

ASSIGNMENT 1

MIT REAP: SUMMARY

UNDERSTANDING THE PERSPECTIVES OF OUR ECOSYSTEM'S ENTREPRENEURS & RISK CAPITALISTS AND ACTION PLAN

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2. Introduction

This report presents the findings of the online survey of SMEs and Risk Capitalists. The online survey was carried out using a questionnaire developed by the MIT REAP team using Google Forms Platform. Following consultation with other members of the Innovation Board the Heart of the South West research team¹ distributed the survey links to around 80 entrepreneurs that were known to partners as suitable candidates for the research. The link was also cascaded to the wider business community through the LEPs network of business support organisations. Forty-one responses were submitted during the three-week fieldwork window that extended from the 8th to the 29th July. The survey explored respondents':

- Perceptions of and engagement with the current local innovation ecosystem
- Experiences and perspectives of successful entrepreneurs in the region
- Understanding of the barriers and enablers to success, start- and scale-up in the area
- Perceptions of stakeholder support towards start- and scale-up initiatives

In addition to that and presented in Appendix 1 is the report of a set of qualitative interviews with SMEs and Risk Capitalists which was commissioned to supplement the online survey.

3. Business characteristics

- **Age of business** - the profile of respondents skewed towards the older end of the spectrum. 34% were more than 10 year ago, and 21% incorporated within the last 3 years (21%). More than two-thirds (37%) had been incorporated between 4 and 9 years prior to the survey.
- **Size** – respondents were predominantly **micro** enterprises employing between 1 and 9 people (36 %) followed by Small enterprises employing 10 to 49 people (31 %).
- **Sector and customers** – manufacturing firms predominated (24%), 'Professional, scientific and technical activities' (20%) and 'Information and communication' (17%), followed by health and finance.
- **Customer base** - 90% were operating in business-to-business markets mainly serving small businesses (74%) but also large ones (59%). One quarter were active in consumer markets and two-fifths supplied the Government.
- **Location** - broadly reflects the distribution of enterprises across the Heart of the South West with the largest numbers located in Devon and Somerset and smaller numbers from Plymouth and Torbay. Only 18 % had an office or other presence outside the UK.
- **Exporting** - more than one-third (36%) only had customers within the Heart of the South West but almost half (46%) traded further afield but within the UK. Slightly more than half (51%) traded internationally either to countries within the European Union (33%) or to the rest of the world (41%).
- **Personal characteristics of respondent:** The vast majority (73%) of the respondents were male, with females being in the minority (24%). Most (61%) were in the oldest age category (aged 50 to 69) with a further 27% aged between 40 to 49 years old. None were aged under 30. Most (88%) were born in the UK. Three quarters (76%) had

¹ Comprising: Chris Evans (Director of Regional Engagement, University of Exeter), Adriana Curca (Senior Economic Development Officer, Plymouth City Council, Hilary Stevens (Impact and Partnership Manager: Evidence & Evaluation, University of Exeter), Joanna Holmes (Skills Analyst, University of Exeter), Gabrielle Climie (Assistant Labour Market Analysis, Devon County Council/University of Exeter).

a professional qualification or had a degree level qualification or higher. One quarter (25%) had a secondary education or trade qualification. Their main field of study or specialism varied but the most common were business & administrative studies (34 %) and Engineering & technology (11%). The vast majority (89 %) of 18 respondents identified as 'an established business owner, Chief Executive Officer or similar' with the remainder describing themselves as identified as an 'academic or Consultant' (6 %) or 'none of the above' (6 %). More than half (56 %) had thought about, tried to, or set up a business in the region over the last 5 years. 71 % know someone – aside from themselves – who has started a business in the last 2 years.

4. Business expectations and performance

Motivation for starting their business

While more than a third (36%) of respondents had started their businesses primarily for financial reasons either to build great wealth (23%) or more modestly, to earn a living because jobs were scarce (18%) respondents were far more likely to cite being motivated by a desire to make a difference in the world (69%). A relatively small proportion (5%) had started the business to continue a family tradition. Ten respondents also volunteered other reasons for starting their business: professional freedom and independence; to take advantage and exploit opportunity; and, to gain recognition and respect

Current stage of growth

A small number (13%) were at an early stage: either at pre-launch or concept (5%) or early business validation (8%). More than half (51%) described themselves as 'growth stage' where they were scaling up the business. A further fifth (21%) were established businesses at 'late or mature stage' and 3% had been publicly traded or acquired by another company. A small number (5%) were at decline stage or were being liquidated. More than three-quarters (77%) of respondents to the survey were profitable before Covid-19. The remainder (23%) were not profitable.

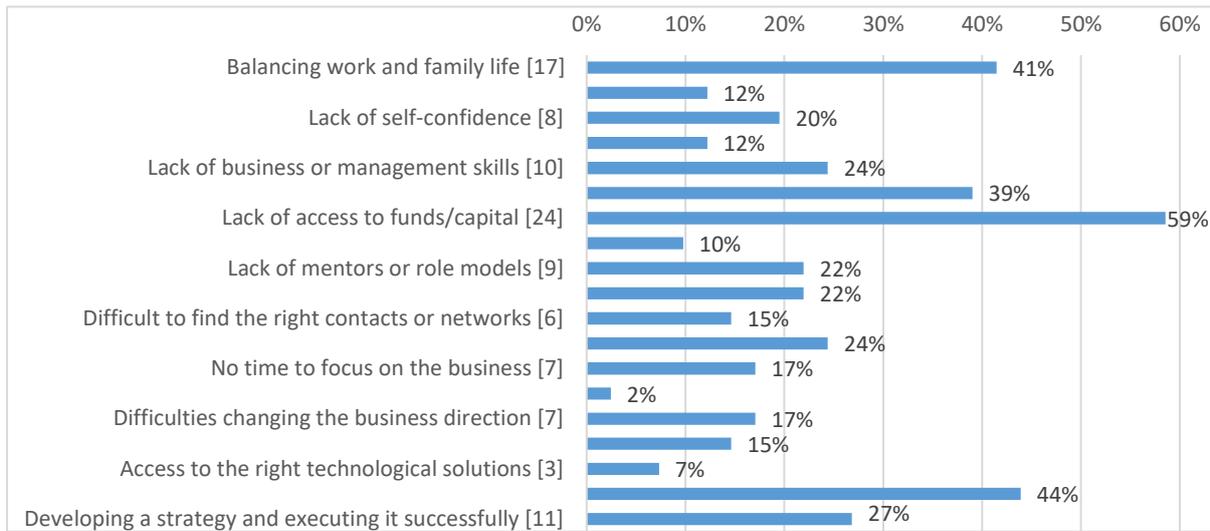
5. Obstacles to business formation or growth

Most commonly cited obstacle to business formation or growth was:

- Lack of access to funds/capital' (59%)
- Attracting customers/developing new markets (44%)
- Balancing work and family life' (42%)
- Lack of skilled staff (39%)

More than one-fifth however identified issues with: lack of business or management skills (24%), no time for training or upgrading skills (24%), developing a strategy and executing it successfully (27%), lack of networks or support (22%), lack of mentors or role models (22%) and lack of self-confidence (20%). Grouping responses together into themes suggests that similar proportions of respondents identified obstacles related to skills (61%) and managing change or business development (61%) and with slightly fewer identifying issues related to time (56%) and lack of support (56%). Furthermore, almost one-in-eight (12%) cited discrimination as one of the main obstacles or problems they had faced in starting up or growing their business.

Figure 1. What are the main obstacles or problems you have faced starting up or growing your business in the region? Multiple choice



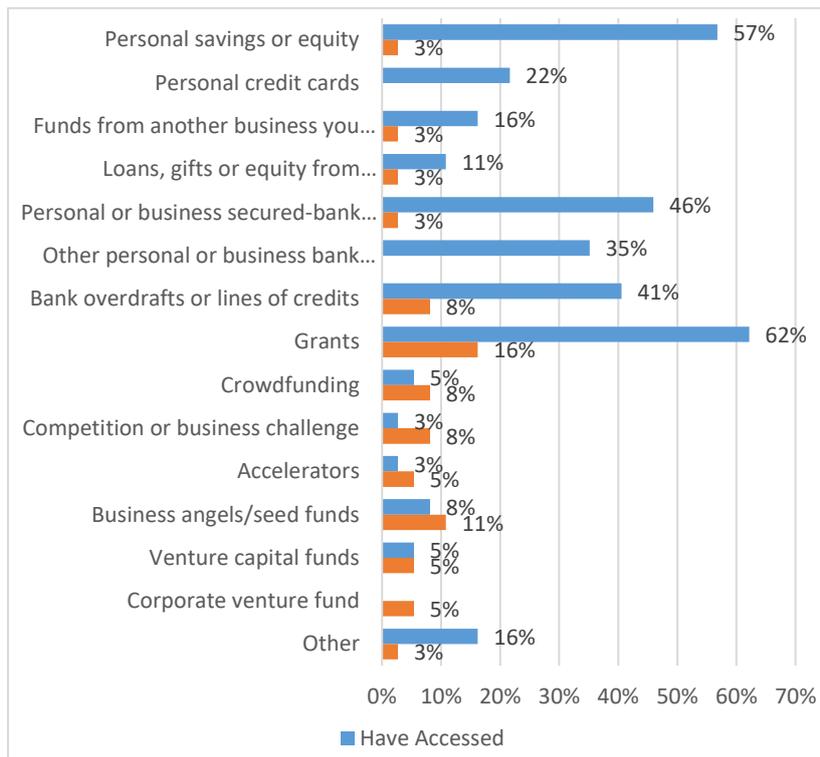
Base: All respondents (41)

6. Access to capital

95% of respondents had accessed some form of capital most commonly funding from the bank (81%) or their own financial resources (62%). Fewer respondents planned to access capital in future (30%). Overall, banks unsurprisingly were a common source of finance with 81% of respondents who had accessed any form of capital securing funds using credit cards, overdrafts or bank loans either on a personal or business basis. More than one-third (35%) had accessed other sources² (excluding grants).

² This include: loans, gifts or equity from friends or family, crowdfunding, completion or business challenge, accelerators, business angels or seed funds, venture capital funds, corporate venture fund or other.

Figure 2. Plans to accessed capital



Only three-in-ten (30%) respondents were planning to access capital from any of the sources listed in future. The most common being grants (16% of all) and business angels/seed funds (11%). Very few accessed or planned to access seed funds, risk capital or crowdsourcing.

Base: 37 respondents

7. Innovation performance

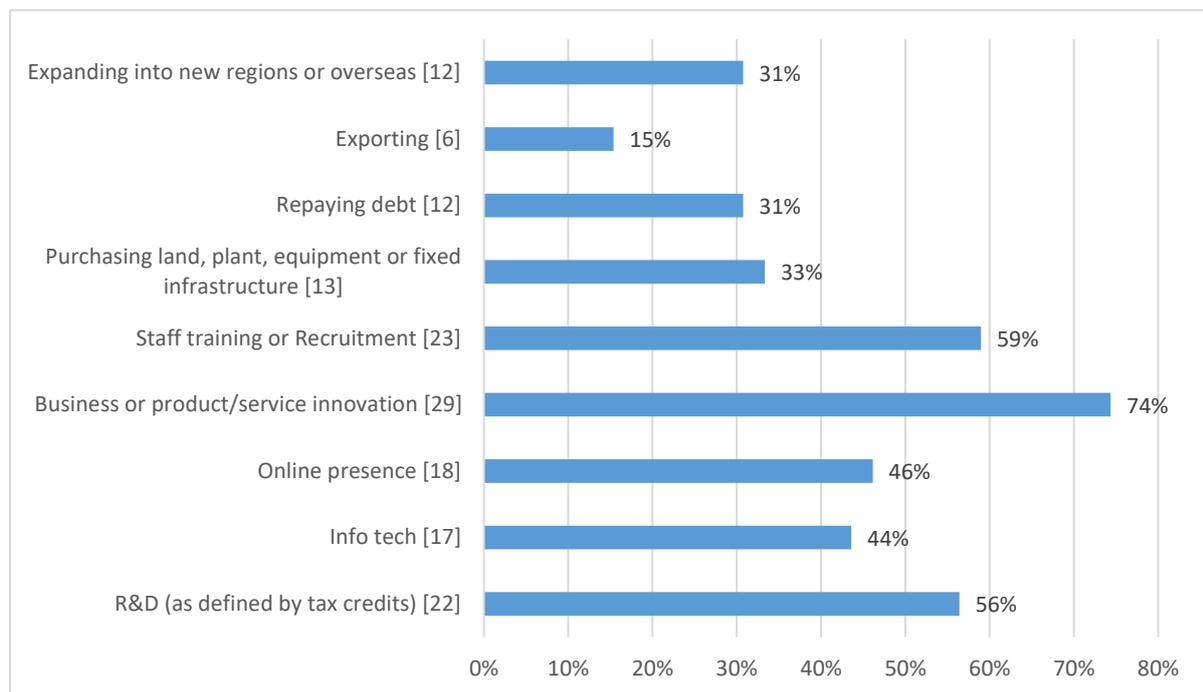
Whilst the data for the region shows low levels of innovation, the majority (77%) of respondents believe that they were innovating more than other businesses. When asked why information technology and data (58%) and new business models (52%) were most commonly highlighted.

The majority of businesses owned some form of intellectual property (59%) most commonly: 'other intellectual property' (56% of those owning IP) but also trademarks (48%), copyright (44%) and patents (8%). Where respondents held intellectual property, the majority had generated it themselves (82%). However, of the respondents with intellectual property only 7% (2 respondents) had licensed it through a university.

8. Future plans

Looking ahead, respondents were asked about their priorities for business investment over the next 12 months. The majority (74%) were anticipating to invest in business or product/service innovation, to train or recruit new staff (59%) or obtain R&D tax credits (56%).

Figure 3. Where do you intend to invest in your business over the next 12 months?



Base: 39 respondents

9. Business approach

Respondents were most concerned about: cash flow (67%), and around half were concerned about their ability to find the best skills and talent (51%) and the business failing (49%). While less commonly identified a significant minority of respondents were also concerned about fundraising (36%) and competition (38%).

Among the priorities explored, the majority agreed that they prioritised using technology to support/enhance business performance (77%), hiring talented people (72%) and to a lesser extent research and development (59%) and using digital technologies in their products and services (54%). Few respondents prioritised non-technological improvements (10%).

Large majority of respondents agreed that their business could do most of the things listed in the survey (i.e. solve problems quickly, make and implement decisions quickly) and most businesses (87%) had a written business plan. The area where respondents were less likely to be confident were in their ability to re-deploy or retrain employees quickly (41%) or have considerable error tolerance (54%).

The majority of respondents were positive about the statements relating to their business' ability to adapt and implement changes quickly and effectively: almost all respondents feel their business has implemented changes in business processes quickly (92%), and a large majority feel they have adapted effectively to the challenges of COVID-19 (87%).

10. Perceptions of the local ecosystem

Opportunities for new business and ease of creation

The majority of respondents (71 %) felt that 'there are good opportunities to start a new business in your region' but rather fewer (44 percent) felt that it was 'easy to start a business in your region'. On balance more respondents felt it was not easy to start a business (56 %).

Perception of regional businesses

When considering businesses in the region, respondents were generally positive about their ability to adapt, compete and succeed. 92% agree that businesses 'are adaptable and able to adjust to changes quickly', with no respondents disagreeing. Significant majority of respondents agreed that businesses in the region are: generally innovative (87%); generally successful (77%); able to achieve high growth (77%).

The majority also agreed that regional businesses directly compete (69%) and work collaboratively (62%) with other regional businesses (62%); and that there is open communication and networking amongst regional businesses (74%). The majority (87%) however felt that businesses in the region need help to develop and maintain cooperative linkages.

Effectiveness of regional support

- 54% agreed that the current higher education (HE) system is effective in developing people with the right technical expertise
- (54%) believed HE is effective in developing entrepreneurial skills
- (49%) felt regional Government's business programmes are effective in assisting businesses to start-up, grow and develop
- (44%) felt data available for helping businesses start-up, grow is timely and easy to understand
- (39%) felt HE was effective in supporting businesses to innovate

Supporters or detractors

The survey explored who had supported or detracted respondents when starting up, growing or building their business. Supports were most commonly identified as: Co-owners and staff (76%); other business people (71%); and spouse or partner (68%)

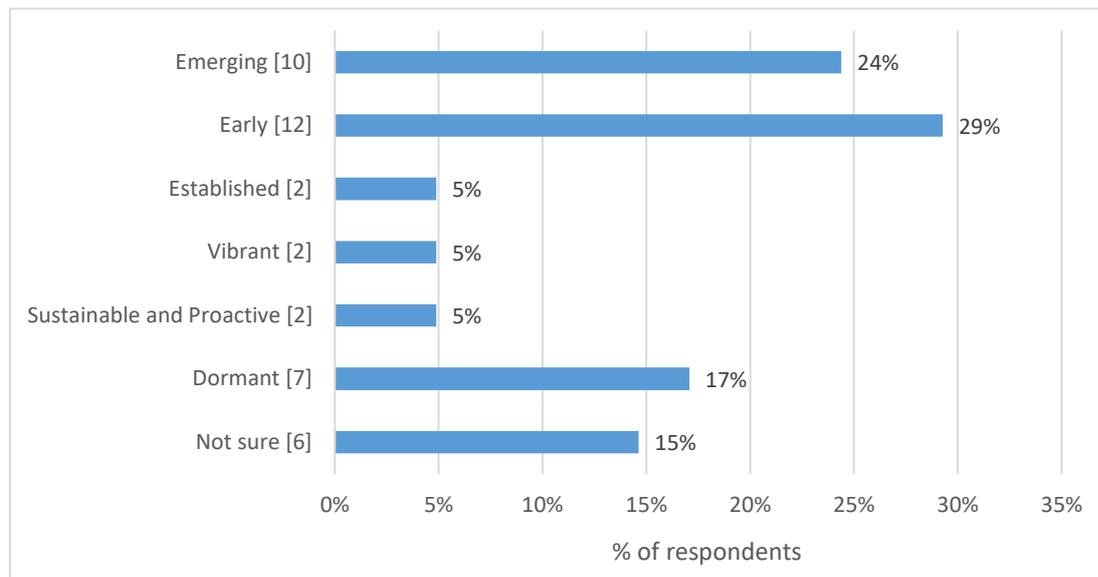
Innovation ecosystem

While the majority (59%) of respondents felt part of the region's innovation ecosystem³, one-third (32%) did not and one-in-ten (10 %) were not sure.

When asked at what stage of development they felt the region's innovative ecosystem or start-up community is currently at most felt it was at an early (29%) or emerging (24%) stage. Further, sizeable proportions, however, felt that it was dormant (17%) or were not sure (15%). Few described it as established (5%), vibrant (5%) or sustainable or proactive (5%).

³ i.e. the network of people and organisations that support the creation and diffusion of ideas to new and existing businesses

Figure 1. At what stage of development do you think the region's innovation ecosystem or start-up community is currently at?



Base: All respondents (41)

While most (59%) respondents had engaged in at least one type of event within the community the proportions engaging in any specific event were fairly low although participation was highest for:

- Innovation & Entrepreneurship education (34 %)
- InnovationUK events (22 %)
- Start-up competition (7 %)
- Hackathon (5 %)
- SETSquared Business Bootcamp (2 %).

More than two-fifths (42 %) of respondents had not engaged in any of these activities.

Engagement with ecosystem components

The survey explored the extent to which respondents were engaged with selected stakeholders. Of all the groups listed, respondents were most likely to claim that they had a moderate to very high level of engagement with other entrepreneurs (56%). Beyond this, however, the general perception of engagement from all other groups (Government, Universities, Corporate, and Risk Capital) is low.

Effectiveness of engagement with ecosystem components

Overall, respondents were most likely to respond positively⁴ about the effective of support provided by other entrepreneurs (73%). However, the balance of responses was negative for universities and risk capital providers.

⁴ % of responses perceived their provision as Somewhat effective, Effective or Highly Effective,

A similar picture emerged when respondents were asked about the sufficiency or otherwise about the resources of funds supplied by stakeholder groups for innovative research & development. Government had the most favourable response from respondents with 29% of respondents believing the level of support was at least sufficient although even for this stakeholder, the majority (56%) felt that what was supplied was insufficient. The proportion of respondents claiming the level of support was insufficient was high across the board: Universities (56%), risk capitalists (51%), entrepreneurs (49%) and corporates (44%). Activities and support felt to be of use included:

- R&D tax credits
- Free workshops and advice, mentoring
- Access to business networks
- Fundraising in EU
- Government enabling online administration of paperwork
- Support for social enterprise and generally 'continuing to invest'

But the general message from one respondent summed up businesses feeling:

"Other entrepreneurs are part of my support eco system. I learn from them and their support motivates me."

Potential improvements

When asked what would most improve things respondents said:

- Funding, in particular better access to risk capital, grants for capital expenditure, funding for start-up businesses and 'don't cut entrepreneur tax relief maximum'
- Mentoring, better guidance at early stage, signposting to sources of support
- Better connectivity by road, rail and air
- Better access to education
- Promotion of social enterprises
- Be more inclusive and engaging, "more visibility and being proactive in reaching out to me", "engage and support Micro SMEs just like they do in Scandinavia and Germany!"