Response to the Industrial Strategy Green Paper

This is the response from the Chief Executive of the YTKO Group. We are a private sector SME in the 50 – 249 headcount category, with headquarters in Aldgate Tower, London E1. Within the group we deliver a range of commercial and non-profit services to entrepreneurs and SMEs of all sizes and across all sectors, with our public sector work largely funded by ERDF and RGF. This is focused on commercialising innovation, increasing skills and productivity, business growth strategy, sales and marketing, procurement and investment readiness.

In the last decade in our public sector work alone, we have supported over 15,000 businesses, which have created more than 7000 new jobs for the economy since 2010. We've raised over £30m of finance for them from a wide range of sources, half of our clients are women, and BME clients are supported well in excess of their representation in the local population.

This has been achieved mainly through three multiple award winning services: Outset for start-up and sustainability, particularly those from disadvantaged backgrounds, with 22,000 individuals engaged to date, and 3 year survival rates easily outstripping the national average. Enterprising Women, the UK's largest community focused solely on female entrepreneurs, from start up to high growth, and now reaching over 25,000 women across the country. GetSet for Growth, supporting ambitious but stuck SMEs to overcome the two biggest barriers to scale and growth, access to markets and access to finance. This client group alone turns over well in excess of £1.4b per year for the UK economy. We reference these and others in the text as practical examples to aid thinking of how some of the Industrial Strategy could be implemented.

The views represented in this response are therefore not just drawn from our own experience of being a successful SME, but further enhanced by the experience of thousands of individuals and businesses across the UK with whom we have been privileged to work over the last ten years.

We hope that our response is constructive, and we would be pleased to discuss any or all of the points raised.

Beverly Hurley CBE

Bev.hurley@ytko.com

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Questions for consultation

1. *Does this document identity the right areas of focus: extending our strengths; closing the gaps; and making the UK one of the most competitive places to start or grow a business?*
2. *Are the ten pillars suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing?*

We welcome the Green Paper, the level of ambition expressed within it, and broadly agree with the areas of focus and ten pillars. However, much of the 2013 strategy is repeated, the mechanisms and activities for achieving these goals are less well formulated, and in some cases unlikely to succeed, and there is a lack of clarity about how a national strategy sits along government policy more focused on devolution. In addition, there is a noticeable lack of focus on the SME economy, responsible for 60% of all private sector jobs and a considerable amount of innovation. There are also few measures of success whereby the Strategy will be judged, or timescales for particular activities. Where we have the knowledge and expertise to do so, we have commented in depth on the questions posed.

3. *Are the right central government and local institutions in place to deliver an effective industrial strategy? If not, how should they be reformed? Are the types of measures to strengthen local institutions set out here and below the right ones?*

Because we work so closely with BEIS, GCLD, LEPs and local authorities across the country, we really understand the world of economic development, and what is a constant, complex and frequently changing set of organisations involved in both industrial and business strategy. Our experience is that many representatives of these organisations, particularly the LEPs, have little understanding of the world of SMEs, who are the lifeblood of our economy and represent over 60% of all private sector jobs. That the LEPs struggle to engage with the SMEs in their areas is understandable, as they are largely irrelevant and invisible to this audience, although they are happy to claim the jobs they create.

Various areas are involved in devolution activities, city deals, mayoral elections, combined authority discussions and activities - it's a mess. LEPs are increasingly joining forces, whether by financial necessity, brand or geographic requirements, or simple common sense – RDA's by another name? We struggle to see how a coherent Industrial Strategy is going to interface with the plethora of structures that already exist, and whether it is the LEPs or the local authorities where the ultimate responsibility for executing the strategy lies.

In our view, this should be the local authorities, if for no other reason than they are led by democratically elected citizens, who can be held to account for their actions, whereas the LEP sub-committees and often the boards are full of conflicted individuals with no accountability whatsoever. In addition, the local authorities have the economic development expertise – even though it still remains a non-statutory function. Therefore they should be the Government's first main partner to achieve the Industrial Strategy goals and fully aligned local activities.

Underperforming regions need more tailored solutions, a one-size Industrial Strategy will not fit all areas.

4. *Are there important lessons we can learn from the industrial policies of other countries which are not reflected in these ten pillars?*

A clear remit and long term commitment to not changing the final agreed structure and strategy.

5. *What should be the priority areas for science, research and innovation investment?*
6. *Which challenge areas should the Industrial Challenge Strategy Fund focus on to drive maximum economic impact?*
7. *What else can the UK do to create an environment that supports the commercialisation of ideas?*

Taking these three questions together, the Green Paper implies a continuum from university research, to new commercial ideas / applications through to product launch and success. In our experience this is definitely not the case, at least in any noticeable volume. The phrase "We need to ensure that university spin-outs have the best chance to survive, attract investment and grow over the long term" excludes the vast majority of start-ups.

And of course, there are many local authorities with no university of any 'entrepreneurial stature' on their patch. With some notable exceptions, most universities do not generate successful businesses from their IP, and any tech transfer function prefers the licencing route as a simpler option to generate income for the university, rather than wealth for the local economies in which they operate. One of the reasons for this focus is that the levels of understanding in most universities about what it takes for successful entrepreneurship – ie thriving commercial success - are somewhat lacking. The main role for our Universities is not the commercialisation of research but the provision of appropriately skilled young people, which should include much improved workplace understanding before students leave the academic environment. Recent Kauffman Institute research in the US found only one correlation between Universities and innovation.

A good practical example of how this can be overcome is a 5 year project we created and managed called Yorkshire Enterprise Fellowships, working with all the Yorkshire universities and 100 Fellows to determine whether there was a commercial outcome for their IP in healthcare, medical devices, bioscience and chemicals. If so, what the most successful route was (JV, industrial collaboration, spin-out, licencing); and educating each Fellow through a programme of training, 1:1s, high level external mentoring and financial support. Even if there was no commercial outcome, the levels of entrepreneurial knowledge and skills remaining inside the university was significantly enhanced to champion future opportunities.

Another practical example of how the cultural chasm between University and businesses can be overcome to enhance the likelihood of invention being successfully turned into innovation is the Norfolk Network. At its inception, the University and Norwich Research Park were totally disinterested in commercial exploitation, and wary and cynical of the value of business engagement at any level. Similarly, businesses did not see the value of bothering to engage with the University or Research Park, and when they did, had a slow and frustrating experience. The importance of forming durable bridges over which both sides could be encouraged to walk was vital to the success of the NN, and a host of positive outcomes that followed, including the founding of the entrepreneurs society, workshops in commercialisation of IP, business training, more academic consultancy on business technical challenges, and much more.

To the technologies mentioned in the Green Paper we would add machine learning, where there are some real technical challenges with analysing big data on current HPC; and building usage and technology for carbon reduction.

Finally, a Proof of Concept Fund must be part of the Industrial Strategy going forward, and for clarity, this means proof of commercial concept, not scientific concept. It should not be administered or delivered by the Universities, but by external independent individuals or organisations who can take an impartial view and deliver value back to the University for exploiting the IP, or to businesses who should also be able to benefit from such assistance. This should also involve funds for prototyping demo models.

8. *How can we best support the next generation of research leaders and entrepreneurs?*

Some examples of this have been outlined in the previous section. However, if 'entrepreneurs' is taken in its wider sense, which it should, given that far, far more entrepreneurs come from outside the academic sector than within it, that is a much wider question. Given we are not sure that you are actually asking this broader question, we will confine our answer here to just one key element. That is, the quality of any government support for new entrepreneurs must improve significantly, particularly to address the two biggest barriers to sustainability and success – access to markets (enough profitable customers) and access to finance. The UK is by far the best place to start a new business, but our survival rates are a disaster.

9. *How can we best support research and innovation strengths in local areas?*

As previously indicated – better commercialisation skills and knowledge within academia and research institutes (or finance for them to be able to access those services and programmes externally such as YEF); significantly improved understanding and engagement (two-way) between businesses and research; and a proof of concept fund. What is the future of the Catapult centres?

10. *What more can we do to improve basic skills? How can we make a success of the new transition year? Should we change the way that those resitting basic qualifications study, to focus more on basic skills excellence?*
11. *Do you agree with the different elements of the vision for the new technical education system set out here? Are there further lessons from other countries' systems?*
12. *How can we make the application process for further education colleges and apprenticeships clearer and simpler, drawing lessons from the higher education sector?*
13. *What skills shortages do we have or expect to have, in particular sectors or local areas, and how can we link the skills needs of industry to skills provision by educational institutions in local areas?*
14. *How can we enable and encourage people to retrain and upskill throughout their working lives, particularly in places where industries are changing or declining? Are there particular sectors where this could be appropriate?*

There still remains a need to align educational output with business needs and work ethics, particularly in the SME economy. Increasing tax breaks or other financial incentives for SMEs to take on apprentices will not work as this is not the key issue – in a small business, the management time available to train, supervise, manage and develop an apprentice is more important consideration. When faced with someone who can 'hit the ground running' and add value quickly or someone with basic skills/education but no experience of work or functional expertise, it's a pretty straightforward choice for most small employers. Linked to this is the problem of public transport connection to more rural communities where much of business is based.

The Technical/Apprenticeship course finding process similar to UACS is an excellent idea, although £170m doesn't seem sufficient for new Institutes of Technology. 50% of the working population didn't go to University so also really important that <u>future</u> skills and jobs are front of mind of all parties concerned with skills, education and employment, especially when job roles are changing so fast. Last year the Economist reported that over the next decade, more than one billion young people will enter the labour market, and only 40% will be in jobs that currently exist.

The use of tax credits or other financial incentives for both employer and employee would stimulate the uptake of accredited training and future proofing of skillsets – through-career training is vital.

There is still a significant need to improve management and commercial skills in business.

15. Are there further actions we could take to support private investment in infrastructure?

16. How can local infrastructure needs be incorporated within national UK infrastructure policy most effectively?

17. What further actions can we take to improve the performance of infrastructure towards international benchmarks? How can government work with industry to ensure we have the skills and supply chain needed to deliver strategic infrastructure in the UK?

18. What are the most important causes of lower rates of fixed capital investment in the UK compared to other countries, and how can they be addressed?

Government funding is closely aligned to local growth plans, devolved areas, Northern Powerhouse, Midlands Growth Engine, but what about the rest of the country outside these areas. From what we know, competition for infrastructure funding via the LEPs is fierce, yet unless there is a parallel focus on also creating greater connectivity to these centres, other areas will fail to benefit. The movement of freight as well as people is vital, particularly in areas/sectors with long supply chains. Upgrading digital infrastructure and the roll out of fast broadband in rural areas is welcomed as a key business essential. We don't understand why there is no mention of Enterprise Zones or Business Parks in the paper, or ways to tackle continuity of supply of electricity, which is a critical factor for manufacturing areas, and strategic planning on this issue has thwarted by privatisation.

19. What are the most important factors which constrain quoted companies and fund managers from making longer term investment decisions, and how can we best address these factors?

This is linked to the risk-averse nature and high due diligence costs of the mainstream banking sector, unlike those in Germany who are supported in long term investment by their banks rather than equity sources. Potentially the use of public sector pension funds and other such instruments taking a long-term view could be explored. Private investors and fund managers are looking for shorter scale returns, driven by the market, and would be very difficult to address, even if it was considered to be part of the government's remit.

20. Given public sector investment already accounts for a large share of equity deals in some regions, how can we best catalyse uptake of equity capital outside the South East?

What drives equity uptake is high quality deal flow and a risk-receptive, entrepreneurial culture. Outside of the South East there are a few angel networks but the availability of private wealth. However, our experience of animating independent investment communities in East Anglia and Cornwall to prevent a brain drain out of the region had to start with an education piece about investing into this asset class, EIS/SEIS advantages etc., as people were more comfortable with traditional land/property based vehicles for their wealth. Connecting new investors with more experienced hands was also a successful part of the strategy of encouraging more investors to come forward, but ensuring that was a flow of properly investment-ready deals was critical in risk mitigation.

In parallel, educating businesses as to whether equity IS a realistic proposition is also essential, particularly at angel level. There is a lot of hype in the private equity market, and particularly tech entrepreneurs just assume that raising funds by this route is almost automatic. In our experience of working in the field, and as investors, at least 90% of initial propositions are thrown away because either the business isn't investment ready, or because it doesn't possess the right combination of scaleable growth, defensible IP, proven market need or skilled team. It's very easy to invest, it's much more challenging to make a successful exit, and with only at best 2 out of 10 investments delivering any kind of return, the need for sound preparation and diligence is critical, and post-investment support.

Government taking the first loss is important to encourage pension funds to play more in this space, but any activities must concentrate on strengthening the whole financial escalator, not just focus on the relatively very few companies who could ever deliver the type of returns that VCs demand.

21. How can we drive the adoption of new funding opportunities like crowdfunding across the country?

This question appears to indicate that new funding opportunities need to or should be driven for adoption. There are very many sources of finance available for businesses, including asset, debt, invoice discounting, crowd-funding, P2P lending and equity – the point is that SMEs are largely unaware of these different options, what would be right for their business, and what they need to do in order to access it. There are challenges with unregulated forms of investment and we would caution against active government intervention unless via the education of SMEs through investment readiness programmes.

22. What are the barriers faced by those businesses that have the potential to scale-up and achieve greater growth, and how can we address these barriers? Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread?

There is a danger in combining “scale up” (the latest brand for “high growth” or “gazelle” companies) with “greater growth”, as these are two very different things. We know that the government’s ScaleUp Taskforce has had its first meeting, and that BEIS have launched a scale up enquiry and will therefore contribute our experience into those two forums.

It’s really important to remember that both growth and scale up opportunities (the latter being a very small percentage of the overall SME base, 20% annual increase, starting with 10 staff) can come at any time and in any sector, they are most definitely not confined to tech start-ups, university spin outs, or equity backed businesses.

As a practical and fully scaleable programme of how growth – in innovation, productivity, skills, turnover/profit and job creation – can be created at all levels, we respectfully suggest GetSet for Growth as a prime example. Replicating “what works” in our commercial practice with growth companies, this was piloted in the public sector using ERDF funds in Cornwall, and through a private sector partner, in Bournemouth. Due to the outstanding achievements of both these projects, including engaging over two-thirds of SMEs who had never before accessed business support in Cornwall (!), our private partner, J.P. Morgan then scaled the service into London. In parallel, we were successful in the last round of RGF, currently drawing to a close this quarter, to scale the service into the South, East, West and Midlands.

From a standing start as a new provider in these RGF areas, and in less than 2 years, we are already over target to raise more than £15m growth finance, and the creation of over 1300 new jobs and 300 safeguarded, for a government investment of just £3.4m. Without any government continuation funding, with a barren landscape for such support, and a huge market need, the lessons learned from this highly successful example of how to reap major dividends from a small investment will be lost.

23. Are there further steps that the Government can take to support innovation through public procurement?

24. What further steps can be taken to use public procurement to drive the industrial strategy in areas where government is the main client, such as healthcare and defence? Do we have the right institutions and policies in place in these sectors to exploit government’s purchasing power to drive economic growth?

Disaggregation of data is important as a more realistic benchmark of how the government is doing in its efforts to improve public procurement to SMEs. Counting contracts let to large organisations who then on-procure to their supply chains is not direct to SMEs! It’s vital that Tier 1 suppliers are fully engaged in the on-procurement process through their own supply chains and that innovative practices are actively encouraged and rewarded at all levels. The adoption of the Balanced Sheet Scorecard across all major central government construction, infrastructure and capital investment procurement projects over £10 million is welcomed.

Procurement readiness is a core component of GetSet for Growth, going well beyond the 'Meet the Buyer' type of activities more typical in this arena. Effective tendering is a fundamental skill involved in most business growth, no matter what the business model. We provide SMEs with better awareness of opportunities, improved understanding of the tendering process, how to assess when to bid, and at what level in the supply chain, and how to write an effective bid - robust preparation to become not just "fit to supply" but then able to have the operational and cashflow capacity to execute a new business win is vital for sustained success. In the construction industry with its particularly long supply chains, for example, innovation is not easily adopted, and payment terms are still a significant barrier to supply chain participation, and ensuring businesses have sufficient working capital is essential.

The effectiveness of this particular component of GetSet in generating business growth has already been picked up for additional funding by one London Borough and the CITB for a bespoke programme for construction SMEs.

Secondly, whilst it is easy for public procurers to pay lip service to innovative bids, this has to be balanced against the risks involved, not just in procuring to SMEs, but with the risks of buying something 'innovative'. Some government departments are incredibly risk averse, CLG with ERDF procurement being an outstanding example. It is SME awareness, readiness, and risk mitigation rather than process issues that is the problem.

We would recommend that close study is made of how DARPA funds innovation at two levels, and their terms and conditions for exploitation of IP developed through the process.

25. What can the Government do to improve our support for firms wanting to start exporting? What can the Government do to improve support for firms in increasing their exports?

The opportunity costs of understanding a) whether they have an overseas market, b) entering it, and c) exploiting it are too great for many small businesses, and there is no embedded exporting mind set – it's just seen as too difficult for the majority of SMEs. To maximise government spend, the focus of government support should be segmented and targeted at those businesses more likely to be able to succeed in exporting, and make it easier for them to do so. As with all government programmes, a much more sophisticated approach to marketing based on prospects' needs to be in place to deliver on this objective.

26. What can we learn from other countries to improve our support for inward investment and how we measure its success? Should we put more emphasis on measuring the impact of Foreign Direct Investment (FDI) on growth?

27. What are the most important steps the Government should take to limit energy costs over the long-term?

The Government has decided to meet the concerns of industry and concentrate on the reduction of energy costs such as those experienced by industrial and manufacturing processes; combining this activity with support for innovative technologies and a transition to the low carbon economy through Smart cities and transport. Certainty of supply has been overlooked.

There also appears to be a missing acknowledgement that buildings, and how we use them, account for the largest portion of UK Carbon Emissions, and the activity to cut the associated costs must look beyond SMART meter implementation.

We would welcome a hierarchy of measures using existing policy around energy performance of buildings to inform the proposed Road Map to minimise business energy costs. We would expect a major focus to be on the understanding of energy within building design, construction, renovation and use – drawing on existing work by the Green Construction Board, ESOS implementation and Energy Managers Association. Through achieving energy efficiency before investing in new technology businesses can tackle the quick wins first.

28. How can we move towards a position in which energy is supplied by competitive markets without the requirement for on-going subsidy?

29. How can the Government, business and researchers work together to develop the competitive opportunities from innovation in energy and our existing industrial strengths?

30. How can the Government support businesses in realising cost savings through greater resource and energy efficiency?

Government approaches towards encouraging SMEs to make energy and cost efficiencies need to be tailored and appropriate. SMEs often have limited resources, time and budget to invest in energy efficiencies – even if the payback period is attractive such as with LED lighting. There is also the added complication of rented business premises and the implementation of the Energy Standards reforms that were meant to improve the energy rating of each rented property in the UK.

Recent projects and initiatives like the Planet Mark have recognised a demand for SME businesses to feel as though they are energy conscious, and appropriate low investment measures, like energy behavior training for employees, are in high demand. Also, Lord Rupert Resedale's Low Energy Company standards facilitate an approach where every employee can contribute to the savings of a business, and even rewards organisations with an accreditation if they get a large number of staff to undergo the training.

The deregulation of the water market, improvements in the zero waste economy and even energy procurement all fall to the facilities manager/energy manager in a larger business but in an SME become yet another concern of the business owner. Without the correct understanding of these resource efficiencies the impact they can have will be extremely limited.

31. How can the Government and industry help sectors come together to identify the opportunities for a 'sector deal' to address – especially where industries are fragmented or not well defined?

32. How can the Government ensure that 'sector deals' promote competition and incorporate the interests of new entrants?

33. How can the Government and industry collaborate to enable growth in new sectors of the future that emerge around new technologies and new business models?

34. Do you agree the principles set out above are the right ones? If not what is missing?

No comment.

35. What are the most important new approaches to raising skill levels in areas where they are lower? Where could investments in connectivity or innovation do most to help encourage growth across the country?

It is one thing to raise skills levels in areas where they are lower, but another to then retain those skills in those areas, which is about ensuring attractive places to live and work and opportunities for those skills to lead to worthwhile and rewarding careers.   Improving and ensuring high levels of digital connectivity in lower performing areas is one small but important action.

We are already seeing the second transformation of the West Midlands, Birmingham in particular, because of the twin attractions of HS2 and lower commercial rents than in the overheated London economy, and across the 'Northern Powerhouse'. Ensuring connections to these two geographic centres from local underperforming towns will be an important part of encouraging more balanced growth, coupled with continuing government direct support and incentives directly into underperforming areas of policies and interventions that have been proved to work. However, the political, financial, business, talent and infrastructure magnetic pull of London will remain.

36. Recognising the need for local initiative and leadership, how should we best work with local areas to create and strengthen key local institutions?

37. What are the most important institutions which we need to upgrade or support to back growth in particular areas?

38. Are there institutions missing in certain areas which we could help create or strengthen to support local growth?

The government should consider whether it can completely decentralise any more of its functions outside the capital to help stimulate local growth. Please don't create any more new local institutions, there are too many already and a confusing and fragmented public sector landscape for businesses to engage with. The LEP infrastructure needs benchmarking and reviewing in detail to ensure it is fit for purpose, definitely made more transparent and improving governance, and ensuring its relevance to business and possibly also its local authority constituencies. It is still unclear what the LEPs are achieving that only they can achieve, that would not happen without them.