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YHTEISKUNTATIETEIDEN, LIIKETALOUDEN JA HALLINNON ALA

EXPANDING BUSINESS IN SPAIN

Case: Mystery shopping service provider Company X

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Tiivistelmä Tämän opinnäytetyön toimeksiantajana oli mystery shopping – toimintaan erikoistunut hollantilainen yritys, jossa suunnitteilla on yritystoiminnan laajentaminen Espanjassa. Opinnäytetyön tarkoituksena oli luoda käytännöllinen tieto-opas Yritys X:lle, jota yritys voisi käyttää apuna suunnitellessaan yritystoiminnan laajentamista Espanjassa. Tutkimuksessa käytettiin laadullista menetelmää. Tutkimus on suoritettu pöytälaatikkotutkimuksena ja kyselytutkimuksena. Avoin kysely lähetettiin kolmelle ulkomaalaiselle yrityksen omistajalle Espanjassa. Opinnäytteen teoreettinen viitekehys luotiin niiden tavoitteiden ja toiveiden ympärille, joita Yritys X antoi tutkimuksen aluksi. Teoreettinen viitekehys koostuu Espanjan liiketoimitaympäristön esittelystä, kansainvälisestä markkinoinnista ja strategisesta markkinoinnista. Tutkimustulosten perusteella voidaan todeta, että Espanjan liiketoimitaympäristö on haastava ja se vaatii paikallisten tuntemusta, kokemusta sekä kielitaitoa. Voidaan todeta, että englannin kielen taito ei ole riittävä Espanjan markkinoilla. Byrokratia Espanjassa näyttäisi olevan väistämätöntä, mikä hankaloittaa viranomaisten kanssa asiointia. Byrokratian vuoksi moni päättyykin käyttämään ulkoisen yrityksen apua. Nykyinen talousilanne Espanjassa luo myös omat haasteensa yritystoiminnalle. Espanja on toipumassa vuonna 2007 alkaneesta talouskriisistä ja useita uudistuksia on tehty lakeihin ja säädöksiin. Yritysten tulee olla valmiita muutoksiin. Ympäristön haastavuudesta huolimatta, useat ulkomaalaiset sijoittajat ja yrittäjät kokevat Espanjan houkuttelevana kohteena.	
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Abstract The thesis was commissioned by a Dutch mystery shopping service provider. The company is planning to expand its business operations in Spain. The purpose of the thesis was to create a practical information guide for the company, which they could use as a help when planning to expand the operations in Spain.			
The research was conducted by using a qualitative method. The research was carried out by using desk research and a questionnaire survey. An open-ended questionnaire was sent to three foreign business owners in Spain. The theoretical framework of the thesis was created according to the goals and wishes presented by Company X at the beginning of the process. The theoretical framework consists of introducing the business environment in Spain, international marketing theory and strategic marketing theory.			
Based on the results, the main findings suggest that the business environment in Spain is challenging and it requires the knowledge and experience of local people and language skills. It can further be concluded that English language skills are not sufficient in the Spanish markets. Bureaucracy in Spain seems to be unavoidable, which makes it difficult to interact with authorities. Due to the bureaucracy, many need assistance from an external company. The current economic situation in Spain creates challenges in Spain. Spain is recovering from the recession started in 2007 and plenty of reforms have been implemented. Companies must be ready for changes. Despite the challenging environment, many foreign investors and entrepreneurs consider Spain as an attractive destination.			
Keywords Expanding business, Spain, Mystery shopping, International marketing, strategic marketing			

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1 INTRODUCTION

This thesis has been commissioned by a Dutch mystery shopping provider Company X. The first chapter introduces the case company and background of the research. The concept of mystery shopping is explained and the industry itself is introduced. Afterwards, detailed research questions and the aims of the thesis are defined. Finally, the research structure and limitations for the research are mentioned.

1.1 Background

The case company, referred as Company X throughout the thesis, is specialized in providing mystery shopping services to other companies worldwide. Company X's business idea is to assist companies to improve their level of service, product presentation, check prices and consult the client. The business was founded in 2001. Since its founding, Company X has grown into a multinational company with personnel of approximately 70 people of more than 15 nationalities. The headquarters of Europe are located in the Netherlands and the company has six other offices located in Asia. In addition, they have recently opened a new office in North America. The operational headquarters are in Malaysia.

Excellent customer relations and customer satisfaction are always high priorities at Company X. The company is highly focused on the quality provided to its clients. The company works strongly together with its clients by coaching and making suggestions to mystery shopping programs. Company X's role is to use their expertise to customize each mystery shopping program in every particular case.

The key markets for Company X are European market and Asian market. The company has operations outside of these areas as well through its wide networks. Through the wide network of partners, it is possible to conduct mystery shopping programs in multiple countries around the world. The vision of Company X is to become a global mystery shopping provider. To achieve the goal, the next step for the company is to expand its operations.

Company X's sales have been growing rapidly since 2009. Demand has been growing especially in Southern parts of Europe and Spain has become an important target market for the company. Company X already has few clients in Spain but creating an own business unit is suggested that it would attract more customers and to get greater worldwide coverage. Company X sees mystery shopping as a niche market where expanding operations geographically is the only way to respond to the growing demand.

Mystery shopping industry

Mystery shopping is defined as a method of using trained individuals to experience and measure customer service by acting as a potential customer and reporting back on their experience. Above

all, mystery shopping is a tool to evaluate the quality of customer service, organization and management, not only a market research technique. With the help of mystery shopping, it is possible to review how staff performs against pre-determined standards during an interaction with customers. Mystery shopping method is also used to observe objective facts such as product placement, prices and placement of point of sales materials. (MSPA, Guidelines for Mystery shopping 2011, 5.)

According to a BBC report in April 2011, the industry is rapidly growing. On the background of mystery shopping is growing demand of customers to receive better service experiences. However, the industry is not new since it was developed already in 1940s as a way to measure employee integrity. (Burns 2011.) As online sales is increasing, companies are trying to stand out from each other with the quality of their service. With good customer service, the customer will return while a bad service experience drives customers away and closer to competitors. Mystery shopping is mostly used in supermarkets, banks, restaurants and car dealerships but it could be used anywhere to measure the quality of service.

As other industries, mystery shopping worldwide is organized in Mystery Shopping Providers Association (MSPA) - the largest professional trade association for strengthening the mystery shopping industry. It has over 400 member companies worldwide and the goal of the membership is to improve and stimulate mystery shopping services through common efforts. (MSPA 2014.)

Many companies use mystery shopping method for checking their products and services. Mystery shopping activities are often outsourced to companies specialized in mystery shopping. Professional mystery shopping companies have database of individuals in multiple countries all around the world. These individuals, called "shoppers", are the ones who perform visits and evaluation while companies manage the projects.

For companies specialized in mystery shopping, operations are easy to perform beyond national borders. Projects can be managed in a different country where required visits are performed. Shoppers are essential for mystery shopping companies. Individuals can sign up as a shopper wherever and whenever they want. A mystery shopping company will contact the individual when suitable visits are available. Contacting happens via telephone, email, and reporting takes place online.

1.2 Research questions and aim of the thesis

There are two main research questions this thesis is expected to answer. The first question:

- What are the important factors for Company X to take into account when expanding the business in Spain? The answer should provide relevant information about the external business environment in the targeted country but also the company's internal resources will be evaluated.

The second question: -What are the necessary steps that Company X should take before expanding business operations in Spain? The answer should clarify of the process followed by recommendations, based on the findings.

The aim of this thesis is to provide clear and relevant answers for the two above-mentioned questions. It is important to point out the internal and external factors that Company X has to take into account when expanding the operations in Spain.

1.3 Research structure and limitations

The business environment in Spain is introduced in chapter 2. PEST analysis is used for providing important information about the external business environment in Spain. Porter's Five Forces framework is used for analysing the industry itself in Spain. The theoretical framework of the thesis is in chapter 3. The theoretical framework of the research is in high degree based on international marketing theory. In order to explain and use in full the theory for international marketing, strategic marketing theory needs to be introduced as well. International marketing theory explains the different layers of marketing that Company X needs to take into account in different environment (figure 3). The used framework is expected to answer accurately to the research questions.

Research methods are introduced in chapter 4 including evaluation of credibility of the research. Chapter 5 is introducing opportunities for Company X to expand in Spain. The chapter includes SWOT analysis for Company X's. The company's international readiness is evaluated by using SWOT. In addition, the administrative environment of Spain is introduced including opening procedure for a limited liability company and for a representative office. A limited liability company and a representative office are the only business types mentioned in this thesis as these were the business types Company X is ready to consider. Other business types are not mentioned as it was not found necessary.

In order to get information about the business environment in Spain and how foreign business owners experience the business environment, both secondary and primary sources have been used. Chapter 5 reviews researches conducted by various organizations and researcher's own survey research. An open-ended questionnaire was sent to three foreign business owners in Spain. The questionnaire was aimed to fulfil the goals of the research. The results have been concluded in chapter 6 presenting recommendations for the company. Final part is a discussion about the research process. Financial part is excluded from the thesis due to the difficulty in accessing financial figures but also because of the emphasis of the thesis is on marketing.

2 BUSINESS ENVIRONMENT IN SPAIN

A business environment consists of micro environment and macro environment. Micro environment refers to the internal environment of the company. It consists of forces that are close to the company and affect its ability to serve customers such as the company itself, suppliers, competitors, and public. Macro environment refers to the external environment of the company. It consists of forces that affect the micro environment. These factors include such aspects as political, economic, natural, cultural, and technological forces. (Kotler, Armstrong, Saunders & Wong 1999, 146-148.)

International operator faces at least two layers of macro environmental forces, which make the marketing task more challenging. In some cases, international companies may have to consider even three different types of political and legal environment: domestic, foreign and international.

(Onkvisit & Shaw 2004, 5-7.)

In this chapter, the external business environment in Spain has been analysed with two analytical tools – PEST and Porter's five forces. PEST is used for deeper external analysis in Spanish markets. Porter's five forces is used for evaluating mystery shopping industry in Spain. Both of the tools are first introduced in general and then straight after applied for Company X's situation. First, a quick general overview of Spain is presented.

2.1 Quick overview of Spain

Spain is a constitutional monarchy with population of nearly 47 million. Spain has been a member of the European Union since 1986 and it is a member of the euro area. The main official languages spoken are Spanish (74%) and Catalan (17%) but there are some minorities like Galician (7%) and Basque (2%). (Central Intelligence Agency 2014.) Spain is divided into 17 regions and 2 autonomous cities. Each of the autonomous regions has its own parliament and regional government. The national parliament consists of two chambers: Congress of Deputies and the Senate. These different levels make Spain one of the most divided countries in Europe. (Andalucia Com 2014.)

Spain is well known for its exceptional lifestyle, rich history and cultural heritage. Excellent climate conditions and thousands of kilometres coastlines have made Spain one of the biggest tourist destinations in the world. Cuisine is unique, health care system is excellent, and there are one of the best business schools. Spain does not only attract tourists but also businesspersons. Barcelona and Madrid were among the top 10 leading European business cities in 2011. (Invest in Spain 2013.)

With a GDP of approximately \$1.3 trillion, Spain is the 13th largest economy in the world and fifth largest in EU. Services sector takes over the largest share of Spain's GDP with more than 70%. The second largest share belongs to industry with 26% followed by construction and agriculture with 3% of GDP. (Central Intelligence Agency, 2013.) Spain's tourist industry is remarkable for the country.

In 2013, Spain was the third most popular tourist destination in the world with more than 60 million arrivals. This was 5.6% more than a year before (Yi on Xinhua 2014).

2.2 Analysing Spanish Business Environment with PEST

Company's macro environment refers to external forces that influence on its operations and performance. Macro environment includes such aspects as demography, economic, technology, politics and culture. PEST analysis provides a framework for external analysis of environment evaluating the impact of political-legal (P), economic (E), socio-cultural (S) and technological factors (T). The analysis can be done for a company's current external environment but also to assess the potential new market. The aim of PEST is to find out the current external factors affecting a company and identify the factors that might change in the future. The outcomes of PEST are an understanding the company's surroundings, exploit the opportunities, and defend against threats. (Kotler et al. 1999, 151-173.)

Political and legal factors

The political and legal environment consists of laws, government agencies, regulations, and various organizations in a particular society. All businesses must understand how the laws and regulations are formed and how do they affect to the business. Political factors determines to which extent the government intervenes to business operations by controlling foreign trade, taxes and trade restrictions. Political stability also affects companies within the specific market. The legal system refers to laws and regulations, which are constantly changing and created at different levels; for example, there are common EU regulations, individual member state regulations, and specific local regulations. (Kotler et al. 1999, 167-168.)

Economic factors

The economic environment consists of all economic activity within the country. Economic factors include such aspects as population, income, consumption patterns, economic growth and attitudes towards foreign involvement in the economy. It is important for international marketer to understand the impact of the economic environment on social environment. (Czinkota & Ronkainen 2007, 122-123.) The economic conditions in a country affect customers buying power, spending patterns and trends. As economic conditions and government policies are closely related to each other, they both have huge impact on the business environment and investment atmosphere in the country. (Kotler et al. 1999, 158-159.) Economic integration within world economies creates new opportunities and challenges for international operator.

Socio-cultural factors

Culture is one of the most challenging elements of international marketing. The socio-cultural factors include all cultural aspects that influence the society. People grow up in a specific society that shapes their language, religion, manners, basic values and beliefs. Czinkota and Ronkainen (2007, 80) state that the only way to learn a culture is to live in it. They also mention two ways to deal with

cultural diversity; other one is to globalize the product and the other one is to tailor the business for individual cultures.

Technological factors

Technological factors are maybe the most dramatic forces shaping the business environment. New technology replaces an older one creating new markets and opportunities. Technological factors include research, development, and innovation sectors. (Kotler & Armstrong 2012, 80-81.)

PEST Analysis of Spain

Table 1 summarizes the most important factors for Company X in Spain. Each factor is described more clearly later on.

TABLE 1. PEST analysis of most important factors for Company X

Political-legal	Economic
<ul style="list-style-type: none"> • Government involvement in trade unions and agreements • Government has implemented numerous of reforms <ul style="list-style-type: none"> ◦ Labour reforms ◦ Tax reforms • Bureaucracy 	<ul style="list-style-type: none"> • GDP growth rate • Extremely high unemployment rates • Labour costs
Socio-cultural	Technological
<ul style="list-style-type: none"> • Education level and developing language skills • Work culture • Changing attitudes towards customer service • Attitudes towards foreign companies 	<ul style="list-style-type: none"> • Internet infrastructure and skills • Communication infrastructure • Technology level

Political-legal factors

Spain is a member of EU like Company X's home country. EU member countries have many common regulations, policies, and standards, which make it easier to establish a business within EU area.

Doing international business is easier along movement of people within the borders of EU. Employing EU citizens from any EU country is possible without restrictions. (European Union 2014.) This is important for Company X, as they want their operations to cover whole Europe and different nationalities are needed.

Spain is progressively overcoming the economic and financial crisis. Due to the crisis, Spanish government has implemented numerous reforms regarding e.g. labour market, financial system, fiscal policy, and public administration. The National Reform Programme has started in 2012. The priority of Spanish government is to decrease the public deficit, improve employment rates, and stabilize the

Spanish economy. (IESE Business School: Spanish reforms 2014.) OECD report (2013, 8) *The 2012 Labour market reform in Spain*, reveals that the reforms have contributed to promote hiring and to significant wage moderation. Dismissal costs have also been reduced due to the reforms but still Spain remains among the highest OECD countries in compensation for unfair dismissal. Other reforms that affect Company X relate to taxes. Newly created companies are taxed with reduced tax rates but VAT rates have increased. Most tax reforms affect only big corporations, they are temporary, and thus they have no impact on Company X's business. (Ashurst LLP, 2013.)

Reforms are expected to bring relief of the Spanish bureaucratic burden. For example, the index *the Ease of doing business 2014* provided by World Bank, Spain is ranked at 52nd out of 189 economies where the 189th is the weakest performer. This is six places higher than a year before. The ease of starting a business is the weakest point in Spain's index – Spain stands at 142 in the ranking of 189 economies. According to the index, it takes at least ten different procedures to start a business. (World Bank 2013.)

Economic

The Spanish economy was hit particularly hard when the worldwide economic crisis started at the end of 2007. The economy has turned in downturn ever since and Spain is trying hard to overcome the crisis. The record low GDP growth rate of -1.6% was measured in 2009. The growth rate is expected to be little bit over 0% in 2014-2015. (Trading Economics 2014.)

Unemployment rate became the greatest concern in Spain when it reached to extremely high numbers due to the crisis. Spain has the highest unemployment rate within OECD countries. At the end of year 2013, the total rate for unemployment was 26.03%. (Trading Economics 2014.) In October 2013, unemployment rate for less than 25 years old Spaniards was as high as 57.4%. Consumer spending has decreased because of the lack of work and instability of economic situation. Lately implemented labour reforms are expected to decrease the unemployment rate and create more jobs. (OECD: The 2012 labour market reform in Spain 2013.)

In 2013, the average hourly labour cost in the EU-28 was estimated at EUR 23.70. In Spain, the corresponding amount is EUR 21.10. The costs are made up of costs of wages and non-wage costs such as employers' social contributions. The national monthly minimum wage in Spain is EUR 645.30. (Eurostat: Minimum wages 2013.)

Socio-cultural

According to a study conducted by OECD, education level in Spain is in a good level. Upper-secondary attainment rates are below average, but tertiary attainment rates are nearly in the same level with other OECD countries. (OECD: Education at a glance OECD indicators 2012.) The survey made by the Spanish National Statistics Institute (INE) in 2011 reveals the foreign language skills of adult population. The study shows that 45% have medium level knowledge while only 20% have higher level. According to the survey, 35.5% know English and 14% know French. The best English skills

are in Madrid and Catalonia. Language skills, however, are improving among young population. (Efe 2012.)

The traditional *siesta*, a mid-afternoon brake, has changed due to increasing competition of international companies. Work culture has moved towards shorter lunch breaks and employees in offices remain at their desks throughout the afternoon in bigger cities. In addition to other traditions, Spaniards highly value personal relationships and face-to-face meetings. The key for doing successful business in Spain is to create personal relationship with counterparts and build trust. It is also good to know that the concept of time differs from other western European countries. Being late is not considered impolite and deadlines are often seen as objectives to be met where possible, but not considered as binding. (Passport to trade 2.0 2013.)

Spaniards are known for their temperament and customer service process in Spain has a bit of a bad reputation. However, a research conducted by Sotto Tempo Advertising in 2012, reveals that attitudes towards customer service are changing. According to the study, the quality of customer service is the third criterion when choosing a product or service. The research method used was mystery shopping where 72% of the participants stated that the customer service influence their purchase and repurchase process. The change in attitudes is also visible in the study called *The Best Customer Service Awards 2012 in Spain*, which ranks companies according to their customer service level. The ranking shows that all the highest ranked companies are multinational corporations like Apple, Nespresso, and McDonald's. (Sans 2013.) Many international companies in Spain are causing a change in attitudes and increasing customer service expectations.

Technological

The most important factors for Company X are telecommunication and internet accessibility, as the business operations require good telecommunication connections. Spanish communication system is well developed with modern facilities where TELEFONICA is the market leader providing services (ICEX, 2010). The survey published in European Commission's *Digital Agenda for Europe* (DAE) reveals Spaniards' internet usage and skills in 2013. According to the survey, 65% of Spanish population is using the internet on regular basis, whilst 51% are frequent users. Numbers are close to European average usage. Spain has the same proportion of computer skills as the EU average. However, the distribution of these skills is towards high levels and there are more skilled computer users than on average in EU. (European Commission: Spain: Internet usage and digital skills 2013.) Therefore, information technology sector is well developed in Spain.

2.3 Porter's five forces

Michael E. Porter created a five forces model in 1979 to understand how the key competitive forces shape an industry. The model is used to determine the profitability of an industry and shape a company's competitive strategy accordingly. The five forces differ by industry and not all the forces are equal in any given case. The strongest force or forces determine the profitability of an industry and it is the most important for formulating the company strategy. The stronger the competitive forces

in the industry are the less profitable it is. (Porter 2008, 80-81.) Figure 1 illustrates the five forces model and all the forces are explained in following sections as Porter presented them in Harvard Business Review in 2008.

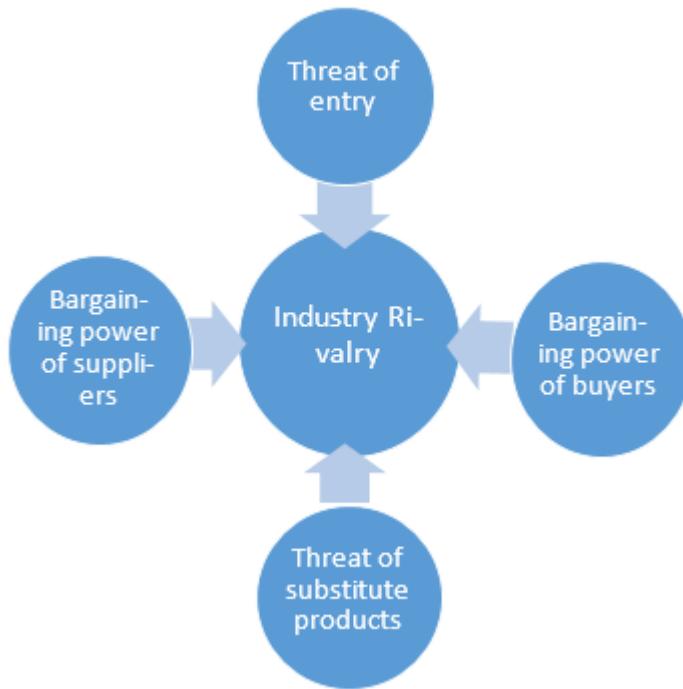


FIGURE 1. Porter's five forces

Threat of new entrants: This force determines how easy or difficult it is to enter a specific market. If there are only few barriers to enter, the market gets interesting for new competitors and profits start to decrease. Threat of new entrants is high when:

- It requires only low amount of capital to enter
- Existing companies don't have patents, trademarks or brand reputation is missing
- There are no government regulation
- Customer loyalty is low
- Nearly identical products

Competitive rivalry: The important part in this force is to understand the number and capabilities of already existing competitors in the market. In competitive industry, companies have to fight for a market share, which results in lower profits. Intense rivalry among competitors appears when:

- There are multiple competitors on a market
- Products or services are not differentiated when they can be easily substituted
- The size of competitors is equal
- Customer loyalty is low
- There are high exit barriers

Threat of substitutes: This force is threatening if it is easy to find a substitute product or service with attractive prices, better quality, and switching a product or service requires only little costs.

Bargaining power of buyers: If the bargaining power of buyers is strong, they have the power to demand lower prices or higher quality. Lower prices mean less profit to producers and higher quality might raise production costs, which decrease the amount of profit as well. Buyers have strong bargaining power when:

- There are only few buyers in the market
- Costs are low to switch to another supplier
- The amount of substitutes is high
- Buyers are price sensitive

Bargaining power of suppliers: Suppliers' bargaining power is strong if they can sell higher priced or lower quality products and services to their buyers. This affects to the buying company's profits because it has to pay more. The bargaining power of suppliers is strong when:

- There are many buyers but only few suppliers
- Only few substitutes
- Costs of switching to another supplier or other materials are high

Porter's five forces analysis for mystery shopping industry in Spain

In the following, mystery shopping industry in Spain is analysed with the Porter's five forces model. The figure 2 summarises the general picture of the industry.

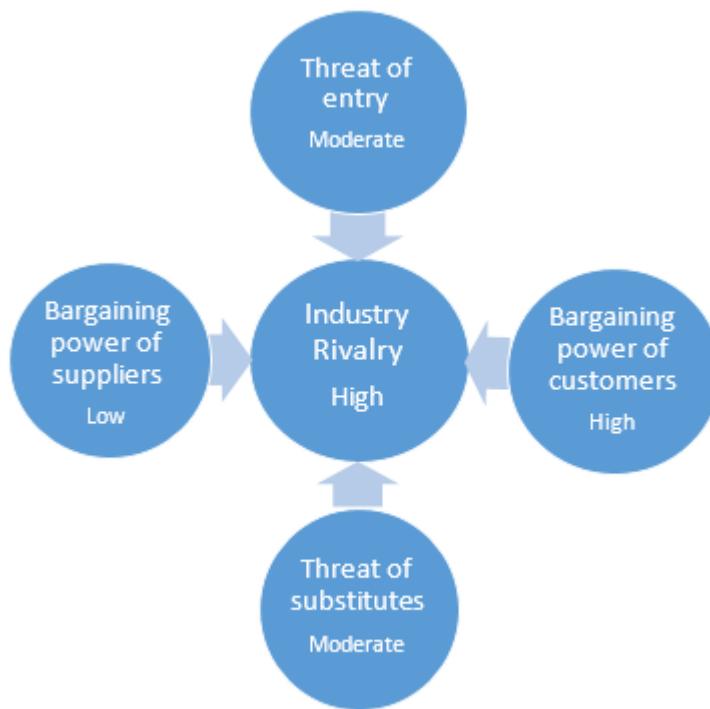


FIGURE 2. Porter's five forces analysis for mystery shopping industry in Spain.

The threat of new entrants is considered as moderate. The reason for moderate threat is that there are only few barriers to enter. Firstly, location is not necessarily an issue as operations are run via internet. The business can be operated from another country. Secondly, start-up costs for mystery shopping company are inexpensive. Starting up costs are estimated to be less than \$2000 (Entrepreneur Media 2014). This is relatively inexpensive to start up the business. However, the ongoing economic crisis and bureaucracy regarding the opening process of a business, decreases attractiveness to enter the market.

Within mystery shopping industry, bargaining power of customers plays an important role. Customers are price sensitive and they can easily look for an alternative service provider. Within the industry, customers are able to affect prices and require better quality for the same price, which would therefore decrease profits for the seller. Bargaining power of customers is even higher if Company X has only a few customers.

Threat of substitutes is considered as moderate. There are no direct substitute services available for mystery shopping but the service is possible to replace with some other method. However, in terms of quality of the service, it would be difficult for a company that wants to do mystery shopping themselves to replicate the quality of a professional mystery shopping provider. Mystery shopping could be substituted by using other methods like customer satisfaction survey performed by the company itself.

Intensity of rivalry is high because of numerous competitors. MSPA announces 24 companies with mystery shopping activities in Spain. There are even more companies in the market as not all of them are mentioned on the website. The geographical location doesn't completely restrict a company operating on the Spanish market. Such companies can offer lower prices but with limited quality of the service provider.

Bargaining power of suppliers is very low to none. Mystery shopping business does not require supplier operations.

3 GLOBAL MARKETING

This chapter includes the theoretical framework of the thesis. The following framework defines the concept of marketing and its international aspects following with strategic marketing theory. Strategic marketing introduces segmentation, targeting, positioning and differentiation. In addition, all the controllable elements are introduced.

3.1 International Marketing

Almost every company today faces international marketing challenges either in their domestic markets or overseas. The world seems to be smaller than before due to the rapid movement towards globalization where it is difficult to isolate domestic activities from international markets. Individuals and firms are competing not only domestically but also globally. However, it does not mean that people all over the world can be satisfied in exactly the same way. Global brands and products can be found almost everywhere but people's needs and wants vary. Globalization has made the competition between companies tougher and more intensive. (Czinkota & Ronkainen 2007, 6.) According to Kotler & Armstrong (2012, 30), the common thing for today's successful companies is their focus on customers and heavy commitment to marketing.

Kotler & Armstrong (2012, 5) define marketing as "*...a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others.*" The goal of marketing is to attract new customers and keep current customers satisfied. The definition of international marketing does not much differ from the basic concept of marketing. Czinkota & Ronkainen (2007, 4) tell the difference between the definitions of domestic marketing and international marketing to be that the marketing operations are performed across national borders. Marketing methods, processes and principles are worldwide applicable.

Before going overseas to new markets, the marketer must understand the international marketing environment. Complexity of international marketing comes from the unfamiliar foreign environment. Business environment always includes uncontrollable elements such as competition, political and legal forces, culture, technology and economic forces. Domestic environment includes one set of uncontrollable elements but international marketer faces two or more sets of uncontrollable forces. The elements that can be controlled are product, price, and promotion and place (distribution) – the marketing mix (4Ps of marketing) of the company. The challenge in marketing is to shape these controllable elements in a way that they work with uncontrollable elements. (Onkvisit & Shaw 2004, 5-7.)

Uncontrollable elements create uncertainty in business environment and each foreign country adds its own uncontrollable features. Figure 3 below illustrates the total environment of an international

marketer. The inner circle indicates the controllable elements, the second circle represents the domestic uncontrollable features in business environment and the outer circles illustrate the uncontrollable elements of foreign environment in each foreign market.

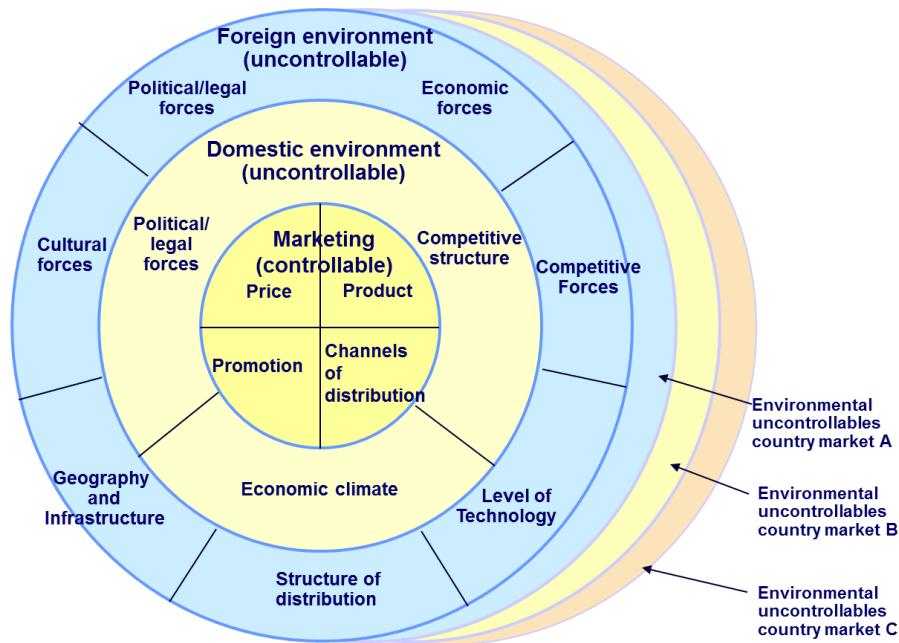


FIGURE 3. Controllable and uncontrollable elements in international marketing (Ghauri & Cateora 2009).

3.2 Strategic Marketing

Kotler & Armstrong (2012, 29) define marketing strategy as a logic by which the company wishes to create customer value and achieve profitable customer relationships. Companies' strategic marketing planning involves adapting the company to take advantage of opportunities in its environment. Usually, companies have annual and long-range plans, which deal with the company's current business and how to keep them going. (Czinkota & Ronkainen 2007, 19.)

Strategy is a long-term plan by which the future goals and objectives are wished to achieve. Figure 4 illustrates the steps in strategic planning. Strategic planning starts with defining the company's purpose and mission. After this, the mission is turned into detailed supporting objectives. Then the products and the business portfolio, which are best for the company, are decided and each business and product develops detailed marketing plan that supports the company-wide plan. (Kotler & Armstrong 2012, 38–39.)

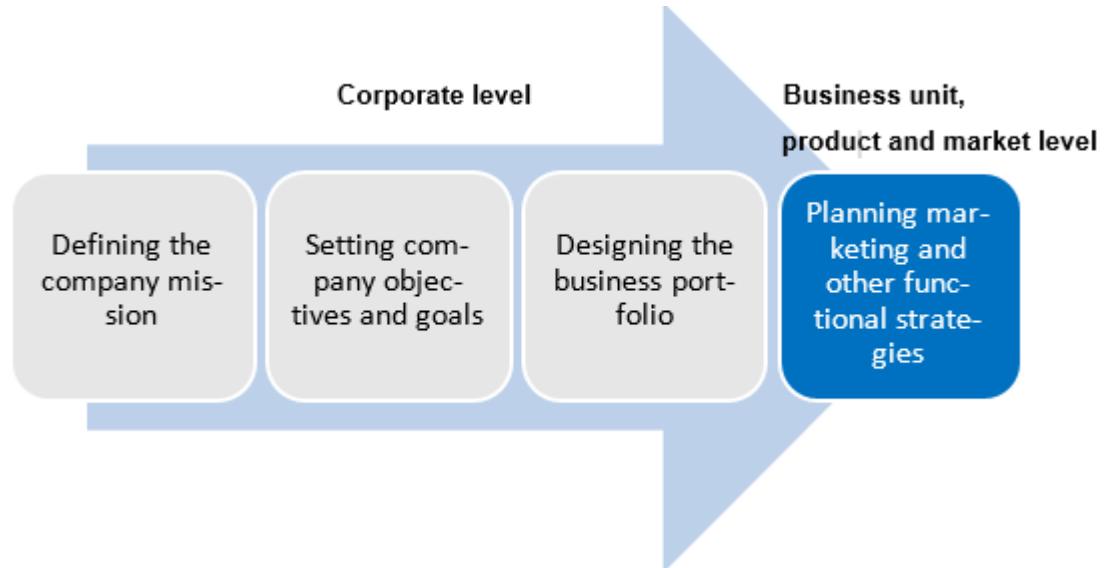


FIGURE 4 Steps in strategic planning (Adjusted from Kotler & Armstrong 2012.)

Figure 5 summarizes the activities involved in managing the customer orientated marketing and controllable elements of marketing. Customers are in the core followed by strategic decisions. The company has to decide which customers it will serve (segmentation and targeting) and how they will do it (differentiation and positioning). After deciding the marketing strategy, the company have to design an integrated marketing mix made up from the controllable elements. (Kotler & Armstrong 2012, 48.) The actual process of marketing consists of marketing analysis, planning, implementation and control. At the same time, company is influenced from outside by competitors, publics, suppliers and marketing intermediaries. (Czinkota & Ronkainen 2007, 19–20.)

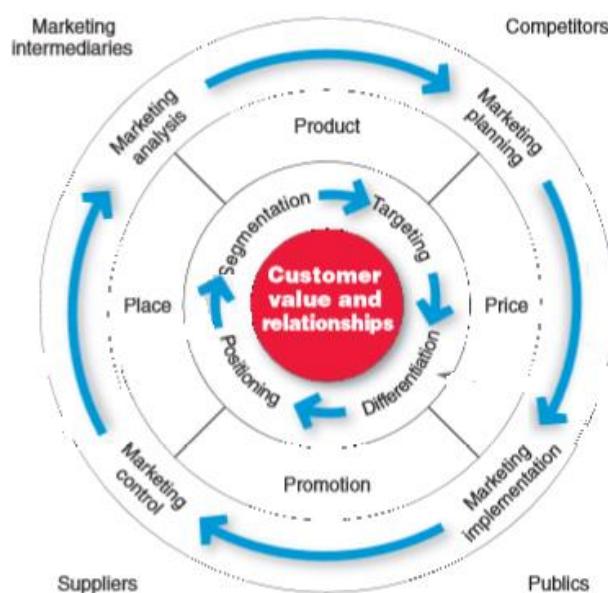


FIGURE 5. Marketing mix and managing marketing strategies (Kotler & Armstrong 2012, 48)

Market segmentation, targeting, positioning and differentiation

There are many types of customers, products and needs in markets. It is not possible to meet all the needs when the marketer must decide which segments offer the best opportunities. Kotler & Armstrong (2012, 49) define market segmentation as a process of dividing a market into smaller groups of people who have different needs, characteristics, and behaviours. A market segment is a group of consumers who respond in a similar way to a given marketing.

After defining appropriate market segments, the company can choose one or many of these segments. The process is called market targeting where each segments' attractiveness is evaluated. A company should target the segments that will most likely be the most profitable ones and in which the company can achieve the greatest customer value. (Kotler & Armstrong 2012, 49.)

If the product or service faces competition, it is necessary to think how to position it in the market. Tanner and Raymond (2010) define positioning as tailoring the product or its marketing in a way that it stands out from the competition. When market segments and targets are defined, the company must think how it will differentiate its market offering for each chosen segments.

Onkvisit and Shaw (2004, 277) claim that international marketers fail to realize the purpose of segmentation because many think geographical segmentation to be sufficient. Often, however, it is too overemphasized and inappropriate. Another mistake marketers make in foreign countries is the attempt to try to capture the whole market at once.

Marketing mix in global markets

Marketing mix means the set of controllable tactical marketing tools that the firm blends to produce the best results in the target market. It is one of the most known concepts in marketing. The mix is also known as the 4Ps of marketing. The controllable elements of marketing mix are product, price, place, and promotion. A company can control these elements to fit the best within each markets' uncontrollable environments. (Czinkota & Ronkainen 2007, 19.)

The marketing mix is a key part of companies' strategic marketing planning. Target market must be defined and managers have to decide how, if at all, to adapt marketing strategies for new markets. Adapting marketing mix requires good understanding of target market's culture and market conditions. It is possible to choose the strategy between standardization and adaptation. (Kotler, Armstrong, Saunders & Wong 1999, 209.)

Global companies can use standardized global marketing where the same marketing strategy is used worldwide. Another extreme is adapted global marketing where the marketing mix is adjusted to each target market. Both strategies have pros and cons. Standardization results in a greater brand image and reduced costs but it might not be so effective in every market. On the contrary, adapta-

tion brings more costs but hoping for a larger market share. However, international marketers suggest that companies should seek balance between standardization and adaptation. (Kotler et al. 1999, 209-210.)

On the following, all variables of marketing mix are presented from a global marketer's point of view and with the emphasis on services marketers.

Product

Product is the key element for business and marketing strategies. Product can be defined as anything that can be offered to a market that might satisfy a want or need. Products also include services, events, places, organisations, and ideas. Services are a form of product that consists of activities, benefits, or satisfactions that are essentially intangible. (Kotler & Armstrong 2012, 53.) Czinkota & Ronkainen (2007, 502) describe services to be more personalized, intangible, and custom-made than goods. In some cases, services may complement goods and other way around.

Figure 6 presents five different strategies for adapting product and marketing communication in global markets. There are three strategies for products, which are explained below. In addition to product strategies, there are two communication strategies, which are explained in section "promotion" in the following section.

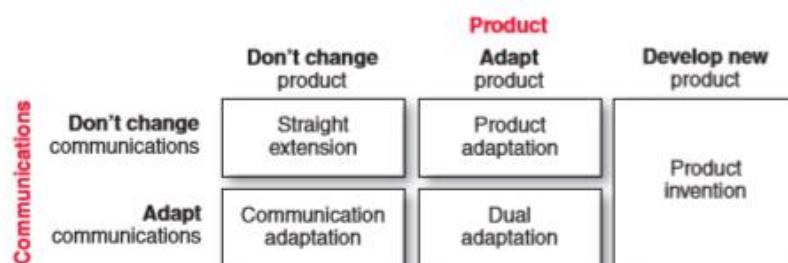


FIGURE 6. Five global product and communications strategies (Kotler & Armstrong 2012, 565)

Straight product extension refers to marketing a product in a foreign market without any change. In product adaptation, the product needs to be changed to meet local conditions. Product invention involves creating something new to meet the needs of customers in the target country. (Kotler & Armstrong 2012, 566-568.)

Promotion

A product or service should not be expected to sell itself. It must be promoted in a way that potential buyers learn the benefits by the service or product. Promotion in marketing mix refers to all the communication between the company and its stakeholders. Onkvisit & Shaw (2004, 414) states that the purpose of promotion is to both communicate with buyers and influence them. It is a blend of advertising, public relations, personal selling and direct marketing tools that companies use persuasively communicate customer value and build customer relationships.

Companies can use the same communication strategy worldwide or they can change it to each target market (Figure 6). However, even highly standardized communication campaigns might need some adjusting for language and cultural differences. According to Kotler & Armstrong (2012, 569), the language barrier often causes difficulties for global companies. Other strategy is called communication adaptation where the company fully adapts its advertising messages for local environment. Czinkota & Ronkainen (2007, 505-506) point out some special features only for services marketers. The intangibility of services reduce marketer's ability to provide examples, which makes communicating a service offer much more difficult compared to an offer for a good. Individuals have different needs when communication has to be more customized one by one. When marketing services, the customer interaction is intense. To be more representative, appearance plays an important role in communication.

Price

Price is the amount of money customers pay to obtain the service or product. It is one of the most important factors to determine a company's market share and profitability. (Kotler & Armstrong 2012, 290.)

Czinkota & Ronkainen (2007, 519) highlight that pricing international services require special attention as services cannot be stored. Demand fluctuation is greater which means that greater pricing flexibility must be maintained. It is difficult for customers to determine the quality or value of service prior to purchase. If the service price is too low, customers might have inaccurate perceptions and expectations about quality. If prices are too high, customers do not even consider buying the service. According to Ferrel & Hartline (2011, 240), services pricing becomes more important and more difficult when:

- Service quality is hard to detect prior to purchase
- Customers are unfamiliar with the service process
- Brand name is not well established
- The service is possible to perform by a customer
- The total price is difficult to state beforehand

Channel of Distribution (Place)

Products and services have to be made available to buyers. Instead of selling products directly to final users, most companies use intermediaries to bring their products to markets. Few producers sell their products directly to final users but more often companies try to form a distribution channel for their products. A distribution channel consists of a set of interdependent organizations that help to make the product or service available for users. (Kotler & Armstrong 2012, 340-341.)

Services, as well as products, require their distribution channels. Usually, short and direct channels are preferred in services. Closeness to the customer has a great importance in order to be able to fulfil the customers' unique needs. With a close relationship it is possible to execute a truly tailor made service. (Czinkota & Ronkainen 2007, 520.)

4 RESEARCH METHODS AND VALIDITY

The research methods of the thesis will be reviewed in this chapter. At the end of the chapter, the credibility of the research is evaluated.

The purpose of the research is to provide relevant information for Company X about the business environment in Spain. The goal is to create a practical information guide for Company X who could apply the research findings in their planning when expanding operations in Spain. In addition, the company's internal resources are evaluated as well.

4.1 Research methods used

The research was conducted by using a qualitative research method. Quantitative method would have been too limited as the research required in-depth analysis rather than numerical data. Qualitative research method enabled to gather more detailed information with fewer and focused samples. Qualitative research methods are looking for an answer to "why?", "how?" and "what kind of?". The research data used is narrow but in-depth analysed. Quantitative methods seek an answer to questions like "what?", "where?", "how often" and "how much?". There are often a lot of research data used and phenomena are described by analysing numeric data. (Holopainen & Pulkkinen 2012, 18, 20-21.)

Secondary data for the research was gathered by using desk research. Desk research is gathering information from secondary sources. The technique is very effective as the basic information can be found easy and low cost. However, desk research is not enough to make conclusions about any given business case. In order to give complete answer to the research question and assist the company into fulfilling their goals for international expansion, questionnaires were sent. Using this technique, namely questionnaires, it would help to focus into the matters of the research. Additionally, this technique would provide insight into Spanish business environment from a perspective of foreign business owner.

The questionnaire consisted of open-ended questions. Open questions can be used in both quantitative and qualitative researches. Analysing them can be very time consuming but it allows respondents to define and describe a situation with more details. (Saunders et al. 337)

An open-ended questionnaire was sent to three foreign business owners in Spain. The respondents understood the reason for the questionnaire and the aim of the study.

4.2 Reliability and validity

The credibility of a research is evaluated by following the different research process steps. The credibility is measured with reliability and validity. Reliability refers to the extent to which the data collection techniques or analysis procedures will generate consistent findings. Validity is concerned with whether the adequate things have been researched. (Saunders et al. 2009, 156-157.)

The secondary data used in this research is collected from various online sources and academic books. The data was carefully selected to outline relevant and appropriate information for the research aiming to answer the research questions. The reliability of each source was assessed.

The respondents of the survey conducted are directly involved in the Spanish economic life and therefore their opinion and analysis of the questions asked are to be trusted. The respondents have day-to-day operations in the environment and they have practical information and own experience.

The research results can be trusted because the research does not rely only on desk research but also includes primary data. The research includes primary information from people who are doing business in Spain on daily basis. The questions were targeted to answer the research questions and the company's needs. Also, the office manager was interviewed and researcher's own experience in the company was taken into consideration.

5 OPPORTUNITIES FOR COMPANY X TO EXPAND THE BUSINESS IN SPAIN

This chapter assesses international readiness for Company X with the help of SWOT analysis. Afterwards, the administrative environment in Spain has been reviewed including relevant information for Company X. The process of opening limited liability company and representative office will be introduced. Finally, knowledge about the business environment will be gathered from foreign companies operating in Spain by using secondary and primary sources.

5.1 International Readiness

Before expanding the business to new markets, it is important to assess not only external features but also the company's internal resources and capabilities. The company has to be well prepared for the international expansion and therefore company's international readiness needs to be assessed. It is important to recognize the resources the company already has. From that point, they can have an overview of what they need to add or change. To be successful in foreign markets, it requires expertise and prior research about the market conditions. But above all, it requires commitment and determination from the management. SWOT is a helpful tool for evaluating both internal and external features.

SWOT

A SWOT analysis is a widely used business analysis technique for analysing organization's internal and external environment. The analysis consists of strengths (S), weaknesses (W), opportunities (O), and threats (T). Strength and weaknesses illustrates the internal factors affecting the company while opportunities and threats show the external factors. SWOT analysis is useful for any kind of strategic planning. The overall purpose of SWOT is to help the user to achieve the desired objectives. (Team FME 2013, 6-7.)

Internal factors include strengths, which have positive implication. Strengths are internal capabilities, resources and other positive factors that may help the company to achieve its goals. On the contrary, weaknesses include internal limitations and factors that are unfavourable for achieving company's objectives. External analyses include opportunities that the company may be able to use as an advantage. External environment also includes threats that may present challenges to performance. (Kotler & Armstrong 2012, 53-54.) SWOT analysis is typically presented in 4-box matrix as on the figure 7.

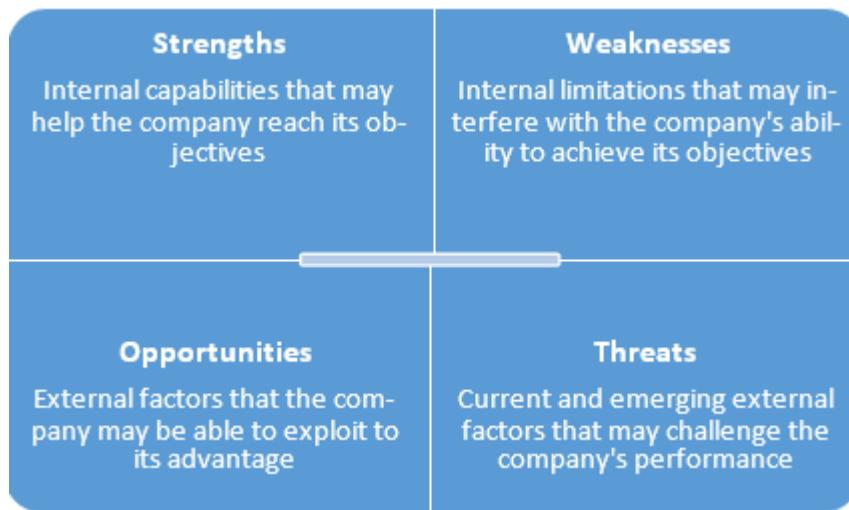


FIGURE 7. SWOT matrix (Adjusted from Kotler & Armstrong 2012, 54)

According to Kotler and Armstrong (2012, 54), the purpose of SWOT is to match company's strengths to attractive opportunities while eliminating or overcoming weaknesses and minimizing threats. The company should analyse the internal strengths and weaknesses as well as find attractive opportunities and identify threats in the environment.

Ferrell & Hartline (2011, 122) mention advantages and disadvantages of SWOT. According to them, the main benefits of the analysis are its simplicity and flexibility. It is easy for everyone to understand but because of its simplicity, many underestimate its value in planning. The simplicity of the analysis may lead to unfocused and poorly conducted analyses. Ferrell & Hartline (2011, 122) highlight that SWOT analysis, by itself, is not productive or unproductive. Rather, the one who uses the analysis will determine the usefulness of the output.

Evaluating international readiness with the help of SWOT

The SWOT analysis for Company X was made by using the researcher's own experience in the company and interviewing the European headquarters' office manager. Table 2 summarizes the main results. The company's international readiness is discussed at the end of this sub chapter.

TABLE 2. SWOT analysis for Company X

Strengths	Weaknesses
<ul style="list-style-type: none"> • Good networks • Coverage in European and Asian market • Committed management • Expertise 	<ul style="list-style-type: none"> • Internal training system • Lately reorganized company structure
Opportunities	Threats
<ul style="list-style-type: none"> • Gateway to Latin America • Existing customers in Spain • Many international companies operating in Spain • Expansion of shopper database 	<ul style="list-style-type: none"> • Uncertain economic situation • Competition in Spanish markets • Increasing amount of online sales

Strengths

One of the main strengths of Company X is their good networks with other mystery shopper companies in the industry. The company has been successful in creating good relationships with partner companies. Networking has created new opportunities to increase sales and it has brought only positive impact on the company.

Company X's business model enabled them to cover wide part of European and Asian market. Such experience enabled to company to expand even more, while gaining trust with partners and customers.

Another strong side of Company X is its highly committed management. The management participates on the daily operations. By showing genuine interest on the company's future, the management affects the overall work environment on a positive manner. The long-term plan is to get global coverage, which can be achieved only with real commitment.

The company has also proven their expertise in the business field, which has led successful partnerships and growing demand. Expertise allows the company to provide high quality results to clients, develop the business, and expand.

Weaknesses

Lately, the company reorganized its structure, which is still causing some confusion between employees. It is not always clear who is supposed to do what. The structure has not been completely

adopted yet. This currently can be considered as a weakness but however, it is expected to be overcome in a matter of time. The new structure is expected to be more efficient and clear compared to the previous one.

The new structure has required training for some members of the personnel. However, the internal training for all the members of the personnel is one of the main weaknesses. There are no regular training system for permanent employees or new ones. Employees are trained for new tasks if it is needed but most of the time this happens irregularly during the workday.

Opportunities

A major opportunity for Company X is that Spain is a good gateway to Latin America. In Latin America, where English skills are much weaker than in Europe, Spanish is widely spoken language. If Company X is successful in covering Spanish markets, the possibility to be successful in Latin America is greater as well. The company's goal is to become a global mystery shopping provider and Spain offers good possibility to expand the business even further beyond its borders.

Other opportunities for the company are its already existing customers in Spain and a wide range of international companies in the market. An office in Spain creates a possibility to offer service that is more extensive for existing customers. International companies in Spain create also opportunities as they might look for another international company to cooperate with rather than a local one.

When a company expands its operations, it also needs to expand its database of shoppers and find personnel. Due to the high unemployment rate in Spain, expanding the database is expected to be smooth. It also might be easier to find highly educated shoppers as well as highly educated personnel.

Threats

The uncertain economic situation creates threats for the business. Changes in regulations are not always predictable and they might be applied in a short period of time and affect the business operations.

Competition in Spanish markets seem to be more intense. Many local operators know the market, culture and language. These companies already have database of shoppers and clients. When competition is more intense, it affects pricing. Company X is known for its quality in surveys, which increases the price. When there are many suppliers, the most important factor for buyers might be the price.

For a mystery shopping company, increasing online sales is an external threat. This, however, is creating new methods to do mystery shopping.

With the help of the SWOT analysis, Company X's readiness for international expansion can be assessed. The committed management is the main strength the company has. The management has

clear objectives and vision to become a global mystery shopping provider. As mentioned earlier, Company X already has international experience as they have business operations in multiple countries and worldwide network. The staff and management are internationally experienced. With the help of the thesis the company will have better knowledge about the business environment in Spain. Taking these factors into consideration, it can be said Company X is ready for the final steps before entering Spain. The expansion is a matter of commitment and time. If the company finds enough evidence that the Spanish market can justify the investment, the financial resources will be provided. The company also has to find and train necessary human resources, which requires time but if the market is found profitable, time will be provided by the committed management.

5.2 Administrative environment

The legal form of the business affects taxes and investment possibilities in the company in Spain. However, most importantly, the legal form affects the owner's own personal financial security.

Spanish law allows different options for foreign investors to establish a business in Spain but this study describes only the processes for a limited liability company and a representative office. First, it is essential to know the meaning of NIE, NIF and CIF numbers.

NIE, NIF and CIF

All residents and non-resident foreigners who have a tax obligation in Spain must have foreigners tax identification number NIE (*Número de Identificación de Extranjero*). The number is needed for working, opening a bank account establishing business and other legal processes in Spain. (Spain Expat 2011.)

NIF (*Número de Identificación Fiscal*) is a tax identification number for all individuals. For foreigners it is the same than NIE number. However, it is possible for non-residents to get a NIF issued without having a NIE if they have to pay taxes in Spain. (Spain Expat 2011.)

CIF (*Certificado de Identificación Fiscal*) is a tax identification number for all companies. It is equal to VAT number and it is required for opening a company bank account and buying properties. (Spain Expat 2011.)

The process of opening a Limited liability company in Spain

According to the World Bank's data collection *Ease of doing business 2014*, Spain is the second most difficult economy to start up a limited liability company in Europe. Spain is ranked at number 142 out of 189 economies when it comes to starting up a business while the average ranking for OECD high income economies is number 60 (ranking number 189 indicates the most difficult to start a business). Spain lags behind even some developing economies such as Rwanda, Zambia, and Kazakhstan in the terms of how easy it is to start up a business. (World Bank 2013.)

Despite the difficulty of starting up a business, a limited liability company (Sociedad Limitada, S.L.) is one of the most common forms of doing business in Spain. The minimum capital required is 3,005.06€ and shareholder's liability is limited to the initial share capital. The process of the opening of a S.L is described below.

1. A clear name search certificate must be applied from the Central Mercantile Registry. The application may contain up to three different company names. The Central Commercial Registry will issue a name reservation certificate.
2. A provisional tax identification number NIF/CIF must be applied from a tax agency. The provisional tax identification number is valid until the registration for Mercantile Registry is completed.
3. A bank account for the company must be opened. The minimum capital of 3,005.06€ must deposit in the bank and obtain a deposit certificate.
4. A document containing representations by the beneficial owner must be executed.
5. A public deed of incorporation before a notary must be executed by the founding shareholders, containing:
 - The founding shareholders' proof of identity and their will to incorporate the company
 - The payment made by every shareholder and the number of shares
 - Administrations / directors identity
 - The name search certificate from the Commercial Registry
 - Company bylaws
 - Fiscal identification of every shareholder
6. Apply registration for the registered office at the Commercial registry.
7. Obtaining of definite NIF/CIF
8. Pay the Asset Transfer Tax and Legal Document Act Tax
9. Company registration at the Mercantile Registry
10. Legalize company books
11. Notification of start operations must be submitted to a private agency authorized by the municipality.
12. Opening formalities for tax and labour purposes must be executed: The Company must be registered for the purposes of VAT, an opening license must be obtained from the relevant municipal council, and the company must be registered for Spanish social security and occupational accident insurance. Procedural formalities are also required at the provincial office of the Ministry of Employment and Social Security.

13. Notify the *Delegación Provincial de la Consejería de Trabajo e Industria*. The company is required to maintain a visit book mentioning the following: Company details, work place details, and description of company / business operations. (Invest in Spain 2013; World Bank 2013; learn4good Ltd. 2014.)

A representative office in Spain

A foreign investor in Spain may operate through a representative office. The representative office is not a separate legal entity from its parent company and it is not registered at the Mercantile Registry. The non-resident company is liable for all debts assumed by the representative office. This form of business has no formal managing bodies since the office performs the activities by virtue of the powers granted to the representative. The representative office cannot conduct any commercial transactions and its business activities mainly consists of coordination, assistance etc. (Invest in Spain 2013.)

The representative office is not registered at the Mercantile Registry in Spain, as it does not require any commercial law formalities. However, for tax, employment, labour law, and social security purposes might need to be signed. (Invest in Spain 2013.)

Gestoria

Gestoria is an agency in Spain that can assist with the Spanish bureaucracy. A *gestor* could be described as administrator or an organizer but he/she is not a licensed professional. A *gestor* is just an individual with experience and good contacts. A good *gestoria* can help with all the bureaucracy and formalities that are needed for setting up a company. Even locals with fluent Spanish might need help from a *gestor* when filing taxes or buying property. A *gestor* knows with whom to speak to and gets things done quickly. (Spain Expat 2008.)

Gestors' advices are not free but normally the first visit is free of charge when he/she can recommend how to get forward or they tell whom to contact. The *gestor* will give an estimation of costs during the first visit. Finding a good *gestoria* might be challenging and it is useful to consider people's recommendations. (Spain Expat 2008.)

Taxation

Due to the economic crisis, Spain has introduced a number of reforms and measures in its taxation system. Some of the reforms affect only temporary while some are permanent. There are many different taxes and regulations in Spain but here are mentioned only the crucial ones. The most crucial direct tax is corporate income tax and value added tax affects indirectly.

Corporate income tax applies to organizations that are resident in the country. A company is considered a resident of Spain if it is formed under the Spanish law, it has a registered office in Spain, or it

has a management unit in Spain. The general corporate income tax rate is currently 30% of taxable income. However, there are reduced tax rates for small and newly created companies. A company is considered small for income tax purposes if the turnover is less than 10 million euros. Then, the taxable income up to 300, 000 is taxed at rate 25% and exceeding part at the general rate 30%. Newly created companies are taxed at a reduced rate of 15% for the first 300, 000 euros income and 20% on the remaining amount. This applies on the first tax period when a company reaches a positive taxable income and during the following tax period. (Pwc 2014, 1855-1856.) The Spanish tax year is the calendar year. Corporation tax is due for payment 6 months and 25 days after the end of financial year. (Invest in Spain 2013.)

Value added tax (VAT) affects indirectly on business. The standard rate of VAT, which is applicable for most goods and services, is currently 21%. However, there are reduced rate of 10% applied on necessities such as some food and agricultural products. Super reduced rate of 4% is applied on necessities as well such as milk, bread, books, and medicine. (Pwc 2014, 1857-1856.)

Another indirectly affecting tax is transfer and stamp tax, which applies on limited number of transactions including the formation of companies and capital increases or reductions, transfer of real estate, transfer of movable property, and certain public deeds. Tax rates vary between 0.5% - 6 %. (Invest in Spain 2013.)

5.3 Foreign companies in Spain

According to the World Bank's indicator *Doing business 2014*, Spain is very attractive for foreign investors. In terms of stock of inward Foreign Direct Investment (FDI), Spain is the ninth biggest resident of FDI worldwide. There are more than 12, 800 foreign companies which amounts over 634 billion dollars of Spanish GDP. (World Bank 2013.)

In 2012, Invest in Spain and International Centre for Competitiveness (ICC) conducted a survey called *A Barometer of the Business Climate in Spain from the Foreign Investor's Perspective*. Over 250 foreign companies located in Spain participated in the barometer that measures the attractiveness of the country. According to the barometer, the most attractive factors for foreign investors are market size, human capital, regulatory environment, infrastructure, and the quality of life. Respondents mentioned the high-speed train and airports as well as the availability of skilled labour to be the most attractive features. The lowest ranked features were labour market, financing, costs, and innovation. The main weaknesses relate to financial aspects such as the cost and availability of financing. Burden of bureaucracy on companies' operations is also one of the worst rated features of the barometer. (Invest in Spain & ICC 2012.)

World Economic Forum published a *Global Competitiveness Report 2013-2014* that lists the most problematic factors for doing business in Spain (figure 8). The results of this survey are quite similar to the barometer mentioned in the previous paragraph. Respondents were asked to choose five most problematic factors and rank them between 1(most problematic) to 5. Access to financing is

clearly considered as the most problematic factor for doing business in Spain. The second most problematic factor is inefficient government bureaucracy. Foreign currency regulations and public health care are not considered problematic when doing business.

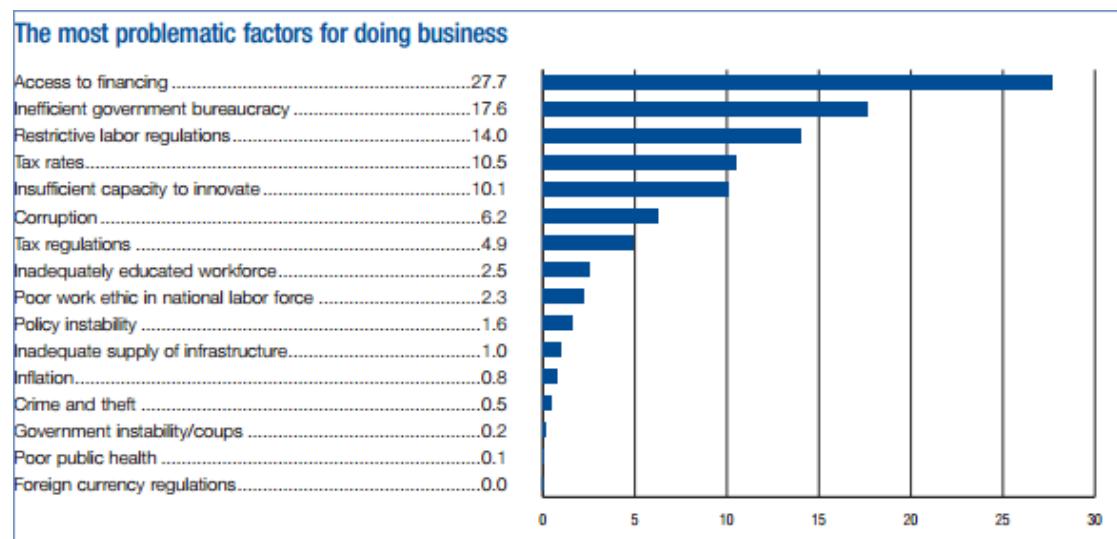


FIGURE 8. The most problematic factors for doing business in Spain (Source: Global competitiveness report 2013-2014)

Overall, on *Global Competitiveness report 2013-2014* Spain was ranked at 35th out of 148 economies when measuring competitiveness. Figure 9 below compares Spain's competitiveness to average innovation economies' competitiveness. As the picture illustrates infrastructure, market size, health and primary education as well as higher education are higher or on the same level with other innovation-drive economies. However, financial markets and innovation are lagging behind with efficient labour markets.

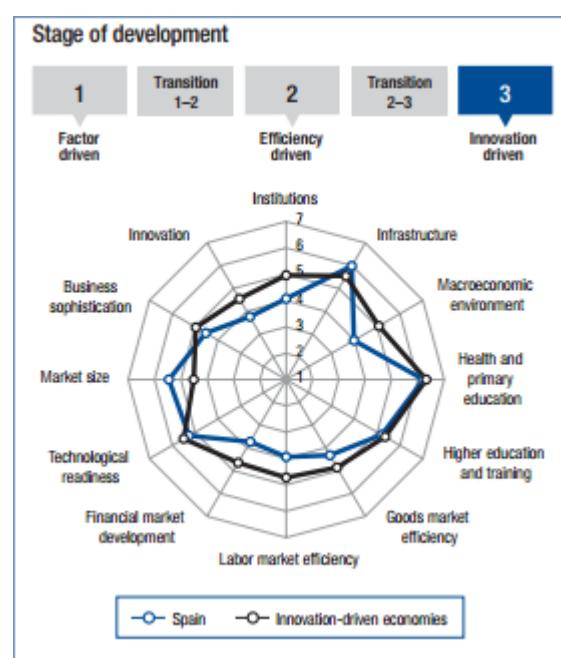


FIGURE 9. Stage of development in Spain (Source: Global competitiveness report 2013-2014)

Field research

In order to get practical experience and knowledge about the external environment in Spain, an open-ended questionnaire was sent to three foreign business owners in Spain. The owners were found through social media where the first contact happened and they agreed to participate in the research. The questionnaire was sent with survey invitation (appendix 1) via email. Two of the questionnaires were in English and one was in Finnish. There were two main themes in the survey: the opening process and running the business in Spain. The questionnaires with full answers can be found in Appendices 1-3 and summary on table 3.

The questionnaire consisted only on open questions where the respondents could formulate their own answers instead of limiting the answers with close-ended questions. Each question was carefully considered to answer the research goals. The questionnaire was divided in three parts: general information, the opening process of the business and running the business in Spain.

There were certain criteria used when choosing the respondents. Firstly, the business owner had to be a foreigner in Spain. Secondly, the business had to be established no later than 2005. Third, the business had to be from a field of service. All these criteria corresponds with the situation of Company X.

Results of the questionnaire and comparison

One of the respondents is specialized in legal services tailored towards UK clients and owned by a Britt. Further on this company is referred as Company A. The second company is a real estate company, further on referred as Company B, and owned by a Finn. The third participant is a consulting company, further on referred as Company C, and owned by a Mexican.

All three companies are working in a service industry but different regions in Spain; Company A is located in Almeria, Company B in Alicante and Company C in Madrid. All companies are small businesses: the owners of Company A and C are the only workers in their business and Company B has four employees in total. Company A is self-employed while Companies B and C are limited liability companies (S.L.).

All the business owners had personal reasons to start up a business in Spain. The businesses are started in 2005-2012. The first part of the questionnaire was regarding the opening process of the business. Everyone had used *Gestoria* during the process. One of the business owners said: "*...whilst I am bilingual, the processes are complex and in my opinion, a good Gestor is imperative.*". There were differences in the time required to start up the business operations. The longest time required was almost two months for the real estate agency, 4 weeks for a legal services and 2-3 weeks for the consultant. However, the consultant mentioned that the paper work was already started two months before the actual opening. No one would do the process differently because with the help of *Gestoria* everything went smoothly.

The second part of the questionnaire was regarding business environment in Spain and running a business. When asking about communication with Spanish authorities, the answers were similar. Communication seems to be difficult even you know Spanish because of bureaucracy. English language skills are not enough and lot of patience is needed. That is why Company B is using Gestoria for every possible occasion and in Company A's opinion, Spanish skills are a necessity. Company C also mentions that most of the people working in governmental agencies do not know English and difficulties cannot be avoided even with fluent Spanish.

On the question of major difficulties experienced when running a business, answers differ. Company A's difficulties are the costs of being self-employed and bureaucracy, which makes simple day-to-day transactions long and complex. Company B does not see any difficulties running a business in Spain. Company C's major difficulties are the environment itself and the current rates. Company C is affected by the current economic crisis because companies are saving and the same job located outside of Spain would pay double.

One question asked to describe the Spanish business environment followed by a question if economic crisis is affecting the business. Company A described the business environment non-existent due to the poor region where unemployment rate is 40%. Company A did not think the business is badly affected by the crisis. Company B mentioned the environment to be relaxed but much slower compared to business environment in Finland. For Company B, the economic crisis have affected on a positive way due to decreased prices in housing sector, which attracts more foreign buyers. Company C describes the environment difficult because of the on-going crisis. The crisis is affecting a lot for Company C's business because companies in Spain are saving. Company C mentions, that the business would be already closed if all the operations had been concentrated in Spain.

The idea of the last question was to find out, if it was easy to find English-speaking personnel. The answers were different due to different needs. Company A does not see finding English-speaking personnel difficult but finding an English-speaking with fluent Spanish would be more of a challenge. Company B is doing business mostly with foreigners and they do not have a need to hire local personnel. Company B describes the language skills of locals very weak and it is difficult to find someone local with English skills. Company C did not find it necessary to hire English-speaking personnel as the owner knows English and fluent Spanish.

TABLE 3. Results of the questionnaire

Question	Company A	Company B	Company C
What made you to open a business in Spain?	Previous work experience on the field in Spain.	Different coincidences, which led to the opening of the business.	Living in Spain at that time.
Did you use Gestoria or did it by yourself?	Gestoria	Gestoria	Gestoria
How long was the opening process?	4 weeks	Almost 2 months	2-3 weeks, but the paperwork was already started two months before
Did you have any difficulties during the opening process?	Delays in office premises	No difficulties	No, because Gestoria took care of everything
Would you do something differently if you go through the opening process again?	Not really	No, because of <i>Gestoria</i> the process was smooth	No
Do you think it is easy to communicate with Spanish authorities?	Politics and bureaucracy makes communication difficult. Patience and smile and persevere.	A third company is used for all the communication to avoid complexity	Communication with authorities is not easy as many of the offices are collecting money.
Do you get along with just speaking English or are Spanish skills necessary?	Spanish skills are imperative	Only English skills are not enough	Communicating even in fluent Spanish is difficult
What are the major difficulties when running a business in Spain?	Cost of being autonomo, tax, bureaucracy, and complex of day to day transactions	No difficulties	Currently the environment is difficult, cheap rates and many companies are saving
How is the economic crisis affecting to your business?	Not badly affected	Positive, because prices on housing sector have fallen down, which attracts foreign buyers	The crisis affects a lot. If operations had only been located in Spain, the business would be already closed.
Did you / do you need to find English-speaking personnel? If you had / have to, do you consider it easy to find English-speaking personnel in Spain?	English speaking personnel would not be a problem. Finding a bilingual would be a greater challenge.	The whole personnel needs to know English. Finding a local with English skills is difficult.	No need for English speaking personnel. The owner is fluent in Spanish.

6 CONCLUSIONS AND RECOMMENDATIONS

This thesis was made for Company X who is specialized in providing mystery shopping services and planning to expand its operations in Spain. The purpose of this thesis was to provide relevant information mainly about Spanish business environment but also evaluate the company's internal resources and capabilities. The research sought to answer of these questions:

1. What are the important factors for Company X to take into account when expanding the business in Spain?
2. What are the necessary steps that Company X should take before expanding business operations in Spain?

The study researches Spain particularly on a foreign investor's point of view pointing out the important factors, before making a decision. The most in-depth findings were regarding the economic situation of Spain and its bureaucratic environment. Socio-cultural findings were also of upmost importance for the results.

Based on the findings it can be concluded that Spain is a very attractive destination for foreign investors despite of its economic situation. Services sector covers more than 70% of Spanish GDP, which creates multiple opportunities for business services like mystery shopping. Many international companies operate the market and customer satisfaction and service has become crucial to stand out from the crowd. Due to the high overall market share of services, multiple mystery shopping companies have foreseen that customer satisfaction would be the key to a successful business.

The difficult economic situation in Spain was one of the features that clearly arose during the research. Spain is currently overcoming the recession and lot of reforms have already been implemented and new ones are coming affecting business activities. Company X needs to be prepared for rapid changes in the business environment. The findings also revealed that increasing number of companies in Spain are cutting costs due to the crisis. This might prevent some companies using mystery shopping as a tool to optimize its operations.

The research revealed that socio-cultural features are unavoidable features in Spanish business environment and more specifically the language skills. English language knowledge is increasing among young Spaniards but is still not commonly spoken in all parts of Spain. Especially older generation does not have English skills but mystery shopping companies need shoppers of different ages. Some parts of Spain, especially outside of tourist areas, English language skills are not common. All the respondents of the questionnaire highlighted the importance of Spanish language. Even though there are many international companies in Spain, it seems to be very difficult to cover the Spanish markets or communicate with authorities without good language skills. It is necessary to have Spanish skills in order to have full coverage on Spanish markets. If the company succeeds in Spain, they have better possibilities to expand the business to Latin America in the future and be closer to their mission to become a global mystery shopping provider.

Database expansion is also more efficient if communication is in Spanish. As mentioned in the first chapter of this research, skilled shoppers are vital for mystery shopping companies. Database expansion is one of the first steps that has to be taken when expanding the operations in Spain. Shoppers are needed all over the country in order to guarantee the best possible results and execute projects as expected and in timely manner. Shoppers need to be recruited before projects and even before the actual market entry. Database expansion requires local knowledge and definitely Spanish skills. For these reasons Company X should take a Spanish person to work within the company before opening an office in Spain. A local person knows the culture and the most efficient ways to recruit Spaniards to become mystery shoppers. This way, the new employee would not only assist in entering Spain, but learn the company's culture and expectations.

In addition to language skills, the research found other aspects of culture to be strong forces to shape the business. The culture affects the work environment, habits, traditions and most of all people's attitudes. As mentioned in the theoretical part, companies can standardize or adapt their marketing mix to local conditions or choose something between standardization and adaptation. For Company X, it would be the best to adapt the marketing mix for the local market as much as possible. The basic product offered is the same as now: mystery shopping service. Every job is customised for the client. For promotion, the company have to make some changes in language communication to get greater coverage. Pricing should be adjusted due to higher competition. However, Company X should not go far from its default price, because otherwise it would risk to lose integrity with customers in other countries. Competition is expected to be very intense when the price becomes the most important factor for buyers, which is the case here. The channel of distribution is short for mystery shopping companies as the service is offered directly to clients. It is very important to keep close relationship with clients, because in long term B2B relationship is more important for Spanish companies than the numerical values of a business relationship.

Based on the results, bureaucracy seems to be notable and unavoidable feature of Spanish business environment. The process to open business operations seems to be relatively complicated compared to other EU countries. The process includes multiple steps and these steps vary depending on the location and the type of the business. The results show the communication with authorities to be difficult even for a fluent Spanish speaker not to mention a non-Spanish speaker. Therefore, many end up using an external company for the starting process and even for day-to-day operations. Recent reforms are expected to bring relief to the bureaucratic burden but the change is slow. Before starting business operations in Spain it is necessary for Company X to consider consulting someone with knowledge and experience.

Due to the high amount of bureaucracy, uncertain economic situation in Spain and unknown culture, it would be recommended to train an individual in European headquarters to represent the company in Spain. The trained Spaniard could represent the company in Spain without opening premises yet. The representative person would not have any rights to conduct business activities independently

but the person could meet prospective clients. In this way it might be possible to get a complete picture of the market and find out how much demand there is before making bigger investments.

To open a new limited liability company (S.L.) in Spain is also an option. This option is a bigger investment and involves more risks. Before opening an S.L., Company X should ensure that they have projects in Spain. Prospecting needs to be done prior the entrance. Based on the research and the outcomes, the company should consider hiring an external company for the legal opening process. It seems that the legal process requires time and knowledge, which the external company can provide with less trouble. The entity would have its own legal rights and rights to make independent decisions.

In addition to external features, internal capabilities and resources of Company X were evaluated as well. Based on the interview with the manager of the European headquarters and researcher's own experience in the company, the strengths and opportunities seem to be more valuable compared to the weaknesses and external threats. Existing customers and the company's wide networks are the strongest positive features the company has. The company would concentrate on gaining more market share and trust of Spaniards and expand their networks in Spain via existing contacts.

One of the internal weaknesses mentioned in SWOT analysis was Company X's internal training for employees. The training for new and permanent employees is not at a good level and causes confusion in the company. This is not important only because of the possible expansion in operations but also for the entire company and its future. For new employees, it would be good to arrange a training day before actual work assignments. This way the new member would adapt himself faster to the work team and its practices. The training should include the basic information on job description, responsibilities in the company and the purpose of the work. The training should be done with more experienced staff. Not only new members need training but also other members of the staff when moving to new job assignments or just for updating the work methods. Internal training is important for all the members in order to create the team spirit. This weakness is possible to turn into a strength by creating a training plan.

Above all the research strengthened the conception of prior planning. The expansion has to be fitted well in the company's strategy. Even though the company has some experience in Spanish markets and international expansion, a new business unit and a new market requires detailed business planning. The importance of business planning cannot be highlighted enough. A clear plan helps companies to achieve the desired targets. The plan should include a comprehensive market research and financial figures that were excluded from this thesis.

7 DISCUSSION

Companies are working more and more beyond national borders. Expanding internationally creates new opportunities for companies to grow. Global firms see world as a one huge market but not everyone has the same wants and needs. Foreign market creates challenges and requires prior research and more preparation than the familiar domestic market.

In the beginning of the thesis process, the idea was to use only secondary sources as research material and keep the research as a desk research. However, the thesis seemed like something was missing and for this reason, a small survey was conducted in order to get primary data and reach the research goals better. The questionnaire was meant to gather practical knowledge and see how other foreign business owners in Spain experience the external environment. It appeared to be rather difficult to find foreign business owners in Spain to answer the questionnaire. Also, because there were no possibilities to conduct face-to-face interviews, the results were not as detailed as expected. Despite of this, the results of the questionnaire supported the secondary data and gave relevant information about the business environment.

The case company made it clear that the only business types they wanted information on are limited liability company and representative office. It was decided that it would be unnecessary to list all the business types available in Spain. This created some challenges as it was not clear what would be the theoretical framework of the thesis. The research was not an entry plan, business plan or market research. The research ended up to be an information guide. International marketing combined with strategic marketing seemed to offer the best theoretical framework for reaching the goal. One of the problems was to find suitable structure for the thesis but after multiple times of moving the chapters and paragraphs the most suitable order was found.

One part of the thesis was to evaluate Company X's internal resources and capabilities and estimate if the company is ready for international expansion. The research was easier to conduct as I worked in the company during the process and had personal experience and knowledge about the operations. It was also easier to discuss about the research with the office manager of the case company. However, it was not fully possible to assess the international readiness as the financial figures were not provided and the emphasis was more on marketing.

The thesis process was challenging but interesting experience. The process appeared to be much slower than expected and it taught to be more persistence. There were plenty of information available about Spain which made it difficult to decide which information to leave out. It was interesting to research Spain and it met my personal interest and kept motivated during the process.

The thesis was basically done during spring 2014 when I was working in the company as a part timer. The company was very flexible and gave the time for writing the thesis. The process started with the thesis instructor in January 2014 and it was basically written by June 2014. As the company

located in the Netherlands and I was there during the whole process, it was not possible to arrange a face-to-face meeting with the thesis instructor. This made the process little bit slower than expected and due to practical reasons, it was easier to complete the process in the beginning of 2015. I managed to keep up the motivation during the process surprisingly well. It was interesting to find out more about mystery shopping industry and Spain.

The research provided useful information for Company X and pointed out several features about the business environment in Spain. However, the research is not a comprehensive business plan and the expansion might need some further research and more planning. The company can use the thesis as a base in their future planning and choose the information needed. Further research could cover such aspects as the level of competition and demand of mystery shopping as the economic situation as Spain is still recovering from the crisis started in 2007. Financial situation has a huge impact on a company's possibilities to expand but financial part was excluded from the study.

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APPENDICES

APPENDIX 1: SURVEY INVITATION

Dear business owner,

I am a student in Savonia University of Applied Sciences in Finland. I am currently writing my bachelor's thesis on the topic of the opening process of a business in Spain. The thesis also discusses the business environment in Spain.

I hope you could take a few minutes to answer the questions below to support my research. The answers will be treated confidentially and anonymously referring only to your field of industry and the location of your business. The answers will be published in my thesis.

I appreciate your time. Thank you in advance!

Kind regards,

Milla-Riitta Markkanen

APPENDIX 2: RESULTS OF THE QUESTIONNAIRE FOR COMPANY A

BACKGROUND

- 1. Field of your Business and its legal form:** Conveyancing and general legal services, tailored towards UK clients. Self-employed.
- 2. Location city:** Based in Zurgena, Almeria.
- 3. Starting year:** Opened in January 2012.
- 4. The size of your business (how many employees?):** I work on my own
- 5. What made you to open a business in Spain?:** I previously worked for a Spanish Legal firm (8 years). At the end of 2011, the closed the office which I ran in Vera, Almeria and as such. I was made redundant. As the company did not want the "burden" of the client base in Almeria (they had their main office in Alicante) this was offered to me and I decided to set up my own business.

OPENING PROCESS

- 6. Did you use Gestoria or did it by yourself?** I used a Gestoria - whilst I am bilingual, the processes are complex and in my opinion, a good Gestor is imperative.
- 7. How long was the opening process?** 4 weeks
- 8. Did you have any difficulties during the opening process? What kind of difficulties?**
The only really problems were delays in my office premises being ready
- 9. Would you do something differently if you go through the process again?** No, in reality, I should have seen my redundancy coming and had the foresight to set up my own business earlier. It is very hard work being self-employed but I have a good network of contacts and can work to the standards that I prefer rather than being dictated to!

RUNNING THE BUSINESS

- 10. Do you think it is easy to communicate with Spanish authorities?** The politics and bureaucracy in this area make communication very difficult - you have to be patient and smile a lot and PERSEVERE!!!

11. Do you get along with just speaking English or are Spanish skills necessary? IN MY OPINION, SPANISH IS imperative

12. What are the major difficulties when running a business in Spain? The cost of being Autonomo (self-employed) and the tax we have to pay as well as the bureaucracy mentioned before - this is still a paper society so simple things have to be paper led and processes are long and complex for simple day to day transactions

13. How would you describe the Spanish business environment? In this area, it is virtually non-existent, we are in the poorest region of Spain with unemployment running at approx. 40% and very little ambition

14. How is the economic crisis affecting to your business? I am not in reality badly affected as my philosophy has been to charge less and work harder!!

15. Did you / do you need to find English speaking personnel? If you had / have to, do you consider it easy to find English speaking personnel in Spain: English speaking personnel would not be a problem.... finding someone English who spoke fluent Spanish would be more of a challenge

APPENDIX 3: RESULTS OF THE QUESTIONNAIRE FOR COMPANY B

TAUSTAKYSYMYKSET

- 1. Yritysalasi ja yritysmuoto:** Kiinteistövälitystoimisto. Sociedad Limitada (S.L.)
- 2. Yrityksen sijainti:** Yritys Sijaitsee Alicanten maakunnassa Torreviejan kaupungissa.
- 3. Aloitusvuosi:** Yritys perustettu 2005.
- 4. Yrityksen koko (kuinka monta työntekijää?):** Työntekijöiden määrä tällä hetkellä 4.
- 5. Mikä sai sinut avaamaan yritystoiminnan Espanjassa?:** Yhteensattumien summa, joka pakotti perustamaan yrityksen.

AVAAAMISPROSESSI

- 6. Käytitkö yrityksen avaamiseen Gestoriaa vai hoiditko prosessin itse?:** Käytin gestoriaa.
- 7. Kuinka kauan avaamisprosessi kesti?:** Kesti noin muutaman kuukauden.
- 8. Koitko vaikeuksia avaamisprosessin aikana? Jos koit, niin millaisia?:** Ei ollut vaikeuksia.
- 9. Jos kävistit avaamisprosessin uudelleen läpi, tekisitkö jotain toisin?:** En tekisi mitään toisin, gestorian kautta asia hoitui helposti.

YRITYSTOIMINNAN PYÖRITTÄMINEN

- 10. Onko viranomaisten kanssa toimiminen helppoa?:** Viranomaisten kanssa toiminen olisi varmasti mutkikasta vaikka osaakin espanja sujuvasti. Käytän aina kirjanpitäjän/asianajajan palveluita, jolloin asiat hoituvat kerralla oikein ja vaivattomasti.
- 11. Pärjäätkö pelkällä englannilla esim. virastoissa vai onko espanjan osaaminen välttämätöntä?:** Pelkällä englannin ei pärjää paikallisissa virastoissa.
- 12. Mitkä ovat suurimmat vaikeutesi yritystoiminnan pyörittämisessä?:** En näe vaikeuksia yritystoiminnan pyörittämisessä.
- 13. Kuinka kuvailisit Espanjalaista liiketoimintaympäristöä?:** Liiketoiminta on aika hidasta verrattuna Suomeen, sovitusta ajoista ei pidetä välttämättä kiinni. Muutoin ihan rento ilmapiiri tehdä töitä.

14. Kuinka Espanjan talouskriisi vaikuttaa yritystoimintaasi?: Tällä hetkellä positiivisesti, koska asuntojen hinnat ovat laskeneet, joten ulkomaalaiset ostajat ovat innokkaita ostamaan asuntoja. Aikaisemmat uudistukset, jotka ovat vaikuttaneet yritykseeni, ovat lähinnä olleet alv:n nousu.

15. Onko sinun tarvinnut löytää englantia osaavaa henkilökuntaa? Osataanko englantia yleisesti?: Kaikkien työntekijöidemme tulee osata vähintään englantia (kirjoittaminen/suullinen). Paikallisten kielitaito on yleensä aika huono, joten on todella haasteellista löytää paikallista henkilökuntaa kuka osaisi edes englantia niin että sillä pystyy työskentelemään saatka sitten että osaisi joitain toista vierasta kieltä. Tosin yleensä emme edes hae paikallista henkilökuntaa, koska asiakkaamme on pääosin ulkomaalaisia. Hyvien työntekijöiden (ketkä osaisivat espanjaa, englantia ja joitain kolmatta kieltä sujuvasti) löytäminen on aika haasteellista.

APPENDIX 4: RESULTS OF THE QUESTIONNAIRE FOR COMPANY C

BACKGROUND

- 1. Field of your Business and its legal form:** IT consulting. Sociedad Limitada (S.L.).
- 2. Location city:** Madrid
- 3. Starting year:** 2008
- 4. The size of your business (how many employees?):** Micro company, 1 employee only.
- 5. What made you to open a business in Spain?:** I was living in Spain that time.

OPENING PROCESS

- 6. Did you use Gestoria or did it by yourself?:** I hired a gestoria
 - 7. How long was the opening process?:** It was like 2-3 weeks, but I have hear that now it is faster and you can do most of it online.
- 8-9: Did you have any difficulties during the opening process? What kind of difficulties?**
Would you do something differently if you go through the process again?: The Gestoria did everything and I had plenty of time to wait for it to be settle because I started the paperwork two months before I need it.

RUNNING THE BUSINESS

- 10. Do you think it is easy to communicate with Spanish authorities?:** It is not easy to talk to them, now they are mainly focus on collect money, most of the people who work there doesn't Speak English.
- 11. Do you get along with just speaking English or are Spanish skills necessary?:** I speak Spanish as a mother language and even with that I have difficulties.

12-14: What are the major difficulties when running a business in Spain? How would you describe the Spanish business environment? How is the economic crisis affecting to your business?: If I were focus only in Spain my company will already be closed a few years ago, all my business is out of Spain, the enviroment is difficult, in my case rates are very cheap if you are allocated in Spain, which means the same job pays some time double outsid eof Spain, the crisis affect it a lot, all companies are trying not to spend, everything is cost saving and even ompanies who dont need it that much, they take the flag of cost savings to reduce personal, etc.

15.Did you / do you need to find English speaking personnel? If you had / have to, do you consider it easy to find English speaking personnel in Spain: I am fluent in Spanish.