

Intellectual Output 1

Rationalisation Phase

Deliverable: IO1/A1



BCT4SMEs

10.03.2021

COMPANY NAME

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Project Number: 2020-1-UK01-KA202-078895



Co-funded by the
Erasmus+ Programme
of the European Union

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REVISION HISTORY

Version	Date	Author	Description	Action	Pages
1	07/4/2021	FYG	RESEARCH	C	12

(*) Action: C = Creation, I = Insert, U = Update, R = Replace, D = Delete

REFERENCED DOCUMENTS

ID	Reference		Title
1	2020-1-UK01-KA202-078895		BCT4SMEs Proposal
2			

APPLICABLE DOCUMENTS

ID	Reference		Title
1			
2			

Executive Summary

This document presents the deliverable of the activity IO1.A1 of the BCT4SMEs Project (henceforth, "Project").

Small businesses confront several problems in the business economy. Many of them face barriers in entering trade markets, while others can confront difficulties in several sectors, such as transactions, data storage, cash flow, and security. Blockchain technology can offer a solution to these challenges, as it can have a wide range of application in many fields, such as IoT, monetary exchange (bitcoin), storage, etc.

The project aims to support SMEs managers and owners in integrating blockchain technology and benefit from the advantages it comes with.

The present document contains information regarding:

- The security and financial issues that SMEs face in partner's countries;
- Information about the successful application of blockchain technology in the EU;
- Conclusions on the gap between the desired situation and the present situation.

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1. Methodology

During the rationalization phase, we will conduct **research regarding the current problems that SMEs confront in terms of finances and security in partners' countries** (UK, Netherlands, Spain, Greece, Cyprus, Poland). This phase will be called the **"National Phase"**. The conclusions of the National Phase will reveal the present situation ("AS-IS").

We will also identify the **winning practices from SMEs that use blockchain technology to address the issues that have proved challenging to SMEs**. This phase will be called the **"Transnational Phase"**. The best practices will include information on the successful implementation of blockchain technology in SMEs across the EU.

The comparative analysis of the Transnational Phase with the National Phase will reveal the gap between the desired situation ("TO-BE") and the present situation ("AS-IS").

2. National phase

2.1 Financial Challenges for SMEs

1. Access to new clients:

The closure to the public of non-essential businesses due to the pandemic has been particularly hard on SMEs whose business revolves around the physical presence of their customers.

The problem is that beyond the occasional closures, customers' consumer habits have changed, perhaps structurally. Consumers who have never shopped online before have lost their fear, have become used to this way of purchasing goods and services, and will most likely continue to do so in the future.

In this context, e-commerce can be an alternative for many SMEs to expand their business and attract new customers.

From bars and restaurants that have so far not considered home delivery to companies that offer services that can be delivered over the Internet, such as training or consultancy, there is now an opportunity for growth through e-commerce.

Consequences:

Another alternative for expanding the customer portfolio is exporting. In Spain, international activity has traditionally been concentrated in large companies, while SMEs have found it much more difficult to go abroad. Now, with COVID-19, exporting to new markets could be an opportunity for them.

The fear of not knowing where to start is one of the main obstacles that SMEs argue against going abroad, which can be overcome with specialized advice.

In this sense, tools such as the "Self-diagnosis for access to new markets" can be used, which the Directorate General for Industry and Small and Medium-sized Enterprises offers on its website.

After a simple registration based on a name and password, it allows the company to receive a diagnosis of its situation in order to start internationalisation.

The tool is based on the completion of a questionnaire on the following key areas: strategy, leadership and organisation, financing, products and processes, marketing, technological innovation and cooperation and alliances.

Industry sectors: mostly services. Hospitality, bars, restaurants, local/little shops, etc.

2. Size increase.

Spanish companies, which are characterized by being very small (94 per cent of them have an average of less than 10 employees), may have serious difficulties to continue in the market if they do not consider joining forces with other companies.

To compete with guarantees in this complex economic scenario requires companies of a larger average size.

Alliances, mergers or acquisitions may be different options to achieve this. This is not an easy challenge, as it involves even cultural changes.

For this reason, many Spanish entrepreneurs prefer to act independently, even if this means facing greater difficulties.

Industry sectors: applicable to all.

3. Cash flow management.

In an environment in which the standstills in activity since last spring have led to an imbalance in the cash flows of many companies, from which they are still trying to recover, it will be essential to continue to guarantee an adequate level of liquidity to develop activity.

Although the extension of the maturity and grace periods of the loans guaranteed by the Official Credit Institute (ICO) has provided companies with a lifeline, it will be necessary to continue to focus on reducing costs and adjusting short-term assets and liabilities in order to adapt the flow of receipts and payments this year.

It will be particularly important to manage customer collections, trying to prevent late payment figures from soaring.

Industry sectors: applicable to all.

4. Environmental sustainability.

The role that companies play in this area is essential. The business models of the future cannot look the other way and have to put the environment at the center of business decisions. The majority of SMEs are beginning to understand terms such as 'circular economy', 'recycled materials' or 'energy efficiency' and some are already applying these concepts in their business models.

2021 will also be the year of the planet and SMEs are key players in the change of society we are experiencing. A more sustainable, cleaner and more respectful planet awaits us.

Industry sectors: applicable to all.

5. Employee management: the arrival of teleworking.

Many large corporations had already implemented this way of working among their employees, but most SMEs, before COVID-19, were unaware of working from home. The COVID-19 pandemic forced many employees to work from home and small businesses had to reinvent themselves.

In the coming year, many SMEs will continue to rely on this way of working, which will start to gain traction among small businesses and become part of the everyday life of SMEs.

Industry sectors: applicable to all.

6. Dependence

A significant proportion of entrepreneurship in Spain is concentrated in sectors which are more vulnerable to the credit crunch. Part of SMEs' access to credit depends on the development of more entrepreneurship in other sectors in addition to these.

The real estate and construction sectors are particularly vulnerable, firstly, because they are businesses that often require long term investments, often with few projects in the pipeline on which they are overly dependent and a significant need for liquidity, as they have to make regular payments and their collections tend to be concentrated.

Moreover, these are sectors that are not only dependent on their own credit, but also on that of their clients. Vulnerability therefore increases very sharply in times of crisis or when there is simply a certain likelihood of a slowdown in the sector.

Industry sectors: construction, real state

7. Risk analysis

Getting credit requires confidence. To achieve this, the first thing we need to know is what our situation is and how it could change. And then we must be able to convey that we are aware of the risks and that we have the capacity to respond.

Some responses are executed once the risk has materialised. For others, it is important to act beforehand. Clear examples of this are, for example, taking out insurance or hedging transactions to hedge against risks such as interest rate, currency, etc.

Unfortunately, a not insignificant number of SMEs, instead of facing up to risks and managing them properly, systematically avoid them. Precisely in the financial sphere, many do not properly analyse debt alternatives. They reject them because they see a risk in them and often miss out on options for financing investments that are essential for their survival.

Industry sectors: applicable to all.

8. Internationalisation

It is common that many SMEs, at the beginning, only consider exporting or importing. From that moment on, possible future scenarios have to be considered. Attention should be paid, for example, to the possibility of opening branches, looking for partners, financing in the target country, contracting, making all kinds of investments, etc.

Industry sectors: applicable to all.

9. Digitalisation

Lending to a company that is lagging behind digitally carries high risks. If, in addition, it does not plan to implement actions to overcome it, it can be even more complicated.

And this is not only a strictly digital problem, but an organisational problem in the broadest sense. In general, a lack of digital culture is an indication that an SME is not very flexible and adaptable to the circumstances of the environment. They tend to be businesses that suffer greatly from adverse internal or external circumstances, which does not make it easy for them to borrow funds.

Moreover, the difficulty is compounded by the fact that there may be a competitiveness problem. Many of the investments that can improve productivity and costs cannot be afforded under conditions of digital lag.

Industry sectors: applicable to all.

10. The technological component of the goods and services offered.

Financing involves the future of business, which inevitably involves technology. And it is in the goods or services we launch on the market where providers of third-party financing and any other third party have the best reference of how our company relates to technology.

Even in the most traditional products, there are options for technological upgrades. We can show that we are up to date in distribution, in the way we serve the public, in after-sales services, and so on.

This is the part that shows something that is not seen and that matters a lot to third-party finance providers: the organisation's relationship with technology. That is, having products that are up to date is a sign that the workforce is up to date, which greatly improves our prospects of generating cash flows in the future with which we can pay back what we borrow.

Industry sectors: applicable to all.

11. Access to specialised training and advice.

We must have sufficient training to deal with the corresponding type of activity. In an ever-changing world, it is not easy to keep up with everything. What does give a lot of confidence to anyone who can lend us money is that we make an effort to provide quality continuous training for the managers of the company and for the whole staff.

The same applies to consultancy. It is undergoing a process of specialisation. The consultant is becoming a kind of business partner who helps to fill gaps and seize opportunities.

Industry sectors: applicable to all.

12. Proper cash management.

Indebtedness requires payments to be made in the future and creditors are doubly interested in cash management. Firstly, because it is necessary to generate the expectation that, at all times, there will be sufficient liquidity to meet payments. Secondly, because excess cash is a drag on the profitability and viability of many small businesses.

It is very important to maintain a balance that allows us to generate credibility. On the one hand, we have to show that we know how to make good forecasts and keep control of cash flows. This implies not only having as good an idea as possible of the expected values of receipts and payments, but also of the possible risks that may affect them at any given moment and correctly monitoring their evolution.

It is also very important to improve the knowledge of many small entrepreneurs in two aspects. The first is related to the sources of short-term financing available to them. The second is the use of solutions that allow them to manage their cash flow in a way that is appropriate for their business.

Industry sectors: applicable to all.

2.2 Security Challenges for SMEs

1. Protection against internet frauds and scams.

Precisely, the arrival in e-commerce of many companies with no previous experience can be the perfect breeding ground for cybercriminals to act against their interests. Bad practices are also increasing with the enhancing of online business performance since the pandemic emerged.

In particular, SMEs have to deal with email spoofing to protect themselves. Through this practice, someone can, for example, impersonates a bank with which the company works in order to obtain the company's bank details.

In this regard, it is very useful to heed the advice given by official bodies such as the Bank of Spain or the National Institute of Cybersecurity.

Industry sectors: all are applicable.

CONSEQUENCES: The new amendment to the Payment Services Directive Act focuses on improving customer security when shopping online and preventing digital fraud.

Therefore, as of 1 January 2021, all online shops will have to reinforce the identification processes that their customers carry out when buying in e-commerce and, in the payment gateway, a double validation of their identity will have to be carried out.

Double validation in the purchase process

Until now, when a consumer bought a product/service over the Internet, he/she only entered an electronic signature or a credit card and some data (e.g. a code) sent by the bank to a mobile phone to validate the purchase. With the new modification, at least two of the following authentication elements will have to be fulfilled in the payment gateway:

Some piece of information known only to the customer. For example: a password.

Something that only the consumer has. For example: A mobile phone where to receive a password.

Something that verifies your personal identity. For example: Fingerprint.

Although it is up to the payment service providers to adapt to this new regulation, merchants will have to inform their customers of this change and check that the providers comply with these requirements.

Despite the fact that this is a general European regulation, there are some exceptions. For example, for payments of less than 30 euros this regulation will be exempt from application as long as they are not more than 5 times a day or reach 100 euros in less than 24 hours. On the other hand, non-EU merchants operating in Europe will have to adapt their payment processes and comply with this new regulation.

In this section you can include the main problems that SMEs confront in terms of security and their consequences. The industry sectors that these problems are most common should be also identified.

Examples of areas that security challenges can be found: cyber threats, infringements, transactions and payments, data storage (cloud storage).

Maximum length: 3 pages

3. Transnational Phase

3.1 Best practices in application of blockchain technology in finances

Name of the company	Kraken Ltd
Website	https://www.krakenltd.org/
Sector	Investment
Country	England
Description of the company's challenges before the application of blockchain technology (if applicable).	It has been a great experience, Kraken Ltd offers it's investors constant returns from an inconsistent market
Description of the blockchain strategies that the company adopted.	I t's very easy to start up You need to set up an account with the company and have funds invested, your investment will be moved to the trading pool to be traded daily by our team of traders. You get credited daily depending on how much you invested and the package you signed up for.

3.2 Best practices in the application of blockchain technology in security

Name of the company	-
Website	-
Sector	-
Country	-
Description of the issues that the company was facing before the application of blockchain technology (if applicable).	-

Description of the blockchain strategies that the company adopted.	-
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Maximum length: 3 best practices

References

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3. Banco de España. (2020). *Informe de Estabilidad Financiera primavera 2020*. https://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/InformesEstabilidadFinanciera/20/ficheros/IEF_Primavera2020.pdf
- 4.

Recommendations

- Use Arial 11 fonts for the body text
- Use APA for [in-text](#) citation and [references](#)
- Make sure that the author/source you have taken information from, is clearly stated in the main body and the references

Resources

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