

# IO1 – A1

## National Report



<b>Document Title</b>	National Report
<b>Intellectual Output</b>	1. Financial Check Training Course – FCT Course
<b>Activity</b>	1
<b>Deliverable</b>	2
<b>Delivery Date</b>	January 2018
<b>Organisation</b>	FGUGREM
<b>Country</b>	Spain
<b>Approval Status</b>	Final
<b>Language version</b>	English

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# O1 / A1 Analysis report

## THE 'STARTUP' SITUATION IN SPAIN

When analysing the Spanish structure of good practices, it is absolutely essential to understand the impact that SMEs (and specifically micro and small enterprises) have on the Spanish economy. These companies, made up of less than 50 people, make up almost 95% of all businesses in Spain and employ over 50% of employed persons. This means that it is also important to think about the importance that these businesses have for the Spanish community.

Best practices will be highlighted in **bold** in order to facilitate their distinction.

### A. Budgeting

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

Budgeting in Spain, even with new, innovative businesses and start-ups, seems to be limited to more tried-and-true techniques than experimental ones, and many companies do not get any more advanced than a simple excel file. These plans normally include all income to the business and all necessary payments to be made over a period of time. Budgets should be created and updated keeping the market and consumers in mind (the value at which a product or service can be sold, and the quantity in which it will be sold in). In the case of **best practices for budget plans, this period should be monthly, quarterly, and yearly**, but we can see how in some cases new businesses are not keeping track of their budget as they should be.

Therefore, **established businesses and successful start-ups recommend that new businesses reach out to someone with finance expertise** in order to establish a budget plan and to review this plan annually. Although this may cost the businesses more money initially, long-term it is a good practice that will allow the companies to adapt advice specifically to their market and customer situations. In addition, with the help of a seasoned professional, the task of creating a budget can be simplified in a way that the entrepreneurs or new business owners can clearly understand what they are doing. In addition, experienced professionals can help entrepreneurs encounter and understand the other types of tools available to them and how different types of programming (other than excel) could be beneficial for the company.

What is different in Spain (to northern European countries, but perhaps similar to other Mediterranean countries) is that the way payments are expected and made. In other words, it is normal if employees or contractors, etc. are not paid exactly at the end of the month or when their



work has finished. In some cases it is difficult to know when (or if) someone will get paid after completing a task. In larger companies, this practice is not so common, but with micro to medium enterprises, we can see how there is a higher tendency for this kind of thing to happen. The normalcy of these actions makes it absolutely essential for new business owners to understand how to balance their budgets within this environment. In this situation, a best practice would be to **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.**

It also means that businesses can manipulate this situation to their benefit. Some **good practices include offering discounts for those customers who are willing to pay earlier than the 'due date'** (which would be before they may get paid otherwise) **or offering to pay suppliers sooner in order to receive a discount.** In addition, by participating in practices such as paying on time, even without any monetary benefit, new businesses can establish strong ties to their suppliers and be known as reliable customers. **Establishing strong relationships with suppliers and customers may be one of the best practices for new businesses to have successful budget plans because it ensures on-time supply deliveries and payments.**

## A. Finance

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

Traditionally, in Spain, we can see how the area of finance was limited to 1) banks and non-bank loans, 2) families and friends, and 3) self-financed. Traditional sources of financing are resulting more difficult for new companies in Spain. After the crisis (when loans and investments were easier to achieve), loans have become harder to obtain and most official institutions now look to provide loans for those businesses which are established and can prove their credit history. Start-up companies must now look for alternative ways to finance their businesses in Spain. We can see how new options is appearing such as government support, business angels, and crowdfunding.

**Crowdfunding is a newer way for startups and micro to small companies to fund innovations** in their work place using a network of people found virtually (as opposed to the traditional family and friend network). At the same time, we can see that it is difficult for Spanish businesses to assemble more than around €6,000 with any one campaign while using purely Spanish Crowdfunding platforms. This has led to the practice of **many companies looking internationally when Crowdfunding** to platforms such as Kickstarter or Indiegogo. We can consider that while Spanish companies are looking for ways



to expand their financing abilities for innovation and new product creation, the Spanish public in general is not yet accustomed to this sort of funding in comparison to other parts of the world. This social factor is important to consider because when recommending young Spanish companies to look to networks to fund their ideas, they should not only be looking nationally but also internationally.

Several Spanish Crowdfunding platforms include: <https://www.lanzanos.com/>, <https://www.verkami.com/>, and <http://www.goteo.org/>. As we can see on these websites, not many projects ask for more than €6,000. **A best practice for using Crowdfunding is to understand the different platforms available and figuring out which one works best for each individual idea and business.**

In addition, when participating in Crowdfunding activities it is important for Spanish companies to understand there is usually an exchange involved. That is to say, a company asks for money from known or unknown donors and, in return, promises some sort of 'gift' or 'compensation.' This could be a sample of the first prototype or an invitation for a special event and, although this 'gift' is not the most important part of the transaction, it is an important part of this type of exchange. Due to the fact that it is not yet commonplace practice in Spain, this type of information is important to share with new users.

We can see **several success cases of when Crowdfunding** has allowed a small business to get off the ground in Spain. For example, funded by the international platform Kickstarter, the **Oval Sound** (<https://ovalsound.com/>) a digital handpan raised more than the 100,000€ they needed. The company is currently in the R&D and production processes for this and more products. Another brand, **The Brubaker** (<https://thebrubaker.com/>), is an online shop for high quality men's clothing that is *Made in Spain*. This company has participated in several financing sessions with the Spanish platform Startupxplore (<https://startupxplore.com>) including for the launching of the company.

Another new way for businesses to get off the ground can be found in the large quantity of **accelerators and incubators** available for companies all over Spain. The quantity in which we can currently see these resources is higher than ever before, supported by the European Union, the Spanish Government, and private investors. Accelerators and incubators give businesses the chance to get their feet off the ground by providing them with financing in addition to contacts, space, etc. and are a reliable way for new businesses to get their feet of the ground (if they can qualify). **Therefore, using available resources, such as accelerators and incubators, is a newer good practice available to start-ups in Spain.**



We can also see how the Spanish government currently offers several options for receiving funding and other support. Under the General Management of Industry and SMEs (Dirección General de Industria y de la PYME, [DGIPYME](#) in Spanish), entrepreneurs have access to information about grants that small businesses can receive. In addition, the DGIPYME supports business growth programmes, innovation, youth programmes, etc.

The Economy Ministry also offers ICO loans which must be paid back but have a financing option for self-employed persons, small associations, and private or public entities. The national and regional governments also provide project support and grant options for small and medium companies. This support is distributed by Autonomous Communities and/or business sector. A best practice in regards for **government support** is to **understand what is offered for the specific company** (using, for example, [the dynamic guides](#) provided by the iPYME programme of the Spanish government).

In addition, specifically for entrepreneurs, there is a law («BOE» núm. 233, de 28 de septiembre de 2013) that addresses “Entrepreneurs and their internationalization”. This law supports entrepreneurs in their financial growth by 1) providing them with tax breaks for making under a €10 million; 2) reducing social security payments for self-employed people for up to one year; 3) reducing paperwork for certain legal procedures; 4) offering VAT payment reductions until paid by clients; etc. These benefits for new entrepreneurs can allow them to get their feet off the ground. Again, the winning practice would be to **understand what the specific benefits that are offered to the individual or company. Talking to a financial professional about government available options** may also be a good option for entrepreneurs.

Finally, we can see how several other financing opportunities exist in Spain. For example, **angel investors** play a role in Spanish businesses creation, essentially trading their investment for a part of the company. And **crowd angels** mix the concepts of angel investors and crowdfunding. Finally market alternatives can provide financing options—in Spain there are alternatives for SMEs: **the Alternative Stock Market** (MAB in Spanish) and **the Alternative Fixed Income Market** (MARF in Spanish).

However, although new financing options are become ever more prominent in Spain, traditional self-financing or family-and-friend-supported-financing can still be seen as the most prominent methods of financing a new company. **Researching the best financing option for an individual company should be the first step taken by companies in order to understand their options.**



## B. Cash flow management

New start-ups in Spain have access to forecasting practises and new forecasting technologies similar to the rest of the world. However, when calculating their future it is necessary to keep their present and future markets in mind. In comparison to other countries, we can see that growth in Spain can take longer or be smaller in general, especially since the 2008 crisis. This means that companies should be wary when trying to apply forecasting practices to their own companies without actual experience in business. Once they have been in business, practices such as the multiples of EBITDA can be applied to estimate where the future of the company may be.

In addition, it is common for companies to try and estimate the market size and potential market growth for the business. On the other hand, it is important for new companies to understand the difference between the potential market that they can reach and what is actually possible for their marketing scheme. Planning beyond their possibilities can be a risk for new businesses in Spain. The way businesses plan their marketing will in turn affect their potential growth. **A good practice for small businesses in Spain is that 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.**

Like previously mentioned, the budget and cash flow plans tend towards the traditional use of excel files. It is rare in Spain to find a new company with a financial director as they are normally micro or small (less than 11 people). This means it is even more important for the company to understand how they are spending their money and what their income is and where it is coming from. **Best practices in understanding the cash flow of the company begin with simply recording (completely) all costs and income.** It is not an unusual practice in Spain for micro and small enterprises not to record all of what they sell due to taxation laws. At the same time, for the benefit of the company, it is useful to understand all of the comings and goings within the business.

However, what is especially important in Spain is for businesses to understand how to create relationships with providers and customers in order to ensure that deliveries and payments are made on time. This can be facilitated by making payments on-time with suppliers and establishing discounts for people who pay for products beforehand. **One good practice is that any billing that must be done should be sent sufficient time before expecting payment to ensure timely payments.**

Another **good practice is using online platforms to offer billing and e-invoicing.** This practice is continuously growing, saving businesses in 2015 approximately 22,000€. At the same time, there is



still room to e-invoicing to grow in Spain in comparison to other EU countries and this option should be explained to entrepreneurs and new business owners as a possible key to organising their books. By offering e-invoices and sending electronic reminders, newer companies are able to help their providers and customers stay on top of their responsibilities, and their customers receive a personalised service that suits their needs.

### C. ICT-enabled Business Development

The use of the virtual space as a way to connect with customers and potential customers is growing in Spain, although according to the National Institute of Statistics (INE) 29.8% of small and micro companies didn't have internet connection in 2017. Therefore, we can understand that for this demographic, internet is not as valued as the same sized companies in other countries or larger companies in Spain. In addition, those SMEs in Spain who do have internet don't always use it to sell products. In the first half of 2017, around 75% of Spanish SMEs still were not selling online, even though they recognise this space as advantageous for creating income. **A good practice for SMEs is to understand and take advantage of the marketplaces and customers available in virtual spaces.**

In Spain, as a general practice, eProcurement is not very common in start-ups or small businesses (whereas in larger businesses it is much more normal to see). When eProcurement platforms can save businesses money, time, and personnel—which are essentially just money in the eyes of the companies—it is interesting to understand why micro and small are not using this resource. One of the reasons found in Spain is the fact that eProcurement is generally focused on large quantities of purchases, something that not all small companies need.

At the same time, the market for eProcurement is changing and new platforms are adapting their offers especially for SMEs to take advantage of this niche market. In Spain, we can see how Blizuu (<https://www.blizuu.com/>) is working towards creating a networking of businesses and suppliers without the complication that may appear with larger eProcurement companies. In this way, **we can see how eProcurement is slowly becoming more commonplace in Spanish society, a resource that new companies can begin to take advantage of both for sourcing and for new entrepreneurial ideas.**

In addition, we can see how eCommerce is continuing to grow in Spain. Online shopping is slowly gaining more prevalence in-store shopping for all needs: clothes, food, etc. In fact, this is one of the sectors that has not seen lasting effects of the crisis, making eCommerce a niche that young businesses should consider when launching. In addition, although this area of business is higher in Spain than in



previous years, it still has room to grow in comparison to other EU countries, **making eCommerce a good place for entrepreneurs and new business owners to invest.**

However, it is also important to note that, depending on the customer for a particular business, part of the Spanish population does not use the internet. Those businesses which are able to do the most business online are travel agencies and tourist organisations. In addition, all sorts of online commerce are doing well online, both providing Spanish consumers with international products and Spanish businesses with international consumers (although the former is currently generating more business than the latter). It is important to know the demographic that a new business can sell to (their market study) and how to reach these customers while being as successful as possible.

**A good practice is to understand the demographic to which the company wishes to sell before deciding how to sell to it.** Only if this client base fits to eCommerce will this be a good option for the business. **Businesses should also consider how they can use online marketing, in some cases being free or almost free,** if their demographic fits to eCommerce.

For example, we can see how the virtual market **Buyylo** (<https://buyylo.es/>) is selling products online that are 100% made in Spain. Because they are online, this company can sell locally made products to consumers anywhere within Spain. For this business, we can see how the virtual market is allowing potential customers to view all of the products while still buying relatively locally. This success story will expand their Amazon-like platform other countries, such as France, Germany, the UK, and Italy, creating platforms where local producers can share their products. When fully launched, these country-based platforms can interact and consumers all over Europe can purchase goods with known origins. This combines two increasing trends: the use of eCommerce and the desire to buy local, fair-trade products with a story.

## D. Conclusions

SMEs in Spain are still working to overcome the 2008 crisis, and entrepreneurs are now trying to integrate themselves into an economy that is constantly evolving. At the same, as a whole, these entities do not seem to show a feeling of need when it comes to adopting new technologies. Perhaps this has to do with not understanding the value that these technologies could bring or the lack of integration to technology use in certain sectors of the marketplace. Either way, it is interesting to see how much **potential impact the Project B-CAPP could have in Spain** if implemented well within the demographic of SMEs.

