

Main Findings of the European Startup Monitor 2015 for Spain

Javier Capapé

Associate Researcher, Sovereign Wealth Lab at IE Business School
Manager, Start Up Spain
@JavierCapap

Juan José Güemes

Chairman, International Centre for Entrepreneurial Management at IE Business School
Professor of Entrepreneurship, IE Business School
@juanjguemes

Introduction

The analysis of the Spanish startup ecosystem within the ESM shows us an insightful profile of the Spanish startups and entrepreneurs and more interestingly helps to add Spain to the study of ecosystems across Europe using comparable data and procedures.

This chapter shows the main findings for the Spain's ESM report. First it focuses in the geographic distribution of startups and looks in detail at the main hubs for startups in Spain. Second, the report examines the profile of the founders. Third, this chapter focuses on the job creation capacity of startups: it is a crucial aspect for Spain due to its high (especially among young) unemployment rates. Fourth, it analyzes the industry distribution of startups. Fifth, it goes in detail to explain the current and prospective business climate as well as the current and expect role of the government fostering the ecosystem. Sixth, the report analyzes the financial aspects linked to startups such as turnover and the sources of financing. It concludes with the main teachings and the most interesting highlights of the Spanish ecosystem.

The representative profile of a Spanish founder is a **man** (84%) who starts its company with a **team** of co-founders (average founding team is 3) at the age of **34**. That is the average entrepreneur, yet the chances to find a female founder in Barcelona (25%) almost doubles Madrid (12.9%).

In Spain, there are two main geographic poles of entrepreneurial action: Madrid and Barcelona. They concentrate 50% of all startups surveyed by ESM.

The average age of startups surveyed by ESM are **2.2 years old**. Dividing the startups according to their "maturity stage", 18% are in seed-stage and only 17% are in growth-stage with strong sales. Most of them lie in between labeled as **startup-stage** (65%), startups with a tested product in the market and first users.

Following an industry analysis, almost a third of Spanish startups belong to **SaaS** (software as a service) and **consumer web/mobile apps** sub-categories, each concentrating 14% of all startups. Other important category is IT/software gathering 11% of all companies.

The examined startups create an average of 8 **jobs** (founders included). Focusing on the openness of the startup to foreign talent, 13% of the founders and 12% of the employees in Spanish startups are non-nationals.

ESM startups in Spain show a weak preference for selling products or services directly to consumers (57%) rather than to businesses (43%).

1. Main hubs for startups in Spain: Madrid leads and Barcelona follows. They get half of the pie.

With **110 startups evaluated**, the questionnaire is not showing the complete picture of the Spanish ecosystem. Main urban areas such as Madrid and Barcelona play a central role for startups, with stronger education institutions, favorable conditions for high-tech and knowledge-based and research intense industries and access to venture capitalists. Spain's excellent infrastructure, connecting Barcelona and Madrid, makes the competence "against" these two cities difficult. Other large cities like Bilbao, Valencia, and Sevilla, as well as Málaga or A Coruña try to compete with these two main poles but the gap is still big to be covered in terms of startups, ecosystem density, investments, and talent availability. Yet, accelerators like Lanzadera or Plug&Play in Valencia, the four accelerators recently established to initiate a "Málaga Valley", or the success of startups from Zaragoza like BitBrain or Libelium, show that the Spanish ecosystem is concentrated but not fully dependent on Madrid or Barcelona, and that good and promising startups may come from every corner in the country.

The geographic hubs for startups in Spain according to ESM are Madrid (28.2%), Barcelona (21.8%), Valencia (10.9%), Málaga (6.4%) and Zaragoza (4.5%), when it comes to the number of startups surveyed. Other poles are Alicante, Palma de Mallorca and Castellón (below 3%).

2. The Founders

Women in startups and the technology sector in general are under-represented. In the case of Spain, only 16% of the startup founders are female. Yet very low it almost doubles the share of women managing large companies (8% of CEOs of the largest listed companies, IBEX35, are women).

The founders surveyed are on average 34.9 years old (men 34.4 years, women 34.9 years old). Subtracting the age of startups from the age of the founders, it can be seen that founders of the startups in Spain are on average 32 when the founder is a man and 33 a woman.

Almost 90% of the founders in Spain have Spanish citizenship, 6.4% are from another European country and 6.4% have a non-European citizenship. Foreign female founders represent 33% while in the case of men they only represent 9%. Men foreign founders come mostly from other EU countries, while foreign female founders come from non-EU countries.

When it comes to analyze the maturity of the ecosystem, the survey reveals that the average entrepreneur in Spain has previously started at least another company (80%) while 16% has started more than three companies before this new venture.

Being asked what happened to their former startups, more than 72% were successful ventures: the company is still alive independently or it's been sold to another company. In about 70% of these cases, the startup is still active and in 30% of these cases, the founder sold got an exit for his startup. It means, that from all founders surveyed, 20% of them has successfully sold their previous companies, at least once. In 85% it remains as shareholder. On the contrary, 28% of surveyed founders declared that their prior project was not successful and the company voluntarily stop operations (16%) or discontinued due to insolvency (12%).

If the founders' current startups were to fail, more than 80% would continue to be self-employed and only 16% would be employees. About two out three (68%) would found another startup whereas 16% might work as freelancers or consultants. Surprisingly none of the respondents chose to engage in entrepreneurship as business angels or investors.

Most Spanish ESM founders (87%) don't foresee they will remain in their startups, while only 37% of the founders could imagine a change in ownership by (partially) selling their company.

An IPO in Spain is a rare exit so far: only 18% find that option to be likely or very likely for their startup and 48% consider that option is unlikely or very unlikely.

3. Industry distribution: the digital economy is the most attractive sector for Spanish startups

Following an industry analysis, almost a third of Spanish startups belong to **SaaS** (software as a service) and **consumer web/mobile apps** sub-categories, each concentrating 14% of all startups. Other important category is **IT/software** gathering 11% of all companies or **e-commerce** representing 9% of respondents. In total, 40% of ESM startups are linked to sub-industries included in the digital economy.

It is interesting to notice the "think global" approach of the Spanish ESM startups because 62% claim to offer innovation on a global scale. Another 12% consider their innovations at the European Union and another 9% claim they innovate within Spain. Only 8% see no innovation claim in their product or service.

4. Startups: how many jobs do they create?

Newborn companies create jobs. Spanish startups from the ESM create on average eight jobs including the founders after an average of 2.2 years (without founders: 4).

Following a rational process, the employment effects are higher when considering the startups' current phases: While the young enterprises in the early stages already create some jobs (seed-stage: 2, startup-stage 4) these numbers increase significantly in the growth-stage (9).

After considering the low figure of foreign founders, the survey reveals data about the workforce nationality of Spanish startups. One third of the startups' employees in the survey have no Spanish citizenship. Out of these, 32% are from an EU country, 26% from a non-EU country. Comparing the main regional ecosystems, Madrid startups tend to have less foreign employees (only 40% of startups with at least one non-Spaniard employee) compared to Barcelona's startups (60%).

Some of the best and simplest methods to analyze the health of a given company is the headcount. Nearly all startups in the Spanish questionnaire (89%) want to continue hiring employees in the next 12 months. The average number of planned new staff is 10. The trend varies according to the stage of the companies with seed-stage planning to hire 5 employees, startup-stage (8) and growth-stage (15). From a geographic perspective, the ecosystem is evenly distributed as founders in Madrid and Barcelona they both plan to hire on average up to 8 employees in the next 12 months.

5. Business Climate and the role of the Government in the Ecosystem

In July 2015, when the Spanish ESM data were mostly gathered, almost 83% of the startups that took part in the survey found their current business situation to be satisfying (62%) or good (21%), leaving 17% to find the current situation poor. For the next 6 months, half of Spain's startups foresee a better future, 43% expect a stable business climate whereas only 7% anticipate their situation will worsen.

Founders expressed the ideal face of a government fostering entrepreneurial action in Spain. Thus surveyed startups hope the government reduces the bureaucracy (68%) and taxes (63%) for startups. On the other side, 23% identifies governmental actions as supportive of the ecosystem and 33% acknowledges the importance of public funding. They ask for a better understanding from the government (28%) and wish the government is able to support venture capital (16%).

It is interesting to notice that government funds directly through ENISA loans and indirectly through Fond-ICO (a public fund of funds with €1.5bn) have had an enormous impact in the funding scene in Spain in recent years.

6. Revenue and Financial Situation

Almost 70% of the startups have no revenues or below 25.000 EUR. Only 20% of startups answered to this item, so low validity should be acknowledge. Of those who answered and completed a fiscal year, 17% had revenues between 25.000-250.000 EUR and just 13% were showing revenue between a 250.000 EUR and a million EUR.

The most common source of capital for the startups is founders' savings (82%), followed by family and friends (36%), incubators (27%) and government funds (20%). The least used sources of capital are crowdfunding and venture capital (5% each). Internal financing (bootstrapping) is used by 14% and 15% of ESM startups have a business angel as shareholder.

Conclusion

The analysis of the ESM results bring many interesting conclusions and shed light in the Spain's ecosystem. It might help policymakers and ecosystem players to rethink about the current status and set goals for the next steps.

Startups in Spain remain a male-dominated activity (84% of startups are founded by men), probably explained by the leading sector of activity for startups—digital economy—where females are under-represented in Spain too.

Madrid (28%) and Barcelona (22%) are the two clear winners by the number of startups: they account for 50% of all startups analyzed in this report, and the gap with the third, Valencia (11%), is still very large. Other relevant hubs for entrepreneurial action in Spain are Málaga and Zaragoza.

A key result explaining the chances of entering into a virtue-circle is the share of successful founders who return to the ecosystem by investing or starting new companies. According to data from ESM, 20% of all founders surveyed, have successfully sold their previous companies, at least once. To increase these figure and to channel that experience to investing is a key goal for the ecosystem.

There is certain tendency to consider “founder of startups” as a new profession. Results show that founders tend to be serial startup founders, who don't see themselves doing anything else but starting a new project or remaining self-employed (combined 84%). Simultaneously, and showing a preference for change and some short-term mind, founders don't see themselves staying at their companies in almost nine out of ten cases.

Spanish startups tend to think and aim global: It is interesting to notice that 62% of the Spanish startups claim to offer an innovation on a global scale, rather than regional or country-level innovations.

Looking at the future, almost all startups in the Spanish questionnaire (89%) want to continue hiring employees in the next 12 months. It shows a strong business climate. Yet, there are few startups (18%) in the sample expecting to reach an IPO, showing a clear weaknesses of the exit opportunities in Spain that should be fixed.