

BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN SPAIN 2021



 Team Sweden

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FOREWORD

Sweden and Spain have for a long period of time enjoyed a strong bilateral relationship within trade and investment. As both countries are part of the EU, they have a natural bond which is strengthened by their common values and visions when it comes to the environment, human rights, and equality. For Swedes Spain has been a favourite destination for vacation and long-term residency for many years and Swedish companies view Spain as one of their most important markets for growth. Today, there are approximately 200 Swedish companies present in Spain.

It is quite difficult not to think about the challenges and hardships that the Covid-19 pandemic has caused the Spanish economy. The importance of a forward looking and positive agenda has never been as important as it is now. The strong position that EU has taken in terms of establishing the Next Generation EU fund, will function as an important catalyst for change for the entire Union. Large investments in digitalisation and sustainability are being planned and these are areas where Swedish companies are at the forefront, driving innovative and climate-friendly solutions. Hence, expected future investments in Spain and the value offering by Swedish companies offer a great potential for enhanced bilateral cooperation.

Team Sweden España (the Embassy, Business Sweden, the Swedish Chamber of Commerce in Madrid and the Swedish Chamber of Commerce in Barcelona) have joined forces and carried out a business climate survey among Swedish companies currently present in Spain. The purpose of the survey has been to increase the understanding of how Swedish companies perform in Spain and deepen the appreciation of the opportunities and challenges that the Spanish market poses.

The Business Climate Survey for Spain 2021 reveals that Swedish companies in general view the current business climate in Spain as “neutral” (neither good nor poor), with key challenges within labour market regulations, administrative processes, corporate taxation and the level of digitalisation. However, most Swedish companies had a positive year in 2020 in terms of profitability and have a positive outlook in terms of expected recovery of business activities.

There are still some uncertainties regarding timing of the recovery of the Spanish economy. A decisive factor will be the efficient and transparent utilisation of the recovery funds in the coming years.

Finally, we would like to take the opportunity to extend our most sincere gratitude to the participating companies for the knowledge and insights that they have shared with us.

Gracias!



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EXECUTIVE SUMMARY



ECONOMIC OUTLOOK

- **72 per cent** of the surveyed Swedish companies report profitability in 2020
- **69 per cent** expect their turnover to increase in 2021 (to varying degrees)



BUSINESS CLIMATE

- **52 per cent** of the surveyed Swedish companies view the business climate as neutral, while **35 per cent** as poor and **11 per cent** as good
- **Key advantages:** access to partners and physical infrastructure



KEY SUCCESS FACTORS

- Sales competence, collaboration with customers, cost efficiency, partnerships/local relationships are perceived as key success factors
- **67 per cent** of the Swedish companies agree that the 'Swedish brand'



SUSTAINABILITY

- **64 per cent** of the Swedish companies say that customers in Spain consider environmental aspects of a product or service to some extent
- **78 per cent** of the respondents perceive that corruption in Spain



COVERAGE

- **190** Swedish companies in Spain were invited to participate in the survey and 65 of them have shared their views
- Majority of survey participants are large businesses working within the industrial sector, established in Spain prior to year 2000

ABOUT THE SURVEY

Survey results are based on the answers of 65 Swedish companies

Around 200 companies are present on the Spanish market and the main question has been how these companies perceive the business climate in Spain. Moreover, the purpose of the survey has been to track how Swedish companies operating in the Spanish market experience the market conditions, their economic situation today and their outlook for the near future. 65 companies responded to the survey, which was conducted in March-April of 2021, thus yielding a response rate of around 33 per cent.

The survey report is presented in four main sections. In the first section, we elaborate on the economic status and business performance of Swedish companies and their outlook the coming 12 months. We then shift to the Spanish market itself and respondents' viewpoints on the business climate and what factors contribute in positive and negative terms to their commercial result. The third section deals with Swedish companies' operations and perceived success factors on the market and the last section talks about aspects related to sustainability and how they are dealt with on the market.

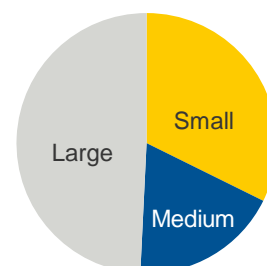
Out of the responding companies, almost half of them (49 per cent) constitute large companies with 1000+ global employees. 18 per cent of the companies are medium sized with between 250-1000 global employees. 32 per cent are classified as small with less than 250 global employees.

The wide range of sectors that the Swedish companies represent are grouped into three broad categories in this report: industrial companies (45 per cent), professional services (37 per cent) and consumer companies (12 per cent).

In terms of experience in the Spanish market, 54 per cent of the responding companies established their operation in Spain prior to year 2000 (Mature), 37 per cent of the companies between 2001-2015 (Experienced) and 8 per cent after 2015 (Newcomer).

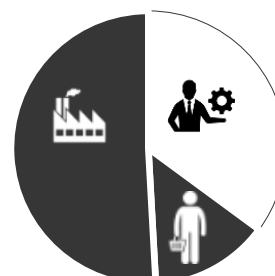
We hope that this report will provide you with valuable insights on how the Swedish companies in Spain view the business climate and market, and what their expectations are for the near future

SIZE OF COMPANIES



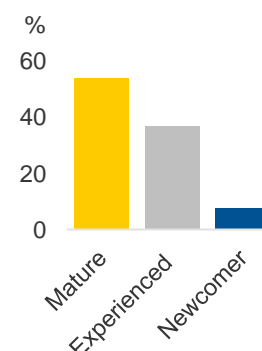
NOTE: Global employees. Large >1000. Medium 250-1000. Small 0-249.

MAIN INDUSTRY



NOTE: 45 per cent Industrial. 31 per cent Professional services. 12 per cent Consumer.

AGE OF COMPANIES



ECONOMIC OUTLOOK

Spain's economy is one of the most impacted by the pandemic in Europe

Before we dive into the economic outlook of Spain and the impact the pandemic has had on the economy, it is good to understand where Spain was economically before 2020.

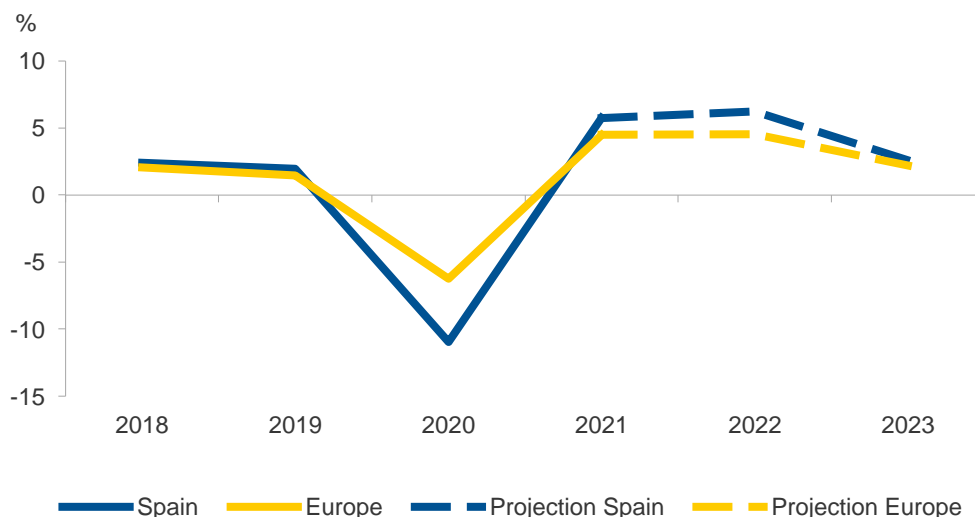
Spain had just begun to recover from the crisis of 2008-2014 when 2020 arrived and the pandemic completely swept away years of recovery. In 2015, when Spain bounced back, the country recorded a GDP growth of almost 4 per cent (among the highest in the EU) and a 3 per cent growth in 2016, recovering 85 per cent of the GDP lost between 2008-2014 in only two years. In 2019, right before the pandemic hit, Spain had recorded a GDP growth of around 2 per cent and unemployment rate had fallen from 26 per cent in 2013 to 14 per cent in 2019.

During the last four decades, Spain has managed to develop a world class tourism industry which before the pandemic constituted more than 12 per cent of the national GDP. Together with the automotive industry which constitute 10 per cent of the national GDP, these sectors have for almost half a century been the backbone of the Spanish economy. While the automotive sector experienced a slowdown mainly during spring 2020, due to pauses in production, the tourism industry completely plummeted following the travel restrictions put in place within Europe and globally. Even though the tourism sector has begun to recover slowly, it is expected to fully recover during Q2 2022. The economic impact caused by the pandemic in 2020 resulted in an 11 per cent decrease in GDP and an unemployment rate of 15.5 per cent. Although the unemployment rate is expected to more or less stay the same in 2021, GDP is expected to grow almost 6 per cent.

“ Any prediction about the economic evaluation and the long-term impact this crisis will have on the business fabric is still uncertain.

Survey respondent

PROJECTED GDP GROWTH IN SPAIN

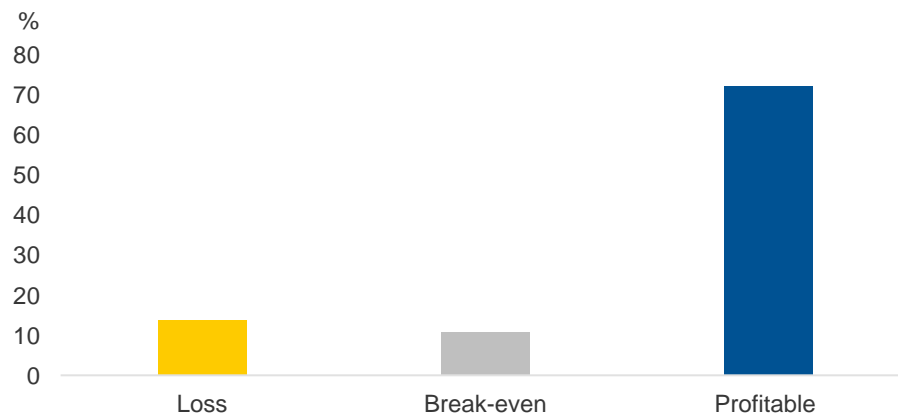


NOTE: Constant prices.
SOURCE: Oxford Economics 2021

Despite the pandemic, most companies report profitability

Although the significant slowdown in the economy during 2020, 72 per cent of the Swedish companies report a profitable performance in Spain in 2020, 11 per cent experienced a break-even and 14 per cent a loss. There are some differences to keep in mind in terms of size of the companies and their profitability. 88 per cent of the large companies reported a profitability with no loss being reported among those surveyed. For the small companies on the other hand, 48 per cent reported profitability and 33 per cent a loss. For the medium sized companies, 75 per cent reported profitability while 17 per cent a loss. Companies within the industrial sector reported profitability to the greatest extent with 83 per cent. 75 per cent of companies within the consumer sector reported profitability while 55 per cent of the professional services companies reported profitability. Taking into account the level of experience of the Spanish market, we note that mature companies (77 per cent) reported profitability to a greater extent than both experienced (67 per cent) and newcomers (60 per cent) In terms of loss, the opposite can be observed with 40 per cent of the newcomers reporting a loss, 17 per cent of experienced companies and 9 per cent of the mature ones.

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN SPAIN IN 2020?



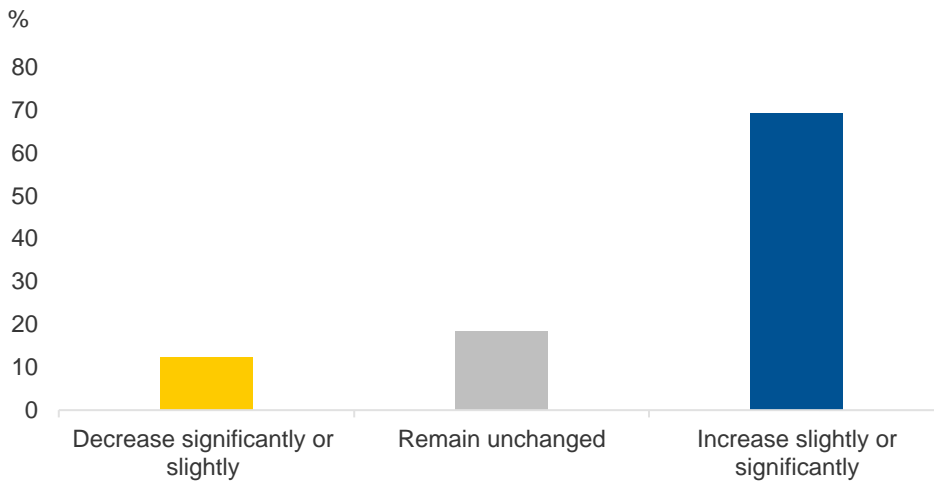
NOTE: The number of respondents for this question was 65. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Spain 2021.

Most companies present a positive outlook

The outlook in the short term and more specifically the coming 12 months is for most companies surveyed quite positive with almost 70 per cent of expecting an increase (either slightly or significantly) in turnover. Breaking it down on an industry level, we can observe that surveyed companies within the consumer sector expects increasing turnover (88 per cent) than professional services companies (60 per cent) and industrial companies (69 per cent). This is most likely related to the recovery in consumption that will be a result of increased reopening of commercial activities throughout the country. In terms of decreasing turnover, companies across the three industries have similar expectations with 13-15 per cent expecting a decrease. Moreover, Swedish companies classified as newcomers to the Spanish market are to a lesser degree expecting any increase in turnover with 40 per cent of surveyed companies, compared to 74 per cent for the mature ones and 71 per cent for the experienced ones. A sense of caution can be observed by the newcomers as 40 per cent of these expect turnover to remain unchanged, even with a recovery of the economy in sight.

COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN SPAIN REGARDING TURNOVER?

▶ **40 per cent of Swedish companies are planning to increase their investment into the Spanish market**

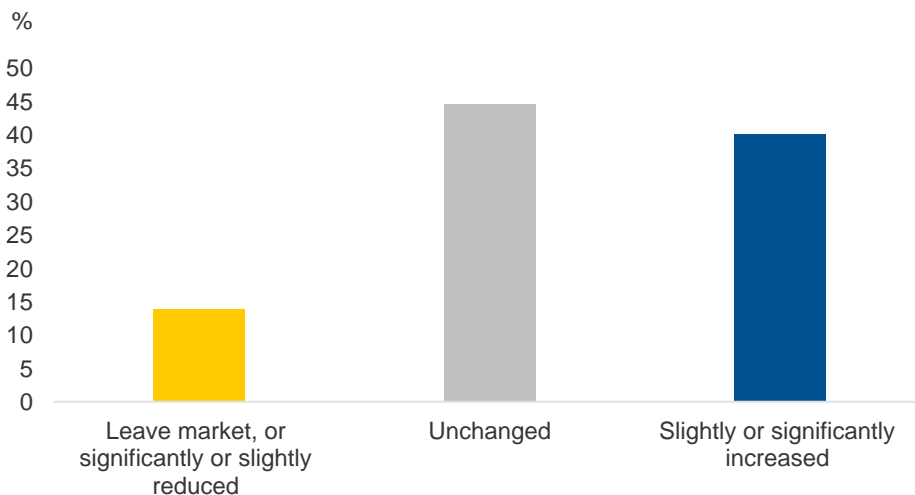


NOTE: The number of respondents for this question was 65. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Spain 2021.

Cautiously optimistic towards investment

Given the impact that the pandemic has had on the Spanish (and global) economy, surveyed companies present a somewhat positive outlook in terms of investment plans. 40 per cent of Swedish companies are planning to increase their investment into the Spanish market, 45 per cent will have their investment unchanged and 14 per cent will in one way or another divest to some extent from Spain. The positive attitude towards planned investment is more prevalent among professional services companies (45 per cent) than among industrial companies (34 per cent). For the surveyed newcomers, 40 per cent are planning to decrease their investment, with only 11 per cent for the mature ones and 13 per cent for the experienced.

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN SPAIN, COMPARED TO THE PAST 12 MONTHS?



NOTE: The number of respondents for this question was 65. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Spain

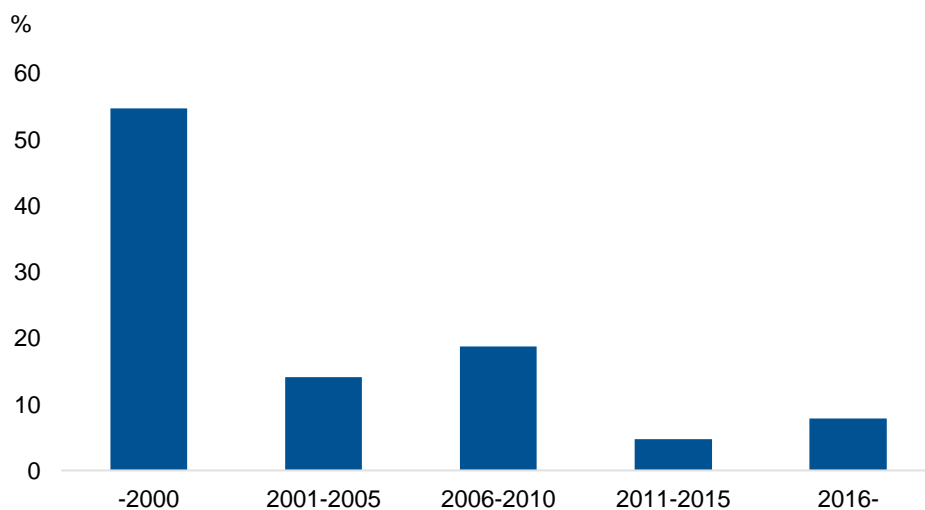
THE MARKET

Large market with linkage to the world

Spain is the 4th largest economy in the EU and the 14th largest in the world, with a population of around 47 million people. Spain maintains a highly developed infrastructure network throughout the country with the longest high-speed railway network in Europe and the second longest globally, after China. Important sectors are, as has been previously mentioned, the tourism and automotive sectors, but also the construction and banking sectors with large multinational players. In addition, Spain's cultural proximity to Latin America in terms of language and history has made the market highly attractive for Swedish companies looking to expand their business outside of Spain and Europe. Moreover, Spain's proximity to the Northern African markets has during the last decade gained increased attraction.

Due to its large consumer base, developed infrastructure and its linkage to global markets, a great number of Swedish companies have chosen to expand their business to Spain. Most of the Swedish companies (55 per cent) surveyed established business operations in Spain prior to 2000 while only 13 per cent did so in the last ten 10 years. Most of these companies that established operations during the last two decades have been within the professional services sector while those that entered the market prior to 2000 have been within the industrial sector mainly.

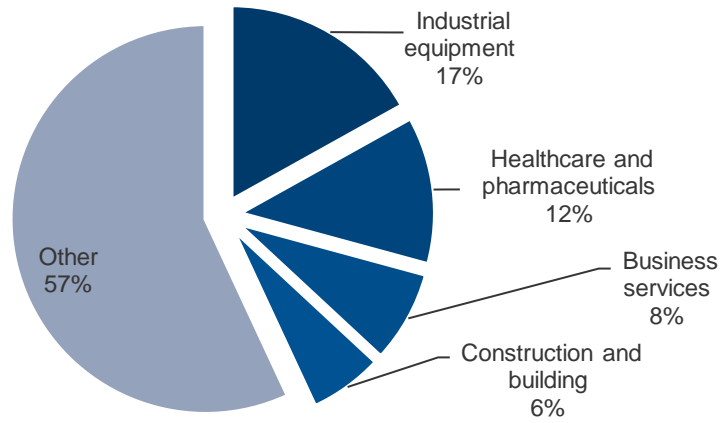
IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN SPAIN?



NOTE: The number of respondents for this question was 64. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Spain 2021.

Swedish companies in Spain are active within a wide range of industries. Companies within industrial equipment, healthcare & pharmaceuticals, business services and construction sector constitute the largest categories.

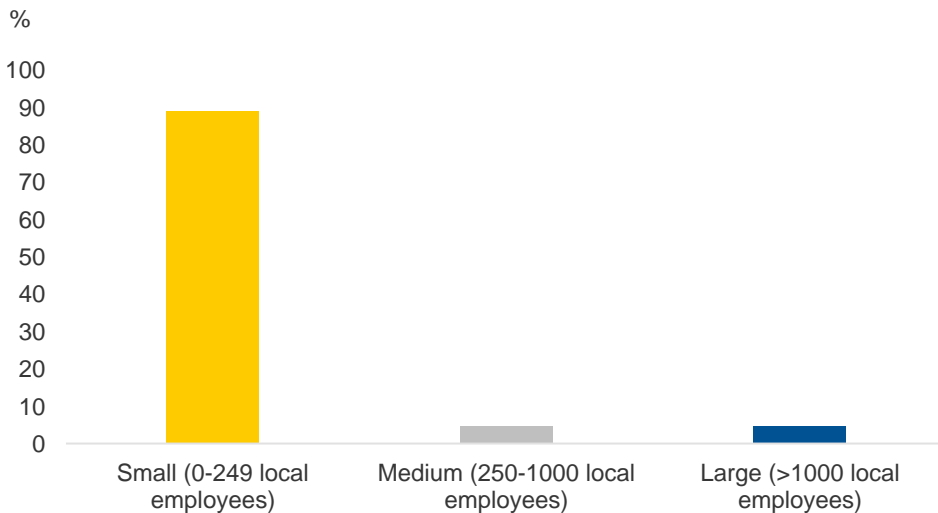
WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN SPAIN?



NOTE: The number of respondents for this question was 65. "Don't know/Not applicable" responses are included but not shown in figure.
 SOURCE: Business Climate Survey for Swedish Companies in Spain 2021.

The overwhelming majority (89 per cent) of the Swedish companies surveyed, employs only a small number of people in Spain, with only 5 per cent employing a local workforce of more than 1000 people. No difference can be observed when taking the different industries into account, although the longer period a company has been on the Spanish market the greater the likelihood of having more than 250 employees.

SWEDISH FIRMS' LOCAL NUMBER OF EMPLOYEES IN SPAIN IN 2021



NOTE: The number of respondents for this question was 64 "Don't know/Not applicable" responses are included but not shown in figure.
 SOURCE: Business Climate Survey for Swedish Companies in Spain 2021

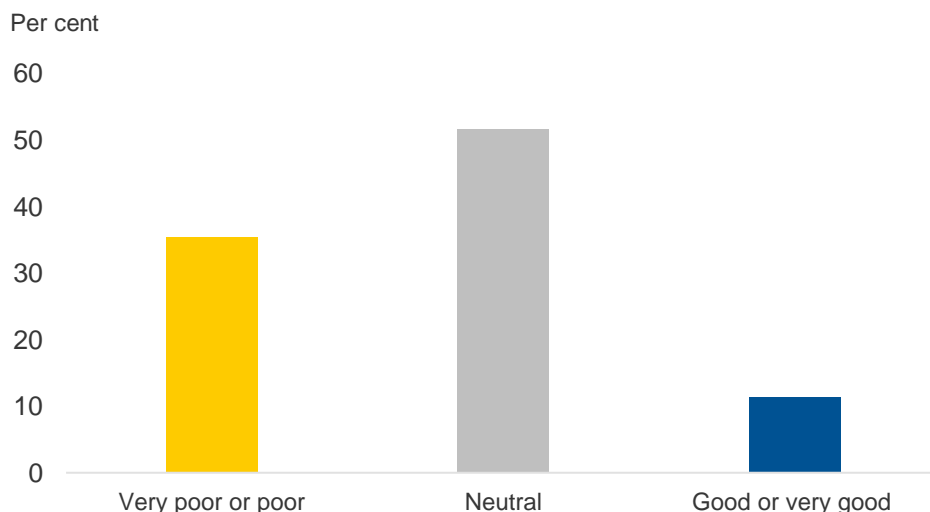
Swedish companies have mixed feelings about the Spanish business climate

The current business climate in Spain is quite challenging and this has been observed by the Swedish companies present in the market. As has been mentioned, the pandemic has impacted the Spanish economy negatively on levels never observed before. Some industries have been impacted more than others and consumption has suffered. The fall in consumption has been more prevalent in durable goods such as vehicles, furniture, and home appliances for example, as consumers tend to delay these purchases in times of economic downturn. The service sector has in addition been heavily impacted by all the social restrictions that have been put in place.

Even if the pandemic has had its fair share of impact on the business climate in Spain, it cannot solely be the explaining factor. When asked to elaborate, respondents mention other factors that impact the overall business climate such as *degree of political instability, challenging taxation, poor implementation of IP rights*, among others.

Although the surveyed companies have had mixed responses on how they perceive the current business climate in Spain, it is unfortunately to some extent a poor picture that is being painted. Even if 52 per cent of the respondents perceive the business climate as neutral, more than a third of the respondents (35 per cent) classify it as poor or very poor and only 11 per cent perceive it as good or very good. There is no company from the consumer sector that has classified it as good or very good and 67 per cent of these perceived it as poor or very poor. Moreover, companies that are considered newcomers to the market perceived the market as either poor/very poor or neutral.

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN SPAIN?



NOTE: The number of respondents for this question was 62. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Spain 2021

Satisfying access to partners, although administrative processes remains challenging

Good business conditions are important for companies to have the chance of a thriving and growing business. To assess how good business conditions are perceived in Spain, we asked Swedish companies to evaluate to what degree certain factors met their needs in the Spanish market. In general, access to potential partners on the market (suppliers, specialists, service providers, distributors) scores the highest, together with personal safety and physical infrastructure. On the lower end of scores are factors related to labour regulations, licenses and permits, corporate taxation and level of digitalisation, among others. In between the highest and the lowest, conditions related to the financial system and transparency are deemed as satisfying, although there are room for improvement within these areas.

Increased efficiency and transparency of public administration in Spain have been on the agenda for a while and there is a need for streamlining and digitalising processes. This is in addition one of the larger areas in which the government has announced significant investments from the Next Generation EU funds. While Sweden has come a long way in terms of the digitalisation of public administration and society in general, Spain has been lagging. While Sweden was ranked second in the European Digital Economy and Society Index (DESI) in 2020, Spain was ranked 11th. It is highly likely that the relatively poor level of digitalisation in Spain impact to what extent the needs are fulfilled in terms of gaining licenses, permits and approvals. On the other hand, Spain's low digitalisation combined with the government's plan if investing in it could provide for significant opportunities to innovative Swedish companies.

HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN SPAIN?



NOTE: The number of respondents for this question was 65.
SOURCE: Business Climate Survey for Swedish Companies in Spain 2021.

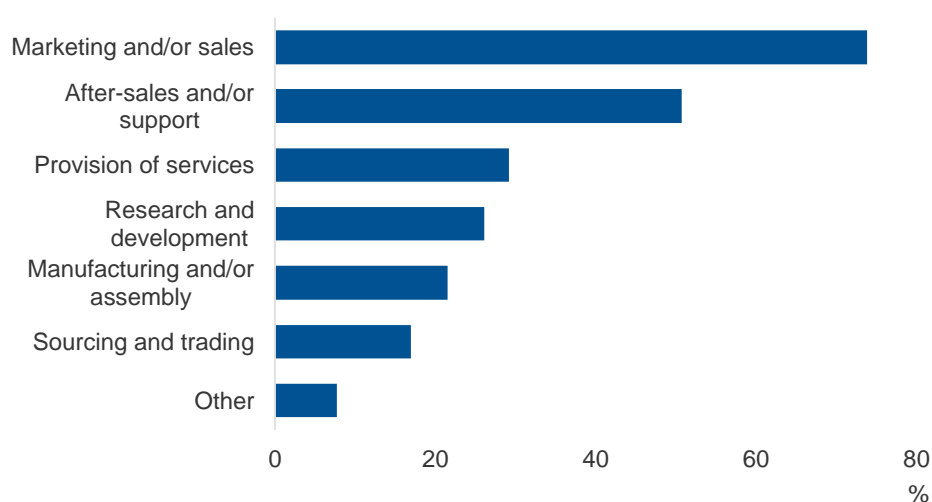
HOW SWEDISH COMPANIES SUCCEED IN SPAIN

Sales and marketing activities are the main operations for Swedish companies in Spain

Although Swedish companies maintain a diverse range of operations in the Spanish market, when asked in our survey about their companies' undertaken operations in Spain, most companies (74 per cent) reported marketing activities and over half of them (51 per cent) reported after-sales and support activities. Relatively low number of surveyed companies (22 per cent) perform any manufacturing or assembly in Spain and even less companies (17 per cent) perform any sourcing activities.

Marketing activities and after-sales support are particularly important for smaller companies and companies considered newcomers to the Spanish market, but also companies within the industrial sector. On the other hand, R&D, sourcing and manufacturing plays a more important role for larger and more experienced companies within the consumer sector.

OPERATIONS OF SWEDISH FIRMS IN THE MARKET

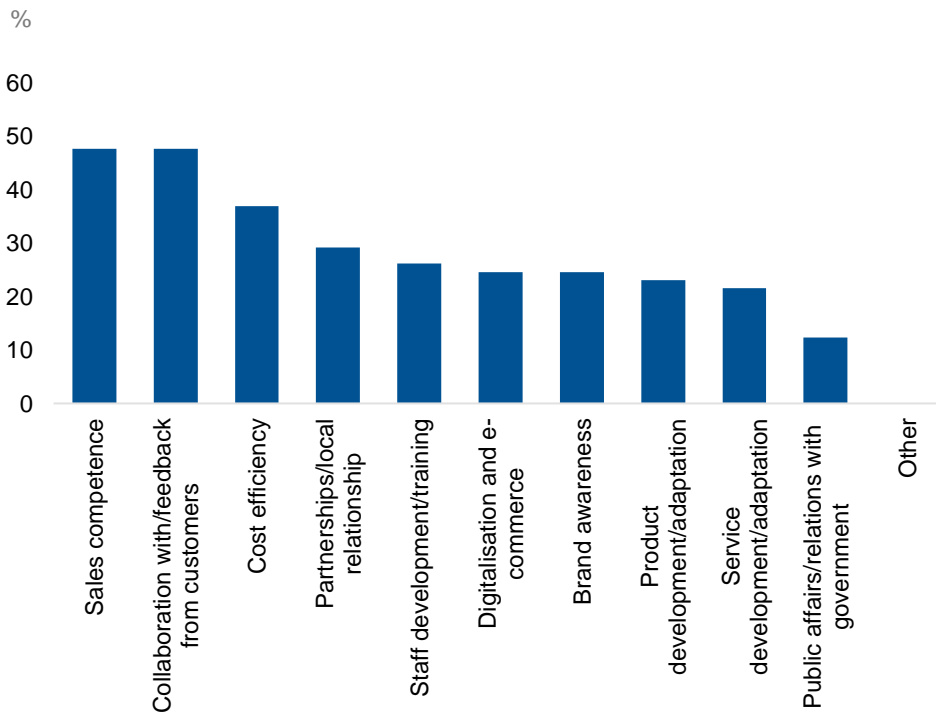


NOTE: The number of respondents for this question was 60. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Spain 2021.

Competitiveness driven by sales competence

In line with our previous findings, that Swedish companies are mainly engaging in marketing activities in Spain, it is not surprising that the most important factors in maintaining competitiveness on the market is sales competence (48 per cent) together with collaboration with the client (48 per cent). These two factors are followed by cost efficiency at 37 per cent and local partnerships at 29 per cent. Activities related to public affairs, i.e. maintaining relations with the government and governmental authorities has been indicated as the least important factor for success in Spain.

TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN SPAIN?

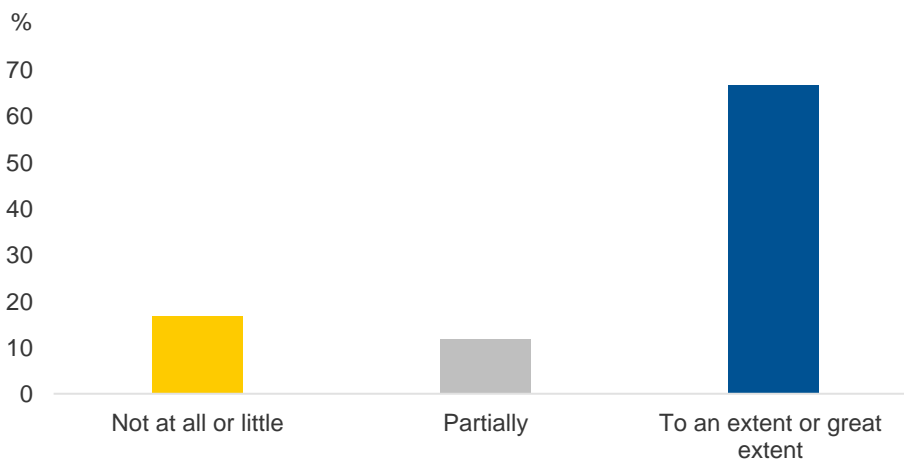


NOTE: The number of respondents for this question was 65. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Spain 2021.

“Swedish brand” has its impact

Spaniards have in general a highly positive view of Sweden and associates it strongly with quality and innovation, even if the “Swedish brand” is not necessarily connected to only Sweden but Scandinavia in general. The overwhelming majority (67 per cent) of our surveyed companies reports that this brand contributes positively to their business in Spain. This can specially be observed among companies with higher maturity from the Spanish market and within the industrial sector.

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE “SWEDISH BRAND” CONTRIBUTES TO YOUR BUSINESS IN SPAIN?



NOTE: The number of respondents for this question was 65. "Don't know/Not applicable" responses are included but not shown in figure. SOURCE: Business Climate Survey for Swedish Companies in Spain 2021.

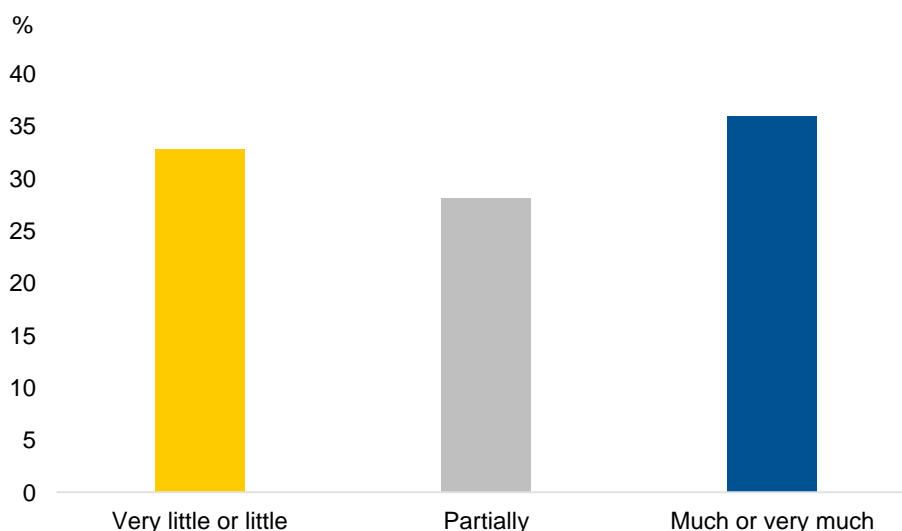
ACTING SUSTAINABLY

Considerations of sustainability are moderate when purchasing products or services

Sustainability and environmental aspects of business operations have been lagging in Spain and like the case with digitalisation, large investments from the Next Generation EU fund will be going towards the green transition of the Spanish society. To understand Spain's position within the area of sustainability, comparing the results of Spain and Sweden in Europe Sustainable Development Report from 2020 is a good starting point. The ranking constitutes a quantitative report of the EU member states and their progress towards the Sustainable Development Goals (SDGs). While Sweden ranks the 2nd within the Union, Spain ranks the 21st. In other words, Spain's large expected investments into the area are highly welcomed.

When the surveyed Swedish companies were asked to evaluate to what extent their customers consider environmental aspects in their purchasing decision, a somewhat even distribution can be observed between little/very little (33 per cent), partially (28 per cent) and much/very much (36 per cent). Larger difference in responses can be observed when considering the type of industry, where half of industrial companies (50 per cent) indicate that their customers consider environmental aspects much or very much in the purchasing decision. On the other hand, 50 per cent of Swedish consumer and professional services companies indicate that their customers consider environmental aspects little or very little in the purchasing decision.

IN YOUR VIEW, TO WHAT EXTENT DO CUSTOMERS IN YOUR INDUSTRY IN SPAIN CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION?



NOTE: The number of respondents for this question was 64. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Spain 2021.



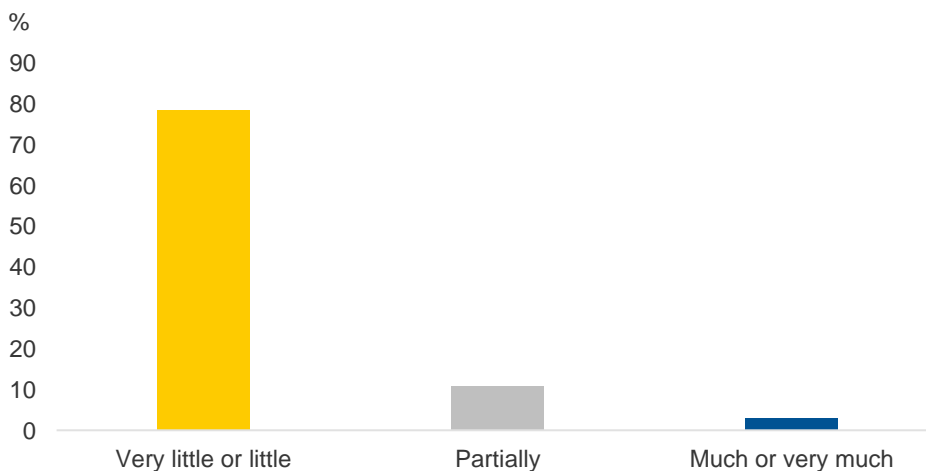
The main challenge is to have a clear plan involving all relevant stakeholders. Also, important to have a clear legal framework to facilitate investments.

Survey respondent

Corruption not a major issue in Spain

Sustainable and healthy corporate governance of a business is to a significant extent impacted by the prevailing business environment of the specific country. When asked whether corruption impacts their business operations and practices in Spain, the majority (78 per cent) of our surveyed companies responded little or very little. There are some observed differences, with large industrial companies and companies with limited market experience (newcomers) reporting a somewhat higher perception of corrupt practices.

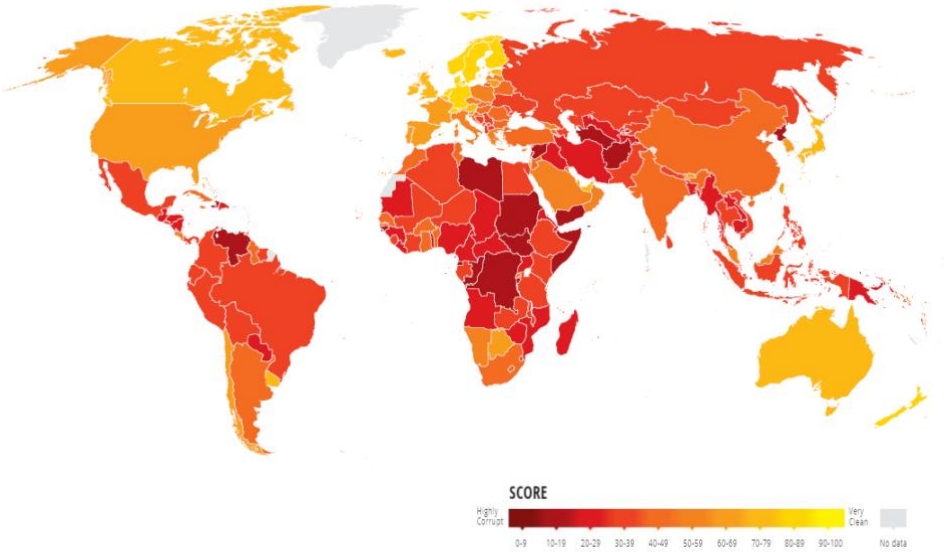
TO WHAT EXTENT DO YOU PERCEIVE THAT CORRUPTION IN SPAIN AFFECTS YOUR BUSINESS?



NOTE: The number of respondents for this question was 65. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Spain 2021.

First launched in 1995, Transparency International has been publishing the CPI on a yearly basis, to put policy on the international policy agenda and track corrupt corporate and public governance. The Nordic countries stand out as leaders on the CPI, with Denmark, Finland, Sweden, and Norway taking four of the top ten places. In 2020, Spain was ranked 32nd in the global comparison. During the last decades, several high profiled corruption scandals have been exposed, often involving political figures on local or regional level. In 2013, the Democratic Regeneration Plan (Plan de Regeneración Democrática) was launched with the aim of combating corruption. Although Spanish authorities have been praised by the EU for their efforts, a lack of coordination has been deemed as a barrier for future success.

CORRUPTION PERCEPTION INDEX 2020

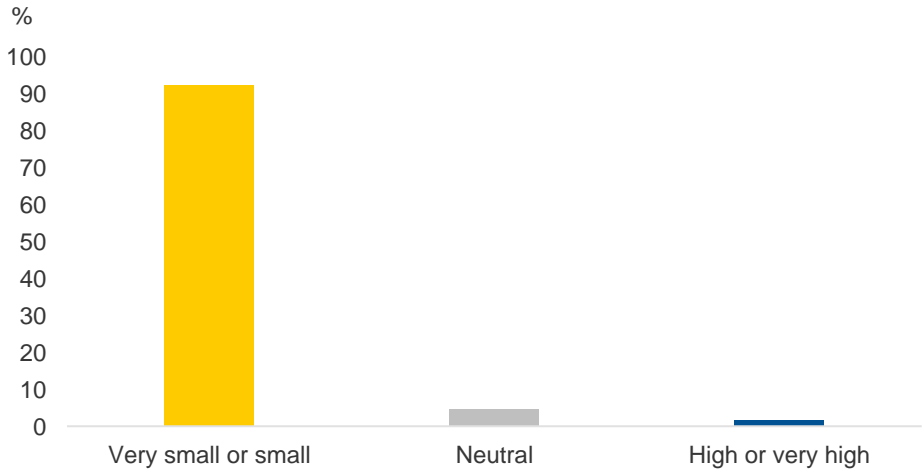


SOURCE: Transparency International.

Low perceived risk of human rights violations

Spain maintains a positive image in terms of upholding human rights, with low risk of encountering violations. Among our surveyed companies, 92 per cent report a small or very small risk of encountering human rights violations and/or labour rights abuses when conducting business in Spain.

HOW DO YOU PERCEIVE THE RISK OF ENCOUNTERING HUMAN RIGHTS VIOLATIONS AND/OR LABOUR RIGHTS ABUSES WHEN CONDUCTING BUSINESS IN SPAIN?



NOTE: The number of respondents for this question was 65. Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Spain 2021.

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