

High growth potential companies: one step further for entrepreneurship

*A proposal for strategically
reflecting upon Spain's
challenges with regard high
growth potential companies*

Much has been said in the last few years about entrepreneurship, which we believe is positive and necessary. There is a need to continue developing this attitude, in any professional environment, identifying and strengthening the values linked to being an entrepreneur, and encouraging and highlighting the widespread use of the tools required for these ideas to become a reality.

But at **PwC** we also believe that it is **necessary to go one step further**. We believe that, along with strengthening the entrepreneurial spirit, it is necessary to focus on the main players once the idea becomes a reality: **the owner of the company and the company itself**, given that an entrepreneurial project will only meet its objective once it has become a viable, sustainable and successful company.

In order for this to be possible, we believe that it is necessary to focus on a specific kind of company: **high growth potential companies**. **We therefore aim to generate an atmosphere for reflecting on and analysing Spain's strengths so as to develop an ecosystem that helps these companies grow. We also propose certain elements that we think should be developed to help strengthen this ecosystem.**

PwC's intention behind this document is to propose a framework for **reflecting** on this kind of company, helping strengthen an environment that will allow these companies to transform, energize and boost Spain's business fabric.



High growth potential companies

Regardless of the fact that the term may be self-explanatory, and with the aim of developing a conceptual scope regarding the type of companies that we refer to, when we talk about high growth potential companies at PwC, we mean companies that:

- Were founded or are managed by **an entrepreneur or a group of entrepreneurs**.
- These entrepreneurs significant **involvement** or relevance in the company's shareholding.
- Have a proven track record in high revenue **growth ratios and potential** compared with the average for their sector or competitors.
- **Integrate innovation, in any given field –product, service, processes, client, etc.–**

- Are currently going through **any of these stages:** seed stage, growth stage, expansion stage or founder exit stage.
- Regardless of the company's **industry or number of years** in operation.

In short, companies whose original entrepreneurs are strong leaders, who have proved to have an ambitious and hard-working founding team, with highly significant growth levels and potential, and who are moving through stages at a quicker rate than is normal for any company.

The objective of proposing a specific concept is to identify the characteristics of a different type of company, in which the speed, innovation and its continue growing generate their own needs.

Because at PwC we believe that it is necessary to focus on companies with common characteristics that differ from those of other companies: validation of an initial project, quick adjustment to the following stages, a need for financing during specific stages, seeking for talent, rapid expansion to foreign markets, need for advice adapted to small companies with complex needs, etc.

Only by paying attention to these differences can we respond to and encourage a different type of company.



Is it possible to generate an industry of high growth potential companies?

When proposals are brought forward to develop a particular economic or business environment, it is relatively common to begin by identifying which areas for improvement drive different players to act or change.

In this case, we decided to begin by analysing the possibility of developing this type of company in Spain; or, in other words, by **identifying strengths** on which we can base and encourage the development of high growth potential companies.



Spain, a country of entrepreneurs

According to Spain's Central Business Register (DIRCE), on 1 January 2013, there were 3,142,928 companies in Spain, 3,139,106 (99.88%) of which are SMEs (between 0 and 249 salaried employees).

In all of these SMEs, there are men and women who, faced with the prospect of working for others, have decided to launch their own business project, large or small, ambitious or not, but a project that, at the end of the day, is completely theirs.

Another different matter is whether entrepreneurship has generated larger and stronger projects, or if it creates the necessary environment, skills or ambition to generate larger projects. However data certainly show that the entrepreneurial spirit exists and these small companies prove just that on a daily basis by taking risks and launching personal projects.



Managers and Business Schools

Once the existence of the entrepreneurial spirit has been

proved, the next step is to determine whether Spain has professionals capable of managing these projects, which is a key issue with regard their growth.

In Spain there are large companies run mainly by Spanish managers; that is to say, there exists a culture of business management. Additionally, it is becoming increasingly common to find examples of Spaniards holding senior management positions in foreign companies.

Along with this fact, regarding the capacity to train these managers or even attract foreign talent, the existence of several Spanish business schools, some of which are global leaders, shows that Spain has a strong business leadership culture as a country.



Consolidated sectors and leading companies

Spain, with a population of 48 million people, represents an interesting market in itself for any company.

Furthermore, Spanish companies are international benchmarks in industries and sectors such as tourism, food and agriculture, the manufacturing of capital goods, the automotive industry and its ancillary

companies and civil engineering. Large multinational companies, which are leaders in their respective sectors, also come from Spain: Telefónica, Banco Santander, BBVA, Inditex, Repsol, etc. are all examples of large Spanish companies with a multinational presence.

On account of this, it is necessary to cater to these companies and sectors, as they may drive Spain's own industry of high growth potential companies, in already consolidated sectors, without neglecting the development of new sectors.



Spain and Latin America, a two-way street

The Latin American community has always been a priority for Spain. For example, Spain is the second largest investor in the region, Spanish companies operate on the continent and there is a constant exchange of business between Spain and the Latin American region.

Furthermore, the strength of Latin American countries and companies may be an opportunity for the latter to establish themselves in Spain when entering the European market.

This privileged position has to be a key element to developing a specific environment for high growth potential companies that flows in both directions across the Atlantic.



Quality of life

One of Spain's distinctive characteristics is its quality of life. Our climate, cuisine, culture, traditions, etc., make Spain an attractive country in which to live and work.

This is shown not only by the fact that Spain is one of the world's most important tourist centres, but also by several surveys on the best countries to work in, where time and time again Spain comes out on top.

Examples such as Silicon Valley show us that talented professionals move to places where, as well as an attractive professional setting, the surroundings offer other interesting elements such as a pleasant climate, culture or leisure activities. And Spain has lots to offer in this respect.



Five proposals from PwC for reflecting on high growth potential companies

Innovating and being an entrepreneur: related, but quite distinct attitudes

It is very common to hear that entrepreneurs are innovative. This is true, although not entirely: the innovative business developed by these entrepreneurs is not necessarily innovative as a product of his own creation.

The act of innovating seeks new solutions to existing or underlying needs. The act of being an entrepreneur seeks to create a viable business project for optimizing these solutions.

Therefore, it is necessary to understand that these two attitudes

are related, but that they each have their own characteristics. Environments that encourage values and tools related to entrepreneurship can only be developed when it is understood that entrepreneurship has its own idiosyncrasy to face.

If Spain wishes to become a leader in entrepreneurship, we have to consider whether this should be an objective in and of itself, regardless of the innovation's source, whether this source is the entrepreneur himself or a third party, whether it is the result

of Spain's creativity or of other places. **Entrepreneurs in Spain should use this innovation as raw material** to generate and develop high growth potential companies, fostering a culture that sees entrepreneurship as a way of developing business projects in an integrated and specific manner.

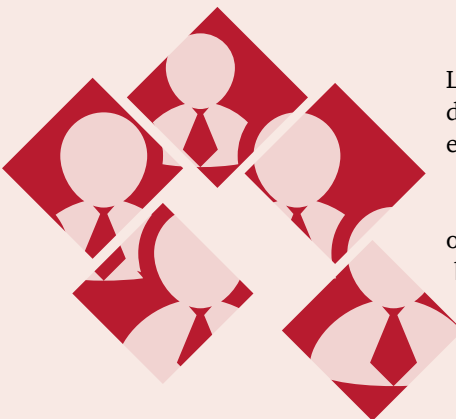


Values and tools

An entrepreneurial spirit is the basis for generating high growth potential companies. But an entrepreneurial spirit is also a way of facing reality that provides individuals with greater personal growth than simply creating a company.

Therefore, we believe that it is necessary to make a distinction between **entrepreneurship-related values and the tools needed to be an entrepreneur.**

We believe that entrepreneurial values such as teamwork, objective setting, deadlines, project development, individual responsibility, possibility of failure,



etc., are values that can be instilled from a young age in school settings, because they can positively affect people's training and because they also share characteristics with other activities such as physical education or team sports.

Later on in an individual's development, we should create environments that teach the tools required to become an entrepreneur, such as basic notions of business planning, finance, business structures, marketing, etc.

These concepts may be useful both for generating new companies and for providing individuals with tools that will be useful whether they develop their own business project or not.

Investing in expanding companies

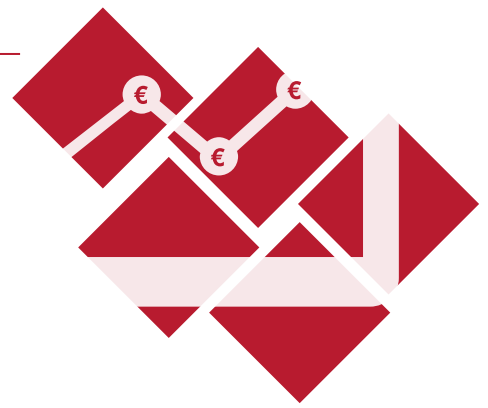
In certain sectors—for example, online b2c companies—the market is usually controlled by two or three companies.

This is why during the expansion stage, in which the company is not yet a leader but has shown potential, it is very common to need investors who understand this type of company and who seek profitability to attract a larger investor looking for this kind of company in the next stage, rather than to receive greater returns due to their subsequent exit.

In Spain, there is a gap in investor exits from companies who may sell their shares with the expected benefits, when they have reached a certain size but are still a growing company far from its break-even.

We believe that it is necessary to develop a context in which companies called upon to lead markets requiring big investments, with very high expected results that will only be achieved in later stages, **find investment schemes and profitable exits at a later**

stage that mean that investors do not need to pressure the company into breaking even too soon, at the risk of generating a much smaller company than might have existed.



Models and examples

In every sector, industry or new aspect of life, it is essential to have examples and precedents to aspire to and against which to compare projects still in the development stage.

We can decide to emulate these models or not, but what is important is that they provide stability, demonstrating that someone has reached a certain point, and they are important growth drivers in a sector.

We understand that it is essential to create and support these “mirrors”, trying to foster an **environment of transparency and trust, to the extent possible, where high growth potential companies, large companies, public administrations and other players** can use these benchmarks as a guide for doing things similarly or differently, but where they at least serve as a model for others.

The role of large companies

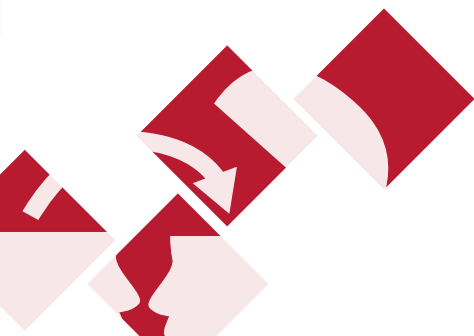
During the last few years, we have witnessed several initiatives from companies who have dipped their toe in the world of entrepreneurship and high growth potential companies, wanting to work with and help develop the entrepreneurial spirit. In some cases, these companies have also looked for a source of innovation related to their business in these high growth potential companies.

At PwC we understand that, although this is positive, high growth potential companies can provide large companies with elements that are not exclusively linked to Corporate Social Responsibility and product innovation.

These high growth potential companies are developing their own features, which help them adapt and be successful in a rapidly changing economic context.

And so, aspects such as talent management, time to market, flexibility in terms of clients, partnership models with other companies, etc., are qualities that these companies are successfully developing to respond to new problems, which large companies also face.

Therefore, at PwC we believe that large companies must reflect deeply and examine whether they need to change their approach, analysing how high growth potential companies can help them grow and change as large companies and learning and adapting their structures to these qualities that make high growth potential companies so successful in their sectors.





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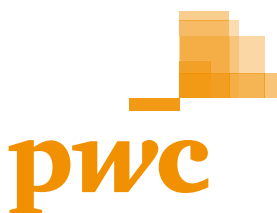
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