

# Tech start-ups: the last refuge of Spanish optimism

Clare Kane, Reuters

(Reuters) - Half of Spain's youth are unemployed, and yet at the Wayra business start-up project on Madrid's majestic Gran Via avenue, young people buzz around an office chatting animatedly, typing furiously and holding up trails of wire and computer parts.

These are Spain's technology entrepreneurs, and they're positive about the future - even as Prime Minister Mariano Rajoy tries to avert a full international rescue for a country beset by recession, a property market collapse and a banking crisis.

Almost all plan to expand beyond Spain's borders, if they aren't operating internationally already. For domestic and foreign investors in their ventures, the dire state of the nation can even be an advantage: put bluntly, young Spanish entrepreneurs come cheaper than their U.S. and British rivals.

"There is no crisis. The crisis is outside. But here what we have is people working, setting up companies and creating employment," said Gonzalo Martin-Villa, global head of Wayra.

Wayra is a project set up by Spanish telecoms giant Telefonica (TEF.MC) where about 40 people work for 10 companies in a minimalist open-plan office, housed in a building that was one of Europe's first skyscrapers when it opened in the 1920s.

They live in a world far removed from the grinding reality of a [Spain](#) [1] beset by near-daily street protests against Rajoy's budget cuts and media reports fretting about the cost of government borrowing and the possibility of a state bailout.

Telefonica operates widely in Latin America - Wayra means "wind" in the Quechua language of the Andes - but it is not immune from Spain's problems. Last week it scrapped this year's dividend due to its weak home market, but it still believes entrepreneurs will bring in ideas to set Spain up for a better future.

Under Martin-Villa, who heads Telefonica Digital, the group is nurturing the young companies with start-up capital, accommodation and help with technology and marketing. It also supplies mentors from within Telefonica or brings in outside experts to offer advice.

This help is limited. After a year, the firms must leave Wayra and fend for themselves in the business world. However, Telefonica keeps a shareholding in return for the startup capital which the entrepreneurs must match by raising funds elsewhere.

### FORTUNE IN MISFORTUNE

David Moreno, founder of online investment platform Impok, is one entrepreneur based at Wayra who is trying to create a successful business out of Spain's misfortunes.

Moreno and his team used to work in the financial sector and, seeing Spaniards' distrust of banks, decided to offer people the opportunity to invest directly, without the spin laid on by investment advisers, and share money-making ideas.

Moreno compares Impok with Napster, a website which originally allowed users to share music files online, although it ran into legal trouble over copyright infringements before changing its business model.

"What Napster did to music, we're going to do to banks," Moreno said, standing proudly in the firm's office in Wayra.

Impok users can see others' portfolios and returns (although not the amount invested) and make decisions based on others' financial performance. The firm is hoping for 1.5 million euros in its second round of financing, after raising 460,000 euros in initial capital from business angels, Wayra and public funding.

Impok will now target investors in Spain, the rest of the Europe and the United States to raise further funds.

Telefonica is not alone in Spain. Oil major Repsol also has a start-up hub and brewer Mahou-San Miguel has offered to help young people with business ideas.

Likewise, travel firm Pullmantur will mentor Seville-based Past View, which offers tourists the opportunity to see what a city looked like in the past through 3D goggles.

### INVESTMENT ON THE CHEAP

Foreign investors are drawn to Spanish tech companies, unworried by the crisis, as location is generally not important for start-ups planning to operate internationally.

Spain's problems can even work to their advantage. While overall unemployment is just short of 25 percent, the highest in the [euro zone](#) [2], the rate among young people is double that. In short, unemployed talent can be contracted cheaply.

While the price may be low, the quality is not. Many of the entrepreneurs interviewed by Reuters studied at top universities abroad, especially in the United States and Britain, before returning home to Spain to work.

Tech companies can also offer an attractive investment alternative to Spain's troubled stock market and government debt. If successful, innovative products can rapidly bring high returns. Global expansion is often more straightforward than in other sectors as tech by its nature crosses borders easily.

It's a phenomenon also seen in [Ireland](#) [3], which suffered an even deeper banking crisis after its property market collapsed, like Spain's. Dublin has also encouraged people to set up businesses to revive the fallen Celtic Tiger economy, and data company EMC has predicted Ireland is on the verge of a new tech boom that will create thousands of jobs.

Irish brothers John and Patrick Collinson attracted millions of dollars of investment from the likes of venture capitalist Peter Thiel for their Silicon Valley-based Internet payments system Stripe, something Spanish entrepreneurs hope to emulate.

ProFounders Capital, a venture capital fund run by entrepreneurs including lastminute.com co-founder, Brent Hoberman, says Spain is fertile investment territory.

It put up \$750,000 in financing for Blink Booking, a Spanish-based venture that offers a hotel reservations app and is now present in several European countries.

"It's horrible to say, but actually it's a slight advantage because Blink is able to recruit high quality people at fair prices, so that works well from their side," said Sean Seton-Rogers, of ProFounders Capital.

Although no specific figures are available, people in the start-up sphere say activity has picked up since the beginning of this year, with investors buying up more small Spanish companies, although the amount of money pouring into firms has fallen off since 2010.

"The technology and the teams are equivalent to what you can find in the United States or the UK but it is much cheaper," said Juan Jose Guemes, President of the International Centre for Entrepreneurial Management at IE Business School in Madrid.

### READY FOR CHANGE

Madrid remains a long way culturally from Silicon Valley. Rebeca Minguela, a co-founder of Blink, said Spain needs a shift in mentality. Many young people there still prefer the supposed security of working at large, well-known companies, even though many of these are now laying people off, she said.

"We give our employees stock options, but people don't value them, it's a completely different mentality compared to the U.S.. You always have to pay your employees in cash, which is terrible for a start-up," she said.

Many start-ups in the United States and elsewhere initially pay employees in stock options to preserve capital for expansion.

Blink pays its staff in a mixture of cash and stock options, but, given the choice, the majority of workers prefer to receive cash, Minguela said. All permanent employees have stock options.

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In the lively neighborhood of La Latina, Andres Burdett and Jamie Dick-Cleland - who founded language-learning start-up uSpeak - enthuse about Madrid becoming a start-up center and the opportunity they have to offer cheap English language tuition to Spain's unemployed as the government makes cuts in education.

uSpeak, which will offer personalized mobile language learning when it launches officially in October, settled in the capital following Startupbootcamp Madrid in 2011 and is housed alongside several foreign start-ups.

The firm is promising to teach Spaniards initially for free, and then for a low price, improving their job prospects in a country where English is less widely spoken than in many other Western European countries.

"There's something going on...people are ready for change," said Dick-Cleland.

(Editing by [Julien Toyer](#) [4] and [David Stamp](#) [5])

(This story was refiled to correct the spelling of Quechua in the seventh paragraph)

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