



Instrument: SP4-Capacities - CSA - Support Action

Call: FP7-SME-2009-1

Grant agreement Number: 245459

Start date of project: 1st December 2009

Duration: 24 months

Project acronym: GPrix

Project full name: Good Practices in Innovation Support Measures for SMEs: facilitating transition from the traditional to the knowledge economy

Consortium:



Del. 1.2 - SWOT analysis and SME profiling of Comunidad Valenciana (Spain)

Date of deliverable: 30th June 2010

Organisation name of lead beneficiary for this deliverable: INOVA+

Author (s): The GPrix consortium

Project co-funded by the European Commission within the Seventh Framework Programme (2007- 20013)		
Dissemination level		
PU	Public	<input checked="" type="checkbox"/>
PP	Restricted to other programme participants (including the Commission Services)	<input type="checkbox"/>
RE	Restricted to a group specified by the consortium (including the Commission Services)	<input type="checkbox"/>
CO	Confidential, only for members of the consortium (including the Commission Services)	<input type="checkbox"/>

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1 Executive Summary

1.1 Objective of the deliverable

The objective of this deliverable is to report on the regional economic fabric of the 7 regions. The report uses a common template for the 7 regions so each partner can develop regional reports with the same structure and information, including a detailed SWOT analysis. This first report on the targeted regions will provide a baseline to support the development of the following reports on the regions later on:

- A contextual analysis of regional innovation policies and strategies in terms of Innovation-led growth paths (Deliverable 1.5).
- List of selected measures for good practice case studies (Deliverable 1.6)
- An inventory of R&D&I support measures and an impact analysis on regional SMEs, using primary and secondary data (Deliverable 1.7).
- Innovation pathways of SMEs in traditional sectors (Deliverable 1.8)

These reports will be complemented by a global analysis at EU level of R&D&I support measures and their impact on the transition of regions from traditional to knowledge based economies on WP2.

Resulting from this research study, a set of recommendations regarding more efficient R&D&I measures will be produced and validated at European level, while the participating regions will serve as a test bed for their implementation by including them in the Local Action Plans to be developed and implemented by the UNIC project.

1.2 Identifying a “traditional sector”

Our concern is with “traditional manufacturing sectors”. We do not define “traditional” only - or even mainly - according to the standard OECD classification of industries as “high”, “medium” or “low-tech”.¹ This approach does not capture the complexities of traditional industries nor does it show the dynamic nature of the firms. For instance, some traditional industries may be low-tech but others are not (e.g., automotive). Indeed, once we define industry at a level meaningful to practitioners - say, at the SIC 4-digit level - characterization of whole industrial sectors as “high”, “medium” or “low-tech” may be misleading.

For example, pottery/ceramic products in SIC 262 includes sectors that may operate at different levels of R&D intensity (e.g., SIC 2621 – manufacture of ceramic household and ornamental articles - and SIC 2624 – manufacture of technical ceramics).² Moreover, even

¹ These categories are defined by research and development ‘intensities’ – that is, OECD average shares of research and development expenditure in sales revenue – of, respectively, more than 10 per cent, between 0.9 and 10 per cent, and less than 0.9 per cent.

² In the British Standard Industrial Classification (SIC), which follows the same classification principles as the EU NACE classification, the principal pottery/ceramic products in SIC 262 comprise SIC 2621 – manufacture of ceramic household and ornamental articles, including table ware, kitchen ware, ornamental articles and toilet articles (excluding large sanitary fixtures); SIC 2622 – manufacture of ceramic sanitary fixtures; SIC 2623 and 2624 – manufacture of technical ceramics; and SIC 2626 –

the same 4-digit industry may include substantially different intensities with respect to R&D and other types of innovation activity (e.g., commodity earthenware producers and specialists in hotel ware).

Our preferred approach to defining “traditional industry” is multi-dimensional, reflecting not only measurable characteristics but also a range of concerns or anxieties.

We define as “traditional” those manufacturing industries with at least the majority of the following characteristics.

Long established. Traditional implies history. One interpretation would be that the industry should have been established at least during the inter-war years (1918-1939) if not before. This is sufficiently broad to include, say, the motor industry but to exclude, say, computing. Most of the industries in which we are interested have been established for much longer, such as leather.

Strictly speaking, age is both a necessary and sufficient condition for an industry to be classed as “traditional”, which suggests the major theme of longstanding processes or products. However, we are also interested in industries with at least some of the following characteristics:

Once a - even the - main source of employment at the sub-regional level (possibly even the regional level in certain cases).

In the mature or declining phase of the industry life-cycle, with recent decline typically associated with globalisation. Because these industries are long established, knowledge has diffused and enabled production to develop in and/or be relocated to new locations with lower costs. This applies to at least some of our industries (e.g., ceramics) although not necessarily to all (maybe food processing?).

Labour intensive, so that relocation of production to low-wage economies has particularly serious consequences for manual employment in the (sub) regional context. Of course not all aspects of production may be out-sourced to low-wage economies such as design and marketing. However, a key element of the traditional nature of the industries is that some or most of the repetitive, low-skilled, manual work is indeed out-sourced from EU countries.

Major sources of wealth creation and employment in regional (or, at least, sub-regional) economies. In spite of recent decline, the traditional industries in which we are interested continue to be important to regional or, at least, sub-regional economies.

Retain capacity for innovation, hence the potential to continue as important sources of wealth creation and employment. This issue can be linked to the core competencies where firms will retain what can add value (make strategy) and out-source what the market can produce more cheaply and/or efficiently (buy strategy). Conversely, traditional industries may be ones in which “conditions of low

manufacture of refractory ceramic products (CSO, 1993). Related industries, but outside SIC 262, include the manufacture of ceramic tiles and flags (SIC 2630) as well as bricks, tiles, and construction products (SIC 2640).

technological opportunities limit innovative entry and restrict the innovative growth of successful established firms” (Breschi et al., 2000, p.393).

Recent and often dramatic decline is why we are especially concerned with traditional industries because traditional industries often remain important sources of wealth creation and employment in regional (or, at least, sub-regional) economies they are of concern to public policy; and capacity for innovation is likely to be both a feature of any industry that survives long enough to be classified as traditional and a necessary condition for a positive return on public sector support for these industries.

This potential for innovation may be more associated with particular industry groups (at the NACE/SIC 3-digit and/or 4-digit levels) firms than with the industry as a whole and, possibly, with SMEs rather than with larger and established industry leaders. Accordingly, we should also be careful to distinguish high-tech and dynamic industries or even firms within broadly defined traditional sectors.

Evidence of significant capacity to diversify from within a traditional industry towards new, high-growth activities: i.e., the possibility of high-tech and dynamic industry groups emerging within broadly defined traditional sectors. Sectors defined at the NACE/SIC 2-, 3- or even 4-digit level may be sufficiently heterogeneous to give rise to industry groups able to diversify into new technologies and products.

An example is the textile industry that as well as the “rag trade” has also witnessed the growth of technical textiles. The general point is to note significant diversification from within traditional industries towards new, high-growth activities.

Additional characteristics, although not necessary conditions, of traditional manufacturing industries might also be:

Substantial contribution to regional (or, at least, sub-regional) **exports**, even if the industry has recorded a deteriorating trade balance as part of overall decline associated with growing competition from imports.

Geographically concentrated; traditional industries may or may not be geographically concentrated and so constitute a “cluster”. This characteristic can vary between industries where economies of agglomeration are useful for some industries, such as ceramics, but not others.

2 Comunidad Valenciana

2.1 ECONOMIC CONTEXT OF THE REGION

History

The city of Valencia has traces of different civilizations, which have left their cultural legacy. Founded by the Romans in the second century B.C., it was overrun by the Visigoths and later by the Arabs. These turned the city into an essential economic and cultural centre. The Arab heritage still remains in agriculture and traditional craftsmanship, particularly in the irrigation systems and the growing of rice and oranges. First freed by Rodrigo Díaz "El Cid", Valencia wouldn't be reconquered until 1.238 by the Aragonese monarch Jaume I, who conferred it its own legislation. The centuries XV and XVI are representative of an economic, political and cultural revival. Valencia became one of the most powerful cities of the Mediterranean Sea.

In 1707, in the context the War of the Spanish Succession, and by means of the Nueva Planta decrees, king Philip V of Spain subordinated the Kingdom of Valencia, and the rest of the counties belonging to the former Crown of Aragon and which had retained some autonomy, to the structure of the Kingdom of Castile and its laws and customs. As a result of this, the institutions and laws created by the Furs of Valencia were abolished and the usage of the Valencian language in official instances and education was forbidden. Consequently, with the House of Bourbon, a new Kingdom of Spain was formed implementing a more centralized government than the former Habsburg Spain.

Throughout the XVIII century, Valencia took part in the cultural and economic renaissance of the country. In the XIX century the middle-class was the most favored social class, offering their backing to the monarchy and taking advantage of the increase of exports to other countries. At the beginning of the XX century, metallurgy, fabric factories and electric power plants quickly developed. The first attempt to gain self-government for the Region of Valencia in modern-day Spain was during the 2nd Spanish Republic, in 1936, but the Civil War broke out and the autonomist project was suspended. During the Civil War, Valencia was for some time capital of the republican government. In 1977, after Franco's dictatorship, Valencia started to be partially autonomous with the creation of the Consell Pre-autonòmic del País Valencià (Pre-autonomous Council of the Valencian Country), and in 1982 the self-government was finally extended into a Statute of Autonomy creating several self-government institutions under the Generalitat Valenciana. Nowadays, the region is divided into three provinces: Alicante, Castellón de la Plana and Valencia - and thirty four counties.

Facts and Figures

The Comunidad Valenciana is an autonomous community situated in eastern Spain (Fig 1.) With its Mediterranean coastline (518 km), the region covers 23,255 km² of land; its extension compared to the national area, represents the 4.60%. The population of Comunidad Valenciana is unequally disseminated in the three provinces, having Valencia more than a half of the population. In 2009 the total population was 5.094.675 million inhabitants (4.692.449 in 2005) which represents 10% of the total population of Spain. The region is composed of three provinces, Alicante, Castellón de la Plana and Valencia. Some 39% of the region lies at an altitude of more than 600 m, and the relief comprises a chain of mountains, the highest of which are Aitana (1 558 m) in the south of the region and Peñagolosa (1 831 m) in the north. The principal rivers are the Júcar, the Segura and the Turia.

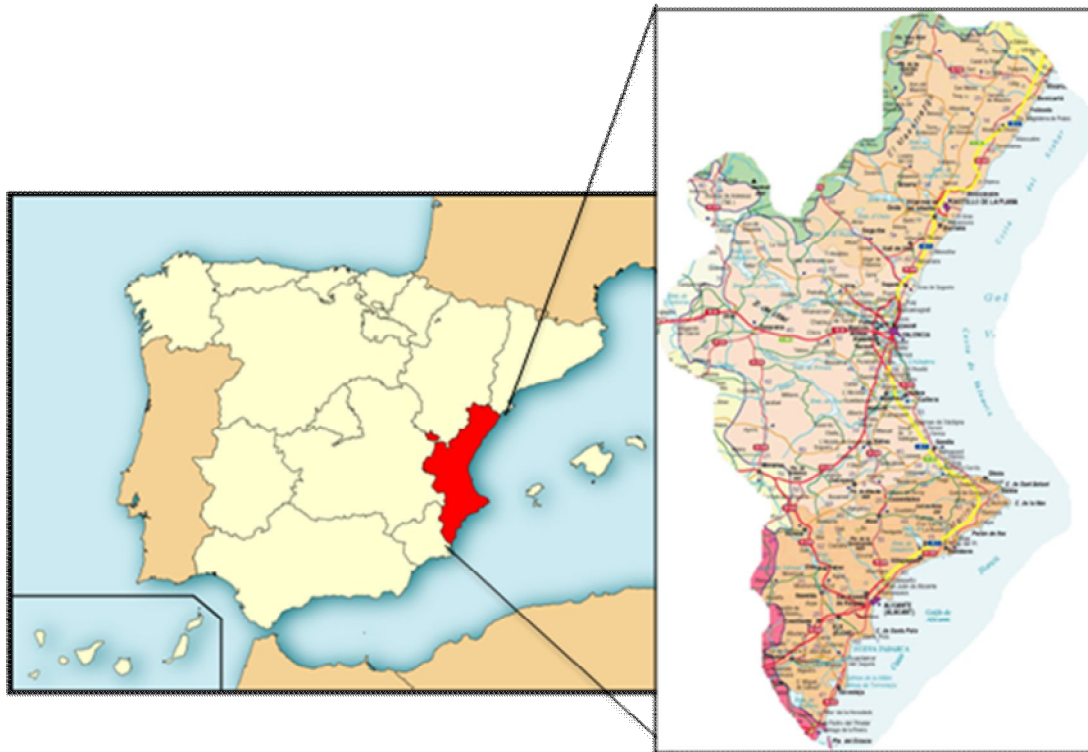


Figure 1. Location of Comunidad Valenciana in Spain

Valencia has a generally mild climate, heavily influenced by the neighboring Mediterranean Sea. Still, there are important differences between the inland and coastal areas.

The population density is around 201.78 hab/ km², this value is higher in the central and southern regions and minor in the northern and inner ones. This distribution is derived from the traditional distribution of people which originated in the orographic characteristics of the Valencian territory and the possibility to obtain irrigated land agriculture. Demographics were also affected by the great industrial activity and the commerce of agriculturally derived products during the XX century of non coastal cities like Alcoi, Elda, Ontinyent, Petrer, Villena, and La Vall d'Uixó.

In the last years, concentration in great capitals and its metropolitan areas has increased considerably, especially in all the coastal cities and towns. Thus, traditionally small populations such as Benidorm or Torrevieja have undergone a considerable population increase (still more remarkable during summertime) due to the seasonal migration of tourists. Therefore, Valencia's population is nowadays clearly urban and coastal, also influenced by seasonal tourism.

In terms of the population distribution by age (Fig 2), ageing can be observed, since the groups of population older than 40 have increased in the last 5 years contrary to those younger that have significantly decreased. Life expectancy in the region is slightly lower than the national average both for men (74.7 years, compared to 75.6 years) and for women (81.4 years compared to 82.9 years). Even so, these figures are still among the highest in the world.

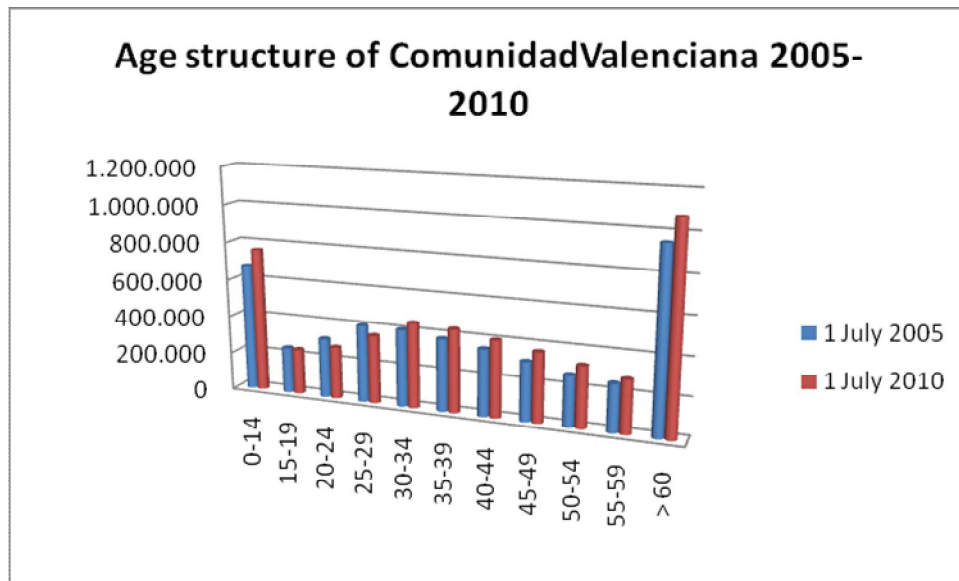


Figure 2: Age structure of Comunidad Valenciana 2005-2010.

Source: National Institute of Statistics.

From the mid Eighties, after Spanish entrance in the EU, the flow of immigrants has experienced a remarkable and progressive growth. In those same dates a qualitative change in the type of immigration begins to take place, sending the European presence and increasing the people coming from Africa and Latin America. Demographic growth over the last ten years in the Region of Valencia has mainly been due to migratory movements in and out of the region, since the vegetative growth during this period was only 0.4%. In fact, there was a positive migratory balance of 53.823 people, coming mostly from foreign countries, as can be seen in Table 1[1].

Region	Domestic migrations	External immigration (Spaniards)	External immigration (Foreigners)	TOTAL	%
Andalucía	2.150	2.991	63.805	68.946	17,10
Castilla y León	-2.997	1.089	15.544	13.636	3,38
Castilla - La Mancha	6.691	577	18.902	26.170	6,49
Cataluña	-2.827	5.240	125.252	127.665	31,66
Comunitat Valenciana	-6.291	2.410	57.704	53.823	13,35
Madrid (Comunidad de)	-2.200	6.896	87.648	92.344	22,90
Pais Vasco	1.869	1.202	17.577	20.648	5,12

Table 1. Domestic migration and external immigration of Spaniards and foreigners by autonomous regions (2009). Source: National Institute of Statistics. Statistics on Residential Variations

Changes in GDP per capita (Table 2) in the region have been similar to those in the whole of Spain. In 2007, the Region of Valencia generated 9.7% of the Spanish GDP. In human resources, the rate of unemployment was located around 12,12 %, being greater among women, and the rate of activity reached 57,39% in 2008.

[1] National Institute of Statistics (INE)

	1995			2000			2007		
	M€	%	€/hab	M€	%	€/hab	M€	%	€/hab
Comunidad Valenciana	42.245,4	9,45	10.801,73	60.985,3	9,7	47.336,5	102.573,2	9,7	65.830,8
Alicante	13.308,4	2,98	10.115,52	19.768,1	3,14	14.081,31	35.352,6	3,36	19.548,50
Castellón	5.719,0	1,28	12.531,42	8.575,9	1,36	18.187,35	13.855,8	1,32	24.507,34
Valencia	23.218,0	5,19	10.854,76	32.641,3	5,18	15.067,85	53.364,8	5,07	21.774,98
Total Spain	447.205	100,00	11.353	630.263	100	15.653	1.088.502	100	23.874

Table 2. GPD at market prices in the Comunidad Valenciana. Source: National Institute of Statistics. Social Indicators. Income.

According to the latest estimates of growth rates of GVA, the economy of the Region will close 2010 with a 0.5% contraction in total GVA, equal to the Spanish average. This way, the available indicators show that the Valencian economy behavior is in line with the Spanish economy and the euro area economy, which are rapidly moderating the declining of their economic activity.

However, some of the available indicators at present in Comunidad Valenciana, suggest a moderate economic recovery in 2010 that will be intensified in 2011. Thus, the overall balance of the Valencian economy for 2010 is as follows: The variation rates at the end of 2009 were lower than those offered by the Spanish economy as a whole, closing the year with a -0.5% variation rate. However, during 2010, the Valencian economy is showing signs of an incipient recovery. The economy indicators have a similar variation pace than the Spanish economy. This allows to predict that the recovery of the Valencian economy will evolve at the same time than the rest of the country, and will be evident in the rate of GVA growth rates for the years 2011 and 2012 [2].

The Valencian region has a modern network of motorways, and the region's rail network is well developed too, connecting the Commune with Madrid, Barcelona, and France. The region has two international airports, situated in Valencia and Alicante, both of which have regular direct flights to Spain and to major European airports. The region is currently one of the most attractive destinations in Southern Europe for foreign investment and has the third highest industrial GDP in Spain. Five science parks have been established in the last years, linked to each of the five public universities from the region of Valencia. The region ranks third in Spain by the number of R&D intensive companies, it also represents roughly 9% of all Spanish researchers. Total R&D expenditure in Valencia sums up to 631.9 million Euros (equivalent to 0.87% of the GDP). Over 260 multinationals have chosen the region to set up their factories and distribution centres. They have based their choice on the region's excellent land, sea and air transport links, its pleasant climate, a highly qualified workforce, modern industrial infrastructure and costs that are below the European average.

The capital of the region, Valencia, is one of Spain's largest cities, and a major centre of economy and industry. Its port, El Grao, is one of the busiest on the Mediterranean coast. The main exports from the city are food and drink (mainly wine, oranges, lemons and rice), furniture, ceramic tiles, fans, textiles and iron products. The city is an important centre for the marketing of agricultural and horticultural produce, especially fruit, most of it flowing into the city from the surrounding region. Valencia itself is a manufacturing centre that focuses on metallurgy, chemicals, textiles, shipbuilding and brewing.

[2] Hispalink. <http://www.hispalink.es>

On 29 November 2007, the European Commission approved an operational program for Comunidad Valenciana for the period 2007-2013. This program comes under the "Regional competitiveness and employment" objective and has a total budget of €2.2 billion. The financing provided by the European Union through the European Regional Development Fund (ERDF) totals around €1.3 billion (See Table 3), representing some 3.8% of total Community contributions in support of Spain under the cohesion policy 2007-2013.

The purposes and aims of the program, as it is stated in the leaflet [3] are:

- The improvement of regional competitiveness (investment in communication, reinforcement of research, production, dissemination of innovation (particularly innovation in the private sector), information and knowledge)
- Increased productivity and diversification of production structures
- Regional balance, integration, environmental protection and the management of water resources.

Priority Axis	EU Contribution	National Public Contribution	Total Public Contribution
Development of the knowledge-based economy (R&D&i, information society and ICT)	190 248 850	190 248 850	380 497 700
Business development and innovation	305 315 929	232 493 011	537 808 940
Environment, water resources and risk prevention	391 902 925	211 824 140	603 727 065
Transport and energy	297 957 693	199 686 453	497 644 146
Sustainable local and urban development	116 543 900	72 942 472	189 486 372
Technical assistance	24 371 250	6 092 814	30 464 064
Total	1 326 340 547	913 287 740	2 239 628 287

Table 3. Breakdown of finances by priority axis

The strategic objective is "to acquire sufficient physical and technological capital to strengthen its international competitiveness".

The program aims to make a significant contribution to achieving the objectives of the Lisbon Strategy, with considerable support being provided for research, technology transfer, innovation and entrepreneurship. Special efforts will be made to promote sustainable development in urban areas and in the mountainous or outlying areas of the region. The strategy is developed around 6 priorities stated in Table 3.

The expected impact of the investments is:

- 22 865 jobs created
- Increase in expenditure on R&D / GDP by around 264%
- Private investment of almost €4 billion;
- Increase in the number of businesses benefiting from environmentally friendly management systems (certified ISO 14001 and/or EMAS) by 160%

[3]http://ec.europa.eu/regional_policy/country/prordn/details_new.cfm?gv_PAY=ES&gv_re_g=ALL&gv_PGM=1111&gv_defL=7&LAN=7

Regional structure and economical development in Comunidad Valenciana

Diversity is the main feature that can define the Valencian Economy where the crop to export prevails together with manufacturing industries that elaborate durable goods for the final consumption as shoes, toys, furniture, pavement and ceramic or coverings, and a strong tertiary sector that is mainly related to commerce and tourism. At the same time, the exporting vocation of the community gives the Valencian economy an open character.

However, there are some more elements that typify the Valencian economy:

- The intensive use of the work factor that is explained and related according to the type of product to which the traditional industry is addressed.
- Existence of an important tourist sector.
- Predominance of SMEs that often have very low levels of technology and capitalisation.
- Human Resources with lower levels of qualification than the Spanish average, but with a high experience in certain productive processes.

Structural change of Valencian economy.

During the 60's the structural change in the Valencian economy starts, which is reflected by a growth in the amount of industries and in the service sector to the detriment of agriculture. This is mostly due to the substitution of the rural economy, to a slight reduction of the industrial manufacturing activities and to the modernisation of the service sector productive structure. Nevertheless, several factors related to the occupational structure have contributed together to this change. First, that related to the construction and motivated by the requirements of tourism and demographic growth. Second, the renovation of certain agricultural activities in which the reduction of the labour force has changed to a significant growth of productivity; such renovation has shown three processes:

- The abandonment of the crops for dry farming because of its low profitability.
- The fortification of the part-time agriculture.
- The transformation of the intensive and forced agriculture (vegetables, green houses, etc...), with a capitalisation coming from reinvestments, and the professionalism of the full-time farmers.

Other factors contributing to the change have been:

- Growth of the traditional industrial activities characterised by the intensive use of the internal labour force of production units, and the extensive use of external labour force as the black economy; and the appearance of supporting industrial sectors as chemical, machinery and electronics that relate to completely different economic and occupational strategies in relation to innovation, training and qualification.
- A major endowment of equipment and social public services directly related to the basic social necessities such as health, education or administrative functioning.
- An increment of the private service sector activities, such as: development of tourism-supporting activities, activities of autonomous managers whose percentage is higher in the Comunidad Valenciana than in the rest of Spain (developed by small shops, bars, repair shops, etc.) or services emerged as an external support to SMEs.

Characteristics of Valencian Industry

Valencian industry is characterized by its deep production specialization, which has created industrial regions specialized in only one sector. Another important feature is the large amount of people it employs, to the detriment of mechanization, leading to significant adjustment problems and many times to underground economy. In Valencian industrial net, some big companies share the market with a great quantity of small and middle-sized businesses belonging traditional sectors, supporting an intensive labour force. The influence of these main businesses in the industrial development has been indirect according to a training and demand of skilled labour force and to a major requirement of the provider's quality.

Besides it is necessary to mention that this region has always been a good area for entrepreneurs, which has motivated a strong presence of SMEs in the managerial structure. The region presents relevant importance of the SMEs in the industrial structure. At the beginning of the 90s, almost 97% of the companies had less than 50 employees, but adding the number of companies with 50 to 100 employees the percentage rises up to 99%.

The sector that holds the biggest number of companies is the food and agriculture sector, followed in number by Wood-Furniture sector. On the contrary the Ceramic and Toy sector are the ones holding a lower number of companies.

In relation to the employment the Metal-Mechanic sector is the one holding the biggest number of employment, followed by far by the rest of the sectors with the exception of the Toy sector, which compared to the rest of the sectors has a low level of employment.

In relation to percentages of the Spanish production, it is necessary to mention that the Ceramic and Toy sectors are the ones holding the highest percentages.

The port of Valencia, which handles 20% of Spain's exports, is the country's biggest port for container traffic. Extensive renovations have been completed and ambitious expansion projects are under way.

The most important industrial sector in Valencia is textile. It comprises 20% of industrial employment, and often uses home-work for knitwear and clothing, which results in undeclared work. The rest of the textile requires machinery and more specialized work. The capitals of textiles are Onteniente and Alcoy for home textiles and rugs and Crevillente for carpets. Knitwear and lingerie are concentrated in Canals, Xativa and Castellón.

2.2 SME profiling in the region

2.2.1 SME situation in the region

The typical Valencian business is a small and medium company, mainly family-owned and operated, although there are some multinationals. In 2009, there were 362.844 businesses in the Region of Valencia, a figure representing 10.8% of all Spanish businesses. The size of Valencian companies is similar to the national average. In both cases, companies with fewer than 50 employees represented 99.2% of all businesses in 2009.

	Total	0-50 employees	%
Spain	3.355.830	3.327.708	99,16
Comunidad Valenciana	362.844	360.014	99,22

From those:

Columna1	No employees	1-2 employees	3-5 employees	6-9 employees	10-19 employees	20-49 employees
Spain	1767470	919092	332671	151233	101601	55641
Comunidad Valenciana	182705	105036	37937	16795	11416	6125

Caption of economic branches for the following illustrations:

- B Mining
- C manufacturing industry
- D electrical power supply
- E water supply, effluent- and waste disposal and disposal of environmental pollution
- F building and construction industry
- G trade, maintenance and repairing of vehicles
- H Transportation and storage
- I hotel and restaurant industry
- J information und communication
- K Financial and insurance services
- L Real Estate
- M freelance, academic and technical services
- N other economic services
- P education
- Q health care and social affairs
- R art, entertainment and regeneration
- S other services

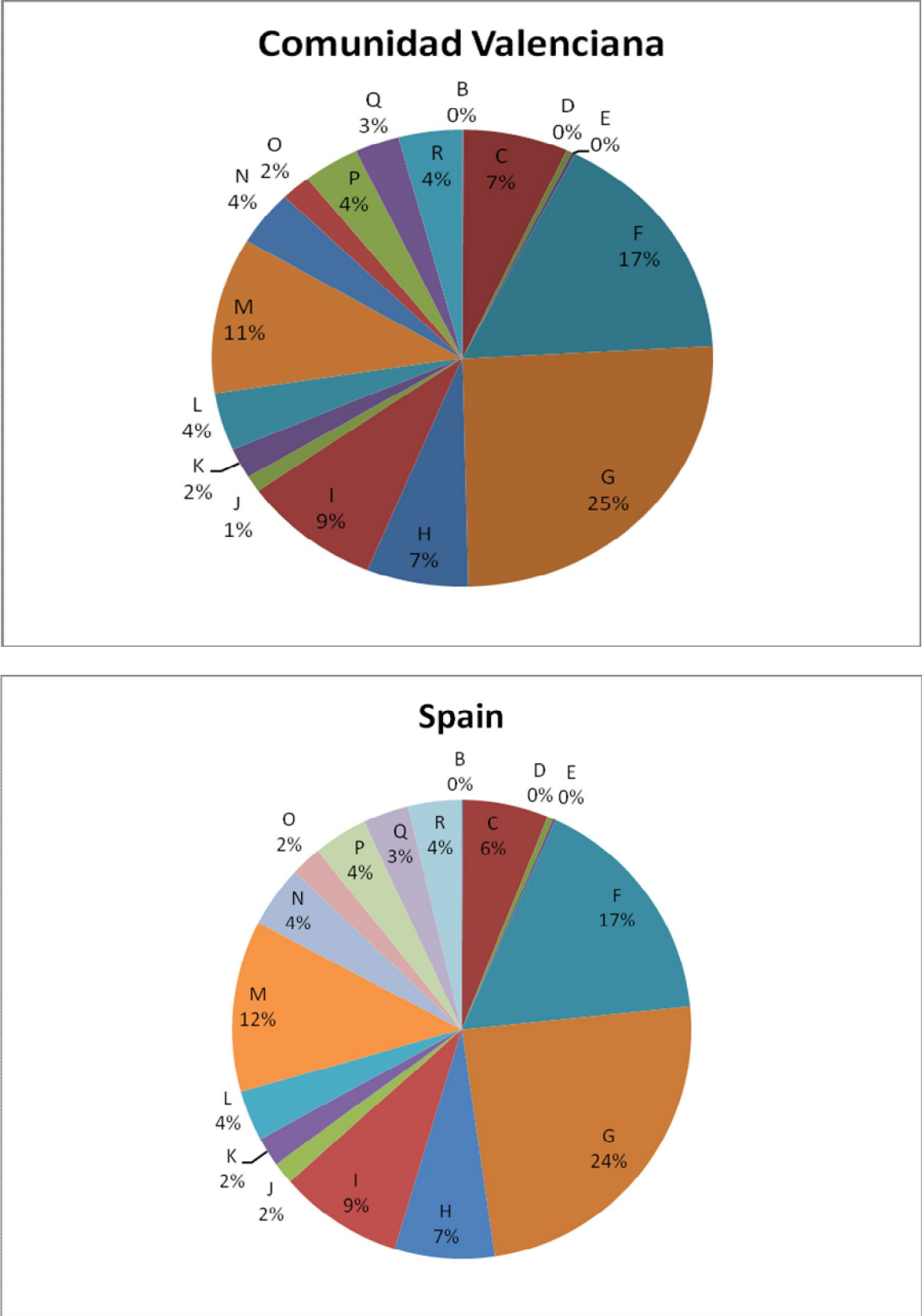


Figure 3. Structure of Comunidad Valenciana and Spanish companies according to economic branches. Source: National Statistics Institute. Central directory of enterprises.

Regarding the European Union, the percentage of SMEs is higher in Comunidad Valenciana, and in Spain in general, than the EU average. Also, SMEs hire a higher percentage of total workers, contributing to a greater extent to the total added value than in the EU. The added value per worker and productivity are below the EU-27 average, being this one of the main problems faced by Spanish SMEs.

2.2.2 SMES IN TRADITIONAL SECTORS

While large Spanish companies, especially in the ICT sector, are similar to European standards in terms of innovative capacity, the distance in this direction of the Spanish SMEs is remarkable. There should be intensified innovation and technology flows from big companies to small and medium companies, while introducing more active policies for diffusion, fiscal support and professional development of managers. To improve the innovative capability of the region is not enough to increase the activity of the companies doing R&D or innovation. SMEs must be the focus of all efforts and receive constant support. Special attention should be paid to traditional sectors, those in which Valencia is competent but not competitive enough as footwear, tourism, textiles, transport and logistics or automotive and energy, amongst others. It is in these sectors, where should be encouraged the replacement of the current unskilled working model for a more qualified one, with extensive use of technology. Experts say that, in relative terms, it is in these traditional sectors where job creation is higher in comparison to other emerging technology sectors [4].

[4] El papel de la innovación en un nuevo modelo económico español. Cátedra UAM-Accenture. 2010.
<http://www.uam.es/docencia/degin/catedra/documentos/Informe%20UAM-Accenture.pdf>

Food industry NACE 15

The food industry is the main European manufacturing industry, accounting for 14% of its total turnover and a value greater than 836 000 M€. It processes more than 70% of the food produced in The EU [5]. It has about 300,000 enterprises in the EU-27, most of them

being SMEs with fewer than 250 workers (99.1% of total). These SMEs employ 2.7 million people, representing 48.5% of the total food industry output in the EU. On the other hand, the Spanish food industry ranks fifth in terms of production volume after France, Germany, Italy and the UK. As in most industrial sectors, large firms tend to be the most technologically advanced and operate on a global scale, while small-sized companies typically operate in smaller geographic scales. In Spain, the food and drink industry is the first branch of the whole industrial sector, according to the latest Annual Survey of Industrial Enterprises of INE (31/12/ 2008) representing 17% of net product sales, 18.4% of the purchase of raw materials, 15.2% of industrial jobs, 12.9% of staff costs, 14.9% of investments in tangible assets and 13.4% of added value.

In Comunidad Valenciana, the total net sales was 7.245.533.000€ (13.2% of Spain) from this, 20.5% correspond to Meat Industries, followed by Canning of fruits and vegetables (12.3%), Bread, pastry and pasta (10.7%) and very close Milling products (10.5%). Water and non-alcoholic drinks (8.3%) and dairy industry (8.2%) come next. For detailed info and principal indicators see Table 4.

	Employed people	Product Sales	Purchase of raw	Material	Inv tangible	assets		
	Number	%	Thousands €	%	Thousands €	%		
Meat Industry	6.250	18,7	1.484.757	20,5	981.245	24,4	64.646	16,4
Fish Processing	1.117	3,3	204.515	2,8	153.291	3,8	4.612	1,2
Canning of fruits and vegetables	4.292	12,8	894.217	12,3	574.719	14,3	29.658	7,5
Fats and oils	306	0,9	107.123	1,5	66.672	1,7	5.117	1,3
Diary Indstry	2.205	6,6	597.585	8,2	244.923	6,1	12.272	3,1
Milling products	1.211	3,6	759.108	10,5	541.267	13,5	6.123	1,6
Bread,Pastry and Pasta	8.790	26,2	771.865	10,7	324.566	8,1	58.960	15
Sugar, Chocolate and Confectionery	2.020	6	437.731	6	253.118	6,3	22.276	5,7
Other Products	3.227	9,6	462.793	6,4	228.073	5,7	123.404	31,4
Animal Food Products	500	1,5	277.260	3,8	235.544	5,9	14.471	3,7
Wines	1.314	3,9	337.841	4,7	181.066	4,5	16.602	4,2
Water and non-alcoholic drinks	16.602	4,4	598.496	8,3	193.704	4,8	23.449	6
Total Food Ind. Com. Valenciana	33.487	100	7.245.533	100	4.019.254	100	393.438	100
Total Industry Com. Valenciana	314.337		54.766.998		24.929.456		2.684.388	

Table 4. Principal indicators of food and drink industry for 2008. Source: Encuesta anual de empresas 2008.

The number of companies working in Food and Drink Industry in Comunidad Valenciana was 2166 in 2009, this number has decreased by -1,4 % comparing to 2008. On the other hand, the total net sales of the companies increased by 7,7 % from 6.728 M€ in 2007 to 7.245 M€ in 2008.

The exportations are mainly made to EU countries (France, Germany, Italy, etc) but also to EEUU or Russia. The most exported products of this industry are Fruits and Vegetables (4476M€ and 2059M€ in 2007) [6].

[5] CIAA annual report, 2007

[6]La empresa exportadora Española 2004-2006.ICEX 2009

Textile NACE 17+18

The Textile and Clothing Industry is important in the Spanish industrial structure, as it directly employs over 180.000 people (2008), representing 7% of industrial employment. The contribution to the Industrial Product is 5 Billion€, 4% of the total [7]. Within the EU, Spanish textiles represent one tenth of the total production, in fifth position after Germany, Italy, UK and France. The upstream textile industry (yarns and fabric), is heavily concentrated in Catalonia and Valencia, while making-up and knitwear are distributed throughout the Spanish territory. The majority of the textile companies are small and medium enterprises (SMEs) as they have greater flexibility to follow fashion developments, phenomenon of particular importance in the textile case.

The sales value of the Spanish textile industry reached 7.913 M€ in 2009. In a year marked by the drastic contraction in consumption and declines in production rates (the average decrease during the year was 20.9% in textiles and 19.7% in the clothing sector), the value of clothing and textiles manufactured in Spain decreased by 18.4% over the previous year. The contraction in value of products produced by the textile and clothing industry was lower than the total Spanish industry, with a decrease of 21.5% (320.099M€). Catalonia, Valencia and Galicia focused almost three quarters of the total value generated by the textile industry in 2009. In Comunidad Valenciana this sector produced 1322.6M€, 16.7% of total Spanish Industry. Statistics in the leather and footwear industry show that Comunidad Valenciana is clearly the most productive region, reaching 1080.5 M€, 46.1% of Spanish production and exporting 193.6M€ in 2008 (9.8% of the total) [8]. Besides the drop in production rates, one of the starring phenomena in the Spanish textile industry during 2009 was the strong contention in prices that increased only 0.4% over the year. This evolution is due to the increasing globalization of the textile industry and clothing sector, the growth of developing countries, in particular the emergence of China as a world leading producer and exporter, and the increasing liberalization of international textile trade.

Ceramics NACE 26

Spain is the leading European manufacturer of ceramic tiles. In 2007, ceramic floor tiles production reached 584.7M€, which represents a market share of 38.5% of the EU-27, and experienced a 3,6% reduction compared to 2006. It was expected at that time that Spanish production, more focused on adding value than on growing in volume, will gradually lose its share in the benefit of new producers in Asia, America and Eastern Europe. But in 2009 the ceramic industry registered the biggest drop in sales in history. The interruption of construction work together with the international recession in 2008 caused the product output fall more than 11%, to 3690 M€. In addition, more than 2,800 jobs were destroyed in the first semester of 2009, the total number of employees is around 25.000.

Production in Spain is highly concentrated in the province of Castellón, which represents about 94.5% of national production. The provinces of Valencia and Barcelona account for 0.6% and 1.9% respectively. The rest (about 3%) is distributed among the few provinces where there are small ceramic companies. This tendency to concentrate the industries is due to the requirements of high-tech machinery. The production of building materials is also very important. Beams or bricks are produced, but also artistic ceramics and glass. In the ceramic tiles sector, there are well-known companies such as Porcelanosa, Zirconium or Azuvi.

[7] Centro de Información textil y de la confección CITYC. <http://www.cityc.es>

[8] Annual Survey of Industrial Products. National Institute of Statistics.

Other major production centre is located in the L'Horta region (Manises and Quart de Poblet). In the artistic ceramics, the internationally known company Lladró stands out. We also find ceramics industry in Meliana, Liria, Villar, Casinos, Pedralba, Domenico, Utiel and Alpuente amongst others.

In 2008, 60% of the total sales turned to international markets, reaching the amount of 2.230M€. This number represents a decrease of 3% over the previous year. This situation is intensified in the particular case of U.S. trade, where sales fell 39%, moving from being the first destination of Spanish ceramics to fourth place in exports. However, it was not all bad news for the outreach of Spanish ceramics, which in the past four years raised its average export price by 20%, and that during the past year increased by 42% its trade with Russia. Moreover, the domestic market, which accounts for 40% of sales reached a value close to 1.460 M€, with an annual decrease of 22% [9].

[9] National Institute of Statistics

2.3 SWOT Analysis

2.3.1 Strengths, Weaknesses, Opportunities and Threats

STRENGTHS

- High export capacity
- Entrepreneur spirit and economic boost
- Good innovation culture
- Diversification of tourism. First national tourist destination.
- Geographic concentration and regional specialization.
- Presence of large companies in the region: Ford, Iberdrola, BP Oil, Mercadona.
- Affordable Industrial Land
- Living cost and labour costs below national average
- Good road infrastructures
- Valencia's Harbour, Mediterranean leader in freight traffic
- Quality and diversification of higher degrees and postgraduate training
- Research Centers, REDIT(Net of Technological Institutes), Technological Parks.
- Biomedical and biotechnological Emerging Sectors technology leaders
- Geography and climate
- International Fair (Feria Valencia). Valencia is a good city for conferences and events.

CERAMIC SECTOR

- The world's second largest sector after Italy.
- Strong export network
- Known product for its technical quality and design.
- Sector in constant innovation that gives a significant competitive
- Innovation
- Environment

TEXTILE SECTOR

- Labour intensive.
- Increasing technology incorporation. High innovative capacity of large trading companies.
- High creativity
- Consolidated sector, with tradition and experience.
- High capacity to fight and overcome crisis
- Ability to adapt to changes in demand in a flexible way, involving the whole product value chain
- High knowledge of operational conditions of fashion products in the market
- Qualified professionals and advanced technology in design

FOOD AND DRINK SECTOR

- Preferential funding and incentives to SMEs

WEAKNESSES

- Valencian industrial fabric consists mostly of SMEs with fewer than 10 employees
- Research effort is high but impact rate is 25%
- Higher production costs compared to other countries
- Low productivity inherent to Spanish labour outlook
- Industrial and services sectors are labour intensive
- Low industrial investment
- Reduced R & D investment
- Concentration of export destinations and slow growth
- Family businesses in generational shift
- Lack of brand culture and added value products
- Restructuring of traditional sectors
- Water deficit
- Excessive reliance on construction and tourism
- Poor relationships university-industry
- Poor management of the value chain

CERAMIC SECTOR

- Total reliance on German and Italian technology: no national machinery and technology suppliers.
- Lower perception compared to Italian sector.
- Bad price competition compared to other countries (China, Brazil and Turkey)
- Cyclical market reduces possibilities of long term investments
- Valencian companies mostly SMEs and family businesses, while their international competitors are large groups of companies covering all areas of ceramic production (red paste, white paste, special pieces, porcelain etc.)
- German (first global import market) recession due to crisis in construction sectors.

TEXTILE SECTOR

- Limited relevance of Valencian brands in global market
- Poor use of organizational and strategic innovation
- Limited use of IT on marketing
- Poor quality manufacture and deployment of product on the market
- Individualism prevails over collective action
- Family home businesses without professional structure
- Reduced business dimension. Low investment and innovation capacity of SMEs, workshops and cooperatives.
- Distortion between the training offer of textile and clothing industry and the real needs, mainly in technical fields.
- Job insecurity. Existence of a significant volume of undeclared work. Low salaries.

- High degree of vulnerability against global economical crisis
- Lack of specialized media for textiles and clothing

FOOD AND DRINK SECTOR

- Poor collaboration between the University and SMEs
- Management systems costs are proportionately higher for small firms (economies of scale)

OPPORTUNITIES

- Arrival of High-Speed Train (AVE)
- Major Events taking place in Valencia: City of the Arts, America's Cup, Formula-1 Volvo Ocean Race's ...
- Globalization, internationalization and opening of new markets
- Reducing dependence on energy, renewable energies: wind, solar
- Creation of clusters and development of large logistics areas
- Integration of production and distribution channels, network providers and networking
- Diversification and improvement of tourism and increase of high-quality tourism
- Airport expansion
- Ability to attract multinational companies
- Support for emerging sectors
- CSR Development
- Strategic location
- Relocation of labour intensive production
- Boost of brands, design and quality as an added value
- Business cooperation and platform creation in emerging markets

CERAMIC SECTOR

- Large group of business leaders and promoters
- Exports to India and other countries with increased activity in construction sector
- Sectorial concentration
- Institutional support and lobbying
- Strategic management of corporate intangibles.

TEXTILE SECTOR

- Infrastructure supporting deployment of technology and quality control
- Appropriate knowledge transfer in each of the regional clusters
- Programs to finance innovation, both public and private
- Adequate socio-political environment to support innovation
- The MFA (Acuerdo Multifibras) facilitate the opening of new markets
- Increasing production diversification, offered by marketers
- Tendency to direct marketing through its own stores, franchises ...
- Increasing importance of logistics and marketing within the industry.
- Product development in small series, varied and customized

FOOD AND DRINK SECTOR

- Current market trends of seeking high-quality fresh and fast food benefits SMEs because of the proximity to the markets
- SMEs have better knowledge of local consumers and therefore better response to their preferences

THREATS

- Loss of competitiveness of traditional sectors
- Competition in Eastern Europe and Asia for cost-intensive labour economy
- Relocation
- Increasing dependence on external factors
- Increased public sector debts
- Lack of political lobbying and awareness of society to defend the interests of the region
- Inadequate rail infrastructure for freight
- No political or social consensus in territorial ordination
- Lack of liquidity and funding
- Containment of domestic demand
- Job Destruction

Ceramics Sector

- Prices of Chinese production
- Depreciation by failure to differentiate
- Barriers to penetrate CEEC market (Central Europe and Eastern Europe)

Textile Sector

- High-level branding required (infrastructure to support the promotion of fashion products and good communication services in the international arena)
- High demand for product rotation
- Increasing demand for specialization of fashion products with strong technological
- Substantial changes in the profile demanded: "style product" in the case of clothes and "stage product " on habitat products
- Increasing global competition: new countries with large cost advantages
- Relocation of production to third countries is a negative condition for manufacturing companies.
- Average workers age is high. Barriers for generational replacement.
- The sector has little or no attractive for young people

Food and drink Sector

- Migration from rural areas to big cities
- Work unattractive to young people

- Lack of structured information may hamper the prediction of new consumer needs

2.3.2 Final Considerations

The financial crisis and the construction crisis together have had a great influence in Spanish and Valencian economy. Traditional sectors in the region are in urgent need of innovation at different levels, as it has been explain in detail here. R & D, although important, is only one part of the innovation process, along with others such as accessibility to higher technology equipment, development of skills through personal training, purchase of patents or know-how, improving relations with stakeholders, reorganization of management systems and business methods. It is correct to enhance and verify the effort in R & D, but it is essential to pay special attention to the remaining members of the process.