

QUALITATIVE RESEARCH WITH INNOVATION DRIVEN ENTREPRENEURS AND INVESTORS

For the MIT Regional Entrepreneurship
Acceleration (REAP) Programme

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driven entrepreneurs and investors for
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August 2020

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INTRODUCTION

This report outlines the findings from in-depth interviews with eight entrepreneurs and three investors/financial institutions across Devon and Somerset. The research was undertaken during July and August 2020. Quotations from the interviews are included in italics.

THE ENTREPRENEURS

The entrepreneurs represented different stages of business development and were drawn from a range of sectors. All considered themselves to be more innovative than average, either because of their ambition or because of their involvement in seeking to develop new products, creating new markets or through their use of technology:

“ We are developing a system that seeks to penetrate an industry and integrate technology in ways which will transform it.”

“More than 20% of our revenue is invested in R&D”

Individually they represented firms in:

- Photonics
- Digital products
- Tech company – Internet of Things
- Fintech
- Biotechnology
- Engineering
- Microbiology/health

In size they ranged from 1 employee to 275 with most around the mid-range.

They represented the full spectrum of life stages: 5 of the companies were mature; 1 was a late stage start up; 1 at development stage and the other at the scale up/growth stage.

Each of the entrepreneurs was qualified to higher levels of education, with all but three holding a masters or doctorate qualification.

MOTIVATIONS FOR START-UP/SCALE-UP

The start-ups – one of which is a university spin off - had developed products with significant potential and the businesses arose directly to harness the potential of those products. In these instances, technology/discovery was the driver. In contrast, the scale ups have grown their businesses through mergers and acquisitions so see their growth as more of an evolution, buying into companies with innovative products. Two of the mature businesses had similarly achieved growth through acquisitions.

REASONS FOR CHOOSING TO LOCATE IN DEVON OR SOMERSET

The reasons for being based in Devon and Somerset appeared to be largely down to serendipity:

“It was an accident that we set up in Plymouth” (They acquired a company based there.)

“ The company founder lived there”

“ The company was here” (Acquisition)

One start-up had actively chosen to locate to the South West from London to obtain a better quality of life and work/life balance and the founder is now a passionate advocate for the South West as a place to live and work. The key factor in choosing his base in the region was easy access to a train line to London. Two entrepreneurs identified the presence of the universities as crucial in staying because of the support and facilities available, for example, “Exeter University is a world leader in data science.”

Asked about the advantages of the area as a place to do business, interviewees were unanimous about the lifestyle benefits citing a fantastic quality of life/environment and no need for difficult commuting journeys to work. One mentioned that R&D tax credits had been valuable and three cited the lower cost of living compared with London and Bristol so that a base in the region offers value for money and hence lower wages. This relatively low cost base combined with the benefits above means that companies can trade internationally and keep their costs down via telework. A number mentioned the impact of the Covid pandemic and the rise of digital interaction which they believed would make location outside of London less of an issue in the future. There is now a much greater acceptance of national and international interaction via video-conferencing. “Covid will bring about a sea change and with the shift into the digital space, location will be less important.” It has also meant that firms are more readily able to recruit from outside the region. One growth company believed that the new normal would enable

him to remain in Somerset as there would now be no need for larger premises to accommodate expansion, for him the pandemic has been transformational.

Counterbalancing the positive aspects of location, a number of disadvantages were mentioned:

Transport: The disadvantage of Devon and Somerset is that it is peripheral - a long way from London by train and even more difficult to reach the transport network via crowded slow roads, particularly in the summer: "Sometimes getting to Exeter takes as long as getting from Exeter to London." Most of the entrepreneurs interviewed were maintaining links with London and other parts of the UK which involved regular weekly or monthly travel. Indeed their client bases were largely outside the south west. One business mentioned that they had had a London contract cancelled as they were perceived as too far away to do business with, so the impacts of distance are real and costly. Even so, this may become less important in the future – one firm is already using augmented reality headsets to undertake diagnostics with clients based in Scotland – and it may be expected that technology will enable more of this type of working in the longer term.

Image: This was a key issue. Interviewees strongly felt that not enough was done to promote the innovation assets of the region and that public perception focuses on tourism, "All they know about us is ice creams and a lack of employment, they don't hear about the opportunities here in terms of telecoms/satellites." There is a feeling that there is a lack of government recognition of (or interest in) the hi-tech clusters which exist. In turn this feeds a misconception that businesses located in the region cannot be cutting-edge and are somehow second rate, otherwise they would have a city base. A couple of interviewees contrasted this image with Cornwall, which despite its remote location and tourist industry has managed to portray itself as a vibrant economy where business is welcomed and thrives.

Interestingly, one of the start-ups expects to relocate when they are able to secure investment to either of two places which have benefitted from the 'Strength in Places Fund' – Alderley Park in Cheshire or the Innovation Park at Oxford/Cambridge where the innovation ecosystems are well established and there is relevant, specialist academic expertise.

CHALLENGES TO GROWTH

Recruitment: Reflecting the above 2 issues, this means that it is more difficult to convince talent to relocate to the South West or even apply for jobs here – the region does not have the right image, and is a long way from Bristol/London. Hence recruitment

difficulties were cited by half of the interviewees particularly in relation to engineers and IT staff. This was accompanied by a plea not to ignore the need for foundation staff in the race for upskilling/new jobs and there is an on-going need for skilled trades such as welders, which are equally difficult to recruit. Even when companies do recruit and invest time and money in training young staff, they tend to leave for a city location within a couple of years; "Recruitment is difficult because of where we are."

As a result, one of the interviewees had turned to a specialist recruitment company rather than their usual channels, which suggests that there is a direct impact on costs of operating in the region.

Investment was another significant challenge for three companies. Banks and Venture Capitalists were reported to be 'very difficult', 'atrocious' and 'risk averse'. As a result, one company has had to partner with a major company outside the region in order to better attract investment. One admitted that he was wary of ceding control as required by equity funding.

Even setting up a bank account has proved difficult for several new businesses with one having taken over 4 months to get an account set up and even now there is no facility for an overdraft. Another had a guarantee of significant investment but was unable to open an account in the time he needed, thereby potentially leading to the loss of the grant.

A third company approached 4 banks to open an account and only succeeded by involving his MP who intervened on the company's behalf with the president of the bank. He stated that "Banks force companies such as his to slow growth because they won't lend. You can't invest to grow."

Space: 1 in 3 mentioned the difficulty in securing premises for growth. It was suggested that there is no ready pipeline of premises, with start ups catered for but not scale ups. One entrepreneur knew that he would need 15,000 sq ft of space within 3 years time, 20,000 sq ft after that, rising to 30,000 sq ft in the following 3 years. He would like to stay where he is based but may have to move. His experience was that different local councils within the same county have very different attitudes. In his view, several have neglected their pipeline of premises for businesses. His own Council tells him that they have nothing to offer him: "They have sent a few economic development officers who nod in the right places and say they want to keep him but they have done very little to follow it up with any action." In contrast, there is a range of greenfield and brownfield premises in other Somerset authority areas if he relocates with all the costs and disruption that will cause. Another was seeking office space for 130 employees in Torbay but without success.

More positively there was optimism about the transformational potential of the Bridgwater Enterprise Zone (Gravity Park) in bringing in new investment and rebalancing growth away from Exeter and Plymouth.

Contracting: Only mentioned in depth by one interviewee, nevertheless this was one of the main challenges facing the business and holding back growth. His view was that government contracts in the sector can take 2 or 3 years and everything is outsourced to prime contractors who, “just squeeze you, take x% and want you to work through them and then badge it as theirs.” He sees this model as a huge structural barrier to success which stifles innovation and growth. Another interviewee also made reference to the difficulty of accessing government contracts.

THE INNOVATION ECOSYSTEM

Discussions started by exploring entrepreneurs' perceptions as to whether there was an innovation ecosystem in the Heart of the South West, in the sense of a network of connected and interdependent players who have a range of formal to informal linkages within a geographically defined area. **The overwhelming view was that there is no such ecosystem in the Heart of the South West**, or if there is it is disjointed, with Business South West bringing people together informally:

“No. There might be pockets but not in Somerset.”

“There is no one place to go.”

“No – there might be an ecosystem that could support us but it is not visible to me.”

There is a lot going on but “I'm not convinced that there is a coherent network that enables people to have conversations and collaborate across the silos they're in”

One interviewee was firmly of the view that the absence of an innovation ecosystem was not just specific to the South West - there is not one in the UK. He believed that all the support initiatives were peripheral and that the fundamentals needed tackling in the first instance, i.e. lower taxes, incentives, availability of premises and freedom to operate without government intervention.

Only one interviewee thought that there was an ecosystem, but considered it very much aimed at start-ups rather than scale ups. For it to work for him, he would wish to see major investment such as a Catapult Centre which would put the area on the map and make a big difference.

Although the Heart of the South West was not considered to have an ecosystem which operated across the two counties, two interviewees mentioned small local ecosystems which they believed to be effective in their own sectors/ locations. One is the Torbay

Photonics Cluster centred around the EPIC innovation centre. Employers have benefitted from agglomeration economies and clustering and through joint working with the Torbay Development Agency and South Devon College have been developing relevant training programmes to address skills shortages. The other ecosystem has been brought together by Digital Taunton. Established by two local employers Digital Taunton was set up to engage the local community to drive innovation, celebrate the innovative companies there, retain local school leavers and build on the assets of the Hydrographic Office. It has been well supported by government agencies.

The main players

Asked who they would consider the main players in the system locally, interviewees mainly identified the universities and businesses: "Universities are key to the system". It was variously said that they have the knowhow, are not expensive and help support recruitment. Two interviewees identified a broader range of:

- Academics
- SMEs and corporates
- Government
- Local networks
- Finance

Several mentioned the lack of big business in the region (a) to bring the recognition and (b) to lead any system, "We need to bring in large organisations like Babcock to capitalise on the marine aspirations in Plymouth... There are huge opportunities there." The example was cited of Media City in Salford which has a number of major players surrounded by smaller companies, but contrasted it with the absence of such players locally. The Marine Business Technology Centre was cited as an example of a support organisation which lacks business involvement in its running. However, whilst business leadership is crucial, for smaller companies there is a dilemma in that they do not want large companies to be the only business representatives, but the time commitment is a big ask, so whereas there was a desire that businesses should have a lead role, there is little time for them at their stage of development/size to take on this role. One interviewee noted that Digital Taunton had been set up by businesses to fill a gap because there is an absence of government bodies promoting engagement and collaboration so that companies have taken on the role themselves.

An ecosystem is emerging

The main view was that what ecosystem there is is at an 'emerging' stage which is in the process of developing the support needed. Only one interviewee thought that the ecosystem was 'established' but he thought it had plateaued and was not growing as much as it could, mainly because of image and a lack of recognition for hi tech clusters

in the sub-region. But rurality poses its own issues: "Unlike Silicon Valley where universities/innovation centres and investors feed off each other due to their proximity, in a rural area such as this it is more effort to gain exposure to those innovation networks."

Access to support for growth

All those interviewed had benefitted from support in growing their businesses – with universities most likely to be mentioned (not necessarily in the region) followed by Innovate UK, Business West and other businesses/entrepreneurs in the sector or supply chain.

It was interesting to note that around half of the support accessed was from national sources (and international in respect of ARPA), largely for funding and recruitment, "We're all about borrowing brains.":

	Number of mentions
Universities	4
Innovate UK	3
Business West	3
Other entrepreneurs	3
Advanced Research Project Agency (ARPA) (USA)	1
Aimhigher	1
Barclays Scale Up Programme	1
Biotechnology and Biological Sciences Research Council (BBSRC)	1
Business Network SW	1
Business South West Investor Network	1
CASE studentships (formerly known as 'Collaborative Awards in Science and Engineering')	1
Defence and Security Accelerator (DASA)	1
DTI workshops	1
Photonics Leadership Group	1
Setsquared Exeter's Entrepreneur's Programme	1
Small Business Research Initiative (SBRI)	1
Somerset West and Taunton Council	1
Tech Nation Rising Stars Programme	1
Tech South West	1
The Impact Lab	1
Torbay Hi Tech Cluster	2
Torbay Development Agency	1
Number of institutions/programmes/networks identified	22

NOTE: Highlights are national initiatives

Interviewees were very positive about the help they had had from these sources. In particular, the national funders and catapults, such as Innovate UK, SBRI and DASA were highlighted. The DTI Export for Growth programme was said to be really useful in developing an export strategy.

One business cited the BBSRC programme of supporting PIPS internships (Professional Internships for PhD Students) as good practice. Through this, the BBSRC funds 3 month placements for work experience for PhD students so there is no direct cost to the employer. "This is hugely beneficial to a company such as ours. We get bright young things working on mutually beneficial projects." The benefits of the support far outweigh the costs and there is an expectation that other research councils may follow suit.

Another considered that the 'Tech Nation Rising Stars Programme' provides a good model of infrastructure support.

Business West was said to be very effective with highly professional staff who know what they are talking about.

In terms of the universities engaged with, it largely depended on the specialisms of the company. Exeter and Plymouth Universities were mentioned but also Oxford, Cambridge, UCL, Southampton, Manchester and Cardiff. One company had a lab at Stanford University and another at Singapore University.

These areas of support accessed highlight a number of factors:

- Companies want the best support there is and are prepared to seek it from national (and international) players rather than necessarily depending on local sources. The disadvantages of distance can be overcome.
- The universities are instrumental in providing the high level interns/recruits needed either through BBSRC, CASE or Aimhigher. Further it was said that having a relationship with the universities helped plug entrepreneurs into other initiatives.
- Businesses have very specific specialisms and are seeking out specialist support for specific issues such as exporting or product development and testing.

One interviewee commented that as a recipient of an Innovate UK grant he would have expected that to lead on to introductions to other support organisations, but he came across Business West entirely by accident – Innovate UK is not connected. Several made the point that their time is precious and although there are good support agencies it takes some legwork to find them: "Time is a huge challenge." In turn this means there has to be a balance between costs and benefits of engagement with the support network.

For university spin offs there is the further issue of balancing an academic role with setting up the business and for example, competing for funding against people whose full time role is to access grant aid. There is a need to enable universities actively support the growth of their spin offs on campus either in terms of funding or to allow people a sabbatical to devote a year to growing their business.

What could be better?

Companies thought that there was a need for balance between them seeking support (a passive ecosystem) and support organisations approaching them (a proactive ecosystem) and that currently the balance is tipped too far towards the businesses with insufficient pro-activity of the part of the support organisations and too much effort required to get connected. “No-one has held our hand and said, ‘welcome’ come and meet these companies, these are the venture capitalists and these are the university people you need to be talking to and here are the other corporates who will be useful. That doesn't happen.” Most of them thought that what was available was good quality but not joined up, “so much is word of mouth – we need to know where to go for IP advice or export advice etc.” Allied to this is a lack of awareness of the role of local government and confusion as to the difference between council support services and Business South West.

It was suggested that more help could be directed at scale up rather than start up in terms of support and training.

Some interviewees suggested that there were not enough linkages at a strategic level between Plymouth and Exeter Universities; and that too much effort is focused on Exeter rather than the rural parts of the rest of the sub-region.

Ecosystem best practice

Four areas were identified, all involving investment in physical infrastructure:

- **Cardiff** has a university and Compound Semiconductor Applications Catapult and it is very clear that it is a national beacon. It has scale and it can build on the number of graduates leaving Higher Education in the sub-region (Cardiff University, the University of South Wales, Cardiff Metropolitan University and Swansea University). It is receiving substantial amounts of government funding to develop it further as a hub of hi tech industry.
- **Alderley Park Life Science Campus** offers state of the art bioscience facilities for R&D and support services for growth. It started with a company formed out of Manchester University which has grown on the Science Park next to the University. In turn, as it grew it was bought up by a German company to become globally recognised and it now provides key services for pre-clinical trials.

- **Level 39 in Canary Wharf**, London offers space for the fin tech community. At its core is a huge social space, which has a buzz and is invaluable as a place for collaboration. Exeter Science Park does not have that space and more thought needs to be given as to how to design physical space effectively which includes attractive space for more informal networking.
- **The Google Campus** at Old Street, London has the sort of big name needed to attract a virtuous circle of like-minded businesses.

FUNDING AND INVESTMENT

The online Innovation Survey 2020 conducted to assist with the baseline research showed that the main obstacle to start up or growth cited by 59% of respondents was no access to funds or capital. This issue also emerged from the in-depth entrepreneur interviews.

Asked what capital they had accessed to support growth there was a difference in views between the longer established businesses who were 'low risk and cash rich' or who had a good track record and were generally not seeking loans, compared to the smaller start ups. Their experience of banks and borrowing was that:

"Investment has been very difficult, without the commitment from the market it makes it difficult to get finance. There is an aversion to innovation and R&D across the board."

"It's too painful to work with the banks, we have used angel investors and family and friends."

We've not accessed capital, *"There is no venture capital, especially here in the South West. We wanted to buy the building next door but couldn't get a loan because we are a defence company and banks are 'morally opposed' to lending us money....We can't really grow. There is no venture capital. Everything is short-term."*

Interviews with three investors/financial institutions, whilst in no way statistically representative of the funding landscape do contribute an interesting alternative perspective. All three believed that essentially there is no lack of finance for investment but the system needs to work better as there is a reluctance by SMEs to use finance to grow, i.e. a lack of demand. There is an owner manager ethos and a lack of foresight. Rather than thinking of the external expertise which investment can bring into a company there is a reluctance to seek outside support. There is a real need to stimulate demand to encourage more businesses to seek advice, and for them to actively consider using a wider range of financial products and providers, at the moment they

are very bank reliant. This situation is exacerbated by the lack of any of the big 4 accountancy firms in the sub-region, so there are not the referrals, contacts or advice available to support entrepreneurs' investment strategies, nor partners to engage in the funding ladder.

One of the investors felt that the £100k to £1m area was challenging for firms to find investment. Another had a somewhat lower threshold, seeing a gap in the £50k plus bracket.

Echoing the views of employers expressed above it was felt that HotSW lacks the 'beating heart' of for instance, the Welsh Government bringing business to Wales or the Northern Powerhouse in Manchester. Although the LEPs are individually trying to do that, there is no branding and more needs to be done to attract new businesses. As one investor said, "*We have brilliant businesses worthy of the world stage but it is not articulated in the message about the South West.... Noise about the offer could help attract talent, we have fantastic universities and there is an opportunity.*" This suggests the need for scale. It was said that there is not enough demand in the sub-region to attract equity finance. There is a need for better linkages with Bristol and a larger South West voice which encompasses at least the 3 south western LEPs to generate a big enough investment pool.

Asked why local firms might be refused finance, interviewees were clear:

- They are not investor ready. They need to invest time and money with third parties to create an investable proposition. This is a missed opportunity.
- Reflecting the above, entrepreneurs often lack a key skillset such as a finance function or sales function, but are unaware that they lack these skills.
- Local employers are perceived to lack energy/ambition and prefer to do things the way they have always been done. They do not have aggressive strategies for growth and are averse to look at international sales early on.

In terms of the innovation ecosystem it was said that, "*We are not at the starting point with an ecosystem but it needs joining up.*" There is evidence of silo working. One spoke of good relationships with the LEP Executive Board but there seems to be limited linkages between them and the Executive team. There is a LEP Banking Forum but people on the ground are unaware of what is going on at a strategic level.

Opportunities for the MIT REAP programme

Finally, all interviewees were asked what was the most important thing that MIT REAP could deliver. Although many of the difficulties which firms had faced revolved around the banks and finance, in fact only one interviewee mentioned the need to support university spin-offs for a year to allow the the founders to invest their time in establishing their businesses. Possibly tackling the practices of banks and VCs was seen as beyond

the capacity of a local programme to address and suggestions focused heavily on more short term local activity:

Image

Many of the suggestions could be grouped together into action to tackle the perception of the area. There is a need to change the narrative of the Heart of the South West from an economy based on tourism to one which supports hi tech innovation whilst offering a high quality of life. Messages about the area need to be targeted at the right audience – MPs, central government, large corporates or sponsors. There are opportunities for growth and pockets of cutting edge practice. Similarly better strategic collaboration between the two universities would help promote a strong regional story of talent.

Build it and they will come

Allied to this was the view that there was a need for a central focus outside Exeter/Plymouth akin to the Impact Lab that will really resonate with today's tech entrepreneurs. The Impact Lab was thought to operate under the radar and does not shout enough about what it can do. Taunton's Innovation Centre was seen as a 'no brainer' as is the Gravity Project in Bridgwater. But it was emphasised that in innovation there is a fine line between working and not working, people need the cultural space – bars and cafes to stimulate ideas and B2B discussions. There was a suggestion that as the pandemic loosens the need for geographic proximity, that the West Country's high quality of life could be a pull for more tech companies.

Communication

There is a need to make it easier for small firms to understand who is best placed to help them (even something as simple as a database) and strategic communications about what is available and what is going on. Local does not matter – interviewees wanted the best specialist support there is and signposting should take that into account. Within the current system there is a need for a network of 'boundary spanners' whose role is to link the different parts of the support system to make it relevant and specific for individual, different sectors.

A supportive business environment

There was said to be a mismatch between the rhetoric of innovation and actual practice with limited room for growth and the need to improve practices across local authorities to support businesses via the planning system. In terms of finance, demand stimulation is critical as is the development of a larger pool for potential investors which stretches beyond the boundaries of Devon and Somerset.

