

# The Cloble Way to a Small and Medium Entreprise

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## Chapter 1 - Introduction

### 1.1 - Objectives

This dissertation intends to encourage potential entrepreneurs to build new companies and presents this path as a viable and productive solution, to the Portuguese economic situation.

Given this goal, this dissertation focuses on a road, which facilitates the entrepreneur journey. This road aim to guide the entrepreneur, and give him a global perspective of the process. At the same time has the objective of mitigate potential errors and make the process as efficient as possible.

### 1.2 - Methodology

During this dissertation, four different sources were used:

- Publications with Portuguese and international economy as a subject.
- Publications of several authors, who have studied and investigated the whole process of building a company, or a specific step.
- Data and reports from INE, Pro data, Eurostat and the Bank of Portugal.
- Interviews and meetings, with entrepreneurs, directors of institutions linked to entrepreneurship, banking representatives, Commercial Registration's staff and INE' staff.

From the publications was collected the most relevant information. Then compared the various quotes from the different authors and drawn some conclusions on the issues described.

The data collected, was processed and treated. Part of the information was exposed in graphics, in order to highlight important correlations. Part allowed to calculate new indicators Which, enabled the display of some characteristics that show the reality of the country situation.

After processing the data, some conclusions were drawn.

In order to better understand the business world and collect the maximum amount of information, I cooperated in a project that allowed several startups to meet and establish connections with some of the largest companies in the Portugal. During the event, I conducted some interviews with the entrepreneurs involved. In addition, I also did three more interviews

to José Damião, director of Madan Park incubator, Vasco Moreira Borges, co-founder of two companies, Add Coffee and Followprice, and Sérgio Sousa, founder and CEO of Data Fax. I also met with Dr. Alexandra Batista Santos that works at the Cascais' Commercial Registry office, to confirm some details of the companies' legal forms. Finally, I met the Assistant Manager of the BPI Bank's subdivision, at the Rome Avenue, Luís Coelho and as well as the Management of Clients for Small Businesses, of the same bank, Ruth Martins.

The perspectives of the different players were compared and the theory was confronted with the day-to-day practice.

## Chapter 2 - National Scenario

### 2.1 - Economic situation

The state of the Portuguese economic and financial is fragile since 2008. This is evidenced by successive years of excessive deficit and weak economic growth. The huge increase in state spending, promoted by numerous governments and the impossibility of a parallel revenue growth, despite the massive increases on taxes, led to a very high public external debt accumulation, which reach more than 180 billion euros. Nevertheless, despite the difficulties, since 2012 some changes started occurring. Particularly changes related with exportations, which increased their values, and in the containment of public and private spending, which resulted in the decrease of the importation growth. These changes improved the economic situation, which suffered a reduction of the deficit and an inversion of the trade balance.

The improvements, however, did not come without a price. The Portuguese quality of life has been decreasing in recent years. The reduction of wages, the increasing taxes, and the unemployment were the main negative aspects.

The measures taken on the excessive debt fight affected mainly the middle class, since they are the social group with the most easily manageable economic reserve. The poor are already living in great difficulties, and because of that, they haven't room for a significant reduction of their budget. Given that, in average, social security receives 3 791.20€ per-capita (value of 2014), it is understood that people with a low income, have no way

to contribute to this value, especially considering that the minimum wage is about 7420 € per year (€ 6.790 in 2014). The "rich" population in Portugal, beside the small volume, can easily start to mobilize capital for foreign countries, which makes it very difficult to claim a large income from this class. (Figures taken from the site Prodata 29/07/16)

This is an important note to make, because with this impact, the middle class tends to decrease. The middle class is the pillar of developed countries, which in return of security, is willing to support the social system that we live in.

## 2.2 - Employment

Employment is one key aspect in the economy of any country and Portugal is no exception. The Portuguese problems mentioned in the last chapter, are well reflected in this parameter. Unemployment was one of the most affected issue during the crisis, reaching its peak in the early months of 2013, with 690 500 unemployed. Despite the decline to 555 200 in 2015, recover to pre-crisis numbers is expected to take many years. In addition to the growth of unemployed numbers, the time of unemployment has also increased in recent years, in 2009, unlike what had happen in previous years, people who are unemployed for more than one year became the biggest part of the unemployed, and this difference has been growing since.

Within the unemployment problem, in Portugal, the young people unemployment is a particularly important issue. Portugal is one of the six countries in Europe with the highest rates of youth unemployment. While in average the young unemployment rate is 19.1% in Europe, in Portugal this figure reaches 29.4%. Therefore, finding a solution to this problem it is crucial. The solution can pass through emigration, which can be a harmful in the long term, once it is a solution that inhibits the investment return made in education by the Portuguese Government. Instead it could pass by the promotion and creation of new companies, SMEs, developed by this young people. Choosing the last path not also decrease the unemployment problems but as well as increase the education level and knowledge among Portuguese entrepreneurs, which can help to boost the national economy.

## 2.3 - Business Environment

In 2004 and subsequent years, the number of companies grown every year, reaching the maximum value of one Million two hundred sixty-two thousand (1 262.198) in 2008, year when began the economic crisis. Affecting the whole world, the crisis infected the Portuguese companies, which suffer a reduction on their numbers in the following four years. This reduction translated in to a negative balance of 175 000 companies. The trend installed is interrupted in 2012, year when the curve had inflect and the balance turns positive again. In the period between 2012 and 2013,

the number of companies increased 3% and in the next year increased 2.7%.

The number of employees have a very similar development. This is especially patent when we focus on the 2004 to 2008 growth and on the fall of the following years. However, despite the downward trend in the number of companies, the tendency has been overturned in passage of 2012 to 2013, but the number of contractors only started to grow in 2014.

The challenges that the companies had to face can be noticeable when we analyse the creation and insolvency rate of the companies. Until 2008, the balance between the companies created and the insolvency was positive, fact that was reverse between 2008 and 2013. After 2008, the creation of new companies decline substantially, reaching birth rates of 11.8% in 2010, contrasting with the rates observed in 2007 of 15.2%. The insolvency rate reaches a maximum value of 17.9% in 2012, while in 2006 was only 10.6%. Since 2013 the balance has reversed again. Looking at the values of 2013 and 2014, it can be observed a positive balance, in the non-financial companies.

The parameters analysed transpire a fragile economy, where companies have to innovate and reinvent themselves if they want to survive and grow. There are however, positive signs particularly in the export industry, which has been growing.

## Chapter 3 - SME Characterization

### 3.1 - SMEs in Portugal

According with the Law Decree n° 372/2007 of 6 of November, the micro, small or medium companies, commonly known as SMEs, are companies that employ fewer than 250 people and have a lesser annual turnover than 50 million euros, or else have a total annual balance shorter than 43 million euros.

According to a study relative to 2008, made by the National Statistics Institute (INE), there were 349 756 SMEs in Portugal, which represent approximately 99.7% of all non-financial companies. This important slice of the Portuguese business community accounted for 72.5% of all employment and 57.9% of the turnover generated in 2008. These companies were also accounted for 59.8% of the gross value added (GVA) of that year.

Despite, the small change of this numbers over this few years, the variation of the data is not important enough to invalidate the conclusions that we can draw from this study. The disparity in the number of companies, which are mostly SMEs, between 2008 and 2013 was approximately 1.19%.

As cold be expected, other indicators such as the number of employees, also changed with time. However, similarly to what happen with the number of companies, the variation of these parameters do not invalidate the conclusions withdraw in the 2008 study. Based on the INE study, when analysing the SMEs companies, we are faced with a non-homogeneous

distribution, regardless the number of each category. Micro-enterprises stand out clearly in number, representing 85.6% of the SMEs. The small business are the second most common representing 12.2% of the companies and finally the media structure companies represent nearly 1.9% of such companies.

#### Chapter 4 - Creation and development of a company

One company, as an economic and social unit, consisting of people, equipment, fiscal and others elements, in most situations, is created as a small Identity. The need to have basic skills in numerous areas such as, finance, marketing, sales, product and services development, advertising, accounting, personnel management and others can help to understand the difficulties that entrepreneurs face and help to justify a survival rate at the end of the second year of 52.33%.

Nevertheless, to create something, it is necessary to take risks and accept the possibility of failure. Go through each step, from the planning stage to the maturation phase, mitigating as best as possible the risks is what allows the creation of a new business.

In the planning phase, only the founders or at the best a very small number of employees compose the company. This is the phase, when the potential of the project is discovered and the product/service development starts. Is a phase characterized by not presenting any form of income.

After the product development, the company enters in the product "sales" phase. At this stage, the focus is to find capital. There are essentially three ways of getting the necessary capital, by the direct customers' sales, through loans or through investors. Since at this stage the profits from the direct sales are generally low, if any, the capital usually comes from one of the other two possibilities. Raising funds successfully, through any of the three ways described, it is a strong signal of the company's viability.

After putting successfully the product on the market, the focus of the company change in to reach the break even. To achieve this, the company starts to focus much of his resources in getting customers. However, this change of priorities does not imply the abandonment of the search for investment. In many cases, the investments remain essential and provide several advantages.

Reached the break even, the company starts a new phase. This can be a stage of maturity, where it is created a certain stability and the maintenance of profits is the focus. Or it can be an expansion phase, where the profits are reinvests, and where are the possibly of spreading the horizons to other markets or activities.

All these steps have different risks and the way in which the company addresses each one, is crucial to her success. Especially in the initial stages, the timing and speed of development are extremely important. For example, go looking for investment too early, it can lead to too high capital cost. Developing too fast can

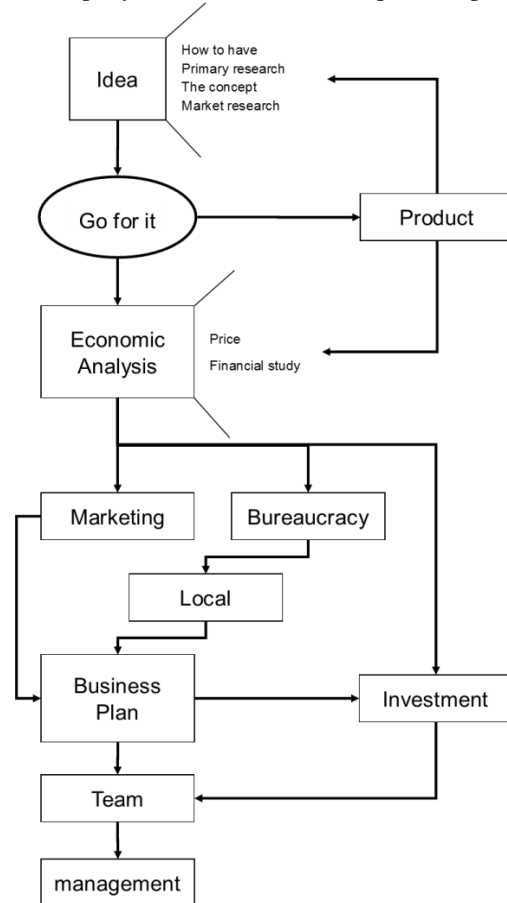
lead to liquidity problems. However, delay too much the release of a product/service, can lead to fail an opportunity window, or increase the risk of spending all the capital available too soon.

Another issue related to the growth of a company it is that, in many situations, the growth isn't continues, and this can harm the company stability. The natural course of a business is to grow according with the demand growth. However, despite of the linear demanding growth, the offer cannot be so stable, having necessarily jumps in their growth.

#### Chapter 5 - Steps to starting a business

##### 5.1 - General flowchart

The creation of a company is a dynamic process consisting in specific steps that interact with each other. Each step is a new challenge and can influence the entire project. Some of the steps, besides having a critical influence on the project, are potentially eternal. The flow chart follows a possible path in the creation of the company, and show the main steps of the process.



It should be noted, that there are cycles in this process. These have been represented in order to characterise the direct and indirect influence that each step may have in the others. It is also important to note that there are steps that can and should be performed simultaneously with each other.

##### 5.2 - Idea

###### 5.2.1 - How to Have

Before you start designing a business plan, find investors, search for collaborators or go through any other stage, there must be a business idea, which will be the basis for entire company. In most cases observed in the interviews, the idea born spontaneously. During the interviews, I realized that one of the most important factors on getting an idea is the entrepreneur capacity to observe what is around him and to have a critical view of what he just witnessed. This ability is what will help him to discover a new solution for the existing problems.

#### *5.2.2 - How to evaluate the idea*

Just as, has been said by many of the entrepreneurs that I interviewed, the difficulty is not on having the idea. Though, explain it to the market, absorb their feedback, model it according, or reject it, can be a challenge. It often the idea appears to be extraordinary to the entrepreneur, however it cannot be to the market.

##### *5.2.2.1 - Primary research*

The first step in evaluation of the idea is to find out what already exist. Therefore is important to do a primary research, on what solutions are already in the market, which can resolve the problem that we want to solve. This process could not only help to realise the viability of the idea but also help to improve it. In most cases, there are already solution that satisfied the identified need, or at least a portion of that need. However, this should not be discouraging, oddly enough many consider that the existence of solutions for that particular need, is prove of the need existence. This necessity however could not be fully satisfied yet. The peculiar idea that if a product/service has never been placed on the market, it is probably because there is no market to absorb it, is in most situations truth.

##### *5.2.2.2 - Structuring the company's concept*

After this initial research, it is necessary to structure the company's concept. It is important to establish the core business of the company. This definition, although dynamic and therefore flexible, is important to be established at this stage. This necessity, drift from the need to expose potential clients and investors to the business concept.

To structure the business concept, and know the market to focus, is important to establish what business model to use. To do this is necessary to know the business models in existence. The most frequently used are B2B, B2C, B2G, C2C, B2B2C or a combination as B2B and B2C.

After defining the business model, the specifics and the nature of the business is described. How does it take place on the market and what the potential customers are, what benefits the product/service bring to the customer, or what sets it apart from the competition, are questions that must be answered, to allow the completion of the business picture.

##### *5.2.2.3 - Market research*

After having a clear business concept structured a small market research can be made. While important, this study, in a company on creation, typically lack capital and human resources, and is very modest. The interview with Vasco Moreira, co-founder of Followprice, was particularly instructive on this aspect. The market study conducted by is company consisted on making phone calls to customers, as he describes in the interview: "I took the phone and called for a set of potential customers. I explain them the product and the advantages in its acquisition, which in this case is reflected in increased sales and reduced marketing costs. After the explanations, I ask the client if he would be interested in purchasing the product. Some responded negatively, but most said yes". This interview quote also illustrates the importance of a clear business concept.

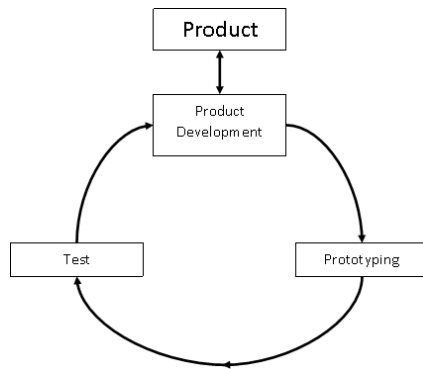
The way this study is carried out, is strongly linked to the market, which is addressed. For example, if the business consist of an application to be used by the final consumer, contrary to this example, which has a B2B business model, it may not be efficient to connect potential customers directly. However, the solution has to be simple and economic. For the case above, the creation of a short questionnaire and its disclosure in social networks could be a solution.

##### *5.2.2.4 - The decision to move*

Once finished the market study and the business concept, it's in possession of sufficient information to conduct an introspective analysis and diagnose of the future company. This phase will determine whether the entrepreneur moves forward with the project or if this is abandoned. This decision is crucial in the business creation and in the life of the entrepreneur. In many cases the decision to proceed with the company and create something new, implies a total dedication. This risk must be considered and analysed. The entrepreneur has to consider what is to abdicate and realize if this loss is compensated by the chance of success.

#### *5.3 - The Product*

The creation of a company starts with an idea and is embodied on a product/service. So the development and improvement of it is a major factor for its success. The product development begins with a limited representation of itself. This representation will evolve and become more and more complex, as the product concept takes shape. This process called prototyping is the basis of product development. The process is shown in the flowchart below. It is an iterative process of continuous improvement, from which the product originates.



In this process is important to find a test group, which will depend largely on the product that is being tested. The critics of the group should then be tested and treated. This analysis allows to discover, solve problems and add or remove features. Therefore it becomes possible to improve the product, which is subject to a further test phase. This cycle is then repeated until a balance between the quality of the product and the resources expended in the process is found. In a more drastic case, it can be concluded that the product is not feasible, or that it should be applied in a different way or even be redirected to another target.

The relevance of this process may be more delicate when referring to physical products. In contrast to software products, prototype physical products can be very expensive, and their production is very time-consuming. However, the evolution of new technologies such as 3D printers has greatly facilitated this process.

#### 5.4 - Economic Analysis

The economic analysis, allows the formulation of an investment return estimate. Return that represents the base factor of the entire business. This analysis not only allows the entrepreneur to predict what to expect with the company's development, but also ensures potential investors, by proving that the business concept is viable and therefore profitable.

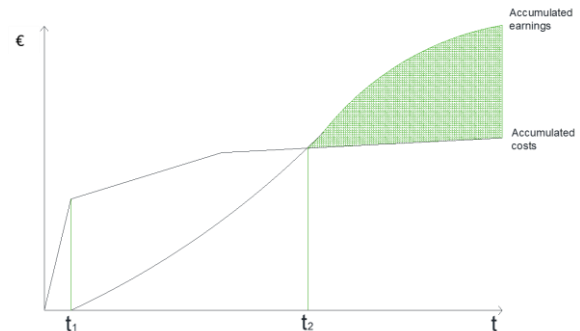
This analysis is based on all the information that was acquired to this date, particularly in the market study. With this information, some extrapolations and assumptions can be made, which could justify a financial investment in the company. Although, given that the study is inevitably based on forecasts, statistical studies and assumptions, its degree of uncertainty is relatively high.

The economic analysis is based on two pillars, the benefit and the time horizon. The benefit is a wide concept and can appear in various forms, such as personal satisfaction, security, among others. However, in economic analysis the benefits represent some form of income, which is normally translated into money. Therefore, the analysis focuses on a correlation between money and time.

The most important factor to consider, correlated with time is the time horizon. It is the factor that defines the

number of years for which the study will focus on. This value can be obtained by considering the possible life cycle of the company, or simply taking into account the payback period. Given the uncertainty of the analysis, and since it increases with the increase of the period analysed, the early years projected are most relevant.

The economic analysis is based on the idea that the investment is a sacrifice that is supported today, in hope that the future revenues will compensate it. (Levy, BUSINESS PLAN, 2015) The figure below illustrates in a simple way, this concept, with three crucial times in company's life.



- The first phase there is only costs. It is critical in the formation of the company. Which is characterized by the development of the product and a high financial need.
- The second phase is when the company passes from a loss state to a profit state, where revenues exceed costs. This transition is observed when the derivative of the cumulative earnings, exceeds in value the derivative of cumulative costs. Indicators shown in the figure above.
- The third phase is when the cumulative earnings exceed cumulative costs. It is the stage that justifies the investment. Reaching this stage and maximize the area highlighted in green, it is the primary objective of any company.

#### 5.4.1 - The price

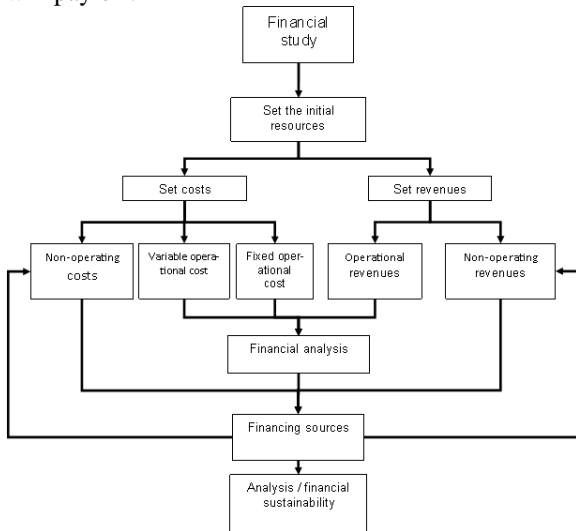
Establishing a price for a product/service can be a tricky challenge. On one hand, a price too low may affect profit margins and make the product not viable, on the other a price too high can drive away potential customers. In addition to this simplistic view, the picture can complicate, due to phenomena that lower prices can not only reduce margins, but also divert customers. All these possibilities should be considered when opting for a price.

There are some techniques that can help finding this value, for example: compare cost solutions which, although different from yours, have the same purpose, or provide the same service/product at different prices in a way that it can be analysed what the price/demand is the best.

Another aspect to be taken into consideration is the form of payment. A product/service can be paid through a rent, a single payment, a payment correlated with his performance or in some other way. The important thing is that it suits the product and the company.

### 5.4.2 - Financial Study

After setting the price, the financial study can be made. This study aims to predict how much the investment will pay off.



The first step is to define the necessary capital to the creation of the company.

After this reflection, the step that follows is to examine the possible future cash flows. Therefore is necessary to define the costs and revenues that resulted from the business, as well as those that are external to this, non-operating income and expenses.

First, it is advisable to focus on the operational flows, which allow a better perception of the business profitability and potential in his essence.

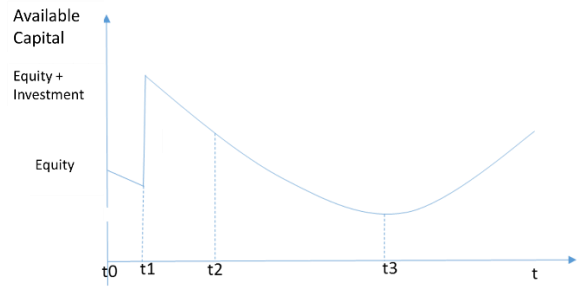
Operational flows focus on all costs and revenues of the operations and maintenance of the business. The estimation of the flows, if possible should be based on similar histories. The experience in the field, by the partners, influence vividly the accuracy of the forecasts.

The costs can have two natures, fixed or variable. This distinction is extremely important. Fixed costs don't change with the volume of production. The rent of a space can be an example, regardless of the production or sale of the product it is always present in the same amount. The variable costs, such as the materials, change accordingly with the production. Thus, the fixed costs can be potentially more dangerous, therefore is important that they be discriminated. In addition of these two types of cost, it is also important to consider single costs, for example the cost to renew equipment.

After a first analysis of the transactions, it is time to characterize non-operating costs and revenues. Because they came in part from financial transactions, particularly the costs, the next chapter should be taken in consideration, step where is define the possible sources of funding.

At this stage, it is necessary to know how much capital will be necessary to raise. This when added to the share capital should be enough to cover the need for initial resources (time between  $t_0$  and  $t_2$ ), plus the

accumulated losses during the phase in which the company has costs higher than revenues (time between  $t_2$  and  $t_3$ ). This concept is illustrated in the following figure.



The sources of capital can be of numerous kinds, from share capitals to state subsidies or bank loans. At this stage, it is very difficult to know for sure which costs the financing may cause, and this is information that must be updated. Nevertheless, despite these difficulties is always important to design some scenarios that enabling to predict this factor.

Both the non-operating costs and revenues may vary in nature, such as tax or financial. Costs such as taxes, fines, loans or revenue as subsidies, interest loans, and favourable currency exchanges, among others should be characterized and defined, in order to make a global analysis of the sustainability of the future company. To finish it also can be accounted the residual value of the assets.

After defining the potential business flows, we are finally able to conduct a financial analysis that will allow us to justify the sustainability of the company. For this there are several tools that can serve as a support. The calculation of financial indicators such as NPV (net present value), IRR (internal rate of return) or the PBP (pay-back period), are some of these tools, which allow examining the viability of the investment in a simple way.

Incorporating the refresh rate in his formulation these indicators take into account factors such as inflation, risk and alternative sources of income, enabling a simple and realistic analysis of the data. However, similarly with the flow exercise, it is necessary values for these rates, which may increase margin of error. Therefore, it is important to support these assumptions, for example by using average values for the inflation or by comparing interests of concrete investments.

### 5.5 - Investment

The capital that the company required, estimated in the previous chapter, can be raised in many ways and have numerous sources. However, the most common sources of investment are equity, loans to friends and family, awards, government support funds, bank or other loans, venture capital companies and business angels.

Ideally the company only require equity as a source of funding, reaching the break-even point before it finishes'. It is the ideal situation, it would be the living proof that you have a business who add value to the market and he pays for it.

In some cases the presence in innovation contests, can lead to gain cash prizes, which help with the finance problem and boost the company credibility. The supply of other services, which diverge from the core business, can also help the company to get resources.

Loans from friends and family as well as public support, can sometimes be an important help in the funding issue. Usually these funding sources have better conditions than the alternatives, and usually the payments and interests are more charitable and flexible. However in most cases these investments are not enough. Due to the high period of product implementation on the market, the need for a high initial investment or competitive reasons, in many cases companies are required to seek funding.

This constant pressure to raise capital is implanted on companies. Of the 13 interviews conducted during the II STARTUP MEET UP LISBOA, seven companies mentioned this issue, as one of the most important problems in creating a company.

Exhausted the most beneficial options to the company, new sources of funding must be found. Find credit from a bank identity is probably the next step. These institutions often have lines of credit dedicated exclusively to companies in creation.

Another form of financing involves sharing equity with Adventure Capitals companies. This form of raising capital, along with the resourcing to Business Angels, is probably the most expensive way of financing the company in the long run. However, these solutions have a huge advantage, in both cases beyond the achieved investment the company acquires a partner. He will bring knowledge and influence to the company. This is an important advantage because normally these investors are experienced in growing companies, and have influence in the business world. However, this benefit implies the loss of some control detain by the founders.

Whatever the form of investment, implies that investor have confidence in the company's success. This issue however is complex, and normally is constantly present on the day-to-day business.

## Chapter 6 - structuring of the steps

### 6.1 - Bureaucracy

The bureaucracy related to business creation, can be critical in his formation. In Portugal, the problem that the bureaucracy introduces is particularly high, as Vasco Moreira stated when asked about the main difficulties in creating the company, "There is always a lot of paperwork involved and many other things that can serve as a bottleneck of a project."

Issues such as certificates and licenses can lead to a company ruin, having been referred by Filipe Simões, founder of startup SAKPROJECT INTERNATIONAL, and Carlos Calixto, founder of ECO, as one of the main issues in the success of the company. Carlos Calixto, describes his personal experience with this issue: "After has committed

myself with some customers on deliver the product, I was faced with the need to require some certificates. Due to this bureaucracy, it took me one year, with the help of several lawyers, to register the bag (the product).

This case was eventually resolved, but Carlos Calisto explains that the situation almost ruined the company. The first problem related directly with this issue is choosing the legal form that the company will take over.

To choose the best legal form, you have to know which legal forms are available and which implications they have. These are presented in the following table.

Legal form	Minimum number of individuals				Minimum equity	Responsibility			Minimum quotas value
	Individual		Collective			Unlimited	Limited with restrictions	Limited	
	Allowed industry partners	Not allowed industry partners	Allowed industry partners	Not allowed industry partners					
Individual entrepreneur	1				0,00 €	x			
Individual establishment with limited liability	1				5.000,00 €		x		
Single-person limited company	1		1		1,00 €			x	1,00 €
Collective name company	2				0,00 €	x			
Quota companies		2		2	2,00 €			x	1,00 €
Public limited company		5		1	50.000,00 €			x	0,01 €
Limited partnership	2/6		2/6		0,00 €	x		x	
Cooperative		2/5			0,00 €	x			

After knowing which the legal form is most appropriate for your business, you need to figure out the legal formalities for its effective creation.

These will differ initially, depending on whether is a individual responsibility company, or a shared responsibility company.

The steps necessary to get through this process will be facilitated if the entrepreneur choose doing them in one of the many companies Shops in existence. The Company's stores are service stores that bring together, in one place, numerous Services or Public Administration Bodies, necessary to the formalities of setting up a business.

### 6.2 - Local

The question of where company base will be is extremely relevant. This decision must be based on three fundamental pillars, economy, proximity and market.

Understanding the existing market of the place where the company has plan to establish is extremely important. André Facote, founder of AFAC, stresses the need to "explain the importance of the location. What could be a business in Japan could not be in Portugal". This question is often related to the local's culture, and to the perceptibility and sensitivity of the entrepreneur for this issue. Every nation has certain characteristics, which can lead to the fail of particular project, despite it had work in another environment.

Another important aspect is the proximity to customers or suppliers, which can directly influence the company economy by enabling a faster, and economic response. Issues such as the proximity to suppliers or to raw materials, as well as to infrastructures, such as highways and seaports, are extremely relevant, depending on the project, and should be considered when deciding the place based the company.

However, this issue goes beyond the matters described above. Particularly, at the time we live in, the proximity to other companies is becoming more and more important. This justified the exponential growth incubators and accelerators. Within this universe, the association itself to the right incubator can mean a competitive advantage.

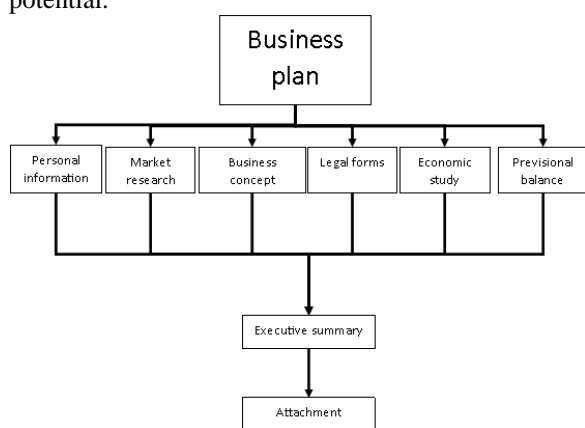
Finally, there is a pure economic issue. The place where the company is based has a cost. Normally the space rental in incubators is cheaper, especially if we consider that such an environment enables sharing services.

Still related to the economic issue there is the matter of attractiveness that the company has to the potential employees. Vasco Moreira regards this situation explains, "It would be easier to attract employees for our project in Lisbon rather than in the outskirts, mainly because of the higher accessibility". This described facility, if didn't exist, would have to be compensated in another way, probably with a better salary.

### 6.3 - Business Plan

The business plan is one of the most important steps in creating a company. Incorporating much of what has been done in the previous chapters, the business plan will serve as a tool to evaluate the viability of the future company. This will serve to define all the company's goals and describe in detail, how those goals it will be achieved. As such, this document will support investors assessing the business potential. (Levy, BUSINESS PLAN, 2015)

Therefore, the business plan is a combined of modules, which together describe the project and expose its potential.



### 6.4 - Team

The success of a company is strongly related to what the team can achieve together. Therefore its creation is a crucial process. The idea that the entrepreneur discovers the problem, find a solution and implement it, in most situations is unrealistic. Even in a situation where this is possible, it is probably inefficient and therefore more susceptible to failure. There are different aspects in a company creation and each team member has a role.

In many cases two or three colleagues who have an idea, decide to create a company and just like that, the team is born. Alternatively, the entrepreneur has a

business idea and invite someone he knows to help him make his vision in a reality. In both cases, the team members recognize an intrinsic quality of its partners, and have a full trust in their abilities.

Nevertheless, any company reaches point when the original team becomes insufficient. At this point is important to recruit new employees. Although this task may be challenging. Therefore, it is important to focus on the recruitment process because, as Vasco Moreira quotes, "More important than being the best is to be surrounded by the best", a teaching that he had learned from Professor Mira Amaral.

More than choosing the right candidates for the right post, the recruitment process consists in attract the best employees to work at the company. This particular goal may be difficult to achieve, mainly because the company is in a growth phase and as such has very limited recourses. In response to these economic restrictions, José Damião, argues that the company should compensate the low wage with an emotional salary. "Emotional Salary is an innovative way to get the best possible employees. Consist for example in having a highly flexible work schedule, allowing take the dog to work, or to create the possibility of working from home".

### 6.5 - Marketing

Marketing is possibly one of the most important and most sensitive issues in the creation and development of any company. As stated above, and like with the matter of funding, 7 of the 13 companies questioned during the event, II STARTUP MEET UP LISBON, mentioned this topic as one of the most important in the process of creating a company. In addition to these companies, both Vasco Moreira as José Damião considered that the greatest difficulty that a company faces is related to the reach of the client. As they stated "getting to the maker decision is the major difficulty for a company" and "One of the startups main problems is to access sales channels, leading many to declare bankruptcy, due to this inability".

This factor becomes problematic due to the closed nature of the business environment. Given the existence of this business profile, network connectivity between businesses becomes crucial to the success of the company. The knowledge of a certain contact is an important advantage in a company creation. Therefore, explore all contacts, friends or family is imperative to any entrepreneur. Participating in events such as the II STARTUP MEET UP LISBON or business fairs in the area, it is also extremely important. Events for expanding the entrepreneur network, and enable to reach the right contacts.

To reach the clients and potential partners is extremely important to explore all the contacts and conations possible. Often methods like the cold call or the cold email are effective tools. In many cases, these strategies will not work, and the entrepreneur will not make the appointment or raise the customer he wanted. Though, perseverance can lead to success and sometimes it



needs to work only once to find the first customer boost the all business.

Explore new market concepts like in e-commerce platforms or social networks, as well as dominate searching engine optimization mechanisms can be an important input.

#### 6.6 - *Treasury*

Finally, the entrepreneur must be able to manage the company. The management, involves knowing and control some basic economic indicators. These reflect the health of the company and are crucial to her evaluation. So this information is crucial not only for the company's manager, but also to potential investors or shareholders.

Exist many methods that can improve efficiency and consequently improve these indicators. Some of these have been mentioned in this dissertation, as systems of employees' motivation, or ways to best attract employees. Goals compensation, progression possibilities, or the opportunity influence the project strategy based on the merit, are other ways to increase productivity. However, the most important is that the entrepreneur understands its employees and the work they perform and adapt both the remuneration and working conditions, to their needs and expectations. In order to make the team as efficient as possible.

However, primarily the entrepreneur must know what indicators he can use, and understand what they represent. They are based on the company's transitions, which represents the balance between assets and liabilities plus equity.

After knowing the tools, another problem that the entrepreneur has to worry is the liquidity issue. This can become a problem and sometimes despite the company apparently good finance balance, it follows in insolvency. This can occur due to several factors. However it is common, a company providing a service that counts as a recipe, but it is not paid, or payment is only made in the future. If the company need this revenue to meet an immediate obligation, can enter insolvency, even if the business has been profitable. In response to this problem the entrepreneur can go supervisory liquidity ratios, which determine the short-term company's repayment capacity.

Finally the entrepreneur may want to control the company's debt levels, and find out what the financial return on their capital. For this you can use debt and profitability ratios.

#### Chapter 7 - Conclusion

The creation of an SME, is based on a series of steps that allow the mitigation of the risks and increase the efficiency of the creation process. These steps are often studied and described by several authors, which on their analysis depart from the SMEs reality. Possibly, due to the consideration of the processes carried out in large companies, these steps are exposed in a complex way and his execution would represent a financial value

too high for a SME. The reality of SMEs is quite different, the steps should be simple, since they often are conditioned by a lack of resources.

The entrepreneur goes through the several stages always with the objective of optimizing the binomial cost/result. In the creation and development of the company, steps such as raising investment or marketing are the most significant. The raising of capital and customers is the process responsible for the success of the company. Also the product and its development, is a step that should be highlighted. The walk through the exposed path in this work, cannot guarantee the success of the future company, but I believe that increase greatly the chances.

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