



## INNOTOOLS: INNOFINANCE

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## INNOPLATFORM

Innovations Platform and Tools for increasing the innovation capacity of SMEs in the Balkan Mediterranean Area

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## INTRODUCTION

The development of this document is the result of the implementation of the contract BMP1/1.2/2370/2017, for the project “Innovations Platform and Tools for increasing the innovation capacity of SMEs in the Balkan – Innoplatform”, financed by the EU transnational cooperation programme “Balkan - Mediterranean” 2014-2020. The project "Innoplatform" is implemented under Priority Axis 1 - "Entrepreneurship and Innovation", SO2: Innovative territories and Investment priority 3d – supporting the capacity of SMEs to grow in regional, national, and international markets, and to engage in innovation processes.

## OVERALL OBJECTIVE OF THE PROJECT

Developed by 6 PPs covering all 5 countries of the Balkan MED area, the main project objective is to facilitate innovation and support the commercialisation of innovation in SMEs with a focus on growth and internationalization.

## MAIN ACTIVITIES TO ACHIEVE THE DEFINED MAIN OBJECTIVE:

1. assessing the current national and regional environment and its challenges when it comes to innovation, growth and internationalization of businesses;
2. advancing existing knowledge and developing common understanding on business model innovation with a focus on internationalization;
3. developing a set of specific tools to support the capacity of SMEs to introduce product and process innovations;
4. establishing a network of Centres of Excellence in Innovation as the knowledge and expertise holders providing advice and guidance to SMEs, consultants and public actors across the region; and
5. raising awareness and disseminating expertise through info days, trainings and conferences.

## EXPECTED RESULTS OF THE PROJECT:

1. National and regional assessments on the current environment for innovation, growth and internalization; and
2. Two specific web based services (1) InnoScorecard for assessing and ranking the nations/regions; and (2) InnoRegion, a collaborative and informative web based service focused on the dominant industry in the region of each partner.
3. Common knowledge and understanding on business model innovations for internationalization in a form of a Study and Guidelines developed through field research
4. Set of innovations tools based on web 2.0 (InnoTools) to strengthen SMEs capacity to systematically and successfully introduce product and process innovations
5. Establishment of 6 Centres of Excellence to provide outside expertise and support SMEs in introducing innovations and facilitating their cooperation with the research institutions.

## **I BACKGROUND**

The importance of innovation for economic development and growth is explicitly stressed in the European Union's economic policy and is confirmed in the assumptions of the most recent strategy for Europe. According to the Europe 2020 strategy the major driving forces, leveraging countries' development and competitiveness will be: research, innovations and education. "Innovation Union" flagship describes innovation in various aspects including new or upgraded products, processes, services, new business models, and new forms of organization and collaborations. Innovation is defined as an advantageous eco-system for new idea generation and implementation. The focus is placed on innovation in SMEs, identified as the backbone of the EU economy. According to Eurostat data, the number of SMEs in all EU countries exceeds 99% of total companies' number. They employ an increasing number of people which makes SMEs the prevailing part of the economy and its driving force. Therefore European Commission policy in relation to SMEs is mainly focused on the promotion of entrepreneurship and skills; fostering the innovation and growing potential; the improvement of their access to markets and strengthening dialogue and consultation with SME stakeholders. Most SMEs, especially micro- and small ones, are independent and do not belong to any enterprise group, but medium-sized enterprises are often part of a group. This is most widely spread in manufacturing and to a lesser degree in innovative and knowledge-intensive business services, where SMEs traditionally play an important role.

The growth and innovation generating potential of SMEs has been the subject of many studies during the last decades. SMEs are also important in terms of employment and gross value added, especially in smaller countries such as the Balkan-Mediterranean programme countries. In all countries, SMEs are open to internal and international trade. According to SME's Performance Review (EC DG E&I), the Balkan MED region lags behind the EU average when it comes to innovations in SMEs. At the same time according to the Global Competitiveness Index, the region as a combination of efficiency driven (Macedonia, Albania, Bulgaria) and innovation led economies (Greece and Cyprus) lags behind the averages in both groups. Balkan MED is also regionally uneven and may benefit from a stronger transnational cooperation, especially in research and innovation.

There are a number of obstacles SMEs encounter when trying to apply innovations in their products, services and management:

- Deficiency of a strategic plan, particularly in innovation planning and development
- Inappropriate management, which does not tolerate risk taking, failure or anything "out of variance"
- Lack of resources or time for innovation planning, management and execution
- No processes, models or approaches available for moving ideas into execution
- Deficiency of education/training on creative problem solving, idea management and innovation management concepts

These weaknesses could be alleviated by business plans and innovation support management, whether done by independent experts, by special innovation centers or by online web-based tools. These innovations tools, services and guidelines will be useful in strengthening the

capacity of SMEs to introduce process and product innovations. The advantages of this approach are the following:

- The web-based services will be available 24x7 regardless of location, while the established Centre of Excellence could assist SMEs from a limited area;
- The web-based services will grant the SMEs a number of scenarios they could follow or adjust to their specific needs;
- The web-based services could be applied as a complement to the local Centre of Excellence. The SME could try various scenarios in their business model creation and innovation support using the web-based tools and then they can contact the CoE experts to adjust the details, to obtain assistance in product prototyping or to discuss the process or product innovation.

The major purpose of each enterprise is to become a successful organization which achieves its goals efficiently. With purpose to do so, SMEs often establish a set of principles the management department follows. As it is known, the innovation development and management is not a single step, but a continuous process, which requires dedicated efforts for innovation culture, mindset and discipline within and across the company. Based on this assumption, SMEs could use the web-based services with purpose to examine new models, products or services and evaluate their plans against different scenarios.

## II. GENERAL TERMS – DEFINITION AND SCOPE

There are several general terms used in all InnoTools Guidelines. These are:

**SMEs (Small and Medium Enterprises)** are defined as "enterprises, or enterprises that employ a maximum of 250 employees with an annual turnover/annual balance sheet that does not exceed 50 million euro." (European Commission, 2005). In the process, we make clear distinction of:

- Micro enterprises - consist of 10 or fewer employees and have annual turnover/annual balance sheet that does not exceed 2 million euro;
- Small enterprises - have 50 or fewer employees and an annual turnover/annual balance sheet of maximum 10 million euro; and
- Medium enterprises - have 250 or fewer employees with annual turnover/annual balance sheet that is no more than 50 million euro.

In InnoPlatform, the focus is placed on the number of employees.

EU uses the definitions of **innovations** coming from the OECD Manual (OECD, 2005), which recognizes four distinctive types of innovations:

- “A **product innovation** is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics.” (p. 48).
- “A **process innovation** is the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software.” (p. 49)
- “A **marketing innovation** is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing.” (p. 49)
- “An **organizational innovation** is the implementation of a new organizational method in the enterprise’s business practices, workplace organization or external relations.” (p. 51).

**Business Model Innovations** have not yet been sufficiently operationalized neither as a separate type of innovation, nor as a combination of other innovation types. InnoPlatform perceives BMIs as changes of all three components of the business models: 1) value creation, 2) business systems, and 3) revenue generation. In operational terms, innovation activities which result in all four types of innovations are recognised as business model innovations.



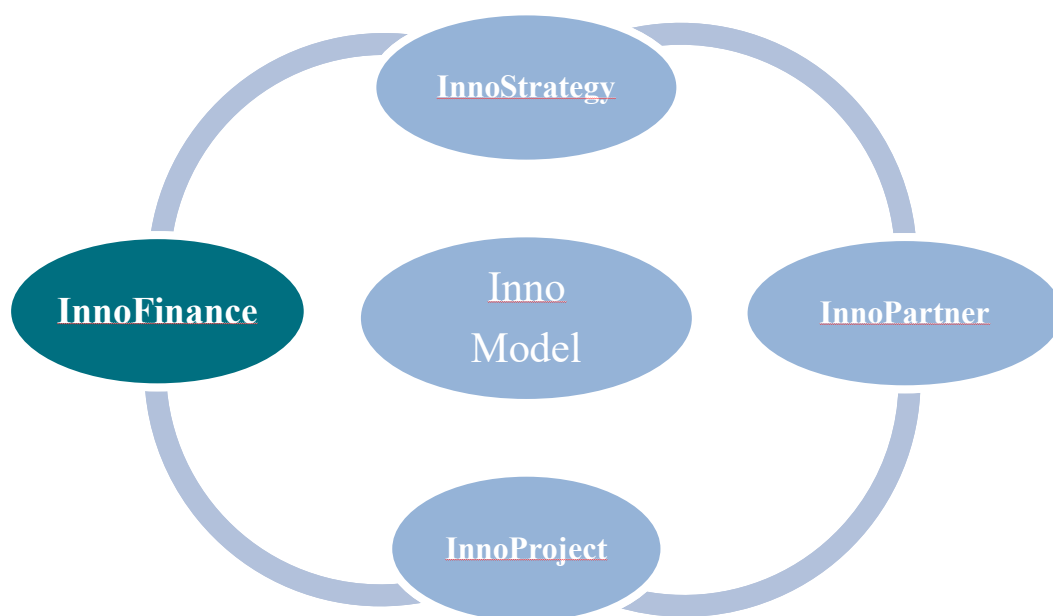
### III. INNOFINANCE

#### 3.1. Description

InnoFinance is one of the tools from the 5 InnoTools:

1. **InnoModel** is knowledge derived from the Business Canvas model. The main aim of the InnoModel is to provide a snapshot of the current business model of SMEs and start-ups as a reflection of their strategic approach, i.e. business strategy.
2. **InnoStrategy**, is a know-how on how to methodologically connect the critical elements of SMEs development strategy, the technological plan, and the plan for positioning of new product/service at markets. The main aim of InnoStrategy is to provide a systematic approach towards the development of innovations, creating a good base for every individual innovation project the SME plans to undertake in the near future.
3. **InnoPartner**, is a know-how on how to identify, approach and solicitate Partners for Innovation activities deriving from SME's technological strategy and identified needs in the process of developing and launching new products and services. The main aim of the InnoPartner is to provide a systematic approach in the acquisition of new technology and knowledge required for the innovation projects of SMEs.
4. **InnoFinance**, is a know-how on how to approach the financial evaluation and assessment of the company given its business model, and to assess and evaluate its potential innovation projects. The main aim of InnoFinance is to provide a systematic approach in deciding which projects should be pursued given a company's development goals.
5. **InnoProject**, is a know-how on how to successfully introduce new products/services at the market. The focus of InnoProject is on a single new product/service; therefore, the tool reflects the knowledge from the new product development processes adjusted to the context of SMEs.

*Figure 1. InnoTools*



*Source: Project InnoPlatform, (2018)*

**InnoFinance** helps SMEs to evaluate and assess the financial states of the enterprise, its potential innovative projects and the available funding for its innovation activities. Therefore, it covers:

- **Know-how** on how to approach the financial evaluation and assessment of the financial state of the company given its business model,
- **Know-how** on how to assess and evaluate the potential of its innovative projects, and
- **Know-where** for identifying available financial sources for funding its innovation activities.

The main aim of InnoFinance is to provide a systematic approach in deciding which innovative projects should be chosen given the development goals of the enterprise and its resource base.

### **3.2. Methodology**

The theoretical base of InnoFinance is the basic principles of financial management and investments covering analytical based budgeting approaches and investment analysis adjusted to the innovative and research & development activities of small and medium enterprises (Pepels, 2007).

According to Pepels (2007), and Wentz (2007), the analytical based budgeting approaches for innovative and research & development activities of enterprises cover:

1. **Budgeting in physical units** – It is a budgeting approach oriented towards the forecasted sales, or a certain amount per sold unit. One of the advantages of this approach is that it uses a simple overhead calculation, which is very favourable for start-ups, small and medium enterprises. A disadvantage is the causality reversal – the output “sales” determines the input “introductory budget”.
2. **Budgeting in values** – It is a budgeting approach based on a rate of defined performance indicators (revenue, profit margin, cash flow). Its advantage is the simple way of calculation, which is very favourable for start-ups, small and medium enterprises. In addition, the concept of commercial prudence is observed. A disadvantage is the procyclical development. In general, a high introductory budget should be available during recession, whereas a low budget is sufficient in times of economic boom. In reality, however, this concept often fails, since during recession there are not enough funds to intensify innovations and R&D activities, whereas additional funds for the development of new products are readily available during a boom.
3. **Budgeting in targets and funds** – It is a budgeting approach focused on the image-related targets which are pursued with the introduction of a product. An advantage is its ostensibly feasible relation to targets and funds. A disadvantage is that the funds required for the achievement of certain targets cannot be reliably operationalized due to the fact that successes and failures can hardly be attributed to innovation activities.
4. **Budgeting with regards to competition** - In this method of budgeting, the own product budget is defined with regards to the budgets of competitors. An advantage is that competitors' efforts can be neutralised efficiently. It is a good approach for medium enterprises in industries with intensive competition. In addition, this approach ensures a productive deployment of funds and an appropriate reference base. Disadvantages are

the difficulty of determining competitors' budgets as well as the uncertainty about the efficiency of deployed funds.

5. **Macroeconomic Budgeting** – It is a budgeting approach based on budgeting on industry-wide parameters like growth of the sector, inflation rate, change of gross domestic product etc. An advantage is the simple determination with the help of statistical data. A disadvantage is that only past values can be used and estimations for the future have to be made.

The Budget is the future financial plan of the business. It is where the strategic plans are translated into financial numbers to ensure the plans are financially viable. Budgets are often control mechanisms, meaning that budget sizes are seen as guidelines. This can either happen purely “top-down” so that certain budget figures are used as guidelines, like the R&D quota or the R&D expenditure, or a certain budget is generated by mixed planning.

*InnoFinance is closely related to the Business Canvas Model (InnoModel) as an agreed business model ontology of the InnoTools. It is also focused on delivering value to start ups, micro, and small and medium enterprises. As a result, InnoFinance budgeting approach predominantly reflects the principles of the budgeting in physical units (cost driven approach) and approach.*

In the process, InnoFinance provides a financial analysis at two levels: at a level of an enterprise providing financial analysis on its current, or chosen business model (InnoModel); and at a level of an investment project where it provides investment analysis and enables decision making on the choice of the innovation projects (InnoProject).

Last, but not least important, InnoFin explores the different mechanisms of financing innovation activities in enterprises depending on the stage of the innovation process they are in, in line with the World Bank (2016) approach:

- STAGE I. Knowledge Creation and Idea Generation
- STAGE II: Prototype Development and Market Demonstration
- STAGE III: Commercialization and Scaling Up

### **3.3. Application of InnoFinance**

#### **3.3.1. Investing in Innovation Activities/Projects**

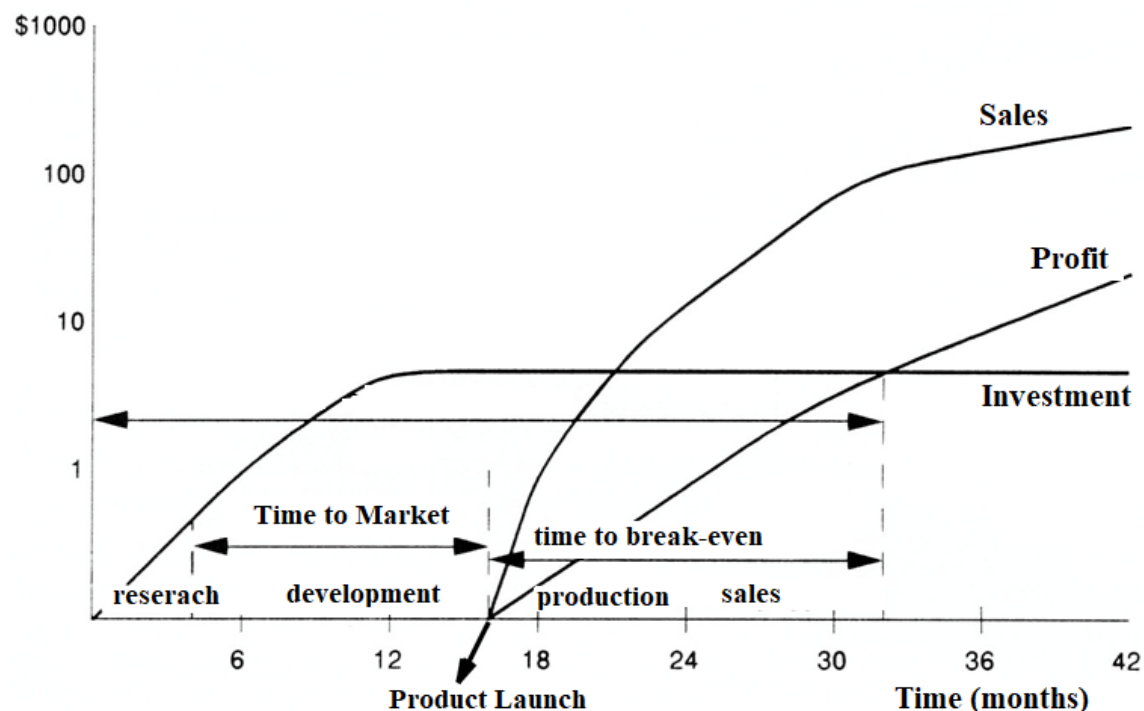
One of the most important elements while developing an innovative project is its financial part, making accurate assumptions and estimations of the costs and the revenues involved in the innovation activity. A financial projection of a project can provide the enterprise with a clear view about the project itself and whether the same is timely and economically justified. While some opportunities of an entry in a new market with an innovative idea may look good at first glance, they may not be attractive in financial terms and in spending time. The enterprise should first identify the size of the target market and to ensure that its solution solves the customer main needs and problems. The information on these elements comes from the development strategy of the enterprise and can be found in the use of the InnoStrategy tool.

For initiating the financial assessment and evaluation of an innovative project, the enterprise should utilize the *Innovative Project Plan Template* that can be found at Annex 1. The template is separated in two sections including: (1) the analytical preview of the budget index and (2) the summarisation of the budget by task.

A *break-even* chart consists of the time period separated in quarters, starting from the Stage I of the innovation process and the idea introduction, Stage II prototype development and market demonstration, until Stage III the commercialization of the innovation and its scaling-up. In general terms, the break-even chart provides the revenues and costs over time, in order to preview the time period when the enterprise reaches the point of covering its own costs by its own total revenues over the whole time period. This is called the break-even point. Figure 3.2. provides a visualisation of the process on an example from HP.

Figure. 1 Map on Return on Investment in a development project of HP

## Cost and Revenues in 10<sup>6</sup> \$



Source: Dukovski (2001, p.63)

The financial parts are the following:

### 1) Revenue Stream

The *revenue streams* express the total income that the enterprise will create when introducing their product, or service in the market. These may be either one-time or recurring revenues. Revenue can be generated by:

- Asset sales
- Usage fees

- Subscription fees
- Leasing fees
- Licensing
- Brokerage fees
- Advertising

The choice of the revenue model is closely related to the use of the InnoModel and it reflects the strategic direction of the enterprise. The template in Annex 1 can be adjusted to the various forms of revenue generation. The current *price per unit* element includes an estimation of a suitable price for the product for each revenue stream and for a specific period of time. The *unit sales* element includes the definition of the total number of units that are planned to be sold over this period of time. In general, in investment analysis, the revenue stream is forecasted on a monthly base for the first year of the launch of the investment, i.e. the commercialization of the innovation, and at an annual level for the next 3 to five years.

The assumptions for the revenue stream on which the forecast is based need to be clearly stated.

## **2) Cost Estimation**

The *costs* category includes the total list of expenses that are required in order to continuously create and offer to the market the new product/service. The three main elements are presented below.

- The *costs per unit* element concerns the costs that are directly related to providing the product or service to the market. It is connected with the price per unit mentioned before.
- The *staff costs* element represents the total cost of founders, employees and seasonal workers that are employed in the enterprise. In the case of seasonal workers the exact starting and ending period is required.
- The *operational costs* element includes the costs that every business has on an ongoing basis such as electricity and water consumption and cleaning costs.

The enterprise can be innovative in its cost structure and emphasize efficiencies. The choice of the cost model is closely related to the use of the InnoModel and it reflects the strategic direction of the enterprise.

## **3) Investment and Funding**

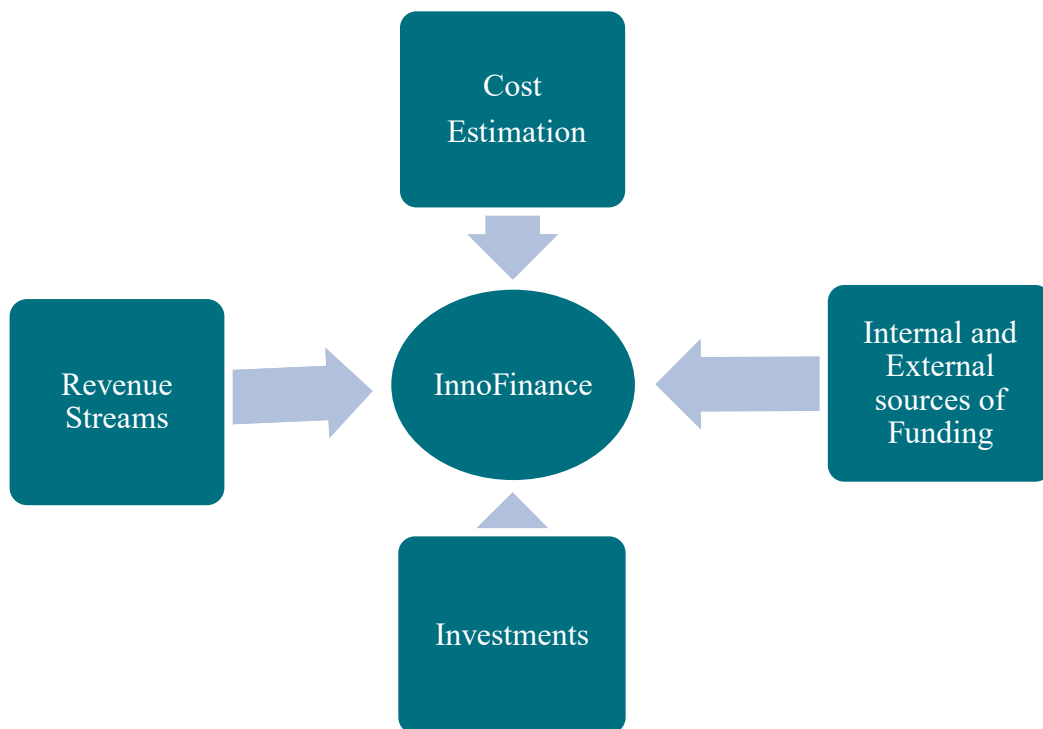
The *investment and funding* index includes the total investments and funding respectively of the enterprise, in an annual basis.

The *investment* element includes the total investments that the enterprise needs to make in order to deploy the new innovative idea. Investments can be fixed assets, investment in software and/or the start-up costs.

The *funding* element includes the total amount of money that the enterprise solicitates from internal and external sources required for funding its innovation project.

InnoFinance elements are visually presented in Figure 3.3.

*Figure 2. InnoFinance Elements*



*Source: Project InnoPlatform, (2018)*

### **3.3.2. Investment Analysis - Financial Planer**

The financial planner is an analytical tool for enterprises with new business ideas, which are in the stage of developing financial projections. The financial planner is a dynamic budgeting tool. Most small and medium enterprises operate without large cash reserves to draw on; therefore, budgeting provides the financial information required to assess if the ongoing operations will support the planned innovation activities of the enterprise. In short, within the financial planner, the budgeting is the process of planning the finances of an innovation project, or a group of innovation projects (aggregate plan of projects), which are introduced in a specific period of time (usually 1-3 years).

It is divided in three sections: (1) Input, (2) Dashboard, (3) Scenarios and Output. The first required information that the enterprises should define are the starting time of the project, the major revenues and costs, the necessary capital investments that have to be done, and an estimation about the best funding scenario, which will lead the enterprise to the break-even point.

#### ***Input***

The input parameters include the pre-mentioned elements such as Revenues, Costs, Investments and Funding. In the *Input Revenues*, the enterprise sets assumptions on the quantity of the innovative products, or services, that are going to be introduced to the market, stating the revenue approach. In case of subscriptions, or annual/monthly fee, the type has to be mentioned, with the addition of the total planned sales of the product. In the *Input Costs* index, the total number of the product cost per unit is required, along with the staff and operating costs analytically by time periods, and finally any external costs if there are any.

The *Input Investments* index includes the investments in fixed and intangible assets, for the development of the product, or service. In addition, in this category the costs of the establishment of the enterprise are included in case of a start-up. The *Input Funding* index includes the elements of requirements and sourcing in financial means for the first 12 months, the common capital stock, private loan information (if exist), the total number of investors, shares and time period, the crowd investment, bank loan information (if exist), and finally information about any additional funding.

#### ***Scenario***

The *Scenario* feature has an informative role, providing an opportunity to play with various assumptions regarding the revenue streams and expenditures per year for every project individually.

#### ***Output***

The output parameters of the financial planner include a Projected Profit and Loss statement, and a Projected Cash Flow statement.

In general, a Profit and Loss statement is a summary of a business income and expenses over a specific period of time. It is usually done by businesses at an annual level; however, it is also used in the investment analysis, where enterprises develop a ***Projected Profit and Loss Statements*** for 3-5 years from the initial investment.

The statement of the Cash Flows is a summary of money coming into, and going out of, the business over a specific period of time. It is also prepared at regular intervals (usually monthly and at financial year-end) to show the sources and uses of cash for a given period of time. In the investment analysis, it is used to project the cash flow for a certain period of time, usually for 3-5 years from the initial investment – ***Projected Cash Flow Statement***. It is important that enterprises calculate the present value of the cash flow – ***Cash Flow PV***.

The present value of the cash flow is calculated through the use of the discount factor. According to Investopedia (2018), the discounting is a process of determining the present value of a payment or a stream of payments that is to be received in the future. In simple words, a euro today is worth more than a euro one year from now. The value of the discounting factor depends on the inflation, the averages in the corresponding sector and on the level of risks associated with the investment.

The financial planner also takes into account the ***Capital Investment*** required for the project. It usually covers investments either in developing or in buying a technology, equipment, software. It is important to develop realistic assumptions for its maintenance costs along with the setting of the depreciation rate for a specific period of time in which the investment is assessed, usually 3-5 years period.

In the *Output Overview*, a summarised view is given to the enterprise which includes the Profit, Loss and the Cash Flow in time periods. The *Output Profit & Loss* index includes the enterprise's revenues and expenses in annual basis. It indicates how the revenues can be transformed to net income.

The output also includes important indicators, which enable the enterprise to assess the impact of its investment, as are the profitability ratios accompanied with a calculation of the internal rate of return and the net present value of the investment – Business Case.

The financial planner can be downloaded as an excel tool, as part of the InnoFinance.



### **3.4. Selecting Innovative Projects**

The InnoFinance tool covers a project selection feature. It helps the enterprise choose the best innovation project or projects, through the use of the financial indicators. By using the financial planner provided in the accompanying excel file, the enterprise can analyse the performance of every project separately. The work plan includes the total financial information about the project, in terms of revenues, costs, investments and funding.

Starting off, the enterprise has to complete one full work plan for each project. The project's name at first, the starting year and month and the general conditions, including the legal form, currency and corporate tax. The second stage includes the financial metrics. Each work plan requires assumptions for the Revenues, Costs, and Investments and Funding. The components of every category are described analytically in the preceding sections of the Financial Planner.

When the procedure is complete, the InnoFinance tool will support the enterprise in making a selection of the most beneficial project/s in financial terms. The selection will be made based on three specific criteria, which combination depends on the enterprise and the sector:

#### ***3.4.1. Time/Revenue Performance***

The enterprise should try to accurately assess the time to market of every considered innovation project, and realistically assess the revenues and costs of the same, in order to accurately determine the break-even point of every considered innovation project – see example in Figure 3.2.

#### ***3.4.2. Profitability ratios***

The profitability ratios are very important for the enterprise, particularly for its investors or creditors. They are the fundamental elements of a good business case. If a value is not created, the project or the start-up business will not be attractive for investors, and of course for the SME itself (Gitman 2003). There are a variety of ratios which can be used in profitability analysis, but most frequently the profitability ratios cover: (1) Gross profit margin, (2) Operating profit margin and (3) Net profit margin (Bragg 2007).

##### ***Gross Profit Margin***

The gross profit margin informs the SME about the appropriate pricing of its products or services. It should be large enough to cover the operating costs and leave profit to the company. The equation to calculate this is:

$$\text{Gross profit margin} = (\text{revenue} - \text{cost of goods sold}) / \text{revenue}$$

##### ***Net Profit***

The net profit is the amount of cash left over in the SME after the repayment of obligations. This is calculated by:

$$\text{Net profit} = \text{total revenue} - \text{total expenses}$$

##### ***Net Profit Margin***

Through the net profit margin, the SME is informed about the percentage of the revenue that is profit. This metric helps the SME to project future profits, set goals and benchmark for profitability. The equation is:

Net profit margin = net profit / total revenue

### **3.4.3. Return on Investment Indicators**

The analysis on the return of the investment is complicated but important. It is a must for developing a business case for solicitation of finances from creditors. Usually, it involves two specific indicators: The Net Present Value of the Investment and the Internal Rate of Return.

#### *Net present value of the Investment*

According to Investopedia (2018) the time value of money calculations can be used to calculate the net present value of a series of cash flows, or of a capital investment plus a series of cash flows. Basically, the net present value calculation compares the value of the euro today with the value of that euro in the future, after taking rate of return and/or inflation into account. When evaluating an investment, it is desirable for the net present value to be greater than the amount invested; otherwise, there is no incentive to make that investment.

#### *Internal Rate of Return*

According to Investopedia (2018) “the internal rate of return (IRR) is a metric used in capital budgeting to estimate the profitability of potential investments. Internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero. **IRR calculations rely on the same formula as NPV does.**”

The formula is as follows:

$$NPV = \sum_{t=1}^T \frac{C_t}{(1+r)^t} - C_0$$

Where:

$C_t$  = net cash inflow during the period  $t$

$C_0$  = total initial investment costs

$r$  = discount rate, and

$t$  = number of time periods

It is difficult to calculate NPV and IRR based on the formula, therefore it is wise to use software for the same. For example, Microsoft Excel, where the NPV and IRR can be calculated through excel formulas.

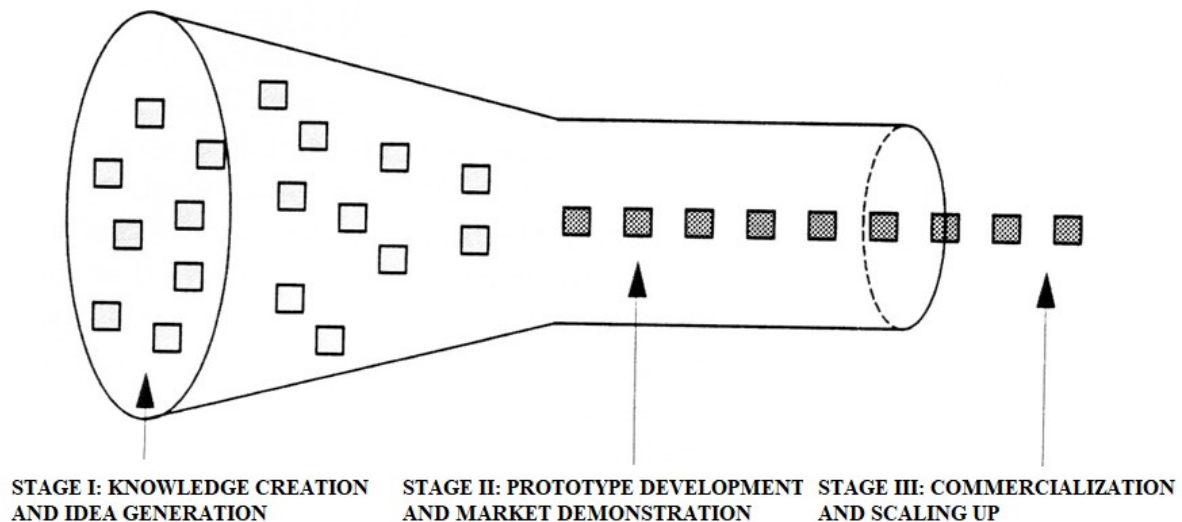
Generally speaking, the higher a project's internal rate of return, the more desirable it is to undertake the investment. “IRR is uniform for investments of varying types and, as such, IRR can be used to rank multiple prospective projects on a relatively even basis. Assuming the costs of investment are equal among the various projects, the project with the highest IRR would probably be considered the best and be undertaken first.” (Investopedia 2018)

## **3.5. Funding the Innovation Activities of SMEs**

The innovation process is described in three general stages. They are represented at Figure 3.4.

- STAGE I. Knowledge Creation and Idea Generation
- STAGE II: Prototype Development and Market Demonstration
- STAGE III: Commercialization and Scaling Up

Figure 3. Stages of the Innovation Funnel



Source: Dukovski (2001, p.139)

According to World Bank (2015), there are several external financial resources for funding the innovation activities in each stage.

### 3.5.1. Funding in STAGE I. Knowledge Creation and Idea Generation

In the first stage of the innovation process, the identification of the amount of resources needed is a procedure that differs based on the type of innovations that will be created. Knowledge creation and/or a small initial cost will be required in this procedure.

Financing a pre-established company can be an easy task due to the access on internal funds and the ability to raise an external fund. However, it becomes a more difficult procedure on a new to firm company due to the lack of accessing in finance. The first option for new enterprises to find external funds is the public funding (World Bank 2015).

According to the summative analysis of the World Bank (2015), the three most common types of public funding used in this stage are:

- A **government grant** is a mechanism for dispensing funding. It is a popular tool, used for many different purposes. It is extremely flexible and can be used to fund innovation type activities. It targets particular groups such as SMEs and usually they do not require repayments.
- The **tax incentives** are another government instrument, which practically reduces the tax liability of enterprises dealing with innovation activities, lowering the private costs and increasing additional investment in innovation activities.

- **Government instruments** that **support the dynamics of research– industry collaboration** as grants and vouchers in fostering technology adoption are also important.

### ***3.5.2. Funding in STAGE II. Prototype Development and Market Demonstration***

The development of an idea to a product/service is a difficult and risky procedure. Even when the product or service is technically completed, dealing with the market is an uncertain process. The second stage of the innovation process includes the outcome of developing prototypes and testing them in real life. The ability of financial resources for this stage depends from the type of innovation being developed, and the targeted market value (World Bank 2015).

According to the summative analysis of the World Bank (2015), there are three main types of funding in this stage:

- **Business angels** - entities who invest their own money on new and innovative business ideas.
- **Crowdfunding** – funds raised through small amounts from a large number of people on the internet.
- ***The pre-commercial procurement and public procurement of innovation***, both aim at creating new and unique innovative ideas that have not yet presented in the market. The PCP is included with the potential purpose of buying the innovative and tailored solution to an issue of public interest.

### ***3.5.3. Stage III. Commercialization and Scaling Up***

The third stage of the innovation process includes the product / service market introduction in order to start creating revenues. The two basic factors in this section regarding financing are the nature of the investments and the degree of uncertainty that dominates in the market. The first version of the product / service is already tested and adopted by a group of customers. At this stage, the objective of the enterprise is to identify the best market to commercialize the innovation, the innovation potential and their competitors (World Bank 2015).

According to the summative analysis of the World Bank (2015), there are three types of funding in this stage:

- **Venture capital firms** are entities with great management experience that invest in enterprises with high growth potential. Their target is new to firm companies without any assets, small cash flows and no credit history in order to give them the ability to raise debt finance.
- **Stock markets or equity markets** are the marketplaces in which shares of companies are traded at agreed on prices. Such transactions take place only through stock exchanges, where stocks are listed and traded.
- **Bank debt** is one of the most common option regarding the source of external finance for enterprises. The two types of bank debts are bank loans and credit lines. The bank loan option constitutes a type of debt where the initial lending amount is repaid through

a predetermined time schedule, with interest. The credit line provides to the enterprise access to additional funds at any time without letting them overcome the predetermined maximum amount and without interest payments required on the unused portion of the credit line.

Some specialist finance providers are active in the debt market offering a broad range of debt services. Others offer traditional debt services with the specification that they will specialize in taking one sort of asset as collateral. In addition, a company's business partner can also be a source of finance, with the use of leasing and trade credits.

## **IV. CONCLUSION**

InnoFibnance, which is a subject of the document, contributes towards the realization of the Deliverable 4.3. of the project Innoplatform:

1. Identification of the 5 InnoTools and the concept of the know how that will be developed; and
2. Development of the scope, methodology and application of each of the InnoTools;

By meeting the preceding objectives, the methodology becomes the input for the Deliverable 4.5. Development of the scope and technical specification of the 5 InnoTools of InnoPlatform.

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**Appendix 1. Guideline for application of InnoFinance in SMEs****Appendix 2. Powerpoint presentation for InnoFinance****Appendix 3. Innovative Project Plan Template**

<b>INNOVATION PROJECT WORK PLAN: Introduction</b>			
<b>PROJECT NAME:</b>		<b>EURO AMOUNT</b>	
When is the <b>PROJECT</b> starting?	<b>YEAR</b>	<b>MONTH</b>	
<b>General Companies Conditions</b>	<b>Legal Form</b>	<b>Currency</b>	<b>Corporate TAX</b>

<b>INNOVATION PROJECT WORK PLAN: Revenues</b>		
List your major products, services and/or other revenue streams. A fitness center, for example, might have revenue streams for group memberships, individual memberships, personal training and counter sales. Keep your list relatively short, so you don't lose the overview. Try to estimate a suitable price per unit for each revenue stream		
<b>REVENUE STREAMS</b>		
<b>Streams</b>	<b>Name of product and/or service</b>	<b>EUR starting (net) price per unit</b>
Stream 1	.....	..... €
Stream 2	.....	..... €
Stream 3	.....	..... €
<b>Customer's payment terms</b>	..... days	

PLANED TURNOVER (IN UNITS)			
YEAR			
Streams	Name of product and/or service	EUR starting (net) price per unit	Unit sales
Stream 1	.....	..... €	.....
Stream 2	.....	..... €	.....
Stream 3	.....	..... €	.....

INNOVATION PROJECT WORK PLAN: Costs		
List your major cost drivers. These include variable costs (those that depend on units sold), staff costs, operating costs (typically, running costs) and external services (typically, one-time costs). Note that in comparison to pricing and units sold, costs are usually much easier to estimate		
Variable costs / unit		
Streams	Name of product and/or service	Economies Of Scale - Define cost level
Stream 1	.....	..... €
Stream 2	.....	..... €
Stream 3	.....	..... €
Purchase Cycle	..... years	
Cares of loss	.....	
Bad debts	..... €	
Staff costs		



Employee	Name of employee and/or role	Year gross salary in EUR	Starting from year	To year	
Member 1	.....	..... €	.....	.....	
Member 2	.....	..... €	.....	.....	
Member 3	.....	..... €	.....	.....	
<b>Operating costs (ongoing costs)</b>					
Type	Monthly costs in EUR	FROM		TO	
		Year	Month	Year	Month
Office Infrastructure /	..... €	.....	.....	.....	.....
Marketing	..... €	.....	.....	.....	.....
Travel costs	..... €	.....	.....	.....	.....
Bank / insurance	..... €	.....	.....	.....	.....
Consulting	..... €	.....	.....	.....	.....
Other costs	..... €	.....	.....	.....	.....
<b>Liabilities</b>					
Name		Description	Amount in EUR		
.....		.....	..... €		
.....		.....	..... €		
<b>External services</b>					
Name	Description	Onetime costs in EUR	Year	Month	
External Service 1	Description 1	..... €	.....	.....	
External Service 2	Description 2	..... €	.....	.....	
External Service 3	Description 3	..... €	.....	.....	

**INNOVATION PROJECT WORK PLAN: Investments**

Please enter the investments you need to make in order to turn your idea into success. Investments are divided into fixed assets, investment in software and your start-up costs. Additionally, choose an appropriate duration of use for each (in number of years)

**INVESTMENTS IN FIXED ASSETS**

Description	Acquisition costs in EUR	Year	Month	Duration of usage (years)
.....	..... €	.....	.....	.....
.....	..... €	.....	.....	.....
.....	..... €	.....	.....	.....

**INVESTMENTS IN INTAGIBLE ASSETS (e.g. software)**

Description	Acquisition costs in EUR	Year	Month	Duration of usage (years)
.....	..... €	.....	.....	.....
.....	..... €	.....	.....	.....
.....	..... €	.....	.....	.....

**COSTS OF COMPANY FOUNDATION**

Description	Costs in EUR
.....	..... €
.....	..... €
.....	..... €

**INNOVATION PROJECT WORK PLAN: Funding**

Please enter your major sources of funding to cover your investments. The overview below gives you an insight into your financial needs in order to keep your business running. The sources of financing can vary from external investors, government funds and bank loans to your private capital. One of the key indicators that external investors look for when deciding to invest in a new venture is how much funding is required to keep your project up and running and successfully secure the next round of investment.

**Common capital stock**

Amount	..... €
--------	---------

<b>Private Loan</b>				
Amount interest rate p.a. lent term	..... €			
Feeding in	..... €			
<b>Investors</b>				
<b>Investors</b>	<b>Amount</b>	<b>shares</b>	<b>Year</b>	<b>Month</b>
Investor 1	..... €	..... %	.....	.....
Investor 2	..... €	..... %	.....	.....
Investor 3	..... €	..... %	.....	.....
<b>Crowd investments</b>				
Crowd - Amount	....., .. €			
Dividend level	..... %			
Time of Funding	.....			
<b>Bank Loan</b>				
Type of bank loan	.....			
Loan amount interest rate p.a. lent term	..... %			
Feeding in	.....			
Repayment cadence start repayment in	.....			
<b>Additional funding from agencies</b>				
Type of grant	.....			
Loan amount to be refunded	..... €			
Interest rate p.a. lent term	..... %			

INNOVATION PROJECT WORK PLAN Profit & Loss			
This is your profit and loss statement. It shows the company's revenues during a defined period. It indicates how your revenues are transformed into net income			
	YEAR 1	YEAR 2	YEAR 3
Revenues			
+ other income			
<b>= TOTAL revenues</b>			
-variable costs			
<b>= gross profit</b>			
-costs of external services			
-staff costs			
-operating costs			
<b>= Earnings before Interest, Taxes, Depreciation and Amortization</b>			
-depreciation			
<b>= Earnings before Interest and Taxes</b>			
+other interest earnings			
-interest and similar costs			
<b>=operating profit / loss</b>			
+/- extraordinary income			
- TAX			
<b>= profit / loss after TAX</b>			
-allocation of retained earnings			
+/- profit/loss carried forward			
<b>= profit / loss retained</b>			

## Appendix 4: Cash Flow Statement Template

Project's Balance Sheet at the end of Year 1		Project's Statement Cash Flows for the period ending Year 1		Project's Profit & Loss Statement for the period ending Year 1	
<b><u>Current assets</u></b>		<b>Cash flows from operating activities</b>		<b>Income</b>	
Cash	.....€	Receipts from income	.....€	Sales	.....€
Debtors	.....€	Payments of expenses	.....€	<b>TOTAL SALES</b>	.....€
Stock	.....€	Funding of debtors	.....€	<b>Cost of goods sold</b>	
<b>Total current assets:</b>	.....€	Stock movement	.....€	Opening stock	.....€
<b><u>Non-current assets</u></b>		Funding from creditors	.....€	Stock purchases	.....€
Computer	.....€	<b>Net cash from operating activities</b>	.....€	Less closing stock	.....€
Store fit out	.....€	<b>Cash flows from investing activities</b>		<b>TOTAL COST OF</b>	
Office Equipment	.....€	Payments for property, plant and equipment	.....€	<b>GOODS SOLD</b>	.....€
<b>Total non-current assets:</b>	.....€	<b>Net cash from investing activities</b>	.....€	<b>Gross Profit</b>	
<b>TOTAL ASSETS</b>	.....€	<b>Cash flows from financing activities</b>		Total Expenses	.....€
<b><u>Current liabilities</u></b>		Increase in short term debt	.....€	<b>Net profit before tax</b>	.....€
Credit Card	.....€	Increase in long term debt	.....€		
Creditors	.....€	Proceeds from owners (equity)	.....€		
<b>Total current liabilities:</b>	.....€	<b>Net cash from financing activities</b>	.....€		
<b><u>Non-current assets</u></b>	.....€	<b>Net increase in cash</b>	.....€		
<b>Total non-current liabilities:</b>	.....€	<b>Cash balance as at start of year</b>	.....€		
<b>TOTAL LIABILITIES</b>	.....€	<b>Cash balance as at end of year</b>	.....€		
<b><u>NEW ASSETS</u></b>	.....€				
<b><u>Shareholder's equity</u></b>					
Owners funds	.....€				
Current year profit	.....€				
<b><u>TOTAL SHAREHOLDERS EQUITY</u></b>	.....€				

# InnoTools – InnoFinance



**Interreg**   
Balkan-Mediterranean  
INNOPLATFORM

InnoPlatform project is co-funded by the European Union  
and National Funds of the participating countries