

IO1 – A1

National report



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O1 / A1 Analysis report

THE 'STARTUP' SITUATION IN ITALY

A. Budgeting

From the point of view of company planning, the formulation of the budget, that is, the operating process that sets the company's objectives in the short term and summarizes the economic-financial results in the administrative period, is particularly important. We try to draw a useful path to small and medium-sized businesses for the preparation of the economic document.

The complex budget process as a tool for management control, is also for SMEs: it allows to estimate the economic result of the future exercise and represents a useful reference point to monitor the achievement of the objectives. The budget is a starting tool through which the company is put in a position to achieve maximum profit in the period considered because it dictates important guidelines addressed to the various areas of the company. Its programming usually covers a period of twelve months, divided into shorter periods (months or quarters): this subdivision is necessary to direct the behaviour of the managers in the various periods of the year. In fact, to obtain satisfactory results, it is important that the budget be drawn up with criteria and with the involvement of all the corporate bodies, especially those of a managerial nature who take responsibility for achieving the objectives.

HOW TO MAKE THE BUDGET

The budget formation process basically involves the compilation of 3 sections:

- economic budget (costs and revenues for the period considered);
- investment budget (synthesis of a multi-annual program that takes into account investments or renewal of fixed assets);
- financial budget (methods for the recovery of capital necessary for business activity, to assess whether the company can rely solely on its own resources or use third-party capital: it must contain data on the sources and uses of financial resources).

It can start from the drafting of the **sales budget** as all the company's activity is formed on it. The predominant element of its formation is the knowledge of the market: the type of product to be sold, the quantity, the average price and the areas or the market in which to sell must be identified. From a detailed indication of the sales budget you can define the production budget with which the company plans to manufacture the products to be sold.

The production of products intended for sale is subject to the purchase of raw materials and consumer products. For this reason the **budget for expenses** and purchases must also be drawn up. In this context, it will be necessary to calculate the consumption of the material and therefore the costs that the company will have to bear, taking into account the initial existences and the final inventories.

For the budget of expenses it is good to take into account the manpower needed to make the products to be sold. To calculate it, it is necessary to consider the hourly cost of the resources to be used, the number of hours envisaged per unit of production and the number of personnel required. In this way it will be easy to determine, in relation to the annual working hours, the necessary staff, the possible need for new staff or, vice versa, the excess of the available one. The various budgets used make it possible to determine costs and revenues relating to the forecast income statement.



The pattern that we suggest - although it may appear excessive for smaller companies while in larger companies could be reductive - is the step-like form envisaged among other things by article 2425 of the civil code and takes into account ordinary revenues, personnel costs, operating costs, maintenance, administrative expenses, amortization, financial income and expenses and extraordinary income components, up to the forecast of profit or loss.

The economic budget will then be divided into shorter periods: months or quarters.

B. Finance

a. Obtaining financing

Support the birth, growth and consolidation of companies by facilitating access to credit and investment programs: to this end there are various national incentives and regional funding that support new or already started companies, also promoting start-ups and self-employment initiatives as a resource to strengthen employment in the country.

- **National incentives.** Access to state incentives by companies is subject to the submission of an application that can follow three different types of procedure: automatic, evaluative, negotiating. One of the national incentive is the “**DIGITALIZATION VOUVHER**”, a facilitating measure for micro, small and medium-sized enterprises which provides for a contribution, through the granting of a "voucher", of an amount not exceeding 10 thousand euros, aimed at adopting digitalization measures of company processes and technological modernization.
- **Incentives Invitalia.** Invitalia is the National Agency for the implementation of investments and business development that acts on behalf of the Government to increase the competitiveness of the country, particularly in the Southern Regions. Companies can take advantage of a package of facilitating instruments: Smart&Start, Incubator Network Fund, Development Contract, Patent incentives, entrepreneurship, Self-employment, Biomass, Relaunching industrial areas.
- **Regional incentives.** In the management of incentives, the Regions have a wide autonomy. Therefore, those interested should contact the competent office directly or consult the BURC, the official regional bulletin reporting both the existence of a specific incentive and the availability of funds. Among the regional incentives stand out: capital contributions, subsidized loans, non-refundable contributions, interest subsidies, tax credits.

1. **FINANCING FROM THE MARKET AND RISK CAPITAL:** institutional investors, the business angels, venture capital, private equity and closed-end funds, network lenders and crowdfunding platforms.
2. **THE FINANCING INSTRUMENTS OF THE CIRCULANT:** the opening of current account credit and bank advance, instruments for the disposal of trade receivables.
3. **FINANCING OF FIXED CAPITAL:** mortgage and leasing, own capital.
4. **BUSINESS INCUBATORS AND SUPPORT SERVICES FOR START-UP**

b. Crowdfunding

The term **Crowdfunding** means a "collective", "bottom-up" financing process: through the online sharing of business ideas and projects, funds are collected for their realization. Generally this is an alternative system of access to banks of various interest and of an initiative supported by them. Among



the advantages, for those who address the "crowd" there is also that of overcoming an exchange of information and / or suggestions to improve their idea.

Crowdfunding types

There are several models of Crowdfunding, among which:

- the one based on **rewards**, the most widespread one provides a reward / reward for people who make a donation to finance the project. The economic return for the investor may consist of a sum of money or in obtaining the product / service realized;
- similarly, the "**equity based**" model consists of a loan in the form of risk capital in order to obtain shareholdings in the financed company. With reference to Italy, this is the only form of Crowdfunding for which there is a specific law (a Decree Law and a Consob regulation), addressed only to innovative start-ups;
- the "**donation based**" model, on the other hand, requires that the lender of the idea make his donation without receiving anything in return. This is a type of Crowdfunding usually adopted for social and civil projects. This is the most used model to sell a product / service before its actual implementation;
- the "**social lending**" or "peer-to-peer lending" model provides for a loan of money between individuals with favorable interests compared to those of the market.

The success of crowdfunding in Italy continues, with growth over the last year from the second Report on the Crowdfunding of the Observatory of the School of Management of the Polytechnic of Milan of + 273%, for a total value of € 189.2 million, 138.6 of which collected between 1 July 2016 and 30 June 2017. These are promising numbers, although numbers are still quite far from the best European performances. However, if the pace of growth were to remain this, Italy could recover the gap within a few years. To be more interested in this important alternative financing instrument are SMEs, which still today often struggle to obtain liquidity through the traditional access to credit channels.

The Italian Regions are active on the side of support for the creation of new businesses and with interesting results despite the crisis, covering practically every category of enterprise with reference to the size (MPMI), the business sector and the propensity to technological innovation. Compared to 2014, there is an increase in the number of Regions that have defined the innovative start-up at regional level or used the definition introduced at national level by the D.L. 179/2012 (eg Abruzzo, Basilicata, Emilia-Romagna, Lazio, Lombardy, Marche, Sardinia, Tuscany, Umbria and Veneto). There are still many regional interventions aimed at supporting start-up companies in general, including innovative beneficiaries, in line with the Community approach and with the measures implemented at regional planning level that take into account the long duration of the economic crisis. . Overall, there are about 70 interventions made by the Regions to support start-ups with the number of initiatives on the top, the areas of the North and more particularly Lombardy, Friuli-Venezia Giulia, Marche and Tuscany. In the South and in particular in Campania, Puglia and Sicily it was decided to focus on more specific, and often more complex, instruments with a substantial amount of resources.

C. Cash flow management

a. Forecasting practices AND b. Cash flow statement analysis practices

The financial statement is a valid tool for the analysis of loans and sources of financing and allows to highlight, in the explanatory notes, the economic aspect of the companies and to identify the ability to generate cash flows.

Pre-established schemes are set up to guarantee the comparison of the financial statement both through several sectors of the same company and in similar sectors. Two scalar-shaped charts of the financial statement. In each of them a clear distinction was made between uses and sources generated by income management compared to that reported in the investment and financial area. For the cash flow produced by the income management we speak, therefore, of a direct and indirect method.

In the case of DIRECT METHOD, the cash flow derives from the difference between monetary income and expenditure. In the case of INDIRECT METHOD, we start from the indication of the profit for the year to which the necessary adjustments will be done in order to highlight the operating income and the cash flow relating to the core business are to be carried out.

The most used tool, by Italian SMEs, to analyse cash flow is the EXCEL SHEET.

c. Cash flow ratios calculation practices

Cash flow analysis uses ratios that focuses on cash flow and how solvent, liquid, and viable the company is.

1. Operating Cash Flow Ratio
2. Price/Cash Flow Ratio
3. Cash Flow Margin Ratio
4. Cash Flow from Operations/Average Total Liabilities
5. Current Ratio

e. e-Invoicing adoption and tools

Electronic invoicing was designed to improve flows between public and private companies, minimize errors, reduce payment times, simplify management. The digitization of the active cycle becomes in this sense a business tool that brings concrete benefits.

Among the main advantages of electronic invoicing:

- the reduction of human activities with low added value;
- the elimination of the "physical" spaces of the storage of paper invoices;
- the reduction of disputes related to delays and "incidents" in sending paper invoices;
- the decrease in postal costs;
- the implementation of new management cycles resulting in improved control over cash flows;
- the adamant transparency of the new digital processes.

Since 2015, when the e-invoicing became mandatory in Italy, 73 thousand companies, small PA suppliers, have progressively registered on the online platform [https // invoice-pa.infocamere.it](https://invoice-pa.infocamere.it) to use the free service provided by the Chambers of Commerce. The companies that have so far used the service of the Chambers of Commerce are mostly small: individual companies in 41% of cases, partnerships in almost 23%. A further 30% is represented by joint-stock companies while residual are

the other legal forms. These are small businesses also in economic terms: almost 70%, in fact, have a turnover of less than one million euro; of these, 20% invoice less than 100 thousand euros a year. Almost all, finally, have less than 15 employees.

D. ICT-enabled Business Development

a. eProcurement adoption and practices

E-procurement is the process by which an economic entity (company, body, public administration ...) procures goods and services through an electronic platform. The catalogue of an e-procurement platform consists of goods offered for sale by other companies, so it is a B2B-type business to business. The goal of e-procurement is to improve the procurement processes of companies, that is to allow management to reduce costs and increase sales thanks to the use of modern technologies, which allow buying and selling better than can get from a fragmented and unmonitored market.

Advantages of e-procurement for SMEs:

- 1) Internationalization: sell your goods and services to an international audience;
- 2) Optimization and savings on supplies;
- 3) Buying groups: make purchases with the economies of scale typical of a large company;
- 4) Increase the supplier base;
- 5) Improve your image in the current market

The majority of Italian SMEs, while recognizing their curiosity and interest in the e-Procurement platforms, stated that they did not feel the need for their company because "sure to know how to do in our work". Currently, e-Procurement solutions in Italy are only adopted by SMEs that are more sensitive to innovation and want to keep up with new technologies.

b. eCommerce integration

Marketplace services cost and are not easy to communicate the brand's own experience. Precisely for this reason, for many traditional retailers or producers, I am becoming a channel to support the eCommerce site of property in order to offer the benefits.

Which are the most used and performing e-commerce platforms for SMEs? For an SME that decides to have its own eCommerce site there are two basic alternatives: designing and building the site, in general, relying on professionals who take the name of "web agency"; use "turnkey" outsourcing solutions provided in many cases by companies that have themselves gained significant eCommerce experience; This is an intermediate solution between creating your own personalized website and switching from marketplaces.

Examples of successful SME with e-commerce:

LuisaViaRoma: a store in Florence that has gone from being a local reality to being a global reality that makes 92% of its transatlantic overseas thanks to eCommerce. Turnover x 10 in 8 years, there are now 170 people coming from 13 countries.

Hoepli: historical Milanese bookshop. turnover not far from 10 million euros online, among the first (preceded big chains) to believe in the online.

Olio Carli: operator historically active only in the mail order that has gradually added eCommerce thus covering a customer segment not reached before.



Oliviero: chain of sports products stores that have extended the market to geographic areas that are not offered online.

Peck: the historical Milanese gastronomy that has activated with the online the recursive purchase of foreign customers. Turnover: around € 17m.

Anyway, Italy remains behind on other European countries.

c. Use of virtual marketplaces

Marketplaces offer the advantage of letting their sellers handle their stock on their own, which can considerably reduce your initial investment. Thus, Marketplaces will generally be able to index more products, as it gathers them from multiple vendors, without endangering its finances. The cost of launching a marketplace website is roughly the same as a quality e-commerce website, despite being much more complex. Considering that there are many advantages of using marketplaces (the products are sold in an eco-system global proven, normalized and functional; millions of consumers already loyal and active on the platform; paid premium programs for give more visibility to products in Search Results; and so on), Italian SMEs prefer to use them, instead of creating their own e-commerce.

CONCLUSION ON THE DIGITALIZATION OF ITALIAN SMEs

It is growing the awareness among Italian SMEs about the digitalization of production processes, but also organizational, distribution and marketing, which is a necessary step for the development of its companies and more generally for the country's economy. However, some cultural gaps remain, among the entrepreneurs, both on the instruments with which to implement this transformation, and the areas in which it must take place.

This is the picture that emerges from a survey conducted on 550 sample companies by Tag Innovation School, Cisco and Intesa Sanpaolo, with the support of the Master in Digital Transformation for Made in Italy. For 61% of respondents, in fact, the implementation of digital strategies is indicated as the determining factor for the survival and growth of their business. In particular, according to the study, 39% of companies intend to invest in the use of big data, another 39% in contamination with start-ups and 37% to boost e-commerce channels. For the next three years, the respondents plan to hire experts in digital marketing strategies (60%), data analysis specialists (50%) and digital transformation consultants (31%). The purpose of the transformation, for the overwhelming majority of the sample (78%), is to reduce business costs, but also to increase productivity (74%) and improve customer relationships.

Italian companies, say the promoters of the research, are aware that digitalization is strategic for growth, as a lever to rethink and make more competitive the business models and the organization of work. However, our country is still far from international standards on this path. Above all, in the understanding that digitalization must be diffused at all stages of the production, commercial and customer service process.

The major investments in digitalization by companies involved the research and development phases, production processes, logistics and storage, while much remains to be done in terms of communication and marketing, distribution and customer service.



The cognition of the importance of the digitalization as a mean of improved efficacy, is mature, also in response to the connected world in which consumers live today. However, a phase of digital digitization has not yet started properly in Italy and effectively applied to the business, due to still deep-rooted cultural barriers and lack of knowledge of the tools of the digital world.

