

A series of recommendations for SYIF in order to develop the relationship with Creative Industries sector support organisations and SME's

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This document summarises a set of recommendations which were produced as part of a longer report prepared for SYIF as a result of a piece of research into the opportunity for increased investment in the Creative Industries in the Yorkshire region and the developments that would be needed in order to bring CI and investment processes together to achieve the necessary deal flow for success. This overview may also be read in parallel with the outline of three pilot programmes for the development of working relationships between the SYIF and the Creative Industries.

1 Communication & trusted relationships

Several of the SYIF investment managers commented that one of the greatest challenges is one of communication – letting other organisations and businesses know that Finance Yorkshire is interested in a sector or type of company to invest in.

Equally referrers often don't wish to risk getting it wrong, raising the hopes of a client business and making themselves look stupid. In this sense it is also important to communicate the ratio of businesses who are referred vs. those who are invested in/loaned to make it clear that failure to achieve funding is pretty common!

2 Locating suitable experts

Investment managers often call on the assistance of sector experts when completing their due diligence processes. Given the breadth of technology, the speed of change and the varied business models employed in the Creative Industries SYIF needs a collection of sector experts to draw upon and whilst individual investment managers have one or two such contacts they do not currently have a sufficiently diverse group to draw upon, nor are they clear as to how they would meet individuals to add to their current panel

3 Investment readiness coaching

SYIF's current model assumes that SME's in dialogue with SYIF or PIF will have already located sources of assistance to steer them through the process of becoming investment ready. Currently CI firms are unlikely to engage corporate financiers to assist in this process so they will need pointing in the direction of appropriate sources of expertise.

4 From serendipitous connections to regular contacts

The work-based networks of the investment managers include accountants, corporate financiers, bankers and sectors experts from the sectors most familiar to them. Currently these networks include very few individuals from the CI's. With SYIF's goal of increasing the deal flow with the CI's and the CI's need to achieve growth finance it is time to change the current patterns from serendipitous meetings to opportunities for regular contact.

5 The need to get to critical mass in the region

Finance Yorkshire has a key contribution to make to the region in terms of helping the Creative Industries achieve critical mass of growing and successful CI businesses. If SYIF is involved in discussions when sector development plans are being made then all parties can work to ensure that the investment approaches support the plans in a way that suits both investment and sector of needs.

6 Micro-finance dovetailing into existing programmes

There would be value in looking at how the micro-loan scheme might complement existing grant based project funds such as 4IP as a means both to mitigate the risk and to extend the capacity of the projects funded. This would also form a route in to loan based business development for those who are currently unfamiliar with debt & gearing processes and the associated financial planning for payback.

7 High risk, fast burn rate 'hit based' sub-sectors

Some of the CI sectors have a very 'hit based' model. Film and games in particular operate in this way. The development & production costs are very high and there are very few opportunities to market test a concept prior to the full launch. These are very high risk sub-sectors for non-specialist investors. Even specialist investors tend to operate a 'slate' approach i.e. they fund a number of games/films on the basis that whilst very few will be successful the successes will pay for the losses and still leave a reasonable ROI. Sectors or sub-sectors with such a profile are unlikely to suit SYIF.

8 Understanding the role of money in building a business

Development of a one day training module for CI advisors, mentors & coaches in collaboration with key CI CPD & sector organisations. This would look at the different types of funds & investment mechanisms covering grant, micro-loan, equity investment, bank debt and larger SYIF loans. It would also cover a number of elements of basic finance theory e.g. gearing ratios & risk and calculations of payback of debts on the basis that whilst advisors do need to understand the different types of funds and investment available unless they understand the principles of gearing and debt then they will not be in a position to advise effectively on these topics.

9 Managing CI entrepreneurs expectations of what investors need

Identify a series of CI investment examples where both the entrepreneur and the investor would be willing to tell the story of the company's journey to an audience. Identify or establish an event which provides the setting for entrepreneurs within the region to meet, hear these examples (the warts and all versions not the PR versions) and put questions to those involved.

10 Becoming familiar with how CI businesses work

Identify a number of successful & growing CI firms (perhaps at the £500k-£1m or £1-3m turnover level) who would be willing to include SYIF investment managers either in board development days or as advisor/observers in board level discussions. The purpose of this would be a two way exchange – SYIF investment managers would have expertise to offer in terms of use of capital, the CI boards would offer an opportunity to see how decisions are made within these successful firms.

11 A need for more non-execs

Investors commonly place a non-exec on the board to help manage the funds they invest. The challenge in doing so in CI firms is that the organisational style, management processes and language are often quite different from that found in more traditional sectors. If SYIF develop a larger pool of non-execs who are already familiar with the business models, working

processes and management styles of the Creative Industries then this will ease the investment management process.

12 Deal with the Medium & Large firms individually

The BOP 2008 report indicates that only 2.3% of Creative & Digital Industries businesses fall into the medium (50-199 employees) or large (200+ employees) range in Yorkshire – approximately 320 businesses in the region. SYIF could work with Yorkshire Forward and regional sector bodies to convene a series of discussion meetings to research the needs of this sub-set of the CI firms in the region.

13 The lack of assets challenge

As CI firms have found it difficult to attract investment to date and the most common reason given is the lack of assets it would be useful to clarify Finance Yorkshire's position on this issue so that a clear message can be given in any marketing materials used and in any presentations given.

14 A co-investment partner

Given the agreed lack of familiarity with CI business lifecycles and growth patterns amongst SYIF investment managers one route to improving the knowledge base would be for SYIF to co-invest with a sector specialist such as Ingenious Media. This would allow experiential learning for SYIF investment managers whilst delivering the desired deal flow. Working with a national specialist investor would have the added benefit of bringing other investors into the region as well as showing case studies of success beyond the region.