

**EVALUATION OF THE  
INVESTMENT READINESS  
DEMONSTRATION PROJECTS  
AND FIT4FINANCE**

**Final report to the Small Business  
Service**



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*economic development consultants*

# **EVALUATION OF THE INVESTMENT READINESS DEMONSTRATION PROJECTS AND FIT4FINANCE**

**Final report to the Small Business Service**

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## **Acknowledgement**

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## Executive summary

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### Overview

1. Over recent years, the Government has taken steps to improve the supply of finance, particularly equity finance, to small businesses. However, it was also recognised that steps needed to be taken to help more small businesses to become 'investment ready' if they were to take advantage of this increased supply of equity finance. Lack of investment readiness is related to factors such as a limited understanding of the available financing options, a failure to appreciate the needs of investors and the poor quality and presentation of business plans.
2. The Small Business Service (SBS) established six Demonstration Projects to test ways of helping SMEs with growth potential to improve their readiness for investment. At the same time it provided funding to enable an existing programme, fit4finance, to be rolled out more widely. Together, these enabled seven approaches to providing investment readiness support to be developed, tested and delivered, and for lessons to be captured and disseminated.
3. The Demonstration Projects were chosen through competitive tender, were launched in the second half of 2002 and ran for between nine and 15 months. The deliverers were located in five of England's regions. Apart from one, which targeted new technology companies, the projects worked with SMEs and entrepreneurs across all industry sectors. Most covered all of the elements in the Mason and Harrison model<sup>1</sup>, although there were variations in how these were delivered. They also varied in the level of emphasis they placed on individual versus group delivery.
4. The Demonstration Projects can be considered a success, having met the majority of the aims set out by SBS, and demonstrated the benefits of this kind of support to participating SMEs. It appears, therefore, that providing investment readiness support is an appropriate element of the response to the Government's ambition to increase equity take-up as a means of funding the development of businesses with growth potential.

### Aims of the study

5. The two main aims of this evaluation were:
  - to assess the effectiveness of the approaches to improving investment readiness taken by the six Demonstration Projects and fit4finance
  - to highlight good practice which emerged from some or all of the projects which might be replicated elsewhere in the country.

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<sup>1</sup> See "Designing an 'Investment Ready' Programme: some considerations." A report to the Small Business Service. Colin M Mason and Richard T Harrison, September 2001.

### **Key findings: deliverers**

6. Most of the projects met or exceeded their main targets. Ninety-six funding deals were reported to have been achieved by participating businesses (at least 29 of which were primarily equity), with a considerable additional proportion of participants still in the process of equity negotiation at the time of this evaluation. Four of the projects, plus fit4finance, have continued, or intend to continue, their activity with regional public or private sector support.
7. In addition to their positive performance against targets, the projects have provided some clear lessons for the future delivery of investment readiness support. The main ones are that:
  - This is not a short-term intervention - investment readiness initiatives require long-term commitment in order to become established and embedded in networks, and to provide support to businesses at the point they are ready to seek equity
  - continuous awareness-raising activity is necessary in order to educate and recruit businesses at appropriate stages of development
  - where referrals are used, ideally these should come via an established and credible network acting as a first stage 'filter'. Awareness-raising and training for intermediaries was recommended to improve the quality and quantity of referrals
  - both group delivery and individual delivery models have merit, though individual delivery is essential for certain elements and allows targeting of a more diverse group
  - the involvement of potential investors in delivering the support adds credibility and realism
  - it is vital that sufficient time is allowed for businesses to complete the investment readiness process
  - the delivery team is the critical success factor in terms of their expertise, experience, reputation and access to appropriate specialists, networks and investors.

### **Key findings: participating SMEs**

8. Overall, participating SMEs were positive about their involvement in the projects and the majority said they were "very satisfied" or "satisfied". The initial awareness-raising stage delivered tangible benefits in terms of an increased understanding of the financing options and interest in equity. Even where businesses decided against the equity option (primarily for reasons of timing) their improved understanding avoided their own and potential investors' time being expended unnecessarily; these businesses will also be better educated should they decide to seek equity in the future.
9. Intensive support, a key component of six of the projects, was delivered through one-to-one coaching and, in some cases, group workshops. This was considered to be high quality, relevant, and to have delivered material value to the businesses during the process. The impacts, post-project, were still emerging, but significant changes in attitude to, and interest

in, equity were evident, and a shift in behaviour was noted where equity had replaced other forms of funding as the preferred route to growth. There were few problems, and those reported provided guidance for refining support in the future.

10. Deliverers reported that participating businesses had improved as a result of their involvement in the Demonstration Project, and this was corroborated by potential investors. The main improvements related to often fundamentally refined business plans, more robust investment propositions, and entrepreneurs who had understood the range of funding options, the potential contribution of equity investment, and the requirements of potential investors.

### **Evaluation considerations**

11. Given the considerable variation in the structure of the Demonstration Projects, as well as in their scale and the length of time in which they operated and the previous experience of the deliverers, it has not proved possible to determine exactly how cost-effective the projects have been in achieving their objectives.
12. However, the projects have added value in a number of ways. If the intervention had not been in place, there was a high degree of consensus that:
  - the targeted group of businesses could not have afforded the full cost of such intensive, sophisticated support
  - the in-kind contribution by investors and practitioners is unlikely to have been available to the target group of businesses, and
  - had the businesses been able to afford such support, it would have been delivered in a less integrated and consistent format.
13. Participating businesses reported some additionality, but just over half suggested they would have sought alternative support and gone on to apply for equity funding had they not had access to the Demonstration Projects. Whilst this may be true, these views were expressed with the benefit of hindsight of a successful experience on a project where the objective was to raise awareness of the benefits of equity. Without that 'education', it is probable that some SMEs would not have had the information to enable them decide on a similar course of action and thus additionality is likely to have been higher than reported.
14. In value for money terms, the initiative has contributed to 'efficiency' by delivering economies of scale by exposing large groups of SMEs to a range of specialists and introducing investment candidates to a wide range of potential investors, the variety of which is unlikely to have been available outside the projects.
15. The initiative has been broadly successful in meeting its objectives and has:
  - delivered benefits both to businesses and to the support network
  - improved the quality of investment propositions and consequently enhanced the supply of equity to SMEs, and

- increased awareness and understanding of the various forms of funding and the benefits of equity finance, enabling informed choice.
16. 'Effectiveness' has therefore been immediate and will also be longer-term.
17. Most of these businesses would have been unable to meet the full costs of such a service themselves. If, therefore, this form of business development is considered to be a priority for UK plc, it will continue to require some form of subsidy.

### **Evaluation Methodology**

18. The fieldwork involved the development of case studies for each of the Demonstration Projects, based on consultations with deliverers, stakeholders and participants, and a survey of participating SMEs. Fieldwork was undertaken between October 2003 and March 2004.

# 1 Introduction

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- 1.1 This document is the final report of an evaluation of the Investment Readiness Demonstration Projects plus the related fit4finance programme. The evaluation was commissioned by the Small Business Service (SBS) and undertaken by SQW Limited. The broad objective of the study, as described in the Terms of Reference, was:

*“to assess the effectiveness and efficiency of the approaches to improving investment readiness taken by each of the projects in order to identify those practices which might be replicated elsewhere in the country.”*

## Context

### ***The rationale for investment readiness support and market failure***

- 1.2 Many reports and commentaries have identified a gap in the provision of equity funding for sums up to the region of £250,000<sup>2</sup>, normally attributable to a number of factors. These include market failures arising from information asymmetries, and the high fixed costs which investors will incur, in assessing and monitoring investments in small firms, and which may not be justified by the potential returns<sup>3</sup>. A recent Treasury Publication<sup>4</sup> identified the following as structural causes of the equity gap:

- *information problems:*
  - search costs to investors since information on small unquoted companies is more limited than on large publicly quoted firms
  - due diligence costs, which do not rise in proportion to the size of the investment and which may not be justified by the potential returns on small investments
  - monitoring costs, which again are not proportionate to the size of the investment

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<sup>2</sup> There is also evidence of gaps in the provision of larger sums than are normally dealt with under the Demonstration Projects.

<sup>3</sup> Note that the presence of high investment costs does not necessarily indicate market failure.

<sup>4</sup> Bridging the finance gap: next steps in improving access to growth capital for small businesses. HM Treasury, December 2003.

- *transaction costs*: the fixed costs of negotiation and establishing legal agreements militate against small investments
- *perception of risk and reward*: there is evidence to suggest that institutions which did not invest in venture capital believed returns to be considerably below the historical reality. Those which did invest had more accurate perceptions, but still tended to underestimate returns
- *demand side*: in some cases, small businesses are deterred from seeking equity finance because of a perception, not necessarily correct, that the accompanying loss of control would be unacceptable to current owners. Those that do seek risk finance sometimes have a limited awareness and understanding of the various forms available.

1.3 In recent years several public sector-funded initiatives have been introduced to increase the supply of equity and, in particular, to make it available in smaller packages<sup>5</sup>. The Demonstration Projects represent an alternative, and complementary, approach. Their underlying rationale is that, by making businesses ‘investor ready’, they can reduce some of the costs to investors and therefore enhance the supply of risk finance to small firms. By enhancing businesses’ awareness and understanding of risk finance they can increase the demand for equity by small firms. The Demonstration Projects are therefore seeking to address some, but not all, of the structural causes of the equity gap identified by the Treasury.

#### ***Background to the Investment Readiness Demonstration Projects***

1.4 Research undertaken by Mason & Harrison<sup>6</sup>, underpins the Investment Readiness Demonstration Projects. They identified three main problems which present barriers to increasing the take-up of equity as a means of funding growth:

- ***Equity aversion***: the entrepreneur’s attitude towards equity finance, which has been identified as a problem amongst small and medium sized enterprises (SMEs) – Mason & Harrison cited research which found that 80% of businesses referred by banks to LINC Scotland did not pursue the referral because they did not want to share ownership and control with an external investor. Mason & Harrison proposed that

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<sup>5</sup> For example, the *Regional Venture Capital Funds* in 2001: “an England wide programme to provide risk capital finance in amounts up to £500,000 to SMEs who demonstrate growth potential”, the *Early Growth Funds*, in English regions, to encourage the provision of risk capital to start-ups and other businesses in early stages of growth, the *UK High Technology Fund*, designed to encourage more institutional investors to invest in early stage high technology growth companies in the UK.

<sup>6</sup> Designing an ‘Investment Ready’ Programme: some considerations. A report to the Small Business Service. Colin M Mason and Richard T Harrison, September 2001.

“entrepreneurs need help to understand the role and appropriate use of different forms of finance, and their advantages and disadvantages”

- **Investability:** the degree to which the business meets the requirements of external investors. This refers to the quality of all core aspects of the business, including both the attributes of the business and those of the entrepreneur. Investment decisions “hinge on the adequacy, relevance and completeness of the business plan presented to describe the opportunity” and too often proposals are not sufficiently robust to convince potential investors of their attractiveness
- **Presentational failings:** whilst ‘investability’ refers to the substance of the proposition, problems are also encountered in the presentation of the proposal, even if in principle it should be attractive to an investor. Mason & Harrison define this dimension as “shortcomings in business plans and other written documents that are aimed at investors and also deficiencies in oral presentations at investment forums”.

1.5 Following a 2001 consultation paper on the provision of investment readiness services, the response to which confirmed the need to help SMEs to become ‘investor ready’, the SBS conceived a pilot programme of Investment Readiness Demonstration Projects to respond to the Government’s wish “to see investment readiness help and advice much more widely available so that, ideally, any SME, wherever it is located, will have access to such assistance”.

1.6 The Demonstration Projects were established to test a number of approaches to addressing the issues relating to investment readiness. Following a competitive tender, six bids for projects were funded from the following organisations:

- Business Growth Partners Limited
- Cambridgeshire Business Services
- Entrust
- E-Synergy Limited
- etc consultancy and Baker Tilly
- Genesis Consulting.

1.7 In addition, one existing project, fit4finance (delivered by Exemplas), was awarded funding to enable it to be rolled out more widely in and beyond the region. Section 2.2 says more on the selection decision.

## **Study objectives and outputs**

- 1.8 This evaluation of the Demonstration Projects had two main components:
- to assess the effectiveness and efficiency of the approaches used to improving investment readiness taken by the six Demonstration Projects and fit4finance
  - to highlight good practice which emerged from some or all of the projects which might be replicated elsewhere in the country.
- 1.9 In addressing these two components, the study would be expected to draw conclusions on:
- the effectiveness of the projects in achieving their short-term objectives, and the cost effectiveness of this
  - whether investment readiness support increases the number of SMEs/entrepreneurs with investable proposals and the number of successful investments
  - common delivery lessons and good practice
  - implications for Government that could arise if delivery of these services was to be encouraged on a larger scale.
- 1.10 As part of the study, the consultants also prepared an ‘interim paper on emerging issues’, which was circulated to the Regional Development Agencies in February 2004, and presented the study’s findings at a dissemination workshop in April 2004.

## **Methodology**

- 1.11 The research brief proposed a case study methodology which defined precisely the scope of the fieldwork to be undertaken, including the number and type of interview to be undertaken for each case study. This is summarised below in Table 1.1.

<b>Table 1.1: Number and type of interview per project</b>		
<i>Interview subjects</i>	<i>Number of interviews for each project</i>	<i>Type of interview</i>
Key project personnel	3	Face-to-face
Key stakeholders or intermediaries	3	Face-to-face
Participating SMEs	4	Telephone

- 1.12 Prior to the fieldwork, SQW were provided with the Demonstration Projects' bid documents, monitoring reports and final report where available, which enabled the research team to become familiarised with the approach adopted by the projects and to extract quantitative data relating to each of the projects, to provide a basis for the case-based research.
- 1.13 The Terms of Reference also requested an additional proposal to be submitted for an optional survey of 200 participating SMEs. In late November 2003, the decision was taken by the SBS that the survey should proceed, and SQW were asked to refine this proposal, informed by experience so far. The survey was subsequently reduced to 105 interviews (15 for each of the six Demonstration Projects and fit4finance) based on the total numbers of businesses participating in the Demonstration Projects. It would have been difficult to achieve 200 interviews within the timescale of the project and would have been a bigger burden on the Demonstration Projects in terms of contacting the businesses first, due to data protection issues. The survey was carried out in January/February 2004 (see questionnaire in Annex C).
- 1.14 Following completion of the survey, a workshop for project contractors was run at the end of March 2004. The outputs of the fieldwork, survey and the workshop are all incorporated into the findings of this report.

### **Report structure**

- 1.15 Following the introduction, Chapter 2 provides an overview of the Demonstration Projects, Chapter 3 identifies the common learning and good practice emerging from the case studies, and Chapter 4 presents a summary of findings from the survey of participating SMEs. Chapter 5 considers the role and effectiveness of the investment readiness process and draws the report to a close by presenting conclusions. Additional information is presented in annexes, including each of the seven case studies and a full report on the outputs from the survey of participating SMEs.

## 2 Overview of the Demonstration Projects

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2.1 This chapter provides the context for understanding and considering the findings of the research undertaken for the study. Key information has been drawn from each of the Demonstration Projects and fit4finance<sup>7</sup> in order to present an overview of the ingredients which comprise Investment Readiness (detailed information on each of the Demonstration Projects is provided in Annex A).

### The deliverers

2.2 In order to generate a range of approaches to addressing the challenge of preparing businesses to become investor ready, the SBS awarded contracts to deliver Demonstration Projects to a variety of types of organisation. These were selected against a number of criteria, including achieving some geographic spread (selection was not based on achieving balanced geographic representation across all regions), and a variety of delivery models:

- **location:** the successful deliverers were located in five of England's regions, although two Demonstration Projects covered more than one region, and none of the projects excluded businesses not located in their region
- **size:** the contracted organisations, and their partners, came from both ends of the size spectrum, although even if the organisation was large, the core expertise assembled to deliver the project was concentrated in a small number of individuals. Both large and small organisations were equally able to provide investment readiness support (the deliverers' resources are considered further in Chapter 3)
- **public and private sector:** the delivery organisations were drawn from both the public and private sectors – some relying heavily on successfully accessing central and regional government funds, funding from the EU and other public sector streams to deliver their services, others operating mainly in the private sector on a commercial basis, and some dependent on a mix of the two
- **experience:** the experience of the deliverers varied, and was concentrated on a variety of aspects of business development, but all brought considerable knowledge and previous track record of working with SMEs to support their development

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<sup>7</sup> For simplicity, the six Demonstration Projects and the related fit4finance are referred to in the report as 'the Demonstration Projects'

generally, and specifically of provision of financial advisory services and support to SMEs, particularly in the field of equity

- **joint working:** in two projects two organisations worked together: one where a joint team was formed, and the other where an innovation centre was sub-contracted by a Business Link Operator to deliver the project. Several of the deliverers had had experience of running a similar service previously, and were selected partly based on this experience. In two cases, the support was already in place and the decision to fund was strongly informed by an interest in exploring how this service could be rolled out more widely.

2.3 The key characteristics of each of the deliverers and a brief description of their main activities are described in Table 2.1. Deliverers are described in greater detail in the case studies, and are considered in terms of good practice in Chapter 3 of the report.

**Table 2.1: Geographic dimensions, key characteristics and activities of each deliverer**

<i>Deliverer</i>	<i>Location</i>	<i>Geographic area covered</i>	<i>Type of organisation</i>
<i>Business Growth Partners</i>	Leeds	Yorkshire & Humberside	Business development and management consultants
<i>Cambridgeshire Business Services</i>	Cambridge	Cambridgeshire and the East of England	Contractor for Business Link in Cambridgeshire, contracting to public sector 'innovation centre'
<i>St John's Innovation Centre</i>	Cambridge		Innovation Centre that assists growing businesses, in particular with respect to raising funds, and provides a location for a range of businesses
<i>Entrust</i>	Newcastle upon Tyne	North East	Enterprise agency, providing advice to SMEs. The individuals involved in the Demonstration Project work in the area of financial services.
<i>E-Synergy</i>	London	London and the North West	Early stage investment firm for the provision of investment advice to SMEs, with particular focus on New Technology Companies
<i>etc consultancy</i>	London	London (web-based application process so could be perceived to be national)	Provision of business services, with particular focus on management development
<i>Baker Tilly</i>	London		Chartered accountancy, working primarily with 'fast-growing, ambitious businesses', bringing wide experience of SME policy development with the UK Government
<i>Exemplas</i>	St Albans	Hertfordshire and the East of England	Contractor delivering the Business Link service in Hertfordshire – specialises in the development and delivery of business services and solutions to the new business and SME market place.
<i>Genesis Consulting</i>	Birmingham	Midlands	Consultancy concerned with the development and nurturing of new high growth businesses

## Profile of participating businesses

- 2.4 The Investment Readiness concept was aimed at helping SMEs to take advantage of the supply of finance targeted at SMEs with growth potential, and in particular to access equity investment. The Demonstration Projects all broadly targeted their support at this segment of the business population - start-up and established businesses with growth potential - although with varying degrees of flexibility relating to:
- the potential for business growth
  - the potential for equity investment.
- 2.5 Some Demonstration Projects were precise in their selection of candidates for investment readiness support, others worked – at least initially – with a wide range of businesses, including individuals considering starting up a business (i.e. pre-start), and those which could be defined as ‘lifestyle’ businesses with little aspiration to grow.
- 2.6 In part this flexibility was motivated by the need to recruit sufficient numbers to meet targets, but also there was a belief expressed by some of the Demonstration Projects that the support was valuable to all businesses, whether or not equity was an appropriate route to fund their growth. Working with these businesses would benefit UK plc and was therefore of value even when it led to loan or grant funding, and loan or grant funding could be a stepping stone to raising equity.
- 2.7 All but one Demonstration Project welcomed businesses from any sector and adopted a generic approach to the recruitment of participants. One project specialised in New Technology Companies (NTCs) driven by the background of the key individuals delivering the project and their belief that investment readiness support was important to NTCs’ development - an identified need where businesses were science-based and led by a scientist or academic who brought a high level of expertise in their technical field, but little business and commercial understanding.

## Components of an Investment Readiness Demonstration Project

- 2.8 In their paper, Mason & Harrison outlined a model for support to enhance investment readiness, which included five key elements:
- *finding out about equity finance: is it for me?* – an information seminar
  - *am I investment ready?* – an investment ready review

- ***becoming investment ready*** – an investment ready development programme
- ***preparing the presentation*** – an investment ready presentation review
- ***finding investors*** – investment networking.

2.9 As well as referring to Mason & Harrison, bidders also drew on their own experience to design their proposals for delivering an investment readiness service which addressed the three Mason & Harrison dimensions (equity aversion; instability; presentational failings). Of the 39 bids received, 28 proposed to deliver varieties of the Mason & Harrison model. Whilst each of the successful deliverers acknowledged the three dimensions in their respective projects, and all the projects tackled each of the five elements, their approaches differed in terms of the focus and intensity they accorded to the different stages, and also the methods used to work with the businesses and to deliver the service. The SBS was keen to test a variety of models in this pilot stage, and adherence to the Mason & Harrison model was not a condition of a successful bid.

### ***The stages of the projects***

2.10 An overview of the approaches taken by the Demonstration Projects is presented below under Mason & Harrison's five headings. This gives a description of the main elements of the projects and the similarities and differences between the approaches adopted, in order to give the reader a context within which to understand the remainder of the report. Further details specific to the various projects are included in Annex A.

#### ***(i) Information seminar***

2.11 Six out of the seven projects planned to run seminars, with two main objectives: to provide information on a range of topics relating to investment, and to inform about the support being offered. In most cases the seminars consisted of a number of presentations on various aspects of funding, from specialists in the field. The seminars were directed primarily at businesses, but the audience also included intermediaries providing business support, and professionals. In one case, a seminar was designed specifically for raising awareness of investor requirements among business support agencies, acknowledging there was a need for educating intermediaries as well. In another, seminars were run in conjunction with a competition. In the case where an information seminar was not included in the project, this was one of the two existing projects where cases came through referral: the business had already decided on the need for external finance, and that equity was the preferred route.

*(ii) Investment ready review*

- 2.12 Most projects offered a ‘diagnostic’ session where a representative of the project carried out a review of the business, an assessment of its need for finance, and identified whether it was an appropriate candidate for equity investment. This diagnostic review formed part of the selection process, in that if the business was identified at this stage as not having an appropriate profile for equity investment (either immediately, with some ‘grooming’, or at an identifiable point in the future, which could fall after a first stage injection of funding from a grant, loan or informal investor) the business was signposted to an alternative source of support (for example, a Business Link advisor or the bank).
- 2.13 In the project where a diagnostic review was not carried out, awareness-raising seminars and mock panel presentations were offered (see later), but no intensive grooming phase. The business was expected to use their own advisor, or be signposted to an appropriate organisation for advice, prior to returning to the mock panel. In this case, there was an opportunity for interaction with advisors at the information seminar, and at the end the participating businesses were provided with action plans to take forward with their own choice of advisor.
- 2.14 The diagnostic review ranged from a meeting between the project representative and entrepreneur lasting between 1.5 hours and half a day, to a more structured and in-depth assessment process which really formed the beginning of the intensive support as well as the selection process. This latter involved a detailed review of the business opportunity, the preparation of a two page outline with the entrepreneur identifying current status, a tutorial session with the management team, an independent investigation of the product strength and market opportunity and an identification of recruitment needs to supplement the management team. A key benefit of this approach was the ability to assess at an early stage the core team of the business.
- 2.15 If identified as an appropriate candidate through this, the business progressed to receiving the full support, which broadly took two forms: one-to-one support from one or a team of advisors, or participation on a group-based programme, or a combination of both.

*(iii) Investment ready development programme*

- 2.16 In delivering the intensive support, there was less consistency in the approaches employed, although the objectives were always shared. Two of the projects ran structured workshops for selected participants (approximately ten per group); four worked with the business on a one-to-one basis, with one main contact providing advice and support but in many cases drawing in specialist advice from others on an as-needs basis. As already identified above, one project

did not run an intensive grooming phase, but signposted businesses to appropriate advisors in the business support network.

- 2.17 The one-to-one support focused primarily on the business plan. It identified gaps and deficiencies which required addressing prior to being presented to a potential investor or, in some cases, helped with the development of the business plan where one did not yet exist. It was usual that the plan developed iteratively, based on several meetings between the business and the advisor. Work was also carried out to ‘groom’ the participant, which covered the development of an understanding of investor requirements and appropriate approaches to presentation.
- 2.18 However, in some cases, the focus of the one-to-one support was not so clear-cut. Whilst there was always a concentration on improving the business plan, sometimes a considerable amount of work was carried out to address more immediate issues, in order to strengthen the business (for example, a review of the marketing strategy or the recruitment of new team members), or to strengthen the financial structure of the business (which might involve accessing other forms of finance over the short-term).
- 2.19 Where the project was workshop-based, the workshops consisted in both cases of four full days, spread over a period of between one and four months, and the participating business was encouraged to involve up to three members of the core management team in the ‘training’ process. The workshop-based projects both offered a ‘mentor’ for each participating business. In one case they provided a specified amount of support in parallel to the workshops through face-to-face meetings, telephone and e-mail; in the other, the participating business was given the choice, at the end of the workshop phase, of whether they wanted individual mentoring support to help them move towards the investment stage.
- 2.20 Neither of the projects using a workshop structure intended to do so originally, but introduced them in recognition of the benefits of building a peer group, experience exchange and provision of access to a wide range of expertise.

*(iv) Investment ready presentation review*

- 2.21 The presentation review in most cases took the form of a mock panel presentation, where businesses presented their proposal to a panel in a ‘safe’ environment as a rehearsal for presenting to potential investors. Panels normally comprised around six representatives from the investor community, business support organisations, accountants, banks and, where appropriate, a sector specialist. Generally, the panel members were provided with the business plan prior to the session, and interrogated the entrepreneur about the proposal following the ‘pitch’ to provide feedback on the quality of the proposal and other, more

subjective, aspects of the presentation (style, language, level of detail etc). Presentations lasted around 20-30 minutes, with the same amount for questioning and feedback. Several businesses made presentations to the panel during any one session. The intention was not for businesses actually to ‘pitch’ for funding on the day (but in a few cases an investment was the result). Rather, following this rehearsal, the feedback they received and any refinements made as a result, they were deemed ready to start the process of seeking investment for real.

- 2.22 Three of the seven projects had no structured panel presentations built into their support, relying instead on taking the business through the preparation process on a one-to-one basis. One of these did however provide presentation coaching if one of their participating businesses gained the opportunity to go in front of an early stage investment forum with which they were networked. Another developed the concept of a Shadow Board, comprising a number of advisors bringing a cross-section of business skills who would critique the evolving business plan on a flexible basis, rather than at a final panel session.

*(v) Investment networking*

- 2.23 This stage in the projects, defined by Mason & Harrison as “providing a link between the businesses that have completed the programme and potential investors” was addressed in a variety of ways.
- 2.24 Most of the deliverers had strong relationships with individual investors, investor groups or investment funds, and so were able to provide introductions to potential investors where they saw fit. Two of the deliverers were linked formally to investment funds, although considerable care was taken to keep the project and the interaction with the fund separate (one deliverer included a clear sign-off process between the project and formal contact with the fund, and both emphasised that there was no exclusivity and participating businesses were encouraged to approach other investors independently).
- 2.25 The workshop-based projects also provided significant opportunity to involve potential investors in the ‘training’ and ‘mentoring’ process, which enabled early contact to be established between businesses and potential investors (normally business angels) with no commitment on either side to take these relationships forward at a later date. Nonetheless, it formed an effective networking vehicle.
- 2.26 A further mechanism for developing contacts with investors was through the mock panel sessions, where participating businesses were exposed to potential investors and contacts could be made which could be taken forward after the presentation.

## **Scale of activity**

- 2.27 Each project proposed targets for numbers of businesses receiving investment readiness support; some also included targets for numbers of equity investment deals secured as a result of the project. There was variation in both the scale and the nature of the targets defined, and also the stage of support to which the target related. The nature and intensity of the activities proposed by each of the projects varied. The length of the project activity also varied (from 9 to 15 months) to give sufficient time to take the businesses to investment readiness.
- 2.28 Given the variety in approach, main focus of activity, scope of activities, length of delivery, level of funding requested and full cost of the projects, it has not been possible to make meaningful comparisons between the projects. Some started from a relatively 'blank sheet', others refined existing activity or integrated the new activity into their existing portfolio. Development costs (which could be considerable) consequently also varied between projects, and from the original budget in some cases. Finally, some businesses continued to receive support after the end of the project, and even where the formal support finished, there was often considerable elapsed time before a business successfully accessed funding, even if it was a strong candidate. The reports on numbers of deals secured are therefore necessarily partial.
- 2.29 We have presented data on activities for the projects - as far as we have been able to identify them - but have not undertaken any explicit comparisons for reasons outlined above. Nonetheless, the data reveal the achievements of the projects to date. Performance data for each of the Demonstration Projects' activities and outputs is presented in Table 2.2, and an indication of costs of delivery and proposed fees data in Table 2.3.

**Table 2.2: Activity and output targets and results achieved by the Demonstration Projects and fit4finance (at the time of the research)**  
(Numbers in brackets are targets, adjusted from original bids to reflect finally agreed scope of activity)

Project No.	NUMBER OF CLIENTS:				Funding secured
	Awareness-raising/initial contacts	Diagnostic review	In-depth assistance	Presentation review	
1	253 (50)	n/a	n/a	40 (40)	18 businesses obtained funds
2	153 (100)	37 (30)	21 (20)	21 (20)	12 businesses estimated to have obtained funds by 12/03
3	Data not available	63 (40)	15 (36)	8 (34)	4 businesses obtained funds, of which 1 equity
4*	174 initial consultations		138 business plans finalised 7 intensive grooming	n/a	33 investments achieved (excluding bank loans), of which 13 equity (9 Business Angel, 4 VC)
5	358 (365)	41 (42)	20 (18)	n/a	5 businesses obtained or close to obtaining funding, of which 2 equity
6	165 (40)	53 (20)	16 (10)	n/a	4 equity deals completed
7	120	n/a (30-60)	42 (20)	7 (20)	7 equity deals completed, 13 businesses obtained other funds

\* delivery targets have not been included as the contractor's targets included several deliverers, of which this is one.

## Project costs

- 2.30 There were considerable disparities in the scale, scope and nature of the projects proposed. The percentage of the full cost of delivery the bids requested also varied, although five out of the seven received over 85% of the full cost from the SBS. SBS funding in all cases formed the main source of income, supplemented in six out of the seven projects by fees charged to participants, although where a fee was charge these varied from around £30 per event, to several thousand pounds. In two cases, the project bids also identified an in-kind contribution or financial contribution made by the deliverer.

**Table 2.3: Costs of delivery and proposed fees**

	Minimum	Maximum
<b>Total cost proposed by deliverer</b>	£78,837	£344,000
<b>Length of contract</b>	6 months, extended 3 months for existing clients	15 months
<b>Fee proposed for full support*</b>	None	£3,000

\* This included in some cases a percentage-based success fee.

- 2.31 In view of the considerable differences in emphasis and intensity placed on the different components of each of the projects and the development and marketing effort needed to put in place each project, we would suggest that these figures should not be used as guidelines for the cost of any future investment readiness support. SQW's view, which we believe reflects those of the Demonstration Projects, is that the costs of investment readiness support – whilst always towards the expensive end of business support provision – will generally be considerably less than the experience in the Demonstration Projects, once the programme of support has been developed and established in the market place. The number of funding deals reported is also likely to be lower than the true impact of the Demonstration Projects as a considerable proportion of the businesses that were pursuing equity were still in the process of negotiation at the time the research was undertaken for this study, and the data are therefore partial.

## **3 Deliverers' experience - common learning and good practice**

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3.1 This chapter reports on the common themes of the Demonstration Projects and the different approaches adopted, identifies the main issues for consideration in commissioning and delivering investment readiness support, and draws conclusions on good practice in the design and delivery of support. (Detailed descriptions of each of the Demonstration Projects are presented in Annex A.)

3.2 The chapter is structured to reflect the main components of the Demonstration Project activity. For each section a brief description of the processes is included, followed by guidance on good practice. The main sections include:

- client focus
- marketing, awareness-raising and selection
- delivery of support
- interaction with investors
- the delivery team
- rolling out the investment readiness support
- the costs of delivery.

### **Section 1: Client focus**

3.3 The broad target market for investment readiness support was 'SMEs with growth potential, with a particular emphasis on those seeking to access equity investment'. All the Demonstration Projects except one (which focused on New Technology Companies) made no distinction between businesses from different sectors and worked with businesses at a mix of developmental stages. Consideration was given to whether there were benefits targeting support to sub-groups sharing common characteristics.

### **The stage of development of the business**

- 3.4 Mason & Harrison suggested it might be appropriate to develop different programmes of support for start-ups and established businesses. Businesses at a variety of developmental stages participated on the projects (from the early stages of starting up to more mature established businesses). Where businesses at a mix of stages of development participated in a group activity, concern was expressed by a few participants about the ability to learn from businesses which were not at a similar stage of development; but equally the diversity of business experience was valued by others. Where support was delivered primarily on a one-to-one basis, this was not an issue.
- 3.5 Feedback from the participating businesses and the deliverers was not conclusive on this question. Given the diversity and different levels of sophistication found amongst businesses at similar stages of development, and also the common issues faced by businesses seeking equity investment whatever their stage of development, we have not found there to be a case for specialised support be offered based on stage of development, providing the deliverers are familiar with, and can accommodate, the issues faced by businesses at the different stages.
- 3.6 There should also be no 'age' threshold, below which businesses would not be eligible for investment readiness support. Several of the Demonstration Projects worked widely with start-ups, and for technology and knowledge-based start-ups in particular, equity was often appropriate and desirable at an early stage.

### **Specialist focus**

- 3.7 A specialist focus would enable a specialised delivery team to provide highly targeted advice and inputs, and in group conditions for the businesses to benefit from technical experience exchange at a level which would probably be uncommon in investment readiness projects with a more generalised target market. A targeted project would also enable specialists to be made available to participants cost-effectively, and introductions to specialised investors and networks to be made.
- 3.8 Specialist projects, defined by sector, technology or a grouping such as knowledge-based businesses, would inevitably have a smaller total market on which to draw, and unless the project was based in a region with a strong cluster of suitable businesses, these projects would be less likely to be concentrated on a particular geographic region. Support would also be less likely to be able to be replicated by other deliverers.
- 3.9 The Demonstration Projects did not test widely the validity of a specialist focus, but the experience to date suggests:

- specialist projects should have a wide geographical catchment area – technology and knowledge based businesses are, in any case, used to operating in a global environment
- there may be benefit in establishing a cross-regional network of investment readiness projects, each focusing on a different sector or specialism, which could support each other in terms of marketing and signposting, as well as some sharing of resources.

#### **Focus on equity candidates**

3.10 The practice was not to restrict the support only to those businesses which were obvious candidates for an equity funding route, but to adopt a flexible approach, providing the business fitted the target profile. The basis for this flexibility was that:

- it was not always immediately clear whether equity was the appropriate route for funding the business until the grooming process was underway
- a finance solution combining a mix of equity and another form of funding was often an optimal solution for the business
- if equity turned out not to be immediately appropriate, it could very likely be the follow-on funding route after a first round of grant or loan funding.

3.11 The emerging guidance related to:

- the need for some flexibility in the selection process to accommodate businesses that could potentially qualify as equity candidates as well as those which would immediately benefit
- so-called 'lifestyle' businesses, with no discernable potential or ambition for growth: the consensus was that these should not be candidates for investment readiness support on the basis that they would not be candidates for equity
- the need to ensure that the selection of businesses for support matched the expectations, interests and experience of the investor contacts involved in the process. A mismatch between potential investors and investment candidates could reduce investors' interest in being involved and thus affect the credibility of the support.

3.12 Having considered the merits of segmenting the target group in a number of ways, our observation is that the overall target group would appear to have been the correct one, a view endorsed by the Demonstration Projects. In the future, refining the target market further could deliver certain benefits, but equally the diversity amongst apparently similar businesses

suggests that retaining flexibility and the ability to customise support according to the needs of individual participants is important and beneficial.

## **Section 2: Marketing, awareness-raising and selection**

3.13 Marketing the Demonstration Projects was normally the first activity organised by the deliverers once the design of the support was in place, in order to generate awareness amongst the targeted segments of the business population and also, where awareness-raising events or information seminars were run, to attract sufficient candidates.

3.14 Marketing was usually, but not always, linked to an event, which had four purposes:

- to raise awareness about the different forms of finance available
- to educate about the benefits of equity, and to provide information on the process involved in accessing equity funding, and the requirements of different funders and investors
- to present the concept of the Demonstration Project and encourage participants to consider taking up the full programme of support
- and, finally, to act as a gateway to the selection process.

3.15 A range of marketing approaches were employed which can be broadly classified into two categories: 'wide-funnel' marketing, and referrals.

### ***'Wide-funnel' marketing***

3.16 'Wide-funnel' approaches used mechanisms such as direct mailshots, distribution of literature to intermediary organisations, advertising and competitions in order to reach a large number of SMEs. Candidates were normally invited to an event, which was followed by a diagnostic meeting for interested candidates. Where an event was not run, a one-to-one meeting was held as a first contact with the business to assess suitability.

3.17 'Wide-funnel' marketing approaches reached large numbers and delivered information to those attending events on a large scale, and were therefore effective in addressing the 'equity aversion' dimension of preparing for investment readiness. There are, however, some issues to consider if these forms of marketing are used:

- the marketing took longer and more effort and resource than the Demonstration Projects anticipated at the outset

- there was considerable cost associated with the marketing mechanisms necessary to attract sufficient numbers of candidates: response rates were low so large numbers needed to be reached
- generating a sustained stream of investment readiness candidates requires continuous 'wide-funnel' marketing and awareness-raising activity – a one-off campaign will not be sufficient to establish this type of support and embed it in wider business support networks
- however, 'wide-funnel' marketing has the benefit of generating future as well immediate candidates.

### **Referrals**

3.18 Referrals were the other main marketing mechanism. Businesses were referred by other organisations in the network to the Demonstration Project, or the business 'self-referred'. Referrals were a low cost method of reaching candidates, required less direct marketing effort, but depend on the deliverer being well networked with appropriate organisations to identify candidates accurately and to signpost them to the delivery organisation. Where this worked well, the business would have already gone through a preliminary filtering process by the time it reached the delivery organisation.

3.19 For referrals to be used to attract and select candidates two conditions need to be in place:

- the deliverer should have *an established reputation and a high profile in the network*. If the organisation's visibility is low, or they are new to delivering such support, the business support network is unlikely to be aware of the support being offered, and may not be confident about referring businesses on to them
- the networks need to be able to *'filter' prospects effectively* in order to generate a stream of eligible businesses. Where this does not happen, the deliverer may receive nominated businesses that are not appropriate for equity investment and might then need to expend effort in discovering they are unsuitable.

3.20 Future programmes of support should consider some form of awareness-raising and training for intermediaries in order that referrers:

- are informed about the investment readiness support
- have established connections with the deliverer

- are equipped to carry out an initial filter of potential candidates and to signpost them to the delivery organisation.

### **Awareness-raising for intermediaries**

- 3.21 In some cases, events were run to familiarise intermediaries with the Demonstration Project and to educate them about equity investment. We recommend that these are incorporated into future investment readiness support, at least until the support is established and has developed visibility in the business support network. Such events could form the basis for more in-depth training which has been recommended (see Section 6 of this chapter).

### **Signposting**

- 3.22 The Demonstration Projects actively signposted unsuitable candidates to alternative sources of support. This action was an important contribution to the business support process as it ensured that both those businesses which decided against equity, and those which were not eligible, were effectively recruited into the business support network. This should be an explicit aspect of any future programme of support.

### **Selection**

- 3.23 Diagnostic meetings formed the basis for selection. Assessment varied in length and intensity and led to a decision about whether the business would be invited to receive the full investment readiness support.
- 3.24 An in-depth diagnostic review was a feature of all the projects where intensive support was offered. At minimum the selection process involved a review of the business, an assessment of its need for finance, and the identification of whether it was an appropriate candidate for equity, and required at minimum 1.5 hours of contact time with the candidate businesses. In one case a more in-depth assessment process actually signalled the beginning of the intensive support. This involved a detailed review of the business opportunity, the preparation of a two page outline with the entrepreneur on the current state of the business, a tutorial session with the management team, an independent investigation of the product strength and market opportunity and an identification of recruitment needs to supplement the management team, which provided the ability to assess the core team of the business at an early stage.

## **Section 3: Delivery of support**

- 3.25 All except one of the projects addressed Mason & Harrison's three dimensions (Equity Aversion, Investability and Presentational Failings) and contained activities which mapped

relatively closely on to Mason & Harrison's five key elements<sup>8</sup>. However, the detail was shaped by the deliverers, the projects adopted a variety of approaches and the focus of the support varied.

3.26 The main issues relating to the delivery of support are considered below.

***Intensity of support***

3.27 Projects divided into two categories: those that provided intensive and continuous support over a sustained period, and those that provided 'injections' of support at various points as the business developed to an investment ready stage. The injections of support were primarily at the awareness-raising stage, where businesses learned about the different funding options, and prior to approaching a funder when businesses rehearsed their presentation. For this model, the 'investability' support was provided separately by external advisors.

3.28 All but one project placed significant emphasis on the 'investability' dimension of the support and provided intensive inputs. The one project that did not directly provide input to address 'investability' issues adjusted their approach during the course of the project to ensure that participating businesses were able to access suitable support from other providers. This decision was taken due to the poor quality of many of the business plans and investment propositions coming forward and the recognition of the need to provide a source of intensive grooming.

3.29 Both categories of project have achieved successes. There are benefits associated with each model relating to rolling out the support (discussed later in Section 6 of this chapter). However, six of the projects were based on some form of 'intensive' model, and the one 'injections of support' project made a decision to strengthen access to intensive grooming, which would suggest that future investment readiness support should be designed around an intensive model.

3.30 Most projects included the opportunity for the business to rehearse their presentation to a mock panel, made up of representatives from the business support and investment networks. In future, consideration should be given to:

- the presence of an investor on the panel to add credibility to the rehearsal and provide the opportunity for businesses to receive authentic as well as 'proxy' feedback
- building in sectoral or technical specialists to the panel as appropriate

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<sup>8</sup> (1) an information seminar; (2) an investment ready review; (3) an investment ready development programme; (4) an investment ready presentation review; (5) investment networking.

- ensuring panel members make available sufficient time to familiarise themselves with the cases prior to presentations.

**Group and individually structured support**

3.31 In simple terms, two main structures were used. A distinction could be drawn between projects which delivered a significant element of the support using a workshop structure, involving groups of businesses; and projects where support was provided exclusively on an individual basis by one or a series of advisors and coaches. Both structures offered benefits, were not mutually exclusive, and a combination tended to be complementary.

*(i) Group structures*

3.32 The group workshop structure provided a range of benefits:

- knowledge and experience exchange and feedback between participants
- peer support and the development of relationships
- a variety of learning experiences and environments
- a wide array of presenters and specialist input, the range of which would be less possible when providing the support on an individual basis
- informal exposure to potential investors and intermediaries
- the opportunity to develop relationships with potential investors outside and prior to any formal negotiations
- a learning environment which placed responsibility on participants to apply the learning to their own circumstances
- contacts which may benefit their business in the future.

3.33 If a group structure were to be built into the investment readiness support, the following practices would be recommended:

- the group activity should be supplemented by the availability of coaching support on an individual basis
- the provision of a central coordination and management function in order to manage the participants, presenters and the process, and to provide continuity and a reference point for participating businesses

- given the structured nature of the group workshops, as much flexibility as possible in terms of timing should be incorporated, in order to allow businesses to progress as far as possible at a pace suitable to their needs
- consideration should be given to confidentiality where businesses are brought together - an agreement to operate a safe environment, enabling free and full discussion and exchange between participants, should be put in place.

(ii) *One-to-one structures*

3.34 A one-to-one approach also offered some distinct benefits:

- the opportunity to match the advisor's knowledge and experience with the requirements of participants
- flexibility to introduce a range of specialist inputs on a customised basis to suit the individual business's needs (for example, stage of development, sector or technology focus)
- an intensive focus on the business
- the ability to vary the length and intensity of the support and deliver it on an 'as needed' basis
- the capacity to accommodate multiple iterations of the business plan and investment proposition
- time efficiency.

3.35 If a one-to-one model were used, consideration should be given to:

- the extent of the support provided: some projects clearly specified the number of one-to-one contact days to be delivered to a business, whilst other projects operated on a more flexible basis. A flexible timescale and volume of support, to suit the needs of the business, appeared to be most effective
- the importance of the businesses carrying out the development work themselves, with the coaching input providing advice and guidance, but not undertaking the work on behalf of the business in a consultancy role.

3.36 For both workshop and individual structures, flexibility is key, and the support on offer should be able to accommodate a diversity of business types and businesses at different stages of development. Both approaches were found to be valued by participants and deliverers, and

the approaches are not mutually exclusive, as demonstrated where a workshop-based project was combined with the involvement of individual mentors. However, the findings suggest that whilst both approaches have considerable merit, some one-to-one support is key.

***Elapsed time for delivery***

3.37 The Demonstration Projects' bids were all for a specified length, from nine to fifteen months. In some cases it transpired that the length of time was insufficient to go through the entire investment readiness 'cycle'. Observations include:

- raising awareness and generating a cohort of candidates took more time and resource than anticipated
- some participants were further away from being 'investment ready' than had been anticipated, and businesses required more sustained assistance than expected
- where full support was provided on a one-to-one basis and timing was therefore flexible, many participants were diverted or delayed by the demands of running a business, which held the process up
- grooming for investment readiness is a complex process often addressing fundamental business development issues and sufficient elapsed time should be built into the support to allow:
  - structural issues to be addressed (for example, the constituency of the team and the financial structure of the business)
  - the business plan to undergo several iterations.

3.38 Taking a business to investment readiness is a lengthy process often taking several months from the decision to seek equity investment to arriving at the point where the business is 'investor ready'. A 'rolling' programme of support, with flexible entry and exit points would:

- enable businesses to access support at a timely point
- accommodate the diverse needs of participants (i.e. varying lengths of time and intensity of support to reach an investment ready state)
- require a long-term funding commitment in order to establish and embed the programme of support, and to educate the SME population.

### **Post-project follow-up and support**

- 3.39 Some projects had a distinct cut-off point at the end of the formal support; others were flexible and had no clear end point. The completion of the support was signalled by a signing-off process or by a final event, to separate the project from any further activity.
- 3.40 Some participants requested that the support continued. Additional 'light touch' contact was provided in some cases to 'wean' the participants off the support. Means of providing this included further advisory sessions, or the formation of an alumni club, offering events and an opportunity to continue to maintain contact with other participants, and to widen networks.
- 3.41 A follow-on phase which provided further 'hand-holding' as participants undertook investment negotiations was not recommended on the grounds that it would encourage dependency, and that businesses needed to have reached a position where they could operate independently if they were to grow the business successfully.
- 3.42 It is recommended that the point where the business is ready to start to negotiate a funding deal is the appropriate point to conclude the investment readiness support.

## **Section 4: Interaction with investors**

### ***The involvement of investors in the Demonstration Projects***

- 3.43 Potential investors played a substantial role in all the projects and their involvement was a valued ingredient in the support. Business Angels and venture capitalists were brought in as presenters, coaches and mentors, members of the mock panels, as well as in their role as potential investors.
- 3.44 Early involvement of investors in the process delivered a number of benefits both to the investors themselves and to the participating businesses. For the investors, the benefits included:
- an introduction to a stream of potential investment proposals, which added to the normal volume of proposals they would see, which they would not necessarily have come into contact with outside the project
  - the opportunity to observe businesses in action and to set up a dialogue with participants prior to any formal expression of interest being made – less possible under normal negotiation and due diligence circumstances
  - the opportunity to gather a better quality of information about the business, to assess investment opportunities in a multi-faceted way, and consequently to gain confidence

that the business represented a genuine investment opportunity prior to entering into formal negotiations

- an improved quality of investment proposition as a result of involvement with the project.

3.45 For potential investors not directly involved in delivering the project, the benefits included:

- a more robust investment proposition
- reduced costs in terms of time and effort due to a reduction in information asymmetries.

3.46 For businesses, whilst participation would not reduce the demands of a potential investor, early exposure to investors and a more robust proposition could improve the chances of an investor considering a proposal in the first place. The involvement of investors as mentors or in the mock panels also heightened the 'realism' of the training process.

3.47 The involvement of potential investors in the delivery of support should clearly be encouraged in future support programmes, which should ensure as much contact as possible with a range of investors is built into the support.

3.48 No clear guidance has emerged relating to the effectiveness of steering businesses to specific types of investors (for example, business angels, or investors specialising in a particular type of business), or whether businesses benefit from exposure to a variety of investor types. Businesses should, however:

- be exposed to sufficient numbers of potential investors
- be helped to understand the needs of particular types of investors
- learn to pitch their investment propositions to meet the specific needs of the investor.

3.49 Given the diversity of participating businesses and that they would not all be immediate candidates for equity investment, deliverers should also ensure contacts are provided with other sources of funding.

***Links with an investment fund or network***

3.50 Some of the deliverers running Demonstration Projects also managed investment funds and/or a network of business angels. The fund or investors had the opportunity in these cases to gain early contact with potential investment candidates. The Demonstration Project was, however,

emphatically not treated as a substitute for the due diligence process, which took place after the support had ended and once a deal was being negotiated.

3.51 The close association of an investment fund or network with a project represented a number of benefits, including:

- the introduction of candidates to potential investors at an early stage in an informal environment which enabled both to form well rounded understanding of each other prior to any formal negotiation being opened
- the addition of further reality to the process for the participating businesses which effectively 'challenged' businesses to improve performance. Care needs to be taken, however, to ensure businesses do not feel under undue scrutiny whilst they are involved in the Demonstration Project
- possible contribution to leveraging third party funding.

3.52 A number of guidelines are suggested in order to address potential conflicts of interest between a Demonstration Project and an investment fund:

- a formal separation should be drawn between the 'educational process' of the project and any subsequent negotiation entered into between an investment fund and a business. Any formal contact with the investment fund should only start once the business has disengaged from the project
- all participants should be free to approach any potential funding source to seek investment, and should be encouraged to do so by the Demonstration Project teams. The link between a Demonstration Project and an investment fund should give the fund no exclusivity and businesses should be actively encouraged to develop other contacts so that:
  - if negotiations with the linked investment fund were subsequently entered into, the business would be satisfied that the deal was competitive
  - if no interest was forthcoming from the investment fund, the business would have other options.
- alternative funding sources should be introduced to businesses
- no exclusivity or first call on a potential investment proposition should be made available to the fund

- businesses should receive the same support levels whether or not they turn out to be a prospect for the fund.

### Section 5: The delivery team

3.53 Whatever methodology was used to deliver the support, *the key ingredient to success was the delivery team*. A number of characteristics were prevalent amongst the organisations and individuals contracted to deliver the Demonstration Projects, and we recommend that the profile of organisations and individuals delivering investment readiness support in the future should reflect these characteristics, outlined below:

- the projects were designed *and delivered* by senior members of the delivery organisations
- the principal deliverers brought substantial 'track records' and an impressive range of relevant experience, including:
  - providing equity and other funding for businesses
  - having taken businesses through the equity finance process
  - building their own businesses (in many cases)
  - providing similar grooming support previously
  - an understanding of business needs at different stages of development
- the core team delivering the support, and those imported to provide specialist input, were able to demonstrate experience as practitioners in their own specialist field, enabling them to establish credibility with the client businesses
- every member of the team does not have to be an 'expert', but they must have sufficient understanding of the issues to know when to bring specialists in
- the quality of the networks the deliverers brought to the investment readiness process was impressive in terms of the extent of the networks, the range of different networks the deliverers were able to access, and the quality of the relationships. At the heart of the project at least one individual should have an established profile and reputation in the field and possess the quality of networks and contacts to ensure:
  - the appropriate calibre of coach and trainer can be drawn in
  - highly specialised advice can be brought in as required

- introductions to potential funders, in particular with equity networks, can be provided
- recruitment can be carried out to fill gaps in participating businesses' teams
- sufficient networks to be able to provide contact with a range of funding sources in order that the participating businesses will benefit, even if they turn out not to be immediate candidates for equity
- a sustained flow of potential candidates
- serious commitment to the concept of investment grooming and the ability to devote sufficient core team resources to the provision of support - where the Demonstration Projects were successful, the deliverers treated the project as a core aspect of their activities.

## Section 6: Rolling out the investment readiness support

3.54 Three of the seven projects provided the opportunity to examine the mechanisms and processes involved in making the investment readiness support more widely available. A number of approaches to extending the reach of the investment readiness service were tested:

- ***extending delivery more widely:*** here the deliverer linked with one or more Business Links covering other geographic areas. The Business Links provided marketing support, business contacts and venues for the seminars. Locally based specialists were also accessed through the Business Link. Management and delivery of the project was undertaken by the core deliverers, so whilst the availability of the support was extended geographically, the capacity to deliver was not increased beyond that which the deliverers were able to resource
- ***developing additional capacity to deliver more widely.*** the intention here was to provide training, support and advice to selected Business Link Operators who would then deliver a similar service in their locality. A number of factors contributed to slower than expected roll-out:
  - the relatively long timescales necessary to introduce a new form of business support
  - reluctance on the part of some business support organisations to introduce a new project on a pilot basis, if they could not be confident of long term delivery
  - limited capabilities in some areas to deliver services similar to those delivered by the core deliverers

- the limited relevance of this type of support with the prevailing business population in some parts of the region.
  - **linking with academic institutions:** one deliverer subsequently collaborated with two universities to deliver investment readiness support in another region. The core team plus key collaborators delivered the support themselves, together with some involvement from one of the other Demonstration Project deliverers and the local networks. There was an existing demand from the universities which supplied several of the participants.
- 3.55 For support to be cascaded more widely, a number of conditions were found to be desirable, although these depended on whether the support offered was 'intensive and continuous' or based on 'injections of support' (where specific components such as awareness-raising seminars and mock panels were supplemented by support provided by the business support network):
- delivering an intensive model of support more widely relies on collaboration with a local partner, or partners, to undertake the marketing, to deliver candidates, and to provide access to appropriate local business support networks, contacts with potential investors and sources of funding. The scale of the roll-out will be limited by the availability of suitably 'qualified' deliverers
  - for less intensive 'injections of support' approaches which contain fewer specialist elements there will be a greater reliance on external organisations to provide some of the necessary 'investability' support. Whilst this approach may be simpler to transfer to other deliverers, the dependence on external organisations will necessitate a strong quality control system to ensure consistency of delivery.
- 3.56 A constraining factor in the success of the Demonstration Project roll-outs was the low level of referrals from business support networks. Training for intermediaries and referral agencies should be built into future programmes of support to develop networks of referral organisations that:
- understand the breadth of funding options and sources available to SMEs, their relevance to different types of businesses and different business conditions, and the issues associated with equity investment
  - have the skills to carry out an initial assessment of candidates in order to signpost them to the deliverer.
- 3.57 Finally, whilst we believe this awareness-raising training would be beneficial to deliver and would add value, we do not believe it would be simple to train individuals or organisations to

deliver a full programme of investment readiness support. The deliverers, as identified earlier in this chapter, bring a rich mix of expertise, experience and reputation which would be extremely difficult to replicate without having built up a considerable track record over a long period. The availability of such specialised deliverers is likely to be *the critical constraint* to extending the delivery of investment readiness support significantly in the future.

3.58 As a postscript to this section, it can be reported that following completion of the Demonstration Projects, five of the seven projects subsequently delivered, or intend to continue to deliver, investment readiness support:

- one has subsequently run two further investment readiness support programmes with regional partners and funding
- one was, at the time of the research, in negotiation with one of the high street banks for sponsorship – the intention being to deliver investment readiness support which could service the needs of the bank's clients
- two are continuing to provide investment readiness support, one of which is continuing the geographic roll-out
- one has received some additional funding from an RDA to continue delivery. This has led into longer-term funding as part of the public-sponsored venture capital offer in the region.

### **Section 7: The costs of delivery**

3.59 The full cost of delivery was not recovered by any of the Demonstration Projects and a target market consisting of start-ups and early growth businesses would be unlikely to be able to cover the full costs of investment readiness support in the future. A wide range of fees was charged to businesses (ranging from no charge at all, to fees of around £3,000), influenced by:

- the project deliverers' views on the merits of requiring participants to pay for the support. These ranged from:
  - providing the service free on the basis that if a fee was levied to early stage businesses, it may have excluded valid and worthy candidates, to
  - charging in order to ensure commitment from businesses
- the age of the business - in many cases where businesses were going through the start-up process, reductions were made to accommodate the business's ability to pay.

- 3.60 It is very unlikely that such intensive and specialised investment readiness support, directed at early stage businesses, could become self-financing. The costs of delivery can be high, and even where a Demonstration Project managed to generate considerable fees this only covered part of the gap between the SBS funding and the full costs of delivery. In-kind contribution from the deliverers themselves and other key contributors was also necessary. Potential investors contributed their time on the basis that they believed the service to be valuable, but also that it provided access to potential investment targets. It may be possible to continue to involve investors on this basis in the future, but more difficult to rely on the 'goodwill' of other specialist contributors. Their costs will therefore need to be factored in to the budget for future support.
- 3.61 Where there was an associated investment fund, over the long term the benefits in increased returns on investment to the fund could be sufficiently attractive to persuade deliverers to cover some of the costs of the support, but the risk associated with investing in SMEs is still such that this will by no means be certain, and there will be considerable elapsed time before any investment starts to yield returns to the investor.
- 3.62 Our recommendation therefore is that subsidy should continue for investment readiness support until the following conditions are in place:
- the benefits of taking small equity stakes in early stage SMEs with growth potential has been demonstrated to potential investors. This is unlikely to take place over the short-term since for returns on the investment to become apparent could take several years
  - awareness of the benefits of, and processes associated with, equity funding have become widespread amongst the target market. With the churn in the SME population, this is not a one-off or short-term process, and will require regular reiteration. At the very least, future projects should aim to identify a number of businesses which have benefited from equity investment to act as 'role models'
  - understanding of the issues associated with equity investment becomes widespread amongst the business support community.
- 3.63 This chapter has reported on the main issues which emerged as a result of running the Demonstration Projects, and has – where possible – identified good practice and made recommendations for future delivery. The next chapter reports on the participating businesses' perspective.

## 4 SMEs' experience – survey findings

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### Introduction

- 4.1 This chapter provides a short summary of the results of the telephone survey of participating businesses undertaken during January and February 2004 (a full report is presented in Annex B). Seventy-one interviews were achieved from a sample of 127 businesses, of which 32 respondents had participated only in awareness-raising and 39 had received full support.

### Awareness-raising stage

- 4.2 Sixty-four businesses (90%)<sup>9</sup> participated in some form of awareness-raising which broadly took one of two forms: events designed to provide information and to recruit businesses to the Demonstration Project; and visits to businesses by a representative from the project. All reported the experience to be either 'useful' or 'very useful'. Specifically, the aspects they valued included:

- the provision of information on different sources of capital
- gaining insight into the different investors' perspectives
- understanding the process of accessing capital
- understanding the importance of a robust business plan
- meeting the Demonstration Project deliverers.

- 4.3 Of those that did not progress beyond the awareness-raising, 26 businesses (81%) reported that they understood either 'quite a lot' or 'a lot' in relation to equity financing after their involvement in the awareness-raising, a significant increase over the 12 (39%) who claimed significant understanding beforehand. As a result of improved understanding, the percentage of respondents who had 'no interest' in equity increased by 13% (from eight (26%) before to 12 (39%) afterwards) and those that expressed 'a little interest' fell from five (16%) before contact with the support to two (6%) afterwards. These responses suggest that the initial awareness-raising stage clarified the advantages and disadvantages of equity finance to businesses.

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<sup>9</sup> The others were accepted to the full programme of support directly

- 4.4 Thirty two of the 64 businesses (50%) chose not to continue after the awareness-raising stage. Various explanations were provided for this decision, primarily related to timing - the business either considered it was too early to contemplate equity as a source of funding, or they attended the awareness-raising event merely 'for information'. Most of the businesses that did not continue were still going through the start-up process or categorised themselves as pre-start, so it may have been that considering equity was premature. Dropping out after the awareness-raising stage did not appear to indicate any problems associated with the Demonstration Projects; quite the opposite, the experience itself resulted in a greater understanding and better informed businesses, and presumably a cohort of businesses which may be ready for support at a later date; and will know where to access it.

### **The full programme of support<sup>10</sup>**

#### ***Most beneficial elements of the support***

- 4.5 Within the full programme of support, the activities involving one-to-one support, mock panel presentations and exposure to investors were considered to be the most useful by the participants (although some of the Demonstration Projects, and therefore some activities, were under-represented in the survey so may have not received sufficient weighting).
- 4.6 One-to-one support was considered to have been delivered by appropriately experienced and knowledgeable individuals; 29 (74% of those participating in the full programme of support) considered the quality of the core Demonstration Project team as either 'excellent' or 'good' and where external inputs were used these were almost always considered to be either 'excellent' or 'good'.
- 4.7 Respondents highlighted specific benefits including the provision of a 'fresh perspective' and focused advice on gaps and areas for improvement in the business. Amongst the benefits of the mock panel presentations were the ability to rehearse in a 'live' situation, the development of presentational skills, and the opportunity to receive a realistic assessment and feedback on their proposal.
- 4.8 Businesses also reported they benefited from networking opportunities at both the awareness-raising and the full support stages of the Demonstration Projects. In particular, group interaction through workshops was valued as an opportunity to exchange experience and share ideas with other businesses, as well as accessing the wider networks of organisations and individuals that they were introduced to during the workshops, panels, and the one-to-one support.

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<sup>10</sup> Intensive grooming delivered through one-to-one and/or workshop-based support.

- 4.9 The intensive support led to changes in the business plan for 27 (69%) of the participating businesses. Interviewees identified the revisions to the business plan as making the most difference to their business. In many cases this change was described as a 'radical review' or 'revamp'.

#### **Impacts on the businesses**

- 4.10 Just over half the participants (20, or 51%) that responded to the question about impacts reported a 'large positive change' to their business, and a further three (8%) claimed a 'small positive change'. Very few experienced a negative impact as a result. The benefits credited include a whole range of changes in attitude, processes and performance, which can be broadly categorised as follows:

- **personal benefits to the participant:** greater focus; more confidence; renewed enthusiasm; more realism; improved presentation skills; networking opportunities
- **business development benefits:** clearer strategic thinking; strengthened business planning; increased willingness to grow the business; better financial control; strengthened management team; increased sales; improved intellectual property management
- **financial benefits:** increased attractiveness to funders; greater knowledge about finance; greater understanding of investors' perspectives; decision taken to embark on equity route; and, success in accessing funding.

- 4.11 Twelve (31%) of the respondents highlighted negative experiences resulting from participation in a Demonstration Project. The main frustration was the time necessary to participate in the project, which took the participant away from the business and in two cases was reported to have led to a loss of business. Other disappointments were related to lack of success in accessing funding.

#### **Funding success**

- 4.12 Half the businesses interviewed were still in negotiations regarding funding at the time of the survey; it is therefore too early to judge success on the basis of raising funding, and in particular equity. To date, where successful funding has been secured, it has ranged from £15,000 to £2.3 million, and success was partially attributed to the skills and knowledge the businesses gained from the Demonstration Projects.
- 4.13 The changes in participants' understanding of financing options available, and interest in equity as a means of funding the business, were impressive. The understanding of financing

options available increased to the extent that most respondents had shifted from 'little' understanding prior to the support to reporting 'a lot' of understanding after the Demonstration Project.

- 4.14 As well as exploring changes in attitude, changes in behaviour were sought, denoted by a revision to the scale or type of funding sought and the nature of that revision. Sixteen businesses (41%) did make changes, and of those, half increased their funding requirement. In the businesses where changes had been made, around a third sought equity when they had not intended to at the start of the support, and only two out of the 16 decided against the equity option when they had intended to pursue that route at the start of the project.

#### **Problems encountered during the project**

- 4.15 The survey has reported an overall favourable assessment of the Demonstration Projects with a significant number of businesses reporting positive experiences in relation to the support provided. However, interviewees were also asked to identify any gaps in the support and instances where they felt their skills or knowledge were not addressed sufficiently. There was no consistent message here: the main themes included perceived gaps in the support provided, but also topics which fell outside the projects' aims, and therefore should be treated as guidelines for refining support in the future rather than as gaps in support.
- 4.16 Concerns expressed included an absence of introductions to networks and contacts; insufficient preparation for the mock panel presentations and for working with investors, and a lack of detailed guidance on the process of negotiating for equity, and on different investor expectations. In a few cases advisors were considered to have brought narrow areas of expertise and were unable to understand the participants' requirements. Some participants clearly had expectations which went beyond the scope of the project, and a small number identified functional management skills where they would have valued support (for example, additional support relating to management and financial accounting, and the development of management skills). Finally, one respondent would have liked the support to continue beyond the mock panel presentation, in order that they could have addressed the issues raised at the presentation within the Demonstration Project. We would reiterate this feedback comes from a total of 13 respondents (33%), and there were no more than three responses relating to any one of the issues.

#### **Additionality**

- 4.17 The survey attempted to identify additionality delivered by the projects; that is, the consideration of how far the outcomes and impacts experienced by the businesses would have happened without the intervention. The responses, presented in Table 4.1, suggest that the

majority of businesses (24, or 62%) would have followed a similar course of seeking support, but from an alternative source, and subsequently would have applied for a similar scale of equity funding. This implies a low level of full additionality in that businesses would have taken similar actions without the intervention. However, almost half reported partial additionality, in that they would have taken longer, or accessed funding on a smaller scale, or accessed a different form of funding; this suggests attitudes, behaviour and outcomes have been influenced by participating in the Demonstration Projects. In addition, the support was not intended to be a 'quick fix', and it is likely that where there has been a change of attitude, the behavioural changes may follow but take longer to become apparent and have consequently not yet been captured by the survey.

- 4.18 We would also caution that this response is likely to have been influenced by a positive experience on a Demonstration Project, and we suspect that the actions the participants suggest they would have taken in the absence of the project may have been influenced by the experience, which in itself constitutes a level of additionality.

**Table 4.1: Course of action had the businesses not received investment readiness support**

Action	Level of additionality	Number of responses
Would have sought alternative support and applied for the same scale of equity funding	None	24
Would have sought alternative support and applied for a loan or grant (the same scale)	Partial	6
Would not have applied for any additional funding	Full	5
Would have sought funding on a smaller scale	Partial	4
Would have sought similar scale funding, but at a later stage	Partial	4
Would have sought funding on a smaller scale and at a later stage	Partial	1
<b>Total*</b>		<b>44</b>

*\*five multiple responses were given and have been included here despite requests to select one option only – where there was a double response, the options to apply for the same scale of equity and also a loan or grant were selected – and were clearly not mutually exclusive.*

- 4.19 This chapter has provided an insight into the experiences of the businesses that received investment readiness support through the Demonstration Projects, and the subsequent effect of that support. In the next chapter, we consider the overall effectiveness of the Demonstration Projects, their place in the portfolio of business support, and present some conclusions.

## 5 Conclusions: role, effectiveness and benefits

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5.1 This report has considered the rationale for investment readiness support, described the approaches taken to delivering such support and assessed its effectiveness, reported on the participating businesses' experiences and views and identified good practice to inform future delivery. Based on the findings presented earlier in the report, this chapter will draw brief conclusions on the initiative.

### **The overall effectiveness of the initiative**

5.2 Four of the seven projects met or exceeded their main targets and three exceeded most but were less successful when measured against others (see Table 2.2). Ninety-six funding deals were reported to have been achieved at the time of the report by businesses participating in the full programmes of investment readiness support (at least 29 of which were reportedly primarily equity). More deals were reported to be on the way but without having any control sample of those that had not experienced a Demonstration Project, it is difficult to judge the significance of this.

5.3 There is still a considerable proportion of the Demonstration Project participants in the process of negotiating equity investment. To provide an overall assessment of additionality would require a longer period of elapsed time in order to enable these deals to be taken to conclusion.

5.4 Where success was limited, consideration was given to whether it reflected some flaw in the design and delivery of the projects. Our view is that this was not the case, because often the activities of less successful projects did not differ radically from the others. Instead, we believe that where there has been a limited success it reflects obstacles encountered in some specific cases on the Demonstration Projects.

5.5 The success of the projects cannot, however, only be judged in terms of whether or not they met their targets. Considerable learning was achieved, with some clear guidance having emerged relating to good practice for the future delivery of investment readiness support (documented in Chapter 3). In addition, perhaps one of the most 'telling' indicators of all is the deliverers' commitment to, and belief in, the need for investment grooming - five of the projects have delivered, or intend to continue to deliver, investment readiness support following the completion of the Demonstration Projects.

## Outcomes

- 5.6 The main focus of the investigation relating to outcomes centred on:
- whether the main elements of the Demonstration Projects generated the appropriate anticipated outcomes
  - whether participating SMEs achieved the outcomes anticipated
  - whether there were any unanticipated outcomes (benefits or problems) for participating SMEs
  - the extent to which the outcomes experienced by the SMEs could be interpreted as ‘additional’, and
  - whether any wider outcomes were delivered.

### **Benefits to participating SMEs**

- 5.7 Participating businesses assessed the experience positively: the awareness-raising stage alone delivered tangible benefits in terms of increased understanding of finance options and interest in equity. Even when this resulted in businesses deciding against the equity route, this could potentially save the time of both businesses and potential investors in the future, and could therefore be considered to be a successful outcome.
- 5.8 The intensive support was considered high quality, relevant and it delivered material value to participating businesses during the project itself. The impacts, post-project, were still emerging, but significant changes in attitude to, and interest in, equity were evident, and a shift in behaviour was noted where equity had replaced other forms of funding as the preferred route to growth. Although it was still too early to capture the full impacts of the support, which would require considerable elapsed time for the benefits to become fully apparent, some additionality had been delivered as a result of the ‘intervention’.
- 5.9 Some unexpected benefits also accrued. From the deliverers’ perspective, the experience exchange and learning which was effected between businesses through the workshops, and the ‘peer support groups’ which were established, added another dimension to the development process and provided a further cohort of ‘critical friends’. Business relationships also developed which are reported to have endured in some cases beyond the end of the projects, and some trading exchanges were stimulated.
- 5.10 Few problems appear to have been encountered by the participating businesses, other than the time the process demanded and the consequent diversion from running the business (which is

a common complaint generally from SMEs regarding training and education), and frustration when a participant reported that they had failed to raise the expected finance. However, these incidences were few and far between, and where there had been a problem, in most cases the participants would still have undertaken the programme of support.

- 5.11 Deliverers reported the process had improved the quality of participating businesses, and potential investors corroborated this. The main improvements were often fundamentally refined business plans, more robust investment propositions, and entrepreneurs who understood the range of funding options, the contribution equity investment could make to the growth of their business, and the requirements of the potential investors. As well as delivering more robust, realistic and attractive funding propositions to investors, the investment readiness process consequently also had a wider impact on the quality of the business stock.

#### **Benefits to delivery organisations**

- 5.12 The Demonstration Projects enabled seven organisations, plus those with whom they collaborated, to develop, test and validate, deliver and – to a certain extent – disseminate investment readiness support processes. As a result, a stock of models, materials, knowledge and experience has been built up which is now well positioned to deliver further, and wider, services.
- 5.13 We are less sure that this knowledge base will be easily transferable to other deliverers, and the identification of willing, appropriately qualified deliverers may well be the main constraining resource (other than public sector subsidy) to increasing the availability of an investment readiness service in the UK.
- 5.14 The initiative has also enabled deliverers to raise awareness of their activities within key networks, to begin to establish reputations for this form of support (if they were not already established), and to start the process of generating a stream of candidates for investment readiness support – there is unmet demand which five of the deliverers have sought to meet since the projects finished.
- 5.15 Where candidates were not appropriate for investment readiness support, they were actively signposted to providers of other types of business support; the Demonstration Projects thus delivered a first stage diagnosis for a larger population than merely those suitable for investment readiness support, and possibly added to the percentage of the business population accessing the business support network.

### **Cost-effectiveness and value for money**

5.16 Whilst it is clear that the outcomes of the initiative have been positive, it is more difficult to determine how cost-effective the Demonstration Projects have been in achieving their objectives. We have already noted that it is inappropriate to try to draw comparisons, and to arrive at judgements about success based on cost-effectiveness, given:

- the considerable variation in spend budgeted for each of the components of the Demonstration Projects, which differed depending on the emphasis placed by each project
- the range in experience and profile of the deliverers prior to the Demonstration Projects, and the variety of approaches employed in the projects
- it is too early to be able to report on the overall success of securing equity and other forms of finance.

5.17 Equally valid to consider is the added value delivered by the Demonstration Projects. The projects have added value in a number of ways:

- the in-kind contribution by investors and practitioners is unlikely to have been available to the projects' target group of businesses without public sector intervention
- without the projects, even had businesses been in a position to afford to access such support, the support would have been delivered in a less integrated and more inconsistent format. The added value of bringing together various activities, contributors and stakeholders under one programme of support is therefore significant
- there was a high degree of consensus that the targeted group of businesses could not have afforded to pay the full cost of such intensive, sophisticated support, so would not have been through the investment readiness support process without public sector intervention.

5.18 The benefits to the key stakeholder groups have been documented, but how does the initiative measure in terms of 'value for money'?

5.19 In terms of '*economy*'<sup>11</sup>, the cost of providing such investment readiness support is acknowledged to be at the high end of the spectrum, although there is little similar provision against which to benchmark the projects, and the inputs for the Demonstration Projects will have been higher than for future delivery due to the development costs wrapped up in the

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<sup>11</sup> The amount of input, or financial cost, required to achieve a given output.

budgets. However, costs varied considerably and one of the most prolific projects in terms of equity deals achieved the results at a relatively low cost compared to some of the other Demonstration Projects.

- 5.20 Whilst the fixed costs involved in making the investment will not have been reduced through this initiative, arguably more robust businesses and investment propositions will reduce the ‘costs’ of an investment for the business and for the investor when measured in terms of effort and elapsed time.
- 5.21 In terms of ‘*efficiency*’<sup>12</sup>, the projects have been able to deliver economies of scale – in particular through exposing large groups of SMEs to a range of specialists through the awareness-raising process, the mock panels, and where support was delivered through group workshops. Not all projects used these mechanisms, but even where support was delivered on a one-to-one basis, the deliverers were able to draw on excellent networks to provide contacts and introductions to a wide range of specialist advisors and potential investors – the variety of which was unlikely to have been available to businesses outside of the Demonstration Projects.
- 5.22 Finally, in terms of ‘*effectiveness*’<sup>13</sup>, it is clear that thus far the initiative has been broadly successful in meeting its objectives and has delivered benefits both to businesses and to the business support network, including:
- improved quality of investment propositions as a result of the support - evidence that information asymmetries have been decreased, costs to investors in this area will consequently have reduced, and the supply of equity finance to small firms enhanced
  - awareness and understanding of the various forms of funding, and the benefits of equity finance, have been increased amongst those businesses exposed to investment readiness support, and informed choices have been made about sources of funding as a result.
- 5.23 The effectiveness has been both immediate, and will be longer-term in that the initiative has started a process which should render the business support network better able to stimulate the demand for equity investment in the future and to strengthen the target market for investment.

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<sup>12</sup> The relationship between inputs and outputs – the extent to which a given amount of input can produce more outputs.

<sup>13</sup> The extent to which the outputs from a project produce outcomes which meet real needs and objectives – the extent to which a project actually makes a difference.

### **Additionality**

5.24 The question of additionality<sup>14</sup> is harder to pin down. The participating businesses reported some additionality, in that just under half would, in the absence of the Demonstration Projects, have sought funding on a different scale, of a different type, would have done it later (or some combination of the three), or would have done nothing at all. However, just over half suggested they would have sought alternative support and applied for the same scale and type of funding as they ended up doing as a result of the project. This suggests that in many cases the support has not influenced behaviour or actions. However, we would note:

- that these responses were given with the benefit of the hindsight of a successful experience on a project which started by raising awareness of the benefits of equity funding, and grooming for investment. Without that ‘education’, we believe at least some of the respondents would not have had the information to decide on a similar course of action drawing support from different sources, and thus the additionality is likely to have been higher than reported
- although businesses said they would have gone elsewhere for support, there does not appear to be a wide range of alternative support available. There is other investment readiness support on offer, but in many parts of the country the alternative support would have taken the form of more general business development advice, which is not designed to deliver the same level of specialisation or intensity.

### **Rationale for public sector support and its implications**

5.25 In the introduction to the report, we presented a consideration of the rationale for investment readiness support and market failure. We suggested that public intervention could be justified if it addressed the issue of information asymmetry between the business seeking investment and the potential investor, and did so in a more effective way than other means which exist for addressing the market failure. Four ways of addressing market failure issues were identified:

- strengthening the investment proposition, thus giving investors more confidence in investing
- provision of assistance to businesses to present information in way that facilitates the investor in making a judgement
- the collection and assessment of information required by equity investors which would reduce the costs to the investors of undertaking this activity

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<sup>14</sup> The additionality of the project refers to the changes that are brought about only because the project takes place.

- the generation of propositions which would not otherwise have come before potential investors.

5.26 Having examined the Demonstration Projects our conclusion is that, where the projects have been delivered effectively, they are achieving three of the four conditions described above:

- business plans, and the businesses, have been strengthened through what has been an intensive business development process
- the presentation of information has been improved and presented in a format appropriate to investors' needs, as well as having been rehearsed in a rigorous testing environment, and
- businesses have changed their intended funding routes as a result of contact with the Demonstration Project.

5.27 There is little evidence that undergoing investment readiness grooming directly reduces the costs to potential investors of carrying out an assessment of investment propositions, unless there is an investment fund closely associated with the project, which provides informal contact with potential investment targets prior to any formal negotiations commencing: the evidence suggests that the investment readiness support can not substantially replace the due diligence an investor would need to undertake.

5.28 The Terms of Reference raised a number of questions relating to the rationale for Government support. On the question of whether there is evidence of a need for Government to provide financial support for the delivery of this type (investment readiness) of support, we conclude that – overall - the experience of, and results emanating from, the Demonstration Projects have supported the original rationale for Government intervention:

- the demand for such an intervention appears to exist
- the costs of delivery are at the high end of the business support scale and the target client group of start-up and early stage businesses is notoriously poorly positioned to pay for business advice and support
- the intervention appears to have been effective in relation to the businesses in a substantial number of cases, and
- the existing business support infrastructure has not yet developed a coherent and comprehensive package of support in this field, which would make such quality and intensity of support available extensively.

- 5.29 As to whether the full cost of support is a barrier to SMEs, the evidence suggests that it is and that if investment readiness support is deemed to be an important contribution to the strengthening of the UK economy, at present it is necessary for the public sector to subsidise the delivery costs.
- 5.30 Finally, on the question of implications for the Government if there were a strong rationale for Government support, policy has developed since this study was conceived, and the decision relating to future provision of investment readiness support has been devolved to the regions, rather than being taken centrally. Any role therefore for the SBS is likely now to involve the provision of advice and assistance rather than to define the nature of the support which should be delivered. However, we note that – given the costs of delivery – there would be scope for economies of scale if some activities were coordinated and delivered centrally; specifically, there is scope for a centralised marketing effort, with an effective geographic and technical signposting service between programmes of support, and also for continued sharing of good practice.

### **Concluding remarks**

- 5.31 The evaluation of the Demonstration Projects has certainly been positive but has the initiative been successful in terms of meeting the aims set out by the Small Business Service<sup>15</sup>? These aims, and our assessment of performance measured against them are presented below:
- ***Aim 1: to test out different approaches to the delivery of investment readiness support and provide an opportunity for innovative ideas to be implemented.*** The Demonstration Projects have provided the conditions for different approaches to be tested. The Small Business Service allowed considerable flexibility when commissioning the Demonstration Projects with the result that new and different approaches could be tested and refined without fear of penalty.
  - ***Aim 2: to enable the SBS to establish whether this kind of support does in fact lead to the positive outcomes envisaged.*** The results to date suggest that the positive outcomes envisaged have been achieved, or will be once the businesses have been through the entire investment cycle.
  - ***Aim 3: to enable the SBS to establish whether this kind of support leads ultimately to businesses receiving investment for viable ideas as a result of their financial skills and proposals being improved.*** Ninety-six businesses are so far reported to have accessed some form of funding as a result of the investment readiness support

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<sup>15</sup> Specification for the evaluation of the Investment Readiness Demonstration Projects – tender specification 05/09/03.

(nearly half of those receiving in-depth assistance), 29 of which are reported to be equity deals. We have no comparable statistics relating to outcomes from other investment readiness programmes or relating to businesses which have raised equity without such support. However, these results do look positive and are likely to improve before the results of the support are finalised.

- ***Aim 4: to share good practice and lessons learned with the wider business support community.*** In the course of delivering the Demonstration Projects, many organisations and individuals active in the business support and investor communities have been exposed to the projects, through being involved in the delivery, being introduced as part of the networking process, or coming into contact as a potential investor. Feedback from these cohorts suggests the contact has been beneficial and informative. A wider dissemination process has already started with the workshop run for an RDA audience in April 2004. The results of this evaluation should make it possible to share good practice and lessons learned yet more widely. However, we would reiterate here that the quality of the deliverers is critical to the successful delivery of investment readiness support. To be successful, deliverers need to bring a specialised mix of knowledge, skills, previous experience and extensive networks, a recipe which is not easily transferable. Replication of investment readiness support is unlikely, therefore, to be easily achieved.

5.32 In conclusion, therefore, the Demonstration Projects and fit4finance can be considered a success, having met the majority of the aims set out by the Small Business Service, and demonstrated the benefits. In many cases the projects required more elapsed time than had been envisaged (which suggests the need for longer term funding than was provided for the Demonstration Projects) and it is therefore still too early to identify how comprehensive the impacts have been on participating businesses - but results to date suggest that targets will have been met or exceeded where support conditions have been effective. This leads us to conclude that similar investment readiness support would be an appropriate response to the Government's ambition to increase equity take up as a means of funding the development of businesses with growth potential. These businesses will be unable to meet the full costs of such support themselves; therefore if this aspect of business development is considered to be a priority for UK plc, the provision of investment readiness support for SMEs is likely to continue to require some form subsidy.

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Last Printed On: 7/28/2004 10:40 AM  
As of Last Complete Printing  
Number of Pages: 55  
Number of Words: 17,473 (approx.)  
Number of Characters: 99,598 (approx.)