



heart of the  
south west

local enterprise partnership

**MIT REAP  
Innovation and Entrepreneurship  
Ecosystem**

**Analysis and Action Plan**

**September 2020**

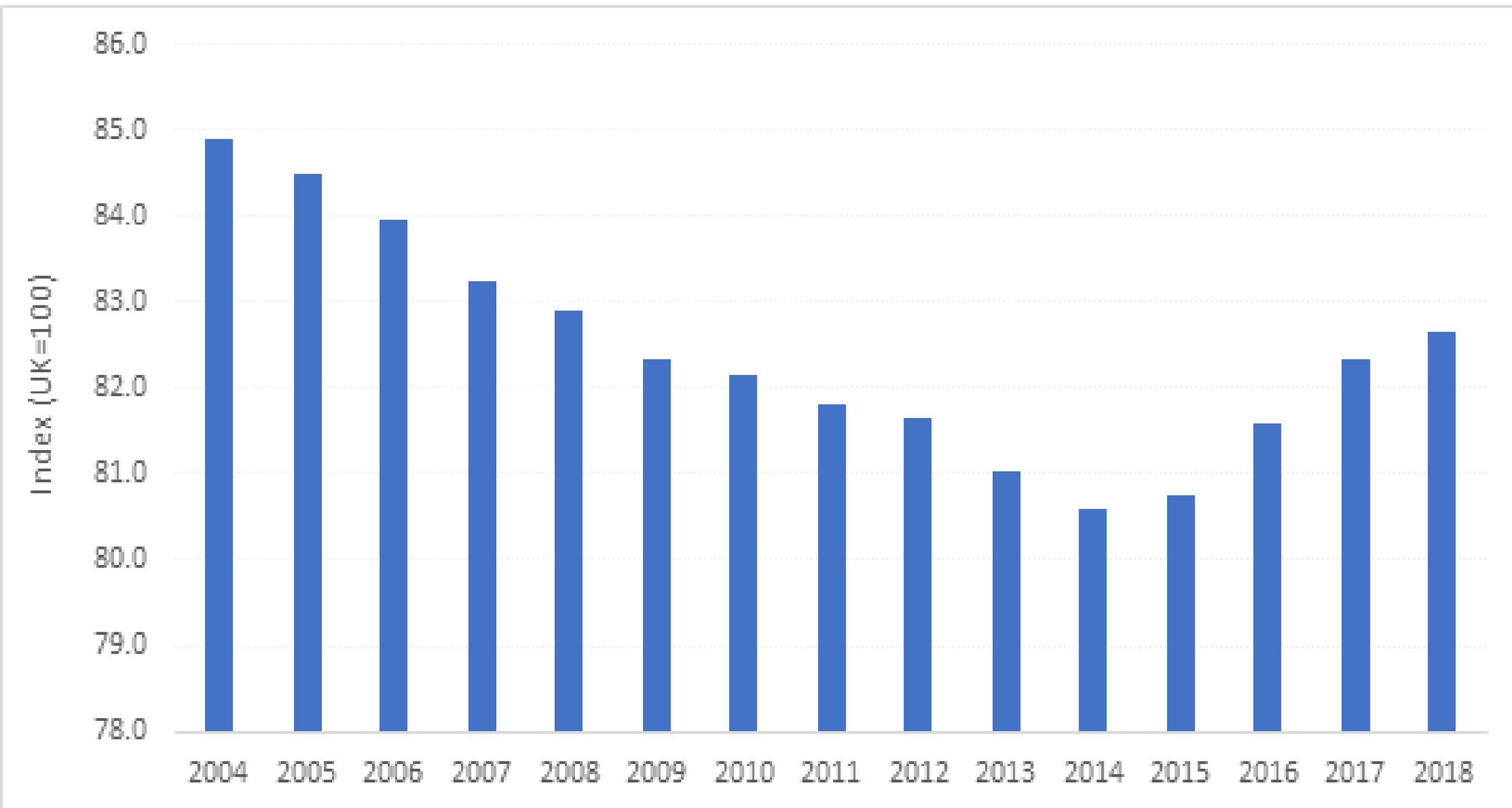


## HotSW Economy Key Themes Post COVID

# Output and productivity – low productivity but closing the gap

- The Heart of the South West LEP economy has a Gross Value Added (GVA) of £35.5bn, with GDP of £40.3bn (2018). This puts it as middle ranking in relation to other LEPs standing at 16<sup>th</sup> place out of 38 LEPs. Since 2011 its GVA has grown by 9.2% - a lower rate of growth than that of the SW (12.7%) or UK (14.5%).
- Productivity growth has been strong since 2014, and the productivity gap with the UK average has been narrowing, from 80.6% of the UK average in 2014, to 82.7% in 2018. Nevertheless, productivity is still significantly lower than in 2004, when it was registered at 84.9% of the UK average. The growth in recent years is only the start of the road to recovery in productivity for the Heart of the South West region after a decade of consistent deterioration.
- The Heart of the South West has one of the lowest rates of labour productivity per hour worked in the country. This partly reflects:
  - its economic structure which has a low representation of high-productivity sectors such as professional services and a higher representation of less productive sectors such as agriculture & fishing and utilities and tourist-related industries.
  - Business base - preponderance of small firms with few large corporates. High proportion of Family owned businesses
  - Rurality which impacts on business density

# Labour productivity (GVA per hour worked Index, UK=100), Heart of the South West, 2004 to 2018



Source: Sub-regional Productivity – Office for National Statistics, 2020

# Labour market – A story of high employment, but with rising unemployment post COVID

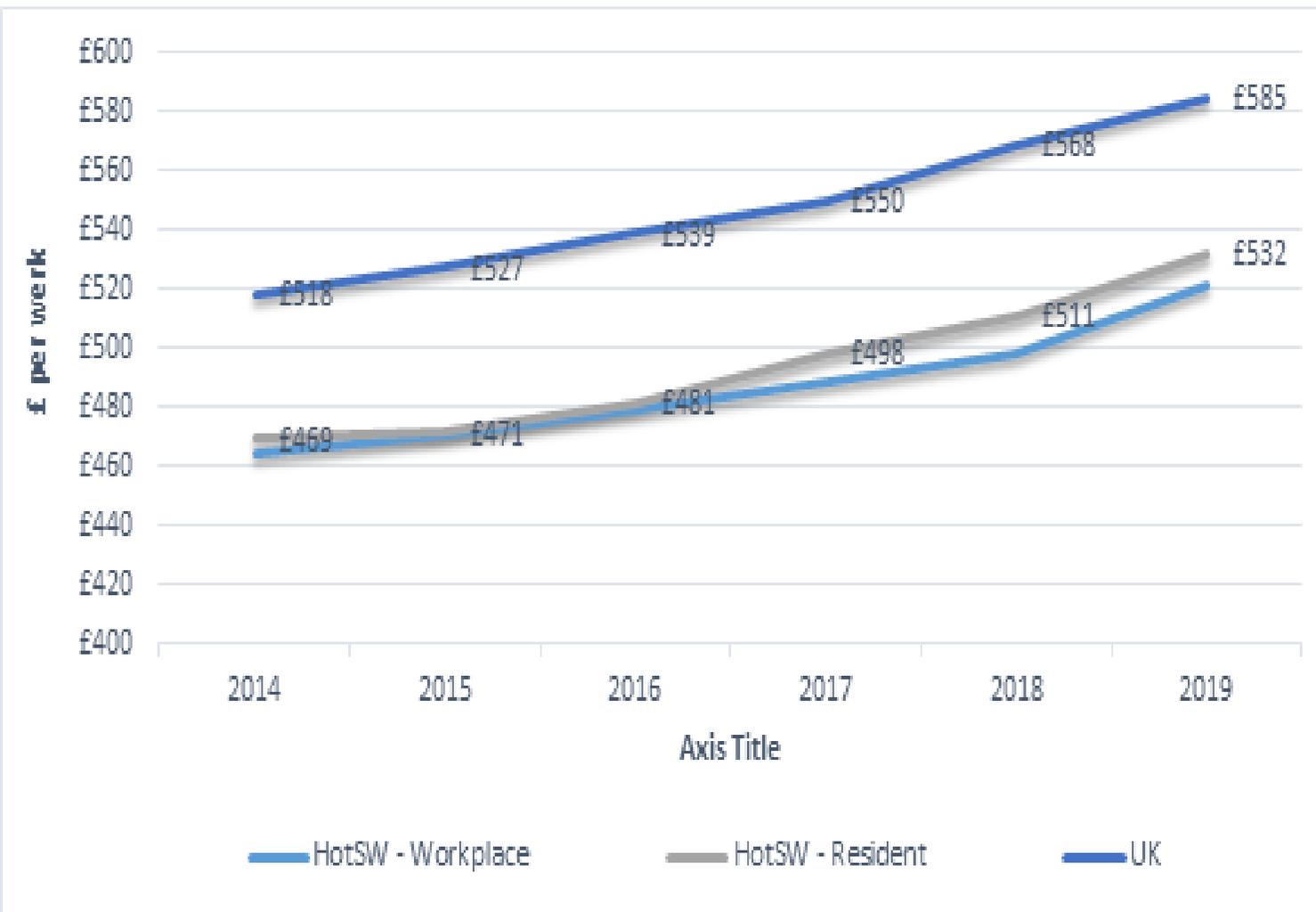
In 2018 766,500 people were in employment across Heart of the South West. 62.3% of all employees were employed on a full-time basis. 82.8% of employees worked in the private sector - in line with the national average.

In the 12 months to December 2019, 82% of Heart of the South West's working age population were economically active, well above the national rate (78.8%). This suggests that the Heart of the South West had reached functional full employment.

Conversely, unemployment was low at 3.3% in the year to December 2019, compared to 4% UK-wide. However, more recent data reflects the impact of the pandemic and latest data shows that by May 2020 the claimant unemployment rate as a proportion of the working age population rose to 5.5%.

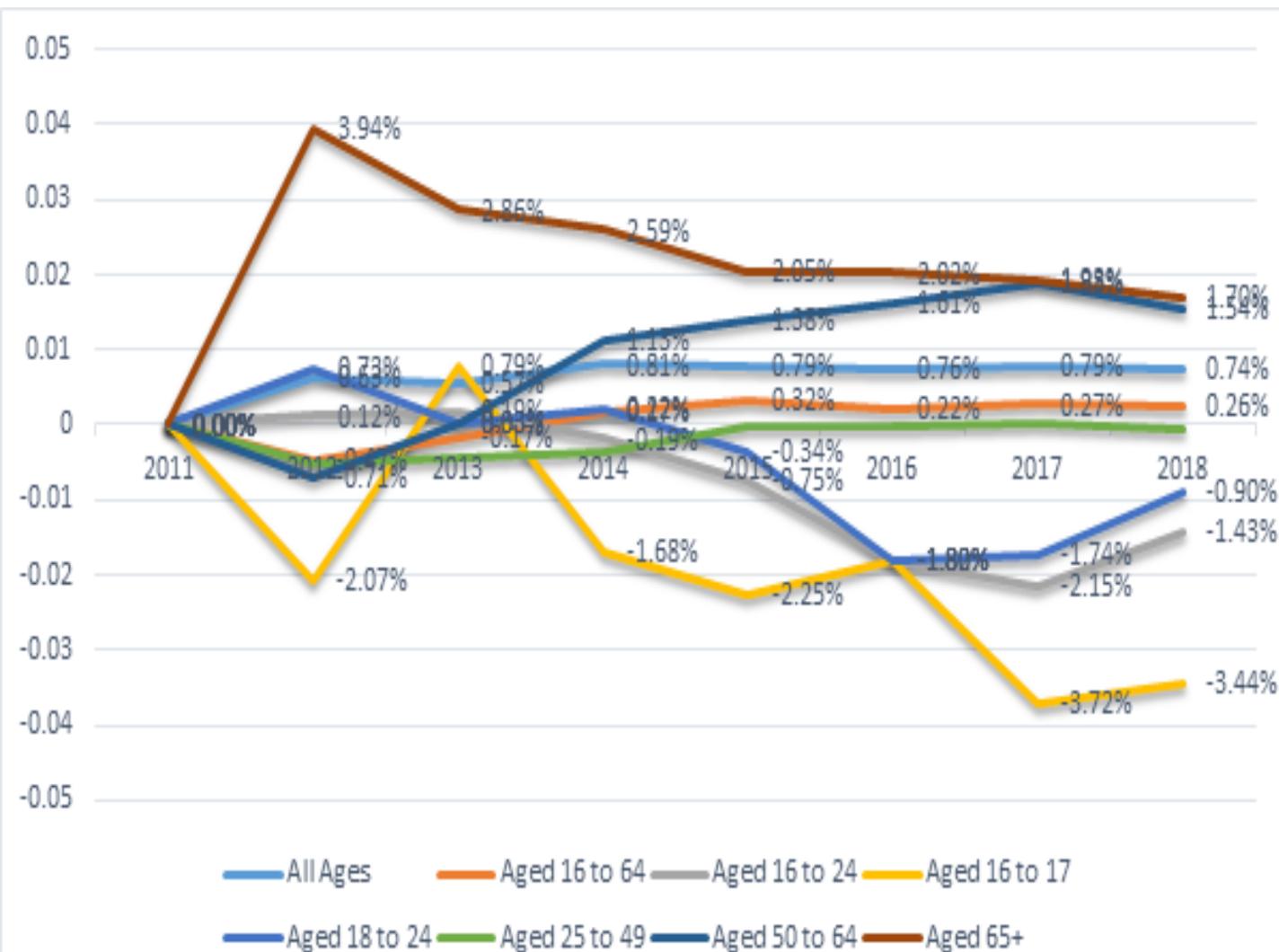
Earnings are below average. In 2019, the Heart of the South West's median weekly full-time earnings stood) at £521.3 for Heart of the South West workers, and £531.8 for Heart of the South West residents, both figures lie below the UK average of £584.9 per week.

# Labour market – and low (but rising) wages



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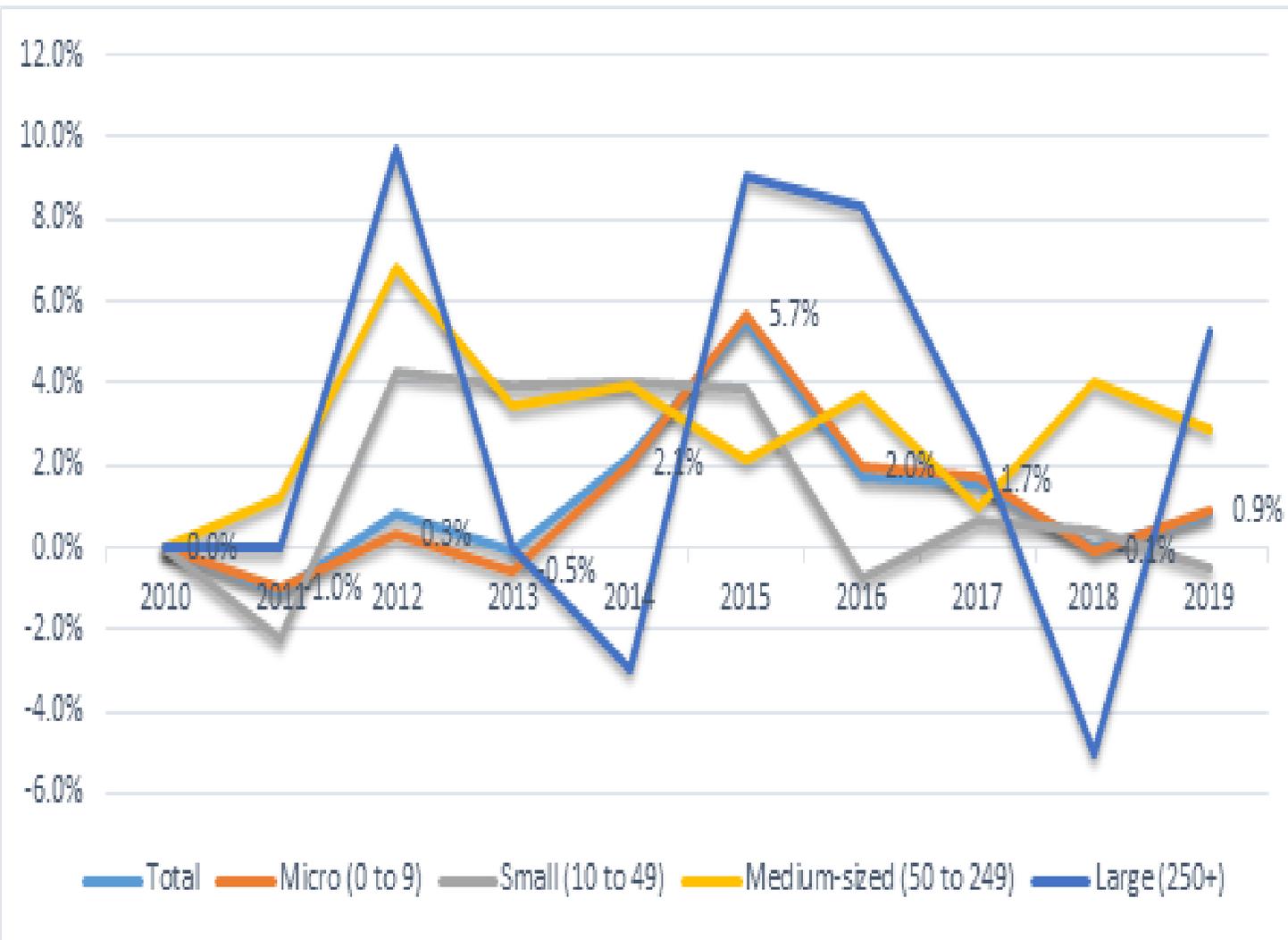
# Demography – A growing but ageing population



Source: Population Estimates – Office for National Statistics, 2019

A growing population but ageing population  
This indicates potential tightness in Heart of the South West's labour market, driven by an ageing population and a weak pull effect for young and middle aged workers, with potential implications for skills shortages in high-skilled and mid-skill occupations, as well as skilled trades.

# Business Data - low rates of business dynamism

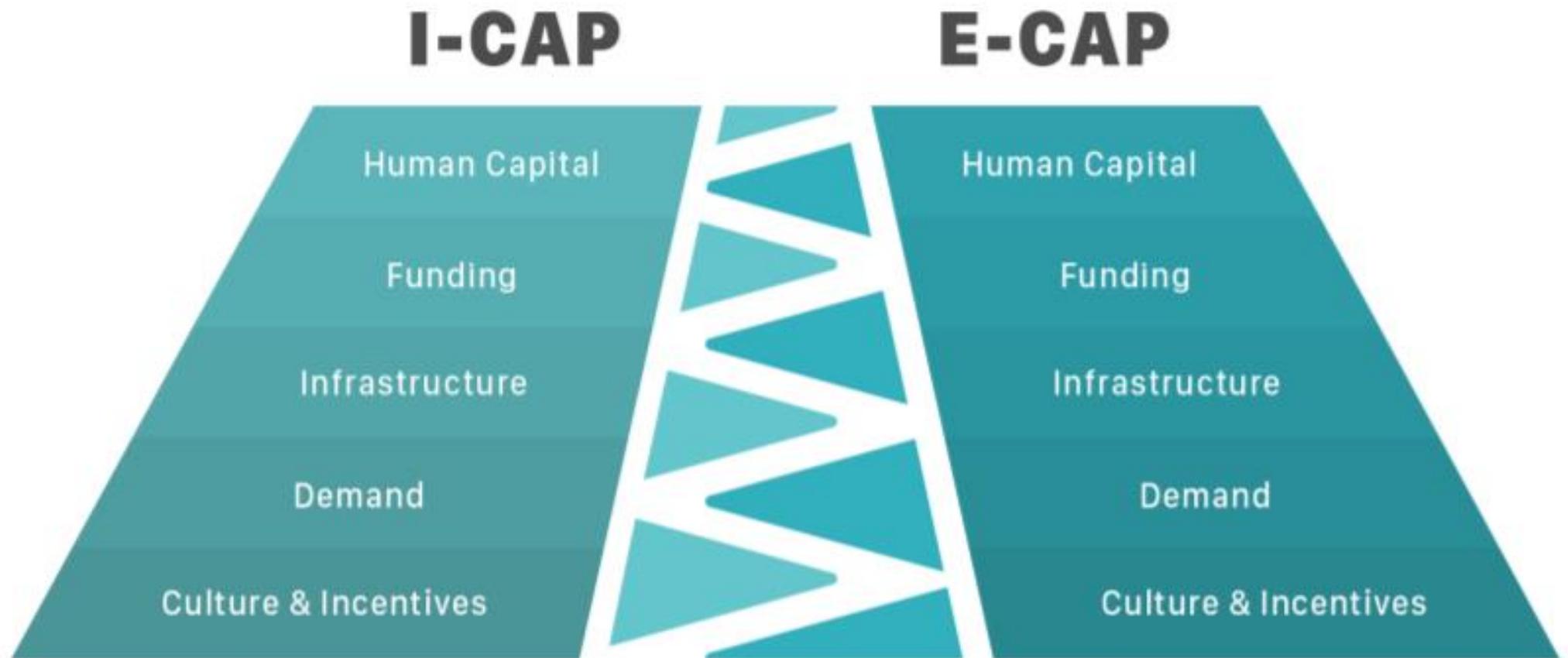


Strongest consistent growth over the period was in enterprises of medium size (i.e. employing 50 to 249 employees); note that the growth in large enterprises appears more volatile and more dramatic because of smaller number of large companies in the region.



## Icap and Ecap Analysis

# ASSESSING STRENGTHS & WEAKNESSES OF YOUR LEP'S INNOVATION & ENTREPRENEURSHIP CAPACITIES



## What is I CAP?

The sub-region's innovation performance is driven in part by the availability of innovation capital or “I-CAP”. This can be described in terms of:

- Innovative capacity and capability of the people who live and work in the area;
- The level and nature of investments made in R&D; and
- The underpinning Infrastructure than supports this activity.

# I CAP Strengths

## R&D Assets

- Strong foundation of universities (world-class research assets and academics)
- University expenditure on R&D is higher in Devon than the national average
- World-leading strengths in Life and Earth Sciences, Physical Sciences and Engineering and Health
- Strong interactions between HEIs and businesses
- Science Parks
- National Laboratories – Met Office, PML and UKHO

## Sector strengths

Developing infrastructure of sector based innovation hubs and collaborative workspaces e.g. I Aero, Impact Lab etc

Broad-based economy with strengths in marine, environmental tech/intelligence, defence, aerospace, food and drink and tourism providing resilience and the basis for cross fertilising knowledge and ideas higher number of businesses in knowledge intensive manufacturing sectors than the national ave.

## Skills

- Employer investment in workplace skills relatively high
- Strong record of delivering Knowledge Transfer Partnerships (Exeter 10<sup>th</sup> in national league table)
- Strong network for education providers, and new South West Institute of Technology

# I CAP Weaknesses

## Low R&D Spend

- HotSW's BERD spend is only 38% of the average LEP, despite the number of innovation active firms standing at 90% of the LEP average.
- The success rate of Innovate UK funding in the Heart of the South West LEP is lower than the national average.
- Lack of corporate presence in the region contributing to relatively low R&D spend

## Commercialisation

- Low performance on the number of active graduate start-ups (39% of the LEP average) and the average number of firms engaged in product or process innovation, which suggests that more can be done in terms of translating ideas into market solutions.
- Patents ???

## STEM Skills/occupations

- Lower % of the workforce in STEM occupations: 6.7% of all in employment (v. UK 7.7%) – less than half that in Oxfordshire (15 %) and Thames Valley Berkshire (14 %) LEP areas and when ranked against all other LEP areas is placed 32nd out of 38 areas.
- Low proportion of graduates in the workforce

# What is ECap



# E CAP Strengths

- Higher new firm survival rates and lower churn.
- Top quartile LEP performance on small high-growth firm incidence rate (1.2%) and the % of firms with positive productivity growth between 2015-18 (8.3%)

- Higher number of businesses in knowledge intensive manufacturing sectors than the national average
- Demand for STEM jobs as a percentage of all vacancies is increasing on both a national and a local level

- Strong % new high growth firms (2<sup>nd</sup> quartile of LEPs on % of start-ups generating £1m+ revenues after 3 years),
- LEP level analysis of the 2017 shows 21.1 % firms introduced of new methods of work organisation and 14.2% implemented new marketing concepts and strategies

# E CAP Waeknesses

## **E CAP Weaknesses**

The evidence shows relatively low rates of business dynamism across the LEP area **GVA per hour worked has grown in real terms by 3.9% between 2011 and 2018; this compares to 2.6% nationally. However, our forecasts show that growth over the next few decades will be slower and the productivity gap with the UK average should widen.**

**Significantly lower business density and start-up rate (start-up rate: 9.9% relative to total business stock v. UK 13%)**

**Low % of High growth firms: 4.8% high-growth firms, v. UK 6.1% (OECD 20% threshold) incidence rate (222 firms); 12.6% (OECD 10% threshold); bottom quarter of LEPs on both 10% and 20% thresholds;**

**Business growth (enterprises): +13.2% 2011-19 (v. UK 30.6%).**

**Lower % Survivor firms: 1.5% of surviving 2015 start-ups grew from <£500k to £1m+ turnover by 2018 (v. England 2%).**

**High number of businesses where the owners have low growth ambitions due to lifestyle decisions**

## E CAP Weaknesses

Fewer than average large and medium sized companies (1.7% v. UK 2.0%), and overall business growth since 2011 has been significantly lower than nationally.

Lower propensity to export; this is evidenced by below-average exports as a % of total area GVA, as well as exports per business stock; moreover, and reflecting HotSW's industrial structure, HotSW exports more in goods than in services.

Small teams in SMEs lack the breadth of skills to cover all they must do – beyond winning funding – to successfully innovate (such as bid writing skills, developing strategy, understanding customers, partnering to access skills and facilities etc.).  
(Belmana, 2019)

SME survey points to lack of access to capital, space, skills understanding of the support available

## E CAP Weaknesses

Lower proportion of residents holding a degree level qualification or above (31%), than the England average (37 %), and significantly below Country's most innovative LEP areas.

### Apprenticeships

GCSE - For the Heart of the South West, the Attainment 8 score is lower than the national and regional average across all four of the upper tier local authorities, but by widely varying degrees

47 % (7,420 graduates) of UK domiciled leavers stayed in the South West for employment in 2016/17,

# Business Survey Key

**41 Responses to SME online Survey**

**7 In depth interviews with SMEs**

**3 In depth interviews with Risk Capitalist**

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.

# Business Survey Key Issues and Findings

Many positive aspects to starting a business in HotSW BUT barriers are:

**Transport:** disadvantage of peripheralilty

**Image:** Insufficient promotion of companies and innovation assets of the region and that public perception focuses on tourism at the expense of innovative businesses.

**Recruitment:** difficult to convince talent to relocate to the South West - particularly related to engineers and IT staff.

**Investment:** Difficulties with accessing investment.

**Contracting:** Barriers to accessing government contracts.

**Space:** difficulty in securing premises for growth – particularly for scale ups.

# Business Survey Key Issues and Findings

Strong perception that no innovation and enterprise ecosystem in the Heart of the South West, or if there is it is disjointed. Some local ecosystems evident.

Support more focused on start-ups with little support for scale ups.

Major investment such as a Catapult Centre which would put the area on the map and make a big difference.

*“Universities are key to the system”.*

Needed a more proactive ecosystem - much effort required to get connected.

Most of them thought that what was available was good quality but not joined up

Lack of awareness of the role of local government and confusion as to the difference between council support services and Business South West.

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.

## What business told us

*“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”.*



**Supply and Demand  
Side Issues – What the  
Surveys tell us?**

# Supply Side Issues

## NAVIGATION SUPPORT

Support tailored to the needs of IDEs is thin on the ground on their journey from start-up to scale-up. Support is partial and disjointed making it difficult for business to find the support they need.

## LACK OF INVESTIBLE PROPOSITIONS

Lack of critical mass of investible ideas and business models being generated – evidenced by the number of organisations citing access to finance as a challenge.

Available support for the commercialisation of ideas is limited. An increase in the scale and quality of support available to ideation stage businesses is needed to create more.

The range of ideas coming forward is narrower than it could be

## RISK CAPITAL

A limited pipeline of quality investible ideas makes it difficult to attract investors from the investment community with the knock-on effect that entrepreneurs go elsewhere for investment and an opportunity to strengthen our innovation ecosystem through increased connectivity into the London and overseas investment communities is missed.



# Supply Side Issues (Cont'd)

## SCALE-UPS

Too few start-ups grow to become £1m plus businesses. More support is required to support this journey.

## SKILLS AND TALENT

Research shows that access to talent is a critical factor in locating their business, in particular graduate-level technical skills. Access to skills and influence over supply of skills - what is needed and when – is important.

As companies scale access to management skills is a challenge.

## SKILLS

Entrepreneurship culture is not embedded within education and corporates.  
Scope for further development



## Supply Side Issues (Cont'd)

### PHYSICAL INFRASTRUCTURE

No clear map of its physical research assets. Business needs to fully understand the existence and nature of R&D assets in the region that can support innovation capacity.

In the context of COVID 19, what more can be done virtually and how should this be supported?

Network of Science Parks at Plymouth, Exeter and Gravity (being established), and a number of innovation and enterprise centres but no really understanding of what is delivered there and their impact. Not linked up and optimised.



# Demand Side Issues

## PUBLIC SECTOR

Strong public sector presence - good examples of engaging entrepreneurs and innovators in improving public services

Less complex, more flexible procurement processes required to open up routes-to-market and the early adoption of innovative goods and services.

Public sector could drive Green Recovery so leadership and procurement essential

## CORPORATES

Limited range of corporates in the region, supply chain issues

Need to understand potential of intrapreneurship to drive company innovation



## VALUES

Celebrate and promote entrepreneurship and start ups – raising awareness of this as a positive route for the economy and for employment. Promote the exemplars, case studies, good news stories!!

There is a culture of support and collaboration but there is a long way to go to ensure that gender, ethnicity and socio-economic background are not an impediment for entrepreneurs and innovators.

With social mobility and inclusive growth central to our vision for the region, we need to ensure that business support actively supports this.

What's our USP in the region, particularly in the context of COVID 19 and the potential for those seeking a move from the cities to relocate businesses, or for graduates to stay and start up new businesses in the region.

What's the offer to business?





## Strategic Priorities for HotSW

# MUST WIN BATTLES

## MUST WIN BATTLE 1

Catalyse the key actors in the innovation and enterpreneurship ecosystem to develop a programme of Clean Growth Solutions to a Post COVID Economy

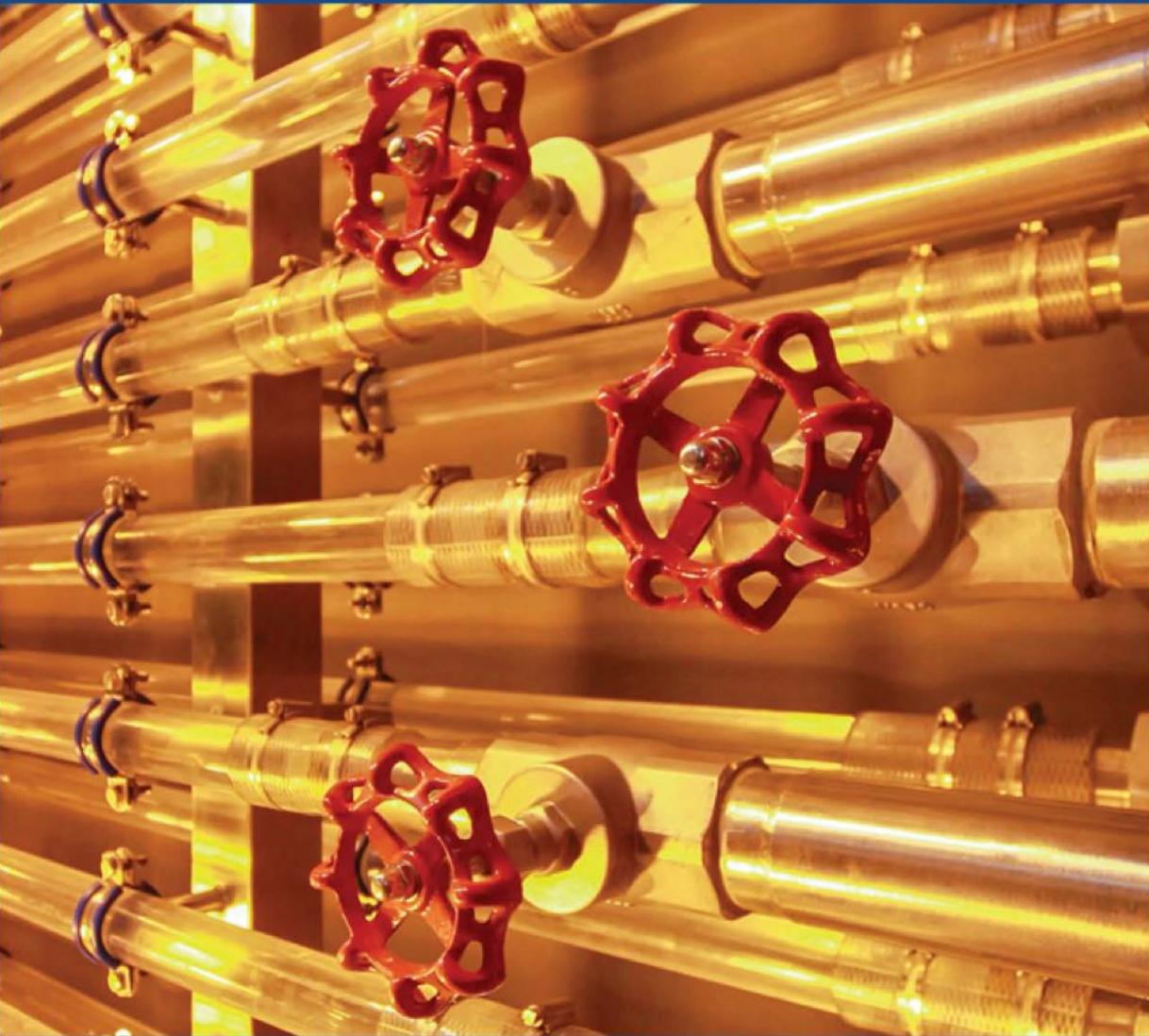
## MUST WIN BATTLE 2

Fully utilise our R&D Assets in support of start ups, scale ups and business clusters in which we have comparative advantage

## MUST WIN BATTLE 3

Optimise our investor networks, grants, loans and risk capital to invest in high growth potential





## Recommendations for Action

## MUST WIN BATTLE 1

Expand the business support offer to support scale up businesses

Develop a network of accelerator and coaching support to IDEs to enable them to develop and scale (or fail) fast, and secure investment of risk capital;

Expand SETsquared for IDE development and plans for Hub and Node arrangements through the Exeter University Enterprise Zone.

Consider creating similar zone for Plymouth.

Growth Hub expansion for SME recovery plans

Extension of existing and creation of new sector based R,D & I Hubs e.g Impact Lab to support innovation and connection between HE and business

Support for other sector based initiatives and clusters focused on Food and Drink, Tourism, Health and Construction, SW Defence Cluster



## MUST WIN BATTLE 1 cont

Investment from Growth Hubs, and other information providers, encouraged to better targeting the information they provide to businesses seeking to innovate. Business/ innovation advisors to be able to understand a business' capability to take the steps to commercialise their innovations. (Belmana 2019)

Public Sector Procurement - Public sector bodies to review and make more flexible their procurement processes to open up routes-to-market and the early adoption of innovative goods and services.

Celebrate Exemplars - inspire a fresh cohort of entrepreneurs we must identify, publicise and celebrate the great exemplars from across the region, from diverse backgrounds, across sectors.

Establish a clear mission for Clean Growth Innovation linked to post COVID recovery. Solutions to challenges!

Use the LEP's communication budget to showcase what can be achieved in the region, enthusing new talent to do the same and set out the potential for new businesses migrating to the region.



## MUST WIN BATTLE 1 cont

FE as the Final Mile - The ten FE colleges across the region have relationships with thousands of businesses and should be an effective route to engaging with pre-scale up firms, those investing in training but not yet in R&D.

Colleges are well placed to inspire and support the creation of SMEs, and to act as a conduit for programmes to do so, particularly in more rural areas.

Through initiatives such as the SWIoT, engage with employers to understand demand and drive new pathways to skills, linked to entrepreneurial skills.



## MUST WIN BATTLES 2

**Protecting our Research Base - Access to our two research universities and the specialist institutions is vital for IDEs to flourish. Our message to government should encourage them to maintain their commitment to change this and specifically to back the centres of world-beating excellence in our region.**

**Support Universities to improve their spin out rate performance.**

**Support from Government to support knowledge exchange  
Support SETsquared (and Plymouth equivalent) expansion to provide support for IDEs and ensure link between start up, scale ups and the research base.**

**Invest in a network of Research, development and innovation hubs such as the Impact Lab and MBTC that provide framework for cross partner working and provide framework for business/research interface. Expand the concept to other sectors.**



## MUST WIN BATTLE 2 cont

### The South West Technopole

Those physical assets – Plymouth and Exeter Science Parks, the assorted innovation centres, iAero, EPIC – should be invited to form a virtual collaboration covering the whole area: The South West Technopole. Building on the experience of the multi partner approach of the Impact Lab, this would have similar criteria for membership as apply to companies looking to locate in a science park and offer similar benefits of access to research expertise, networking and the encouragement of membership of a peer community.

Removing the requirement of physical location would make this more inclusive and offer the benefits of science park membership across the entirety of our geography. Firms could access physical facilities across the network, at a charge, when required.



## MUST WIN BATTLE 2

The Universities could be part of this network, offering access to research facilities (COVID allowing).

SMEs could familiarise themselves with equipment hosted by research facilities. Facilities such as University of Exeter VSimulator and the University of Plymouth Electron Microscopy Centre provided high-end instruments and skills for key innovation steps, such as testing. Experience sharing events and a funded programme for businesses to try the equipment.



## MUST WIN BATTLE 3

### Innovate UK Deal

We have a notional arrangement with Innovate UK already. This could be made more meaningful in two ways:

Businesses that have never applied for Innovate UK support, or which have been unsuccessful but are identified as having potential, should be mentored through the application process. Universities have some expertise in this and their services could be expanded with additional resource.

A dedicated competition for the area, hypothecating existing funds, would further demonstrate the viability of applying and showcase local success.



## MUST WIN BATTLE 3 cont

**A Compact with the Banks (I think this should be expanded to look at the investment piece)**

**We are likely to have many entrepreneurs, especially in SMEs, whose businesses fail specifically due to the pandemic. These who have demonstrated their ability to form and run companies successfully form an incredibly valuable asset for our region, yet one that we may be likely to squander. With personal credit ratings shot to pieces and a failed firm on their CVs, support to start again may be absent.**

**A public agreement with banks in the region that all the effects of pandemic-induced failure will be reversed out of lending decisions would not only increase the practicality of these entrepreneurs starting again, it would also offer encouragement to them to try.**



# What Next?

- Validate our initial proposals
  - Review evidence base – 8 September event
  - Survey 50 businesses (expand to 100)
  - Present initial findings to MIT REAP event – 14/15 September
  - LEP Board update
  - Focus Groups to discuss recommendations in detail
  - Draft Strategy
  - Final Strategy - January

