creative england

Creative England

Access to Finance for Creative Businesses

Introduction

Although the creative industries collectively comprise the UK's fastest growing industrial sector - generating jobs quicker and with lower capital investment than any other part of the economy - the inability to access both equity and debt finance is one of the critical obstacles to growth for creative businesses.

Creative England invests in and supports creative ideas, talent and business in film, TV, games and digital media. Chief Executive Caroline Norbury MBE leads the Creative Industries Council group on "Access to Finance" and is working closely with government, industry and the finance community to implement the Council's recommendations over the next three years.

Context

- In 2013, the creative industries were worth £71.4bn to the economy; accounted for 1.71m jobs in the UK (an increase of 10.1% on 2011) and was responsible for more than 8% of all service exports.
- The creative sector has a high proportion of SMEs and micro-businesses and accessing the appropriate finance at the appropriate stage is an area of huge importance to their continued growth and sustainability.
- Having overcome the initial hurdles of financing a startup, often resorting to family, friends, personal bank loans or crowdfunding, creative entrepreneurs can often experience great difficulties in accessing the finance needed to move from executing successful projects to becoming fully-fledged, sustainable businesses.
- Despite their significant economic impact, investing in the creative industries continues to be seen by some as inherently risky; particularly since the rise of digital technologies which have disrupted existing revenue models and introduced further uncertainties into an already fragmented industry.
- The 2011 BIS & DCMS commissioned research paper 'Access to Finance for Creative Industry Businesses' reported that creative content sectors (including film, TV, games and digital media) are more likely to have their finance applications rejected by finance providers than non-creative industry businesses with similar risk profiles. This is largely due to the intangible nature of creative businesses; a lack of creative sector market intelligence and an often limited understanding of the finance landscape amongst creative entrepreneurs
- The inability to access affordable growth finance frequently spells the end for many otherwise viable, high-growth potential creative businesses.

Key Points

Businesses

- Creative entrepreneurs often report difficulties in navigating the finance landscape and are uncertain as to what type of finance they need at each stage of their business's development.
- Many creative startups are founded by individuals whose expertise and experience is in creative production - not necessarily business planning, marketing and finance.
- They often report difficulties understanding or articulating their business strategy to financiers e.g. explaining their market position, producing detailed financial forecasts, developing attractive pricing model or making the most effective use of budgets for ancillary business activities like marketing.
- Inexperience of these basic business skills prevents many creative SMEs being 'investor ready'.

Financiers

- Banks and investors expect business propositions to outline clear profit forecasts and offer security in the way of collateral to mitigate risk. The majority of creative SMEs and startups have few tangible assets and most creative propositions are based on ideas and Intellectual Property (IP) rather than physical assets. They also often have very little credit history.
- It is only very recently that creative and content sector market intelligence has been collected and published systematically and there is a paucity of market information on creative industry business models, past performance and industry trends.
- Market intelligence helps give investors the assurances they need to engage with a business proposition by demonstrating business growth models, capital exits and examples of how IP underpins the cash flow of creative business. Without basic intelligence, financiers can be deterred altogether or prepared to only offer finance at inflated costs – at high interest or higher equity stakes.

Government Support

- Many Government business support initiatives are not sufficiently flexible enough to be used by creative content sectors. For example, Nesta argue that the R&D tax credit excludes scientific and technological advances with an aesthetic or user-facing angle which are important for creative content sectors.
- The government business support opportunities that are available are not always marketed to, or readily understood by creative businesses. For example, the government's Enterprise Finance Guarantee for businesses with little or no collateral has had minimal uptake from creative businesses.

Valuing IP

- For SMEs, lenders and financiers, there is no common methodology for valuing IP and other intangible assets. Unless IP is well established, with identifiable income, it is difficult to attribute tangible value.
- Many businesses are not aware of the IP they own and how it might be used to articulate the value of a business. Education is important as SMEs need to know how to exploit their IP to leverage investment.
- The lack of a common approach to valuing IP is becoming an increasingly pressing issue. According to the Intellectual Property Office's 2013 report 'Banking on IP?', over the last 20 years business spending on intangible investment has overtaken fixed capital; intangible investment was more resilient through the recession and intangible assets are likely to generate intellectual property. Markets for lending have not reflected this shift.

How Creative England is making a difference

Creative England is addressing access to finance issues in a number of ways. Our innovative Business Growth programme (funded by the Regional Growth Fund), brings together Local Enterprise Partnerships, local authorities, public agencies and leverages capital from private investors to invest in the best new ideas and talent.

Helping creative businesses become 'investor ready'

Delivering a number of initiatives to help startups and SMEs to get to stage where they can attract investment from other sources. Mechanisms include bespoke business mentoring programmes; workshops; and intensive business accelerator and incubation programmes.

Connecting Creative SMEs to new markets

Connecting creative and digital SMEs and startups to other economic sectors – helping businesses identify how their products and services can be a valuable drive of growth and innovation across other sectors of the economy, not just in entertainment. E.g. Creative England's Interactive Healthcare fund; Creative England's Library of Birmingham Fund; Collider Accelerator programme - Connecting SMEs to big brands and institutions e.g. Unilever, BBC, Bauer Media.

Helping creatives navigate finance

Launching a prototype online portal, The Creative Finance Network (creativefinancenetwork.co.uk) to help creatives understand the complexities of finance and identify the opportunities that exist to access the kind of finance they need, in a clear accessible way.

Raising awareness among the finance community

Gathering market intelligence for the investment sector, explaining the opportunities available and dispelling some preconceptions around the creative industries. Working closely with financial industry bodies to improve dialogue and industry expertise with organsations such as the British Bankers Association and the UK Business Angels Association.

Providing interest free business loans

A £1.5 million pound pot of interest free loans available to businesses based in the North, the Midlands and the South West of England. Startup and established SMEs can apply for a loan of between £60,000 and £150,000 which is then repaid over 3 years. Such funding helps to de-risk a proposition and leverage additional investment.

Recommendations

Creative England recommends the creative industries, government and finance community work together to:

1. Make government support more flexible

Ensure existing government interventions such as the Regional Growth Fund, Enterprise Finance Guarantee, Enterprise Investment Scheme, Seed Enterprise Investment Scheme and R&D Tax Credit are sufficiently flexible/accommodating of creative, digital and other IP-rich businesses and sufficiently promoted as relevant accessible sources of finance support.

2. Dedicated creative sector business support

Fund provision of dedicated creative sector business support to provide expert advice that addresses distinctive sectoral issues. Such support should be modelled on the Manufacturing Advisory Service (MAS) and focus on improving investment readiness amongst creative businesses.

3. Develop a common language

Address the asymmetry of information that exists between those looking to invest/lend and those needing finance in order to help both parties (financiers and creative businesses) to navigate this fragmented landscape.

Create a joint industry/government Creative Finance Forum to promote a better understanding of the opportunities and offers of the creative sector.

4. Improve market intelligence

Work together to develop detailed data sets and case studies so that a comprehensive portfolio of market intelligence is available to financiers on an annual basis.

5. British business bank

Ensure the sector has visibility within the interventions and programmes funded via the British Business Bank and encourage better collection, collation and dissemination of intelligence on lending and investment in the creative sector.

6. Value our IP

Work with the Intellectual Property Office to develop tools and mechanisms that enable value to be placed on IP and thus be used by businesses, investors and lenders to improve their knowledge base and aid finance considerations.

Case Study 1

The Floow

The Floow was incorporated in February 2012 and is based in Sheffield. The company turnover for the year ending August 2013 was £707,000 and it currently employs 20 people.

The Floow is aspiring to become the world's most insightful, user-friendly and cost-effective Telematics Service Provider. Their smart phone app captures GPS information and driver performance data from vehicles and analyses it for third parties including insurance companies and car manufacturers to use in assessing motoring risks.

The opportunity

The Floow applied to Creative England for a business loan of £75,000 in September 2012 to help grow the company by expanding the small team and ensuring sufficient working capital to enable the piloting of their beta product with insurance companies. The company were not interested in selling an equity stake in the business to an investor and therefore sought a loan from Creative England in order to retain the full value and control of the business.

Risks

Commercialising telematics as envisaged by The Floow was innovative in 2012 and demonstrating that sufficient insight could be gained and sold to insurance companies was something they were only beginning to do. We knew that they had firm interest from insurance companies but the value of what they were providing had not been verified by the market.

Why we invested

The team were highly experienced with a good blend of commercial understanding and scientific know-how. Despite being a fairly new company they had already had meetings with many of the largest insurance companies and their technology had created a genuine interest. The market for telematics solutions was growing fast and with insurance companies keen for cost efficient ways to analyse driver risks the opportunity seemed strong. The company were planning to grow in Sheffield and create high skilled jobs.

The result of our investment

The Floow is now one of the leading telematics companies in the UK and have partnered with some of the world's leading insurance companies including Direct Line and AIG. The pilot projects enabled them to secure large contracts resulting in an increase in turnover from £707,000 in 2012/13 to £2.5m in 2013/14. The Floow is now forecasting turnover in 2014/15 at £6,000,000. They have created 11 jobs in Sheffield since receiving our loan and are forecasting the creation of another 8-10 in the next 2 years.

The Floow succeeded in securing a further loan of £83,689 from Creative England in March 2014 and have gone on to secure significant investment from Direct Line who purchased a 20% equity stake in July 2014.

"We applied to Creative England for funding because no banking finance is available to young technology companies and we didn't have any success with RGF grants. Creative England gave us access to working capital that proved indispensable." - Aldo Monteforte, CEO of The Floow

Website: thefloow.com

Case Study 2

SpongeUK

Sponge UK was incorporated in February 2004 and is based in Plymouth. A family run company, they currently employ approximately 20 people.

Sponge UK is the creator of custom made e-learning resources designed to improve performance in the workplace. Customers include John Lewis, the United Nations, Addidas and Tesco.

The opportunity

Sponge UK applied to Creative England for a loan of £31,390 in January 2013 to support the development of a new e-learning platform to enable their courses to run on multiple devices. With a strong existing client base the company planned to up sell the additional tool plus make more sales as customers were increasingly asking for software that worked across their staff's devices.

Risks

Developing bespoke tools can be risky and cost overruns are common so Sponge Uk decided to make the tool in-house using existing as well as new staff, thereby keeping a close eye on development and costs.

Why we invested

Sponge UK had 10 years of experience and an impressive client base so were very aware of what their market wanted; which was in line with a general market shift to mobile devices. Sponge UK had reasonable turnover and a steady stream of work coming through their books which de-risked the loan, even if the new product had failed. However, the wealth of experience in the company including in-house technical expertise gave us comfort that the product would be completed on time and on budget.

The result of our investment

The product has been completed and is being further developed as feedback is collected. The company have subsequently secured new large contracts increasing their turnover from £780,000 in 2012/13 to £1.4m in 2013/14. Sponge UK is forecasting turnover in 2014/15 at £2,200,000. They have created 7 jobs in Plymouth since receiving our loan and are forecasting the creation of another 20 in the next 2 years.

Sponge UK has a strong set of orders for their e-learning going forward and have plans for a large expansion in the next few years.

"Developing the new tool required a significant initial investment of both time and money that we would have struggled to commit on our own as a growing SME. The technology is complex in that learning interactions have to work across tablets, smartphones, PCs and Macs, so the project required a lot of time and energy to be focused on it. Our aim is to be a UK leader in bespoke e-learning and expand our business further into Europe and the US. We are working to continuously develop the tool, expanding its functionality and customer benefits so that it will remain industry-leading."

Website: spongeuk.com

Further reading

- **Creative Industries Council: Creative Industries Strategy** (June 2014). http://thecreativeindustries.co.uk/media/243587/cic_report_final-hi-res-.pdf
- **Creative Industries Council: Access to Finance Working Group Report** (December 2012). http://www.creativeengland.co.uk/wp-content/uploads/2012/12/CE-ReportDec2012e-without-Registration1.pdf
- **Access to Finance for Creative Industry Businesses Report prepared for BIS Department for innovation and skills and DMCS** (Department of Culture, media and Sports) by IFF Research Ltd (2011)
- **Creating a financial market for IPR Institute of Technology Management** (ITEM-HSG) and Fraunhofer MOEZ (DG ENTERPRISE) (2011)
- **Encouraging private investment in the cultural sector** IMO - Institute for International Relations for the European Parliament's Committee on Culture and Education - Directorate General For Internal Policies Policy Department B: Structural And Cohesion Policies - Culture And Education (2010)
- **FAME proposition paper,** based on leverage workshop and advisory board meeting the 20th November in Copenhagen, conducted for the ECIA (2013)
- **Green paper Unlocking the potential of cultural and creative industries European Commission** COM(2010) 183
- **How to strategically use the EU support programmes, including Structural Funds, to foster the potential of culture for local, regional and national development and the spill-over effects on the wider economy?** OMC (April 2012) - Work Plan for Culture 2011-14 Priority area B: Cultural and creative industries
- **Maximising the potential of Cultural and Creative Industries, in particular that of SMEs** OMC (June 2010) - Work Plan for Culture 2008-2010 Priority 4; Maximising the potential of cultural and creative industries, in particular that of SMEs
- **Measuring economic impact of CCIs policies**. **How to justify investment in cultural and creative assets** KEA European Affairs (April 2012)
- **Mini Study on the Access to Finance activities of the European Creative Industries Alliance A**ngel Capital Group & Greater London Enterprise for the European Commission (DG Enterprise and Industry) (2010)
- **Promoting cultural and creative sectors for growth and jobs in the EU** Communication from the Commission to the European Parliament, the Council, the European Economic and SocialCommittee and The Committee Of The Regions COM(2012) 537
- **Promoting Investment in the Cultural And Creative sector**: **Financing Needs, Trends and Opportunities** I KEA European Affairs for the ECCE Innovation Project - Nantes Metropole (2010)
- **Survey on access to finance for cultural and creative sectors**, Evaluate the financial gap of different cultural and creative sectors to support the impact assessment of the creative Europe programme, conducted for the European Commission by IDEA consult (2013)

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