sources in the country as happened in many partner countries; on the contrary, there is a combination of government support with other funding sources such as Venture Capital and Business Angels; types of funding that were not mentioned in length along the partner countries' report. Anyways, it is also interesting to mention that according to the report, partner countries such as Spain or the UK have more important incubator hubs than Germany. Looking at Poland, another type of funding appears that was not mentioned in other reports, the own funding of the entrepreneur. Also, as happened with Germany venture capital appears as an attractive option in Poland. Sweden has a similar situation as in Germany once again, with importance given to venture capital or business angels as opposite to incubators and accelerators, which are not that relevant in this country.

After analysing both parts, the main points related to finance that can be obtained are the difference between methods used in partner countries versus transnationally selected countries. While partner countries focus on bank loans, crowdfunding, public funding and in some cases accelerators and incubators, transnationally selected countries seem to prefer Business Angels and Venture Capital instead, although the general opinion does match in the use of crowdfunding.

Cash Flow Management

In general, there is not a lot of concrete information regarding cash flow management in the partner countries. It can be extracted from the UK that more than half of financial statements are done externally. Only 29% microbusinesses in the country use management software and just a 10% use a cash-flow based income statement. In Spain, forecasting practices instead of cash flow management is relatively common; companies are used to estimate the market size and potential market growth, but it is essential for them to learn the difference between potential market and actual market. A similar situation prevails also in Greece, where the most commonly used forecasting method is the management's subjective estimates. Regarding Romania, Croatia and France, there was no specific information provided related to forecasting methods.



Compared to this, it is possible to find a little more information on the transnationally selected countries. Poland still has a not very popular vision of cash flow management items, but e-invoicing will become compulsory in 2020. In Germany, it is possible to see that their forecasting practices in Cash Flow Management usually overestimate revenues, although the final forecasting is yet quite objective. And in Sweden, it is a very complicated topic because most Swedish start-ups fail due to a lack of ability to manage their cash. Sweden does not have many information on the topic either, but according to different researches it was seen that many start-ups think in surviving and not obtaining some profitability, using cash flow pressure techniques to obtain liquidity more rapidly.

After seeing this information, the main points obtained from the topic are that in general, cash flow management is a topic with very few information available in any country (partners and transnationally selected). Also, it can be concluded from the information that cash flow management is not a topic that start-ups are considering right now.



ICT-enabled Business Development

When talking about ICT-enabled Business Development, we can see variations just by looking at partner countries themselves. Beginning with Romania, ICT business is a very interesting point in the country since many start-ups are focusing on this sector to begin their activity. The fact that many specialised web platforms can be found in the country is a sign of the expansion of ecommerce in Romania, where additionally eProcurement use is mandatory by law for all contracting authorities. As a summary, the high affinity with technology of Romania allows the country to be on an interested point related to ICT-enabled Business Development. Also, in France, ICT is becoming more accessible and some companies are even trying to self-finance themselves with their first consumers.

A similar thing happens in the UK, since although some sectors have IT struggles, the country has the 3rd largest e-commerce market in the world. Anyway, it is true that many SMEs consider e-business as a not urgent matter and prefer to use their money on other issues, but yet smaller organisations have a greater share of purchases online in the use of e-procurement than medium sized; probably it has something to do with the fact that smaller organisations use open source systems instead of payable ones. Yet, the numbers of e-commerce sales in micro companies are not high; approximately only 8.5% make sales. And the use of social media is also very different; from the 90% of big companies using it while only 30% of micro do.

However, in Spain and Greece, we find a different case since in general ICT in small businesses is not widely used at all; it is true that the both countries are experiencing an Economic crisis since 2008 in which growth usually takes longer. In the case of the use of Internet in Spain, many SMEs do not sell online, and eProcurement is not used because it is seen as focused on large quantities of sales that small companies do not have. However, some new companies are beginning to try and use it. On the other hand, Greek e-procurement system is still very complex, but it is worthwhile mentioning that e-commerce is rapidly growing within the market. As a result, it is important to mention that ecommerce is one of the sectors not influenced by the crisis. Regarding the outcome obtained from Croatia, the amount of information in this matter is minimal, which can be translated into a lack of use of ICT-enabled businesses.

As happened with partner countries, transnationally selected countries have different positions with respect to this topic; however, Germany and Sweden have an interesting approach. Poland does not have an important ecommerce because, according to research, 52% of the population prefer to see the product physically before buying it; start-ups are trying to convince their consumers to buy online and Facebook is becoming popular, but yet it is not an important point for Polish start-ups. Oppositely to this and many of the partner countries, in Germany we find the second EU largest estimated value of ICT-enabled services exports, according to the ESA. Germany is one of the EU countries with a widest use of ecommerce and particularly for start-ups. And finally, we find Sweden, in which the level of ICT-enabled business development is impressive as well; it can be seen starting from the use of cash, which is diminishing to the point of being the most cashless society in the world. This means that the non-physical currency integration by start-ups is incredibly high. And ecommerce is also increasing, with a value in 2016 of around 10.5 billion euros.

From the main points obtained by the comparison, it can be seen that the difference between countries in this topic is not only between partner countries and transnationally selected countries, but in general. Germany and Sweden are the most innovative countries in the topic and they could be taken as role models, but the UK could be as well, having the third biggest online market in the world.



Final Conclusions

After finalising the comparison in the report points between partner countries and transnationally selected countries, the main conclusion that can be drawn is that there is a difference not only between partner countries and transnationally selected countries, but inside them as well.

The current situation of partner countries in the topics of the report is quite different, especially in points such as financing and ICT-enabled business development. Also, it should be noted that the economic situation of each market is different as well, which in many cases and specially in the studied matters can have a lot of influence. However, other areas such as cash flow management appeared to be pretty similar. The main conclusion obtained from this is that in different points of this report, partner countries can learn from each other.

Expanding the conclusions to the information obtained from the transnationally selected countries, it is possible to see that same difference, especially important, for example, in budgeting. It will be an interesting point to consider the innovations found in the transnationally selected countries as a possible point of improvement for the partner countries.

Another point to consider after analysing the national reports concluded by the partners are the best practices that should be followed by start-ups in finance and IT aspects discussed in this report. The most important ones are:

- ❖ Recommendation to new businesses to reach out to someone with finance expertise to establish a budget plan.
- ❖ Analyse the entities and consumers with whom the businesses will be interacting to be able to understand future budget plans in case of late payment.
- ❖ In the case of countries with tradition of not paying immediately after receiving the good/service (such as Spain), offer discounts for those consumers paying earlier, or paying earlier to access discounts from your providers.
- ❖ When deciding financing possibilities, understand the different platforms available and figuring out which one works best for each individual idea and business.
- ❖ Understand what can be offered to each business type in terms of public aids for financing.
- ❖ In the case of small businesses, by expanding virtually, they are able to spread their markets to international sectors and reach more consumers who are willing to purchase niche goods that might cost more than average ones.
- ❖ Always record absolutely all cash flow movements in the company.
- ❖ It is positive for start-ups to learn how to use online platforms to offer billing and e-invoicing.
- ❖ Understand the demographic to which the company wishes to sell before deciding how to sell to it. This is especially important in eCommerce since some demographic fit better than others

Considering all the conclusions and information obtained, the specific needs that B-CAPP should focus on are:

- ❖ Since currently the use of budgeting techniques in partner countries are limited to traditional ones, and in some cases not even that, it will be important to show the importance of conducting a budget and the benefits of using innovative techniques instead of using only Excel.
- ❖ In partner countries, bank loans were a very important way of financing for start-ups, but they are becoming very difficult to obtain. It is interesting that the project shows alternative financing opportunities to partners, such as crowdfunding.
- ❖ Nowadays, cash flow management is practically not used at partner countries. Considering the importance of cash flow management and forecasting techniques in ensuring the survival of a company of any type, it is essential that B-CAPP teaches what is exactly cash flow management, which are its benefits and how rational forecasting benefits can help a start-up.
- ❖ ICT-enabled Business Development is a tool in process of becoming very relevant for start-ups; in some countries like Romania it is even compulsory by law to have eCommerce. Considering it, it would be interesting for B-CAPP to show start-ups how to take profit of ICT-enabled business, especially considering that the differences between countries were not only among partner countries and transnationally selected countries, but in general. This point is especially interesting taking into account that countries like Romania are increasingly relevant in ICT business.

