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Science establishment searches for the 'missing link' of enterprise

The country often falls down on the development part of research and development as it lacks a strong tradition of venture capital financing, writes **Mark Mulligan**

When Francisco Martin began scouting for funds to launch a web-based recommendation site for music lovers three years ago, people told him that he was mad.

Compact disc sales were diving, digital sharing systems were being banned, iTunes' popularity was soaring and Amazon was leaving little room for competitors in online music sales.

However, the award-winning Spanish computer scientist persevered, managed to raise €4m of seed capital and in February of this year launched MusicStrands, a type of Google for music lovers, built on artificial intelligence that identifies links between differing musical tastes.

Today, with a fresh €25m cash injection from Debaeque, a French venture capital business, the company is expanding in the US, where half its 40-strong staff is already based.

"If everything goes well, we should be generating profits by next year," says Mr Martin. Revenues will come mainly from commissions or recommendations that result in online sales at other companies.

His case is unusual in Spain, where financing for high-tech start-up companies is scarce. Although government spending on research has increased sharply in recent years, the country is still short on the private capital and enterprise to get ideas out of the laboratory and into the market.

The financing breach is partly explained by the dotcom crash in 2000, which hit Spain hard. However, national particularities such as lack of worker mobility, heavy bureaucracy, relatively low use of technology and a cultural adversity to risk-taking goes a long way to explaining the rest of the equation.

"In Spain we have little experience in spinning out companies from research in the style of, say, the Massachusetts Institute of Technology," says Mr Martin.

In biotechnology, where Spanish research is highly rated in niche segments of agro-industry, medicine and alternative fuels, the problem is just as acute. Although accounting for 4 per cent of all research published in the world, Spain's share of awarded patents is just 0.16 per cent of the European total.

"Spanish biotechnology is growing four times faster than the average of the European 15," says a recently published report by Spanish Genome Foundation. "However, the actual relative size of the sector is half the European average."

According to the report, one of the problems is scarcity of seed capital for biotech start-ups. The sector last year attracted just 0.2 per cent of all private equity investment in the country, compared with 2.2 per cent for Europe as a whole and 20.4 per cent in the US.

"What is often missing is the "development" in research and development," says Thibaud Durand, executive vice-president of Blueline, which invests in, and provides solutions for , IT and biotech companies.

However, he says what the country lacks in co-ordination and financing, it makes up for in raw talent and expertise in a range of high-tech sectors.

"If you look at Spain as an economist, you will see some structural imbalances," he says, "However, on the ground, you see a different Spain, one that is finding niche areas in research and development."

Carlos Marquerie, chief executive of Blueline, says generational changes are fuelling a more innovative approach to business at the small and mid-sized companies.

"The big quoted companies are always looking for breakthrough innovation, a product or idea that can make a quick difference to the bottom line," he says. "However, the family companies are looking for continuity – they want to innovate business models and production processes."

On a broader scale, Spain lags behind most of "old" Europe when it comes to developing information technology and using it in the workplace and in the home.

A recent study by BBVA, the Spanish bank, identified the sluggish integration of IT solutions into daily life as one of the key reasons for Spain's loss of global competitiveness in recent years.

"By eliminating persistent inefficiencies and fully utilising new technology, annual growth rates in Spain between 1995 and 2002 would have been 1.8 percentage points higher," the report concludes.

Government policy is partly to blame, say many observers. Teaching skills and course material in state schools and universities have failed to keep pace with the IT revolution and the demands of globalisation, while the results of regional programmes to attract investment in IT companies have been patchy at best.

Although it is regarded internationally as a great place to work and study, Barcelona, for example, has failed in its efforts to become the Silicon Valley of Europe, drawing instead traditional electronics manufacturers and outsourced services, such as call centres.

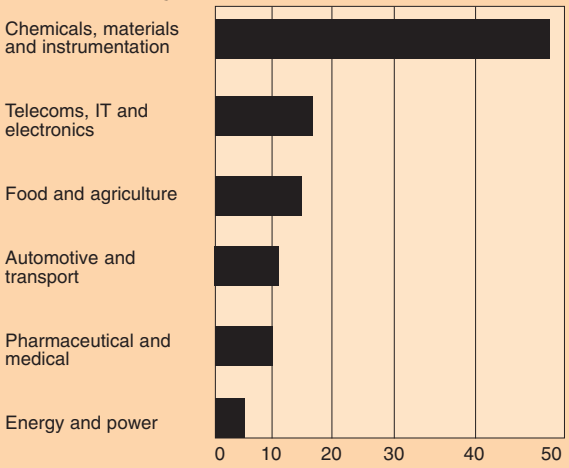
MusicStrands' Mr Martin, who was the first person to spin off a company from Barcelona's Artificial Intelligence Research Unit, blames top-heavy bureaucracy, poor links between academia and the private sector and a lack of venture capital and fiscal incentives.

"A Syrian engineer who is attracted to Barcelona as a great place to live should be drawn by the sort of jobs available," he says.

Innovation indicator: Spain compared

Country	Patents Filed	World Rank
Germany	**55,478**	**4**
Italy	**4,869**	**10**
Australia (similar GDP)	**4,142**	**11**
Spain	**2,260**	**15**
Mexico (similar GDP)	**308**	**29**
Portugal	**134**	**33**

Patents filed by sector (% of all patents filed in Spain)



Tables show number of national applications published worldwide in 2004. Where patents are applied for in more than one country, the priority country is the original country of application.

Source: Thomson Scientific www.scientific.thomson.com