

# The Black Country Incubation Strategy (BCIS)





*A Strategic Framework for Knowledge-Based  
Business Incubation in the Black Country*

April 2005

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This document has been prepared by  and  for the Black Country Consortium and partners. It builds on an extensive programme of research, analysis and consultation across the sub-region, undertaken between October 2004 and February 2005.



# Foreward

In an age of rapid technological change and increasing global isolation, the Black Country needs to raise its competitive advantage. We can only do this by further developing our capacity to innovate, creating and retaining knowledge in a diverse, productive and growing business base.

National public policy emphasises the important role of an integrated incubation process, designed to nurture growth-hungry, knowledge-based start up businesses, in maintaining and improving competitiveness both at home and abroad. This is achieved by fostering new business formation, supporting growth and increasing the survivability of young businesses.

Regional and sub-regional strategic commitments also recognise the need to create a more dynamic and knowledge-based economy. The Black Country Study sets out an ambitious agenda for change in the sub-region over the next 30 years, including the long term aspiration of becoming a *'technology driven entrepreneurial economy'*.

This Black Country Incubation Strategy (BCIS) has been prepared to guide the sub-region's approach to incubation over the next 10 years. It provides a framework that will enable partners to shape and take forward the incubation agenda and to measure the progress that they are making. BCIS will make an important contribution towards achieving the step change that is called for in the Black Country Study – by increasing productivity and wealth, generating new knowledge-based employment, attracting and retaining highly skilled residents, and lifting confidence and ambition in business and in the community.

## *Framework principles*

The BCIS Framework set out in this document is underpinned by several guiding principles, each of which reflects the commitment to innovation, entrepreneurship and productivity (closing the £3 billion gap with the rest of the UK) as set out in the Black Country economic-led study and the wider Regional Economic Strategy. At the same time, the principles seek to reflect incubation best practice evidence from across the UK, Europe and the USA.



- q Incubation is a process that should be integrated across both sub-regional and wider regional agendas so that it actively supports the strategic imperatives of the Regional Economic Strategy and the aspirations of the Black Country Economic Study, which calls for the creation of a 'strategic centres-led knowledge economy'
- q The incubation process should focus on supporting new and existing firms recognised as being knowledge-based businesses, with demonstrable growth potential
- q The focus for Black Country incubation should be on generating higher value added businesses that will raise the Black Country's GVA
- q Incubation should focus, but not exclusively, on those priority sectors identified in the Black Country Diversification and Modernisation Strategy
- q All incubation facilities should be fully aligned with UKBI good practice and of sufficient scale to ensure their long-term sustainability and competitiveness
- q High quality grow-on space is required to prevent the incubation pipeline from 'clogging up'. Such space should be strategically located across the sub-region, based on spatial evidence, and as far as possible, provided by the private sector, though public sector assistance will almost certainly be required initially
- q Incubation processes should not be confused with standard property-based economic development tools such as managed workspace
- q Scope for reducing capital and revenue costs should be maximized by delivering a focused incubation programme and implementation model across the Black Country. This may involve a 'hub and spoke' model with satellite and virtual incubation facilities supported by a central management function located at a single site such as Wolverhampton Science Park
- q The incubation programme should support the physical, social and economic renaissance of the Black Country's strategic urban centres by encouraging firms to re-locate to these areas after they have graduated from the incubation process.



## *A shared commitment to BCIS*

The challenge of reversing three decades of relative economic underperformance and decline within the Black Country is a significant one that calls for an integrated and holistic response. The Black Country Study provides a Framework that maps out the required transformation process, building on key sub-regional assets and unlocking new opportunities. Incubation has a key role to play in this transformation, by supporting:

- q Structural change within the economy, with a shift towards higher value-added sectors
- q Occupational change within the economy, with a shift towards higher paid activities and professions
- q Skills and productivity improvements across the economy, helping to close the gap with UK levels
- q A step change in the Black Country's business environment. The image and culture of the Black Country will be re-defined as business success is shared and championed across the sub-region – sending positive messages out to both internal and external audiences.

The Black Country Consortium and its partners commend this Strategy to you and hope that you will play your part in supporting it and ensuring its long-term success. We have previously identified the deep-rooted and complex challenges facing our economy and through BCIS we have now mapped out an important part of the solution. This is a major opportunity for the sub-region that must be seized. We are fully committed to changing the Black Country economy for the better and to do this we must make sure that BCIS is widely shared, supported and implemented by our partners.

**Black Country Consortium**

**April 2005**



**Black Country** *See it in colour*



# Setting the Scene

## *Agreeing terms...*

Incubation is 'a unique and highly flexible combination of business development processes, infrastructure and people, designed to nurture and grow new and small businesses by supporting them through the early stages of development and change' (UKBI, 2003). The business incubation process adds value by offering a 'one-stop-shop' of business support services in a supportive environment. This environment may be a physical or virtual one, in which the incubation process is delivered.

For this Framework, we unpack the incubation process into a number of defining principles, each of which describes elements that embody the incubation process. These are summarised as follows:

- q A supportive environment for creative and entrepreneurial individuals and their firms
- q Mentoring for individuals during their initial development stages
- q Selective entry based upon those firms that will benefit most from support, and also those that will add value and meet the objectives of the particular incubation programme
- q Access to networks of business support and finance through a 'hands on' proactive approach
- q Prestigious identity for incubatees so they are both highly visible and credible in the market place
- q A catalyst for clustering of businesses with a particular sectoral, geographical or technology focus
- q A strict graduation and exit policy for businesses requiring them to leave the physical incubation environment after three years and to succeed as fully viable commercial entities.

Although there are many schemes designed to help small businesses to overcome the stresses and challenges associated with start-up and the early stages of development, incubation must be clearly distinguished from other property-related business support models such as managed workspace.



Managed Workspace is first and foremost a *property scheme*, addressing a shortage in the supply of small premises for small firms with a poor financial covenant which is not attractive to commercial developers. Often they have a primary aim of generating profit through a combination of appreciating property asset value and income derived from tenants who pay a rental and service charge for serviced workspace. The overarching objective of managed workspace is very different from the incubation process.

In contrast, the primary purpose of the incubation process is to maximise the formation and survivability rates of growth hungry businesses. With incubation, the property asset is often only part of an integrated and complex support environment. The success of the incubation process is determined by the success of the businesses themselves and not simply an ability to generate rental revenue and profit.

### *The Challenge in the Black Country*

The Black Country's past industrial legacy remains evident today, with an economic base that is relatively focused on traditional, manufacturing sectors, with low added value and poor growth prospects. This over-dependence on economic sectors that are forecast to decline in the future, has cost the sub-region potential jobs, which, alongside a declining population, low skills base, the prevalence of low paid and low skilled employment, is widening the gap that has developed between the productivity of the Black Country and the rest of the UK. The under-performance of the local economy is real and its future competitiveness is very much dependent on its ability to raise productivity by shifting emphases towards knowledge-based and growth sectors.

In the context of BCIS, the focus for support will be on knowledge-based, growth hungry firms, with a prioritisation of support towards those priority sectors identified in the Black Country Diversification and Modernisation Strategy and the Black Country Study.

Incubation can play an important role in stimulating innovation and fostering increased entrepreneurial activity that can lead to productivity gains, essential in transforming economies such as the Black Country's. By growing and nurturing firms that have high growth potential and ambition, incubation processes can contribute towards achieving the step change that the Black Country Study is calling for.



## *What difference can incubation make?*

Research across Europe suggests that, on average, firms benefiting from incubation services have an 85% survival rate.<sup>1</sup> This is much higher than the 30-50% survival rate for the general SME community (over a 5 year period). So incubation can make a real contribution to enterprise development and increased wealth creation.

The importance of high quality incubation to the restructuring and growth of the Black Country economy, is clearly demonstrated through three potential incubation scenarios that SQW has modelled. Each of these scenarios sets out different incubation scenarios for the sub-region, revealing indicative figures on the potential number of firms incubated, the potential number of jobs created and the potential productivity gains *for these incubated firms* over a 30 year period. The scenarios are based on a large number of assumptions and are therefore presented to illustrate the indicative impacts only. The three scenarios are summarised below:

- q **'No policy change'** - in this scenario the Black Country carries on with its current trajectory. No additional incubation support is provided and the innovative, knowledge-based growth hungry firms that currently exist in the sub-region develop without an intensive incubation support environment. This results in a limited set of outputs as a major opportunity is missed
- q **'Policy uplift'** - in this scenario a co-ordinated and integrated incubation programme is developed across the Black Country to assist existing knowledge-based start ups. In this scenario, incubation facilities are provided to meet existing demand but no additional new demand (real or latent) is generated by policy interventions. This results in a significant uplift in productivity per worker for those start-up firms benefiting from the incubation service and also leads to the creation of new full time employment
- q **'Stimulate new demand'** - this scenario is based on raising the Black Country's business start-up rate to match the UK average. This will considerably increase demand for knowledge-based incubation services. This is an achievable but demanding goal for the sub-region – to close the Black Country's enterprise deficit with the rest of the UK and to offer a best of class incubation support programme. This will raise productivity per worker for a greater number of workers as more firms benefit from the incubation programme and more full time jobs are created.

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<sup>1</sup> Benchmarking of Business Incubators, Centre for Strategy and Evaluation, European Commission, 2002



As stated above, our model should only be used as a guide to illustrative the potential impact of an incubation programme on tenant firms. It does not attempt to model the impact on the wider Black Country economy. For example the productivity figures presented below refer to the output per worker for those employees working in firms that have benefited from the incubation programme and not all Black Country firms. The model is based upon the following baseline data and assumptions; further details of which are presented in annex A:

- q There are 59 firms currently in demand for incubation space
- q The current level of latent demand can be proxied by using enterprise deficit figure for the Black Country against the UK (23%)
- q In their first year, each incubated firm will employ on average three people
- q The turnover of each firm, during their first year, will be £60,000
- q The five year survival rate of incubated firms is 85%
- q The ten year survival rate of incubated firms is 76%
- q The survival rate of firms thereafter is 88%
- q The per annum growth rate, of incubated firms, during the first five years is 20%, and 11% between years five and ten.

Table 1: Incubation scenarios

		3 years	10 years	30 years
<b>a) Do nothing</b>	...No. of Firms	166	442	738
	...No. of Jobs	531	1659	3423
	...Productivity/worker (£'000)	20.7	23.2	30.9
<b>b) Policy uplift</b>	...No. of Firms	172	476	1,268
	...No. of Jobs	587	2,594	13,734
	...Productivity/worker (£'000)	21.4	28.5	92.4
<b>c) Stimulate new demand</b>	...No. of Firms	212	645	1,560
	...No. of Jobs	722	3,191	16,893
	...Productivity/worker (£'000)	21.4	28.5	92.4

If the Black Country develops successful incubation to close its current enterprise gap with the UK and stimulate latent demand, a significant productivity uplift can be achieved. Output per worker, within those incubated firms over a 30 year time horizon, may reach £92,400, more than double that of a non-incubated firm. In addition to the productivity rise, almost 17,000 full time jobs may be created.



# Introducing the BCIS Framework

## *Framework components*

The guiding principles and issues presented earlier have been drawn together to develop the Black Country Incubation Strategic Framework, which will direct the Black Country Consortium and partners' efforts and investment in knowledge-based business incubation across the sub-region over the next ten years. The Framework sets out in headline terms how, through a 'best in class', integrated and progressive incubation system, the necessary cultural and physical change needed to transform the Black Country economy, can in part be realised. It describes the strategic emphases that will enable us to develop the new knowledge-based businesses for the benefit of the Black Country.

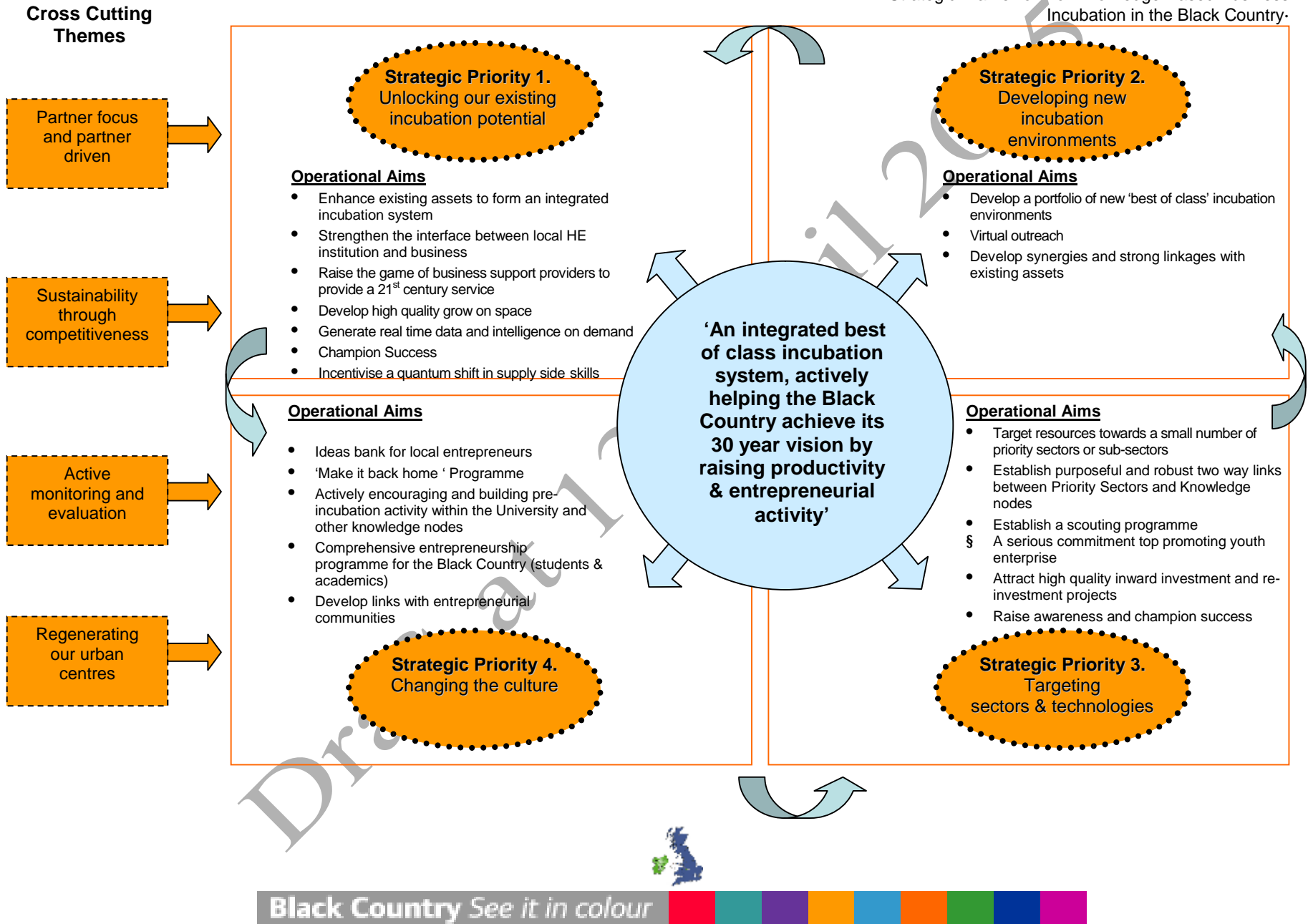
The Framework has purposely been designed to be dynamic and responsive, and it is important that it is refreshed and updated at regular intervals in the future.

The component elements of the framework are fleshed out as follows:

- q A **Framework Vision** which outlines clearly what the Black Country is ultimately seeking to achieve through BCIS
- q Four **Strategic Priorities**, which define the thematic areas in which energy and resources should be focused to deliver real and lasting change in terms of enterprise development in the Black Country
- q A series of **Operational Aims** provide an overview and synthesis of the key objectives of each Strategic Priority
- q And finally, the Framework is shaped by **three Cross Cutting Themes**, which sets out how we should proceed against our shared incubation vision.

These elements are brought together in the following diagram.





Our vision statement for BCIS is:

**‘An integrated best of class incubation system, actively helping the Black Country achieve its 30 year vision by raising productivity & entrepreneurial activity’**

## *Strategic Priorities*

### **Strategic Priority 1 – Unlocking our existing incubation potential**

**Enhance some of the Black Country’s existing property-based business support assets to increase their impact on business survivability and growth rates**

There is currently an extremely limited supply of best of class incubation provision in the sub-region. Analysis of current incubation supply and demand across the Black Country reveals that there is a significant gap between existing provision and current requirements by small growth-hungry firms. It is estimated that there are approximately 60 firms who are suitable for incubation support, 180 over the three year incubation cycle. Therefore these firms require c19,000 sq ft of incubation space (57,000 sq ft over three years) and yet only 15,000 sq ft at the SPARK project (Wolverhampton Science Park) is currently on offer. Demand will of course increase further through the implementation of a high quality incubation programme as latent demand is stimulated.

Despite the mismatch between incubation supply and demand, the Black Country benefits from a significant portfolio of successful managed workspace facilities and Wolverhampton Science Park. The managed workspace is providing a useful service, though the level of support is limited and consequently the sub-region is missing a number of opportunities. By re-engineering a small number of these properties, a change of management style and a re-focus of target market, the sub-region will quickly develop a network of quality incubation environments, providing the opportunity for overhead and operating cost savings. With a relatively small amount of capital and revenue support, these assets can be transformed and worked harder so that they deliver more value and impact.

#### **Operational Aims:**

To unlock our exiting incubation potential across the Black Country, the following Operational Aims are proposed:



- q **Enhance existing property-based business support assets to form an integrated incubation system** - Wolverhampton Science Park (WSP), the principle property-based business support infrastructure in the sub-region, provides the only formal Black Country incubation offer (15,000 sq ft at the SP/ARK project). The three phases at WSP provide a solid platform on which to develop additional incubation support. There are wide opportunities at WSP to re-engineer some of the existing commercially let accommodation space into tailored incubation units. Moreover, there is approximately 235,000 sq ft of managed workspace plus across the sub-region, some of which could be re-modelled as incubation space to form a dispersed network to meet demand wherever it originates
- q **Strengthen the interface between Higher Education Institutions and business** – The University of Wolverhampton and other expert institutions within the City Region, and assets within the High Technology Corridors, must be actively and extensively engaged in the knowledge-based incubation processes that BCIS is calling for. Any incubators – either physical or virtual - developed by HEIs and/or other expert institutions should be closely integrated with the wider suite of incubation activity progressed under this Framework. Linkages between the University of Wolverhampton, other academic knowledge nodes and private sector business must be enhanced to ensure that these organisations contribute to and benefit from the incubation process. The flow of knowledge, technology and ideas to small businesses must be improved by implementing the recommendations of the Lambert Review. The University of Wolverhampton in particular will need to commit to generating a higher level of spin out activity over the next three to five years
- q **Raise the game of business support providers across the Black Country to provide a 21<sup>st</sup> Century business support service** – Establish a new dedicated ‘best in class’ business support service to proactively engage with priority sectors. Building on the messages emerging from the DTI Innovation Review, the Black Country Study, the Black Country Diversification and Modernisation Strategy and BCIS, focussing particularly on firms with a demonstrable growth potential. Support providers, including Business Link, will develop a highly specialised team with the requisite knowledge and expertise to meet the needs of start-ups and firms who graduate from the incubation system. In order to attract, retain and motivate high calibre individuals to manage the incubation programme, a number of sophisticated incentives will be required, such as performance related pay, opportunities to work with high quality entrepreneurs and academics, a high profile image and placement opportunities in entrepreneurial regions elsewhere



- q **Develop a competitive grow-on or second stage space offer across the Black Country** - grow-on space for firms graduating from the incubation pipeline prevents it from 'clogging up'. Whilst there is a plentiful supply of managed workspace and commercial office space across the sub-region, it is not necessarily of the right quality, nor with the right features for graduating firms. It is important that through the incubation process and wider strategic initiatives across the Black Country, firms become commercially 'hardened' and therefore are able and expect to pay market rents. Over time, this will push rental yields up and will attract commercial developers to the area who will provide high quality grow on space. Strong links and working relationships should be established between incubation centre managers and local grow on space
- q **Develop active processes to fully understand the changing support requirements of start-up firms and use this information to re-shape our existing asset base and seize our potential** - generate real time data and intelligence on the demand for property-based business support. Use this information to inform key partner decision-making and to target resources more effectively
- q **Raise awareness and champion success** - new businesses and entrepreneurs will be championed and promoted widely across the Black Country and more widely. This will foster a culture of success and 'can do it', as well as raising awareness levels amongst key stakeholders including the private sector, both within and outside of the Black Country. A dedicated marketing and awareness raising campaign will be developed, emphasising local innovation and knowledge-based activity.

### ***Strategic Priority 2 – Developing new sub-regional incubation environments***

#### **Develop a well integrated network of new, 'best of class' incubation environments for the Black Country**

To complement Strategic Priority 1, respond to increasing levels of demand as it develops across the sub-region and to be able to deliver the necessary step change in business development, culture and aspiration, additional incubation provision will need to be developed over time. An integrated network of new physical and virtual incubation environments will offer specialised support services to start-ups across the Black Country – filling the gaps in support that are not addressed through Strategic Priority one. These incubation environments will offer a robust and well-resourced network of intensive support, designed to push out knowledge-based businesses to the market after an incubation period of no more than three years.

To develop a network of new 'best of class' incubation environments across the Black Country, the following Operational Aims are proposed:



### Operational Aims:

- q **Develop a portfolio of new 'best of class' incubation environments, that build on evidence but also respond to aspiration** - new incubation environments will be provided to increase the capacity of the sub-region to foster new knowledge-based businesses. They will be designed and located on the basis of recognised UKBI good practice and wider lessons emerging from initiatives across Europe and America
- q **Virtual outreach** - outreach services will be developed and delivered to selected firms who are outside the formal incubators through a user-friendly virtual service that extends the skills and expertise of the incubation team to all parts of the Black Country. Virtual incubation will also be targeted towards knowledge-based firms and will be aligned with the objectives of the wider Incubation Programme. Services will be delivered through a mixture of face-to-face outreach work, via the internet and supported by a network of incubation scouts. Virtual incubation will play an important role in reaching out to existing firms that are well-established and firmly rooted in the Black Country
- q **Develop synergies and strong linkages with existing incubation assets** - any new developments will need to be robustly integrated into the wider Incubation Programme, ensuring that they complement, add value and do not duplicate. Managers will be required to share ideas, lessons and good practice amongst each other. These linkages provide the important opportunity for tenants to benefit from access to a wide network of support and knowledge.

### ***Strategic Priority 3 – Targeting sectors and technologies***

#### **Target energy and resources towards identified Black Country priority sectors technologies**

Over recent years, a considerable amount of research and analysis has been undertaken to identify those key growth business sectors that will help to modernise and diversify the Black Country and transform it into a knowledge economy. These sectors have been identified by looking at future growth projections and analysing inherent sectoral strengths within the sub-region. BCIS has been designed to build on this work and therefore directs support towards these specific areas. Incubation good practice from across Europe and America, coupled with the ever increasing level of incubation activity taking place in competitor areas of the UK, suggest that the Black Country will need to target a small number of priority sectors or sub-sectors in order to achieve the desired level of impact and critical mass. The Black Country will focus on developing a profile and momentum within these target areas. The work of the creative industries SP/ARK incubator at WSP is a good example of this.

At the same time, BCIS must have the flexibility to respond to the incubation needs of knowledge-based growth hungry businesses from non-priority sectors.



To develop a targeted incubation programme that focuses on a small number of priority sectors for the Black Country, the following Operational Aims are proposed:

**Operational Aims:**

- q **Target resources towards a small number of priority sectors or sub-sectors** - develop a targeted incubation support programme that focuses most resources towards the priority sectors (or sub-sectors) identified in the Black Country Modernisation and Diversification Strategy. Sectors chosen will be knowledge-based and high value added, providing wealth and long-term sustainability to the Black Country economy. The Black Country priority sectors include **Transport Technologies, ICT, Medical Technologies, Advanced Engineering, Polymers & Plastics, Logistics, Building Technologies and Environmental Technologies**. We also recommend that the **Creative Industries** sector is included to ensure that the momentum gained through SP/ARK is continued and built upon in the future. This targeting creates a mutually supportive community of new businesses who can co-operate as well as compete. It also leaves support services and helps them achieve quality improvements. A careful balance must, however, be struck between achieving sufficient focus whilst also having the responsiveness and flexibility to embrace growth hungry firms from other sectors needing incubation support
- q **Establish purposeful and robust reciprocal two-way links between the Priority Sectors and relevant knowledge nodes or academic departments in the Black Country, the wider City Region and beyond** - the intent here will be to facilitate entrepreneurship within the knowledge base and to encourage spin-out activity to relevant Black Country incubators
- q **Establish scouting programmes for all Black Country priority sector and technology incubation processes** - to stimulate demand, build awareness, and to ensure sector-specific incubation processes mesh creatively with the wider sub-regional business support architecture
- q **Attract high quality inward investment and re-investment projects** - that are aligned with our priority sectors and that will assist incubation efforts by contributing towards building a sufficient scale and critical mass of business activity (including R & D) to create a 'buzz' in the sub-region and a national profile. This will boost investment in the sub-region and make it easier to attract entrepreneurs and start-ups to the sub-region.

**Strategic Priority 4 – Changing the culture**

**Facilitate and support a step change in the culture of the Black Country resident and business communities**



This strategic priority requires a sustained high quality incubation effort, alignment of local strategy and policy towards BCIS objectives, and development of a Black Country entrepreneurship programme that promotes the benefits of enterprise. Incubation will make a bigger difference if there is a steady growing flow of entrepreneurs and high quality start-up businesses with the potential for success.

To transform the culture towards business and business development within the Black Country, the following Operational Aims are proposed:

**Operational Aims:**

- q **Ideas Bank for local entrepreneurs** - recruit talented and motivated champions to source knowledge, ideas and intellectual property from international world class entrepreneurial regions, such as Silicon Valley. Develop systems and strategic linkages with key organisations that enable such knowledge to be re-used effectively in the Black Country and help to stimulate the formation of new knowledge-based firms. Care should be taken to ensure that this new knowledge is compatible with and complimentary to indigenous assets (such as R & D functions) in the sub-region
- q **'Make it back home' programme** - expatriates should be encouraged to return home to use their knowledge and expertise to set up businesses in the Black Country. Placing a high priority on investing in the local supporting infrastructure means the Black Country can offer an attractive and competitive package to talented individuals from around the world
- q **Actively encouraging and building pre-incubation activity within the University of Wolverhampton and other knowledge nodes** - including courses on academic entrepreneurship, workshops and practical help with starting a business, support for the protection and exploitation of intellectual property, and more flexible employment terms and reward systems
- q **Comprehensive entrepreneurship programme for the Black Country** - this programme should start at school-level but seek to foster an entrepreneurial culture amongst all ages. Local people should be encouraged to take risks and their initiative and successes should be rewarded and celebrated. It is important that the Black Country is seen from within and outside as encouraging and rewarding innovation and entrepreneurship
- q **Develop links with entrepreneurial communities** - connecting Black Country incubation efforts and new businesses with entrepreneurial communities in the UK and elsewhere, to open up opportunities and connect local businesses into wider knowledge based networks. This early interconnectedness can help innovative businesses to penetrate larger markets and feed their high growth aspirations as well as improve their awareness of competitive benchmarks



- q **A serious commitment to promoting youth enterprise amongst the student base** - foster a culture of enterprise and entrepreneurship early and encourage young people to consider starting a business in the Black Country. This applies to mainstream schools as well as further and higher education in the sub-region and can encourage those who continue their studies outside the area to return and pursue a business idea locally
- q **Reducing the stigma of failure** – at present too many of the Black Country’s entrepreneurs are confronted with the stigma of failure, for example through requests for extra financial guarantees. A more sophisticated approach to and understanding of business failure, is required – one that distinguishes between honest and dishonest bankruptcies. Promotional work is required to promote a wider acceptance of failure and to help reduce reluctance to deal with failed entrepreneurs. Importantly, the Incubation Programme will assist those entrepreneurs facing financial problems and help them to overcome their fear of disclosing problems and to seek help in time.

### *Cross Cutting Theme 1 - Partner focus and partner driven*

#### **BCIS will be underpinned by a strong mix of public and private sector commitment, with clear roles and responsibilities**

As set out earlier in this document, the innovation challenge in the Black Country is substantial. The response calls for a serious and sustained level of buy-in, support and ownership from the Black Country Consortium and its partner agencies. Partners will subscribe to a common incubation agenda and approach. This must be driven by clear reporting mechanisms between organisations, facilitating partners to share ideas, knowledge, concerns and progress. Importantly, partners will have tightly defined roles and responsibilities to avoid confusion and tension. This may include some formal governance protocols such as Service Level Agreements.

To ensure that BCIS is partner focused and driven, the following Operational Aim is proposed:

#### **Operational Aim:**

- q **Governance, leadership and management** - the successful delivery of BCIS requires systemic changes across the Black Country and calls for a high calibre senior-level team tasked with making the incubation agenda happen. This group will physically represent BCIS, lead the local community in support of BCIS and command resources from relevant partners. They will provide a persistent level of support and lobbying over a number of years until BCIS and what it stands for, is firmly embedded in the local culture.



## *Cross Cutting Theme 2 - Sustainability through competitiveness*

**The Incubation Programme will be characterised by competitive knowledge-based businesses and sustainable incubation environments that are earthed in evidence and are guided by robust business plans.**

Sustainability through (international) competitiveness will provide the foundation for innovation and lasting change in the Black Country economy – both in terms of the legacy of the incubation environments and the graduating businesses themselves.

In order to ensure that the Black Country Incubation Programme is sustainable, the following Operational Aims are proposed:

### **Operational Aims:**

- q **Longevity** - incubation environments will be dynamic and able to respond to future changes in the global economic landscape. They will be equipped with the requisite resources (financial & non-financial), and guided by good practice, enabling them to become long term engines of change. Funding models will need to be designed so as to ensure that the incubation programme has the necessary long-term impact. Black Country incubation models will need to incorporate commercial growth on space and other profit generating functions so as to cross-subsidize the incubation components
- q **International competitiveness** - the targeted incubation process will result in a flow of high quality, sustainable businesses that are able to maintain their international competitiveness through ongoing innovation and knowledge development. The Incubation Programme will contribute to raising the competitiveness of the Black Country economy by improving the survivability rate of start-ups
- q **Depth** - wider enterprise development initiatives designed to dovetail with BCIS must ensure that they get to the very heart of the Black Country's business development problems and put in place responses which tackle the localised and often entrenched nature of many of the issues at hand in the sub-region.

## *Cross Cutting Theme 3 – Active monitoring & evaluation*

**Implementation and delivery of BCIS will be robustly monitored and evaluated on a regular basis**

BCIS activity must be guided and moulded by active and meaningful monitoring and evaluation, to provide real time contextual intelligence and to capture incubation 'innovations' from around the world. BCIS must be alert to new ideas and new ways of doing things. Further, as the aspirations of the Black Country changes so too must the targets for our incubation agenda. A detailed understanding of this changing



context for innovation and incubation is needed, so that appropriate responses can be made at the right time, in the right way and in the optimum sequence. Monitoring and evaluation should be embraced by all partners in a co-ordinated fashion to avoid duplication. The Black Country Observatory is likely to play an important role in this work.

In order to understand the progress that partners are making in terms of implementing and delivering BCIS, the following Operational Aims are proposed:

**Operational Aims:**

- q **A robust Monitoring and Evaluation framework** – regular monitoring of progress against targets guarantees that the impacts and lessons learnt are maximised and the risk of failure is reduced. A robust framework should collect practical lessons to guide future decisions, ensure sharing of experience and best practice amongst practitioners
- q **Benchmark against the best** – incubation environments should be actively benchmarked against the best, regionally, nationally and internationally. Key lessons and good practice should be collected and adopted in the Black Country.

*Cross Cutting Theme 4 – Support regeneration in our urban centres*

**The Black Country Incubation Programme will support the regeneration of our urban centres**

The incubation process will play a key supporting role in the regeneration of our urban centres - primarily by increasing demand for commercial work space, directing incubated firms towards these centres *once they have graduated* and *by creating higher paid employment opportunities for the local population – thus creating increased demand for leisure, cultural and retail amenities in the urban core*. Certain types of incubation provision work particularly well in urban centres, though others will need to be located at out of town locations such as *Wolverhampton Science Park* if they are to be successful. BCIS recognises that our urban centres need to act as engines of economic prosperity for the sub-region.

In order to support the long term regeneration of our urban centres through BCIS, the following *Operational Aim* is proposed:

**Operational Aim:**

- q **Ensure incubation managers promote stage two space in the urban centres** - to those firms graduating from the incubation process and encourage quality businesses to stay in the sub-region. By supporting and developing high value added and growth-hungry businesses in the Black Country, new employment opportunities will be created, generating wealth for the local economy and investment for our urban centres.



# Forwards into Action

A fully integrated, focused and high quality incubation programme is required to assist the Black Country in addressing the clear productivity challenges that it faces. It is important that the sub-region plays to existing partners' strengths and therefore the strategic leadership and accountability for the success of the Incubation Programme will be provided by the Black Country Consortium. A new structure will be responsible for the day-to-day delivery and management functions.

A detailed phase of action planning is now required to ensure that the momentum and buy-in secured from partners during the BCIS process is not lost as we move forwards into action. Some early thoughts on implementation, delivery and indicative action areas are offered below.

## *Implementation and delivery*

The Black Country Consortium is well placed to provide the necessary strategic leadership and accountability for BCIS. However, a separate implementation and delivery function will need to be established in order to develop and manage the Incubation Programme. This management team will need a variety of technical skills and expertise to operate the Programme, manage incubation facilities and interact with tenant firms. It will also be responsible for establishing links with a wide network of professionals, academics and technology experts who will be able to offer tailored support to meet the needs of Black Country start-ups.

...So what features will characterise BCIS' strategic leadership and delivery functions?

- q A strong and balanced mix of expertise and representation on the strategic body, with public and private sector members
- q A shared and common understanding of BCIS, the wider Black Country strategic context, and the important contribution incubation can make to achieving against this
- q Clearly defined roles and responsibilities for partners and a delineation between the strategic leadership function and the day-to-day incubation management team
- q A delivery team with demonstrable expertise, a track record of success and access to a large network of specialists.



### *Some indicative early draft actions*

- q **Action 1** – Maintain the momentum achieved with partners throughout the BCIS process and shift the emphasis towards action planning – mapping and gapping activities and development of new actions
- q **Action 2** – Draft a tender for the provision of a specialised incubation implementation and delivery function from the market. Recruit a commercial service provider who is willing to work in partnership with local agencies
- q **Action 3** - Respond to the Black Country incubation demand assessment and increase the amount of physical incubation space available across the sub-region. Assess the feasibility of constructing new incubation environments and re-modeling some of the existing managed workspace facilities to create some much needed visibility and momentum
- q **Action 4** – Design a marketing strategy for the Black Country Incubation Programme that reaches out to target start-ups and identifies the benefits of incubation to potential clients. As part of this process, the Black Country will bid to host key international conference events and business seminars
- q **Action 5** – Undertake detailed due diligence to scope the proposed Ideas Bank and Virtual Incubation schemes for the Black Country.



# Technical Annex

This technical annex provides background context and data analysis to underpin the BCIS. The annex is divided into four sections:

- q **Incubation good practice** - a synthesis of recognised incubation good practice is presented
- q **Incubation options** - following on from the good practice, a number of 'on the ground' options for incubation in the Black Country are outlined
- q **Supply and demand in the Black Country** - a summary of the supply and demand for incubation, at the time of writing, is presented and the mismatch between the two assessed
- q **Assumptions underpinning the indicative incubation model** - the assumptions about firm's growth and survival prospects are outlined, which, building on the findings from the supply and demand analysis, enable the impact on incubated firms over the 30 Year time-frame of the Vision to be modelled.

## *Incubation good practice*

The following characteristics summarise recognised incubation good practice:

- q **Evidentially based activity that also recognises Black Country aspirations** - the tough choices required to support and develop an effective Incubation Programme in the Black Country, must be well-researched and earthed in evidence. This is vital so as to ensure that actions build upon existing strengths, respond to emerging opportunities and are seen as being credible in the eyes of potential funding partners. However, a sensible balance must be reached between a fully demand-led approach and one that also reflects the changing aspirations and ambitions of the sub-region. The step change is called for in BCIS, the 30 Year Vision and the Black Country Study will, by definition, require a certain level of risk-taking and cannot be completely based on historical evidence



- q **Funding** - self funding for schemes is an objective but usually significant ongoing revenue subsidies are required. There are unlikely to be sufficient revenues gained from firms to cover intensive support costs so some form of additional funding is required. This often takes the form of an endowment (provision of capital for the building and early operating deficits with rental and service charge income then covering operating costs) or a service contract basis (usually time limited but often renewed for extended periods). Some incubation models have commercial grow on space as part of the offer and this is used to cross subsidise the incubation services and improve throughput
- q **Strict entrance and exit policies** - it is vital for a resource intensive activity like incubation that proposals from prospective clients are assessed and filtered - with only those that will benefit from and meet the specific objectives of the programme being accepted. An enforced selection policy ensures this is so. As incubation aims to move firms to a point where they are no longer dependent on subsidised services a clear exit or graduation policy is essential after three years. The exit policy should be designed so that over time, tenants become progressively 'hardened' so that before they leave they expect to and are able to pay full commercial rates for their accommodation and services. Exit terms must be formalised and should be discussed with clients upon their entry to align expectations from the start. A clear exist policy ensures the 'freeing up' of resources for the next cohort of start ups. It is important that as part of the exit policy, management assists and guides tenants with their next move – aligning expectations and pushing aspirations. Both policies should fit with the overall objectives of the incubation programme
- q **Accessibility** - certain types of knowledge-based incubation are often located in close proximity to the core sources from which potential incubatees may be drawn. In the case of science-based incubation, these are typically knowledge centres such as Universities, Colleges or clusters of relevant firms so that personal networks are maintained. An incubation environment that has formal links with knowledge-based institutions, research organisations, large firms and entrepreneurial networks, often form the hub of innovative activity in an area and thus are attractive to clients, funders and other business development resources. However, physical accessibility and linkages to formal knowledge centres may be less important within some sectors such as ICT or particular sub-sectors within the creative/cultural industries sector, which often rely more upon innovative and informal networks. Further, within certain sectors, such as Formula One racing, close proximity to competitors is unattractive as innovative start up firms strive to protect their often small incremental innovative ideas and knowledge



- q **Scale** - evidence suggests that a stand-alone incubation environment should accommodate a minimum of 25 businesses with easy-in easy-out terms and flexible accommodation. A physical property with around 4,500 sq m gross of which 1,500 sq m is incubation space and the rest a mix of grow on space and communal areas is typical in order to increase the chances of sustainability and financial viability. This level of activity also facilitates effective networking, internal trading and provides sufficient revenue to justify a high quality management resource. Where smaller incubation environments are planned, a clear commitment to networking with other sub-regional and regional incubation assets is important
- q **Business development resources** - includes shared office facilities and specialised business services. Key support features include:
- Mentoring – usually from specialised external resources
  - Networking – providing access to and quality controlling external sources of support such as finance, skills and customers
  - Sales – offering direct support / pressure and sometimes direct help to increase their early sales
  - Generic business support – to help clients overcome the barriers to starting up a business and increase survival rates including business planning, marketing recruitments, compliance and financial advice
  - Access to finance and financial packaging – including putting together financial packages, advising on deals, facilitating the emergence of seed funds, forming links with financial institutions and offering training activities so clients may become investment ready. Private sector funders are often more willing to offer their services and products to tenants as they value the supportive incubation environment
- q **Access to knowledge and ideas** – the incubation programme should broker and maximise appropriate knowledge, ideas and technology transfer opportunities for tenants. This can include providing tenants with support in accessing knowledge and new ideas from sources outside the region, sometimes abroad. Over time, the incubation environments become recognised as foci for innovative activity.



- q **Skilled and experienced management team** – as incubation provides 'hands on support', so success is derived from the experience, intelligence enthusiasm and entrepreneurial skills of the management team. Incubation managers screen clients, analyse their strengths and weaknesses, help set benchmarks for growth, and play an important role in signposting clients towards external mentors and business service providers. They actively create opportunities for clients to network with each other
- q **Caché** – prestigious environments are often highly valued by tenant firms. This helps to create a positive image for tenants with their customers as well as visibility in the market place. Facilities at the incubator such as meeting rooms and communal areas allow tenant firms to both conduct business and socialise in high quality surroundings
- q **Rental charges** – accommodation charges (rent, service charge and rates) for tenants are likely initially to be at a concessionary level to assist start ups during their early stages of development. Over the incubation period, this charge should be increased to match market levels (no subsidy) and rental, service charge and business rates should be separated out, to prepare firms for their exit
- q **Integration** - the most effective business incubation programmes are well integrated into their community networks, resources, and economic development plans and strategies. It is important that incubation environments are not stand-alone initiatives lacking support from economic developers, regeneration partnerships and the local business community.

### *Some incubation options...*

Incubation is an integrated process that does not operate in isolation. It will work best in the Black Country if it dovetails sensibly with wider business support and business development initiatives. There are a wide range of successful incubation models that operate in similar economies to that of the Black Country:

- q **Physical Incubation** – physical 'with walls' facilities are often termed 'business incubators'. These provide high quality flexible accommodation for a limited period, to suitable new businesses. They are designed to provide a tailored supportive environment. This may include access to seed finance and venture capital, access to a network of specialised business support, and close links to knowledge sources such as universities



- q **Virtual Incubation** - virtual or 'without walls' incubation delivers an incubation outreach service to suitable businesses who are not located within a physical incubator. Support is often provided through a website, though most successful virtual incubation services are developed and delivered by a dedicated team of specialists based at an existing physical incubator. Very few effective virtual incubators operate in isolation from other forms of incubation.
- q **Hub and Spoke Incubation** - this model is a hybrid of the physical and virtual, where dedicated satellite locations providing quality outreach services are linked to a central physical incubator, usually connected to a university, research institution, or science park through the common availability of services.

The Black Country requires this spectrum of incubation options in order to address the innovation imperative and drive forward the 30 Year Vision for the Black Country.

### *Supply and Demand*

Analysis of supply and demand for property based business support was undertaken during the period October 2004 to February 2005. The strands of research that have informed the analysis are:

- q **Supply** - an analysis of a three types of property support: office space, managed workspace, managed workspace+, incubation space and grow on space
- q **Demand** - assessment of demand from three sources: start up firms, SMEs and spin out firms from Universities (there is little evidence of spin out activity from FE Colleges or large firms).

### *Supply*

#### **Office space**

Table A-1: Total commercial office floor space in the Black Country, as measured by the Valuation Office Agency (VOA), 2003 (Source: ODPM)

<b>Location</b>	<b>Supply (sq ft)</b>
Dudley	3.8m
Sandwell	3.0m
Walsall	2.8m
Wolverhampton	3.4m
<b>Total</b>	<b>13.0m</b>

The key findings from the analysis regarding office space provision in the Black Country are:



- q the total amount of office space in the sub-region is c.13m sq ft (predominantly in Dudley)
- q approximately 45% of this space is low quality (most of which is located in Sandwell)
- q over the period 2001-2004 take up rates averaged 25%
- q there is a gross over supply of office space in the Black Country<sup>2</sup>

### Managed workspace

Managed workspace provides short-term starter business premises, but differs from incubation facilities in that they will accept businesses that are already in existence and their graduation policy is based on individual firms deciding when they want to leave. Managed workspaces have a variety of sponsors and although a few are run for profit, many are funded by local authorities, enterprise agencies and community groups.

Table A-2: Managed workspace provision in the Black Country (Source: SQW Research and Black Country Investment data)

Name	Location	Size (sq ft)
Lye Business Estate	Dudley	646
Rushkin Mill	Dudley	5,000
Turner House	Dudley	2,536
Cradley Enterprise Centre	Dudley	77,000
LCP House	Dudley	14,000
Pensnett House	Dudley	32,000
Oldbury Business Centre	Sandwell	10,000
Saturn Centre	Wolverhampton	36,500
Chubb Building	Wolverhampton	30,000
Millfields House	Wolverhampton	4000
Regent House	Wolverhampton	32,000
Bentley Mill	Walsall	8,640
Springvale Street	Walsall	1,116
Middlemore Lane	Walsall	10,760
Corporation Street	Walsall	unknown
	<b>Total</b>	<b>264,198</b>

Key findings from the mapping of managed workspace suggest that:

- q Across the Black Country, there is over 260,000 sq ft of managed workspace
- q The majority of Managed Workspace is located in Dudley (over 130,000 sq ft)

<sup>2</sup> Quality and occupancy data sourced from Black Country Investment (2004)



- q There are plans for a further five managed workspace facilities (at the Rubery Owen Enterprise Centre, Darlaston; Afro Caribbean Community Association Centre, Walsall; former All Saints School, Wolverhampton; Netherton Regeneration Centre, Dudley and a property on Willenhall Lane, Wolverhampton)

### Managed Workspace+

Managed workspace+ is managed accommodation with formal links to business support, mentoring and finance organisations, and a hands-on management team who assist tenants in making these connections. This is a property management scheme, achieving financial viability on the basis of rents paid by tenants. This type of scheme would usually, but not exclusively, be managed by the Public Sector.

Table A-3: Managed Workspace + provision in the Black Country (Source: SQW research and Black Country Investment data)

Name	Location	Size (sq ft)
Red House Glass Cone	Dudley	7,378
Lye Business Centre	Dudley	19,350
Smethwick Enterprise Centre	Sandwell	45,680
Applewood Grove Training and Enterprise Centre	Sandwell	7,972
Sandwell Business Development Centre	Sandwell	14,315
Alberta Building	Sandwell	5,995
Friar Park Millennium Centre	Sandwell	8,000
Beeches Road Community Enterprise	Sandwell	1,925
Oldbury Business Centre	Sandwell	10,000
Brook St Business Centre	Sandwell	54,870
West Midlands House	Walsall	60,000
	<b>Total</b>	<b>235,485</b>

Across the Black Country there is approximately 235,000 sq ft of Managed Workspace + which, at the time of writing, was on average 88% full.<sup>3</sup>

### Incubation

Mapping of incubation provision suggests that:

- q across the Black Country that there is only one facility; the SP/ARK Project at the Creative Industries Centre at Wolverhampton Science Park
- q SPARK is a unique incubation facility of 15,000 sq ft, catering for new business start-ups (and freelancers) in media and design activities. The facility provides specialist equipment such as multimedia, graphics, video and sound design, 2D and 3D animation, textile and interior design, screening, projection and presentation design
- q the occupancy rate of SPARK at the time of writing is 70%

<sup>3</sup> For 8 of the 11 premises



- q across the sub-region there are 13 incubation proposals. These range from projects with approved funding and currently being developed (pipeline) through to projects that are still developing their ideas (proposed).
- q taking all these pipeline and proposed initiatives, a total 283,300 sq ft of incubation space may come on board in the foreseeable future (see below).

Table A-4: Pipeline and proposed incubation

Stage of Development	Name of Initiative	Size (sq ft)	Focus	Source
Pipeline	The Public	14,500	Creative industries	SQW Consultation
	The E-Innovation Centre <sup>4</sup>	15,000	E-commerce	SQW Consultation
Proposed	Four Knowledge Centres (one in each Borough)	c27,000 (each)	Unknown	SQW Consultation
	i-Design	20,000 (estimate)	Unknown	SQW Research and best practice size guide <sup>5</sup>
	Darlaston Environmental Technology Park	20,000 (estimate)	Unknown	SQW Research and best practice size guide
	Hill Top Environmental Park	20,000 (estimate)	Unknown	SQW Research and best practice size guide
	Rodbaston College <sup>6</sup>	20,000 (estimate)	Rural/ Environmental	SQW Research and best practice size guide
	Bilston Urban Village	20,000 (estimate)	Unknown	SQW Research and best practice size guide
	WALCAT	25,800	Unknown	SQW Consultation
	Asian Incubator - South Regeneration Zone	20,000 (estimate)	Unknown	SQW Research and best practice size guide
<b>Total (estimate)</b>		<b>283, 300</b>		

<sup>4</sup> The E-Innovation Centre is based at the Telford Campus of the University of Wolverhampton

<sup>5</sup> Best practice suggests that an incubator of 30,000 sq ft with approximately thirty tenants is required in order for a facility to be economically viable in the long term. Bearing in mind the space occupied by communal facilities there will be some 20,000 sq ft available to let.

<sup>6</sup> Rodbaston College is based just outside of the Black Country at Penkridge, but is linked with the University of Wolverhampton



### **Grow on space**

The provision of grow on space is essential to accommodate firms graduating from incubation facilities and to ensure the 'incubation flow' of firms. The ideal location for such space is on or near business or science parks where accommodation can be providing along with some level of business support. Analysis of grow on space in the Black Country suggests:

- q there is some 179,600 sq ft of available office grow on space (derived from amount of office space within the size band 1,000-5,000 sq ft)<sup>7</sup>
- q there is 55,000 sq ft of grow on space Wolverhampton Science Park in Phases One and Two; the Technology and Development Centres
- q managed workspace plus, which could also provide grow on space is nearing full occupancy.

### *Summary of supply*

Table A-5 summarises the supply side findings. The main findings are:

- q there is only one incubation facility in the Black Country at present, which is 70% full. We are aware of 13 new proposals
- q there is c.235,000 sq ft of Managed Workspace Plus which is approximately 88% occupied and mainly based in Sandwell
- q there is over 260,000 sq ft of Managed Workspace located primarily in Dudley
- q there is c.13m sq ft of office space most of which is of poor quality and vacant, indicating an over supply in the current market.

Table A-5: Supply of business property and support solutions across the Black Country (Source: SQW research)

	Existing		Pipeline		Proposed	
	Supply (sq ft)	No. of premises	Supply (sq ft)	No. of premises	Supply (sq ft)	No. of premises
Office space	13m	4,253 <sup>8</sup>				
Managed Workspace	264,000	15			Unknown	5

<sup>7</sup> Data sourced from Black Country Investment

<sup>8</sup> This is the number of Hereditaments, defined as the unit of the built environment to which the VOA assigns rateable value. Broadly speaking Hereditaments are akin to premises appropriate or used for single occupation



Managed Workspace+	235,000	11			-	-
Incubation facilities	45,000	1			253,800	11
Grow on space	55,000 (potentially a further 179,600)	Unknown				-

## Demand

### Start up firms

Table A-6: VAT registrations and de registrations by sector, 2003 (Source: NOMIS)

	Number of VAT registrations	Number of VAT de registrations
Agriculture, fishing	0	20
Mining, energy & water	0	0
Manufacturing	275	400
Construction	350	300
Wholesale & retail	675	680
Hotels & restaurants	365	310
Transport & communications	205	175
Finance	10	5
Real Estate	700	715
Public administration; other	170	185
Education, health	15	25
<b>Total</b>	<b>2,765</b>	<b>2,815</b>

Table A-7: Start up rates as measured by VAT registrations per 1,000 working age population (Source: NOMIS)

	2000	2001	2002	2003	% of GB	% change in rate 2000-03
Great Britain	3.0	3.2	3.1	3.2	100.0%	6.7%
West Midlands	2.8	2.7	2.7	2.9	90.6%	4.0%
Black Country	2.5	2.4	2.4	2.6	77.0%	5.6%
Dudley	2.5	2.5	2.6	2.9	90.6%	14.8%
Sandwell	2.2	2.4	2.3	2.2	68.8%	-0.9%
Walsall	2.2	2.1	2.4	2.6	81.3%	18.5%
Wolverhampton	2.9	2.5	2.4	2.6	81.3%	-10.5%

The key findings from the analysis of start up activity are:



- q there were 2,765 VAT registrations in 2003
- q failure rates have been high and during 2003 and the sub- region experienced a net loss of firms, highlighting a low entrepreneurial economy and the potential absence of supportive environments for new firms
- q start up rates within the Black Country remain at 77% of the average rate for Great Britain. This represents a significant enterprise deficit (23%) still to be closed.
- q the start-up rate has increased by 5.6% over the period 2000-2003. This is against a backdrop of increasing start-up rates across the West Midlands and nationally.

## SMEs

Across the Black Country, the Annual Business Inquiry (ABI) records 27,233 units that employ fewer than 10 FTEs (taken here as a the number of SMEs), likely to be the size of firms an incubation facility may support. The number of these firms operating in AWM's Clusters and the Diversification and Modernisation Priority Sectors have been mapped as shown in Table 8.

Table A-8: Number of small firms by AWM cluster and Diversification and Modernisation Priority Sector (Source: NOMIS 2003)

Cluster	Number of small firms (1-10 FTEs)	% change in small firms (1999-2003)
Food and Drink	2,049	14%
Building Technologies	3,562	0%
Transport Technologies	1,630	4%
Media	175	27%
Tourism and Leisure	2,354	^
Specialist and Professional Services	4,860	^
Medical Technologies	648	12%
ICT	972	^
Environmental Technologies	120	-3%
High Value Consumer Products	1,422	14%
Advanced Engineering	1,346	14%
Plastics & Polymers	89	0%
Logistics	1,135	4%
<b>Total in all Clusters</b>	<b>20,362</b>	
<b>Total in D &amp; M Priority Sectors</b>	<b>5,292</b>	

^ These figures are not available as it is not possible to convert the source data (based on the 1992 SIC) into the 2003 Standard Industrial Classification.

The mains findings from this mapping exercise are that:



- q of a total of 27,233 SMEs, 20,362 currently operate in the Regional Clusters and 5,292 in Diversification and Modernisation Priority Sectors.
- q there are seven clusters that have experienced growth over the period 1999-2003; the most significant being in Food and Drink (+14%), High Value Consumer Goods (+14%), Medical Technologies (+12%) and the most substantial, Media (+27%).
- q of the additional three Priority Sectors outlined in the Black Country Diversification and Modernisation Study, both Logistics (+4%) and Advanced Engineering (+14%) small firms have increased in number.

### Spin out firms

Research of spin out activity from Universities, FE Colleges and large firms has been undertaken. The key findings from this research are that:

- q there is little evidence of spin out activity from FE colleges or large firms
- q across the West Midlands, 51 University spin-outs have been created to date
- q the majority of spin outs have emerged from the University of Warwick and the University of Birmingham, who are both founding partners in the Spinner Initiative (a pan-regional programme to co-ordinate and encourage the commercialisation of Intellectual Property)
- q The University of Wolverhampton has, to date, created five spin out firms, principally within the field of ICT. These firms have located at Wolverhampton Science Park
- q there are 79 new ideas that have been patented which may develop into commercial firms in the foreseeable future.

Table A-9: Spin-outs and patents across the West Midlands' Universities (Source: Spinner and SQW Research)

University	Number of spin out firms to date	Number of patents	Sector of spin out firms	Location of spin out firms
Wolverhampton	5		ICT	Wolverhampton Science Park
Coventry	1		Biotechnology	Coventry Technology Park
Keele	3	10	Various	MED IC4 building on the Science and Business Park
Open University	1		ICT	-
Staffordshire	7	19	Generic	Staffordshire Technology Park



Warwick	19	50+	Biosciences, engineering, polymers	Warwick Science Park
UCE	2	6	Various	N/A
Birmingham	12		Medical Science, ICT, others	University and Birmingham Research Park
Aston	6	44	Engineering, Life and Medical Sciences	Aston Science Park
<b>Total</b>	<b>51</b>	<b>79</b>		

### Summary of demand

The main findings from our analysis of demand are that:

- q there were 2,765 VAT registrations in 2003 but the Black Country is still lagging behind the national average – an enterprise gap of 23%.
- q there are 5,292 small firms operating in the Diversification and Modernisation Priority Sectors
- q 51 firms have spun out of the Region's Universities of which 5 have emerged from the University of Wolverhampton
- q there has been little evidence of spin out activity from FE Colleges or large firms.

Using these findings and best practice figures of incubator size, demand for incubation in the Black Country is quantified (see Table 10). The target group for the BCIS is start up and small firms (including spin outs), which are high growth and which support the Priority Sectors. To quantify demand a number of assumptions have been applied, each of which is presented in the table below.

Table A-10: Modelling demand for incubation in the Black Country

Source of demand	Baseline figure	Assumption	No of firms suitable for incubation	Space required (sq ft)
Start up firms	2,765	3% of all start ups are high growth. 40% of these are suitable for incubation	33	8,250 sq ft (250 sq ft per firm)
Existing SMEs (1-4 FTEs)	4,225	Only SMEs in priority sectors considered (Diversification & Modernisation Strategy) 3% of firms are high growth, of these: 15% of firms (1-4 FTEs) are suitable for incubation 10% of firms (5-10	19	7,600 sq ft (400 sq ft per firm)
Existing SMEs (5-10 FTEs)	1,067		3	2,400 sq ft (800 sq ft per firm)



		FTEs) are suitable for incubation		
<b>Total Existing SMEs</b>	<b>5,292</b>		<b>22</b>	<b>10,000 sq f t</b>
Spin outs - University of Wolverhampton	3	75% of spin outs seek incubation. 15% of WM spin-outs can be attracted to the BC 75% of BC spin outs will remain in the sub-region	2	500 sq f t (250 sq ft per firm)
Spin outs - other West Midlands universities	22		2	500 sq f t (250 sq ft per firm)
<b>Total Spin out firms</b>	<b>25</b>		<b>4</b>	<b>1,000 sq ft</b>
<b>Total demand per annum</b>			<b>59</b>	<b>19,250 sq ft</b>

There are, per annum, 59 firms in demand of incubation space in the Black Country, requiring 19,250 sq ft of incubation space. Over the three year incubation cycle total steady state demand (allowing for failure) may be 170 firms requiring 56,000 sq ft (net) of space (average 326 sq ft each).

### Supply meets demand... does this give us?

In summary the picture presented in this assessment suggests that:

- q there is a lack of suitable high quality incubation space available - incubation provision is limited to 15,000 sq ft, at one facility which is 70% full. The 11 managed workspace+ facilities offer c.235, 000 sq ft of space, occupied to c.88%.
- q there is a current demand for incubation - from a potential 59 firms, which over the three-year incubation cycle may increase to 170. These firms will demand 56,000 sq ft of space.
- q given the current level of demand there is not enough incubation space in the Black Country
- q if the Black Country was to raise enterprise levels to the national average, demand would far out strip supply - there may be 214 firms demanding 70,000 sq ft of space.

### Assumption underpinning the model

The indicative impact of incubation on tenant firms (in terms of productivity and job creation) has been forecast over a thirty-year period. The assumptions underpinning the model are set out in the remainder of this annex.

Table A-11: Assumption underpinning the incubation model

<b>No. of firms demanding incubation</b>	<b>59</b>
<b>No. of individuals employed when the firm starts up</b>	<b>3</b>
<b>Turnover during the first year</b>	<b>£60,000</b>



Measure	Assumption		Source
5 year survival rate	Incubated	85%	European Commission Benchmarking of Business Incubators (2002)
	Non- incubated	65%	SBS (2003) data cited in Hannon (2005) reveals that 60 - 65% of all new business starts survive their first three years
10 year survival rate	Incubated	76%	It is assumed by SQW that failure rate will slow
	Non- incubated	45%	It is assumed by SQW that failure rate will slow
Survival rate at 10 years i.e. what is the survival rate of firms at the 10 year point	Incubated	88%	Assumed by SQW
	Non- incubated	56%	Assumed by SQW
5 year failure rate	Incubated	15%	Assumed by SQW
	Non- incubated	35%	Assumed by SQW
10 year failure rate	Incubated	24%	Implied by survival rate
	Non- incubated	55%	Implied by survival rate
Failure rate at 10 years i.e. what is the failure rate of firms at the 10 year point	Incubated	12%	Assumed by SQW
	Non- incubated	44%	Assumed by SQW
Annual failure rate	Incubated	2.8%	Implied by survival rate
	Non- incubated	6.2%	Implied by survival rate
Annual failure rate of firms that have survived 5 years at the 10 year point	Incubated	2.3%	Implied by assumed survival rate (88%)
	Non- incubated	7.6%	Implied by assumed survival rate (56%)
Growth rates during the first 5 years	Incubated	65% employment 35% productivity	Assumed by SQW
	Non- incubated	65% employment 35% productivity	
Growth rates during years 5 and 10	Incubated	50% employment 50% productivity	Assumed by SQW
	Non- incubated	50% employment 50% productivity	



Per Annum Growth Rate (5 year average)	Incubated	20%	European Commission Benchmarking of Business Incubators (2002)
	Non- incubated	10%	Assumed by SQW on the basis that these firms will be high growth ambitious firms
Per Annum Growth Rate (10 year average)	Incubated	11%	Assumed by SQW that annual growth will slow, but still be high given the growth rate during the initial 5 years
	Non- incubated	6%	
<p>Not all firms will grow at similar rates, therefore we have to apply assumptions that certain proportions of the total number of firms will grow at different rates. We have assumed three cohorts of firms, which will have different growth rates: (a) 20% of firms (b) 55% of firms and (c) 20% of firms. Thus, from the table below we assume that 20% of firms, if incubated, will grow at a rate of 40% etc.</p>			
<b>During years 1 to 5</b>			
Per annum growth rates for cohort (a) 20% firms	Incubated	40%	Assumed by SQW
	Non- incubated	20%	Assumed by SQW
Per annum growth rates for cohort (b) 55% firms	Incubated	18%	Assumed by SQW
	Non- incubated	9%	Assumed by SQW
Per annum growth rates for cohort (c) 25% firms	Incubated	10%	Assumed by SQW
	Non- incubated	5%	Assumed by SQW
<b>During years 5 to 10</b>			
Per annum growth rates for cohort (a) 20% firms	Incubated	20%	Assumed by SQW
	Non- incubated	10%	Assumed by SQW
Per annum growth rates for cohort (b) 55% firms	Incubated	12%	Assumed by SQW
	Non- incubate	6%	Assumed by SQW
Per annum growth rates for cohort (c) 25% firms	Incubated	5%	Assumed by SQW
	Non- incubated	2%	Assumed by SQW

