



Strategic Review of The Scottish EDGE

Final Report

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1 Introduction

1.1 Introduction

This report presents the findings of a Strategic Review of the Scottish EDGE programme undertaken during April and May 2014 for Scottish Enterprise.

1.1.1 Aims of the review

The Invitation to Quote set out the outputs that Scottish Enterprise sought to acquire through having the assessment undertaken. These are:

- reasons for seeking the award;
- associated business growth barriers/market failures faced by applicants and the extent to which the award and associated support addressed these;
- any other attempts made to raise finance, and the outcome of these;
- a review of process, including application, delivery and programme management;
- business progress and the associated benefits from receiving the award along with any wider support - including contribution to effectiveness, efficiency and economy principles (picking up on progress through the logic model phases), increased levels of competitiveness and internationalisation (e.g. markets served and exports achieved), investor readiness and progress towards meeting key appraisal criteria;
- sustainability of post-award benefits;
- benefits of the process to a sample of non-successful applicants in terms of business growth;
- appropriateness of current monitoring and evaluation arrangements;
- appropriateness of current measures and targets and assessment of trajectory towards achievement of targets set;
- provide recommendations for future delivery and the maximisation of economic benefits.

We appreciated from our review of the ITQ that this would be a review rather than an evaluation – the first awards were made just over a year ago and the package of EDGE support lasts 12 months, so only the Round 1 winners will be able to provide a complete assessment of the assistance.

1.2. The Scottish EDGE Programme

The Scottish EDGE (Encouraging Dynamic Growth Entrepreneurs) is a Dragon's Den type competition for entrepreneurs who wish to grow their businesses. It is delivered by SE and HIE on behalf of the Scottish Government and in partnership with the Entrepreneurial Spark, The Royal Bank of Scotland and Business Gateway.

In the autumn of 2012 the idea of an entrepreneurial growth competition was proposed by external business to John Swinney MSP, Cabinet Secretary for Finance and Sustainable growth. The competition was suggested as necessary to address challenges for young companies moving through the start-up phase where difficulties raising private sector funding were making growth more difficult. Consultation resulted in SE working in partnership with Highlands and Islands Enterprise, the Business Gateway, the Royal Bank of Scotland and Entrepreneurial Spark. SE led on the delivery of this flagship competition which aims to encourage dynamic growth entrepreneurs. The competition is open to all Scottish-based businesses which meet a set of criteria aligned to growth (including innovation, internationalisation and job creation). There is active engagement by the BG and SE/HIE Account Managers to support business prior to submission of their application, throughout the competition process with free pitch training offered and in aftercare where an advisor-led discussion is held with all successful and unsuccessful candidates, signposting to other forms of support as appropriate.

To date, Scottish EDGE has awarded almost £1.9 million to 54 successful firms. In terms of outputs (as derived from the Logic Model included in the ITQ and presented later), the Programme appears to have performed comparatively well by exceeding targets associated with Advice and Finance, but with less positive brand awareness than originally anticipated:

- Target was 200+ applications were expected to be received – the actual number was 720
- Target was 20-40 businesses supported over two years – the actual number was 54
- Monitoring information from the first two cohorts indicates that the businesses have created 79 new jobs, generated new turnover of £1.8m, and attracted new external finance of £1.6m.

In terms of target setting, it will be seen later that the number of applications for Rounds 1-3 was significantly higher than anticipated, although we understand that application numbers for Round 4 are lower than those for earlier Rounds (there are a number of possible reasons for this, such as too many rounds developed over too short a time frame, but no definitive reason exists). We consider that it is important to generate sufficient interest to form a “funnel”, with

the key metric being the ratio of applications:funded projects. Intuitively, we would suggest that a ratio of at least 2:1 would be appropriate as this would provide a base of cases against which successful applications might be chosen.

The Scottish EDGE programme provides awards to two categories of applicant:

- Young EDGE – 18 to 24 year old prospective entrepreneurs who can receive up to £10K of support (both in cash and in kind through advice and guidance from PSYBT)
- Scottish EDGE providing up to £50K being awarded in the form of de minimis grants.

Businesses must be relatively ‘young’ – they must be incorporated less than 5 years.

Young EDGE was introduced to support younger applicants who were anticipated to be less experienced. Given the different barriers faced by young entrepreneurs, these applicants receive support from The Prince’s Trust, Youth Business Scotland, Young Enterprise Scotland and the Scottish Institute for Enterprise.

The EDGE programme is promoted through a series of ‘Rounds’ where applicants must make their submissions against fixed deadlines. The project approval by SE and HIE committed the organisations to running the competition three times between 2012/13 and 2013/14.

By way of application applicants must complete both a ‘paper’ form and submit a 3 minute video pitch of their proposal. These are appraised and the successful ones proceed to subsequent “in-person” regional pitch assessments. Those pitches that demonstrate most potential are then invited to present a final pitch to a high profile group of business and personal assessors. The format for the Final Pitch sessions has changed over the three Rounds – for Rounds 2 and 3, finalists must pitch in front of an audience of up to 100 people (at RBS Gogarburn) to the “commercial” judges; in Round 1 finalists pitched their idea to a panel of senior business representatives in a closed environment but this was changed to be more open and transparent after an early learning review.

Those who are deemed to be successful receive a financial award supported by a 12 month development programme. This comprises a financial award coupled with a package of support from The Royal Bank of Scotland which may include free banking, security advice (staying safe online, information security, examples of common scams and threats, record or data management techniques) and a one day training course worth £275 from an RBS Mentor (MentorLearn Programme). This includes training in Everyday Employment Law, Practical People Management, Managing Health & Safety and IOSH Working Safely.

1.2 Methodology

The methodology aimed to capture feedback from all applicants – those who had submitted successful applications and those who were unsuccessful. We undertook 26 interviews with successful applicants (out of a total of 54 across Rounds 1-3 which equates to a 48% sample) and our on-line survey was issued to 510 unsuccessful applicants of whom 134 responded – this equates to a 26% response rate for the on-line survey.

1.3 Activity

There have been a total of 720 applications received across the three competition Rounds with 56 awards being made – two of these were subsequently removed so the number of *effective awards* is 54 (Figure 1.1).

There are several observations we would make regarding the data in Figure 1.1:

- There was a very significant number of applications received
- The attrition rate is comparatively high – just 1 in 13 received an award

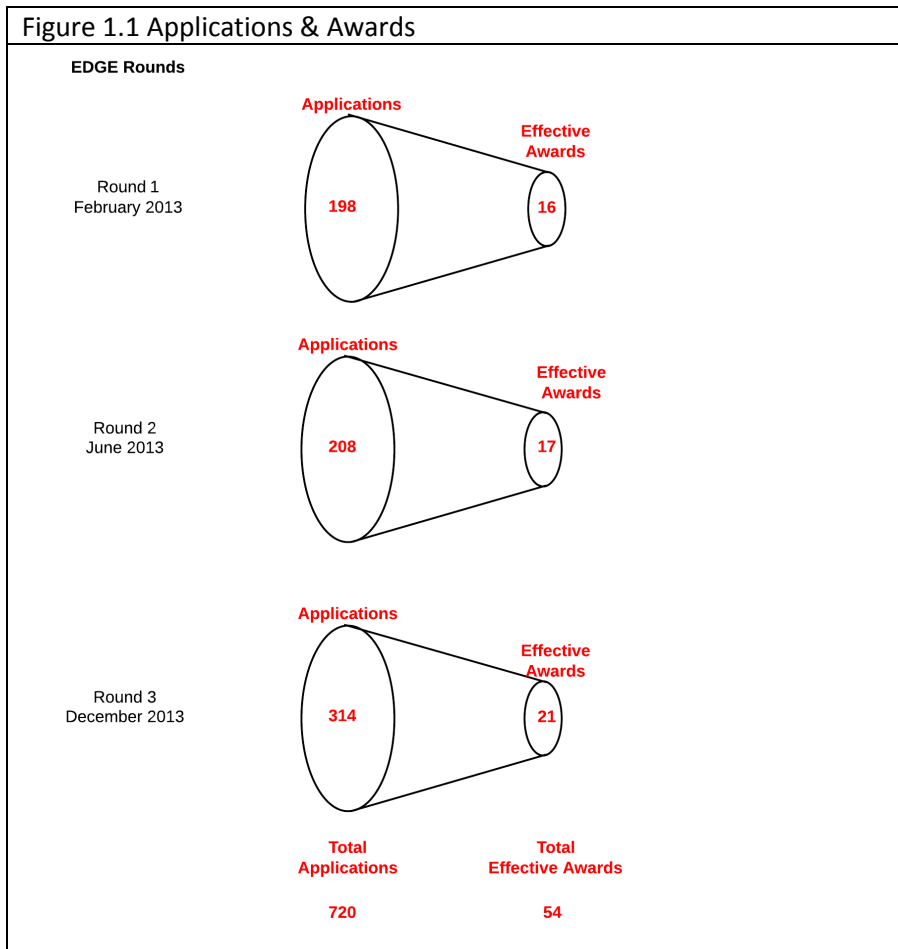
Based on our consultations, the high attrition rate was solely down to the high quality of the successful applications - very good applications were submitted. The significant number of applicants coupled with the high attrition rate suggests that there was both an interest in and demand for the Programme in Rounds 1-3. These data also indicate that SE and HIE have been relatively selective (driven by quality) in the cases they have supported.

1.4 The EDGE Logic Model

A Logic Model was prepared by SE for the Programme (see Figure 2.1 at the end of the Chapter). Following consultation with participants, beneficiaries and stakeholder we offer the following comments in assessment, namely:

- There could be more reference to Marketing, PR and media management
- We recognise that the balance of SE/HIE's "inputs" are notably skewed towards application appraisal and assessment – our consultations indicated that this stage required at least nine full days per SE staff member to review applications and support the Regional Pitch and the Semi/Final stages
- In terms of external inputs, it will be seen later that while the provision of support through Entrepreneurial Spark is part of the Programme's delivery, their inclusion has caused challenges due to introducing the perception of bias in the appraisal process

- We wonder whether “Giving something back from winners” is an output of the Programme rather than an input as without someone progressing to the point of winning, the Programme does not get their engagement – perhaps this could be an *output* worded as “Winners giving something back”?



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- The outputs relating to application numbers have been greatly exceeded, as mentioned above
- Outcomes include applicants getting feedback – given the findings of our survey and the proposal that despite a range of views on the value of feedback this element will not be included in future (on account of the significant resource challenges introduced by providing feedback in Rounds 1-3) this "output" could therefore be removed
- A new outcome could be the engagement within the business support infrastructure of high-growth start-up firms that would otherwise have fallen through the net.

Figure 2.1 Programme level logic model as set out by SE, incorporating performance aspirations

Inputs	Activities	Outputs	Outcomes	Impact
<p>Advice & Finance</p> <p>Funding for awards</p> <p>Advice (and potentially funding) for Specialist Product Support</p> <p>Advisory support from SE, BG, RBS, ESpark, PSYBT (as appropriate) to grow the business & monitor the project</p> <p>Giving something back from Winners</p>	<p>Contracts to fund specific activity which will grow the business. £1m awarded over 2 years.</p> <p>1:Many support – workshop outlining specialist advice on strategy, innovation, financial readiness, ICT etc – may lead to use of 1:1 company support via framework products.</p> <p>1:1 company support</p>	<p>200+ applications received seeking support; 100 applicants invited to participate in a regional pitching event;</p> <p>20-40 applicants receiving support over 2 years.</p> <p>20-40 opportunities participating in 1:many and 1:1 specialist support.</p> <p>20-40 opportunities receiving on-going mentoring and growth support on a 1:1 basis.</p> <p>Outputs will be varied and better known once winners are selected e.g. mentoring, funding for others, learning opportunities.</p> <p>The result of the activities e.g. Number of People Attending</p>	<p>Positive experience and learning gained on strengthening a growth plan. 20-40 opportunities supported each creating additional jobs and turnover.</p> <p>In addition to jobs and growth, successful applicants are likely to introduce new products, processes or services; enter new markets; attract further private sector funding; and create jobs for young people (contributes to other SE targets)</p> <p>Embedding start-up companies in Scotland and encouraging them to grow here; showcasing that Scotland is a good place to build and grow a business.</p> <p>Opportunities for young people to learn; work experience; funding to support other opportunities (all examples). Outcomes will be better known once winners are selected.</p>	<p>Additional turnover of £8-£16m over 3 years. Greater than 40 new jobs created over 3 years.</p> <p>Wider investment, increased capability, new skills, potential for talent attraction and retention.</p> <p>Impacts will be known once winners are selected and advise how they would 'give something back' if successful.</p> <p>e.g. Net Increase in GVA / Employment</p>

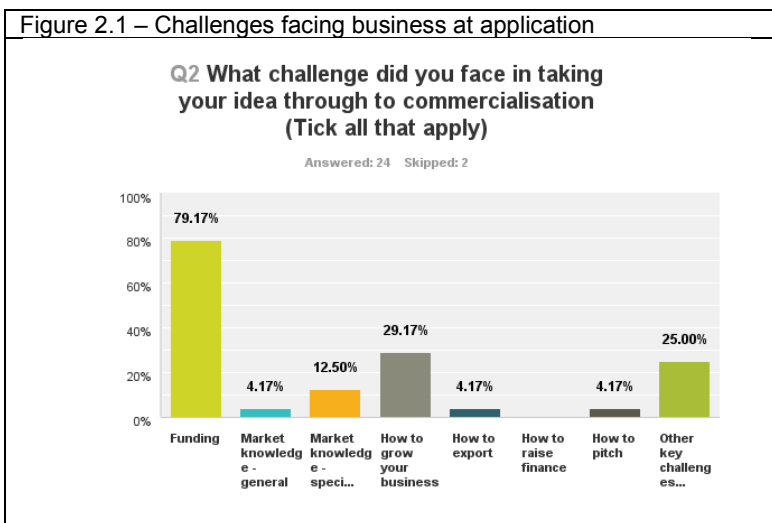
<p>People/Delivery:</p> <p>PM/SRO and Project Support</p> <p>Input from Financial Readiness/Innovation Specialists for assessments</p> <p>Input from external stakeholders: ESpark, SG, RBS, HIE, BG, and PSYBT</p> <p>Input from SE Marketing and Comms Team</p> <p>Input from EFRS</p> <p>Input from Applicants</p>	<p>Project Management & Delivery</p> <p>Assessment; Regional Pitches – participation at events. Downstream specialist support for winners.</p> <p>Co-ordination of Regional Pitches; Promotion of Fund; Assessment of opportunities.</p> <p>Social Media and Web Content</p> <p>Collation and routing of enquiries; handling applications; CRM data</p> <p>Submitting applications; uploading video pitches; populating growth plans.</p>	<p>Overall co-ordination and smooth delivery of the Scottish EDGE fund</p> <p>Selection of strongest proposals; feedback to candidates on areas for improvement.</p> <p>Strong brand awareness and high levels of entries (upwards of 200) seeking support. Strongest opportunities identifies for support.</p> <p>Strong brand awareness; potential applicants up to date on timescales and entry requirements, next steps etc.</p> <p>Positive customer experience; consistent data capture.</p> <p>Successful applicants each indicate how they could ‘give something back’ to the local community.</p>	<p>Positive image created resulting in strong applicants coming forward.</p> <p>All applicants receive feedback which could strengthen future growth prospects.</p> <p>Eco-system starts to take shape in Scotland, recognising offering of each agency and building strong links for future support of start-up businesses.</p> <p>Positive image created resulting in strong applicants coming forward.</p> <p>Knowledge gained in number of start-up businesses seeking support to grow; potential for new clients entering the pipeline.</p>	<p>Increase in awareness of Scotland as a supportive environment.</p> <p>Better informed start-ups striving to grow their business.</p> <p>Stronger network of support organisations focussed on growth.</p> <p>Scotland recognised as a place where innovation and ambition is supported.</p> <p>Customer data builds a strong pipeline of potential future growth opportunities.</p> <p>Individuals gain experience and apply it to other areas of the business, adding value.</p>
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2 Survey Findings – Successful Applicants

2.1 Feedback from successful applicants

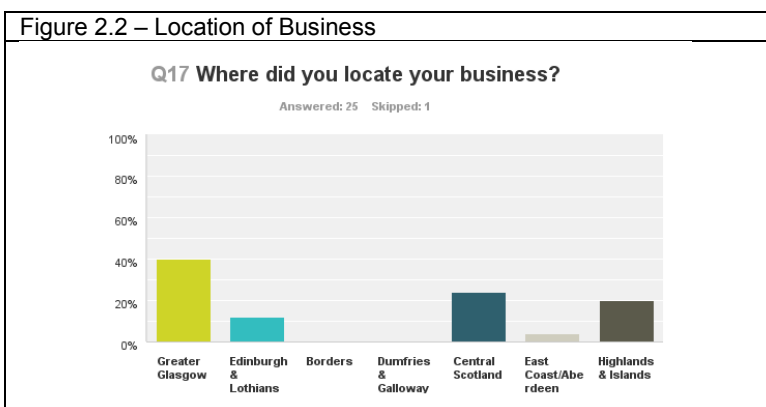
The telephone survey commenced with a set of questions designed to gain feedback on the context within which the business was operating when the applicant made their submission to Scottish EDGE.

Following Scottish Enterprise’s rationale for intervention, namely imperfect and asymmetric information (of both how to and where to proceed in order to build and/or grow the business, and in particular with regard to both where and how to access external finance), we were keen to gain an insight into the challenges faced by applicants’ businesses at the point of application (Figure 2.1)

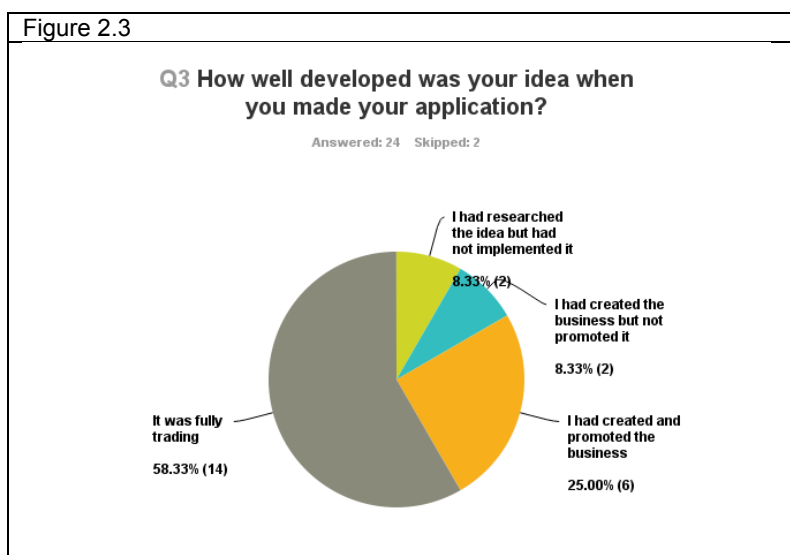


2.2 Geographic Location of Businesses

Firms were mostly located in the Central Belt.



2.3 How developed was your idea at application?



The data in Fig 2.3 indicates that over half of the applicants were fully trading at the point in time when they made their submission to Scottish EDGE. Whilst accurate, these categorisations are potentially misleading – those who described themselves as trading were all generating revenue, but in many instances, the level of revenue being generated was very small. Consequently, the representation in Figure 2.2 may suggest that firms were more “advanced” in their development than was in fact the case.

2.4 Presenting their idea to others

Sixteen applicants had presented their idea in “pitch” style to another party at some point prior to making the application to the Scottish EDGE.

These included:

- Potential Investors
- Scottish Enterprise
- Business Gateway
- Entrepreneurial Spark (Espark)
- Princes Trust
- Technology Strategy Board
- University commercialisation officers/competitions
- Dragon’s Den
- The Olympics Committee
- Corporate partners
- Conferences
- Colleagues.

The Espark pitches require some further explanation. These responses were for individuals who had engaged with the Espark programme in advance of approaching Scottish EDGE. This programme includes coaching support to develop the business idea and in presenting this to potential investors. Therefore, those engaged in Espark are more likely to have been familiar with the “pitch” concept.

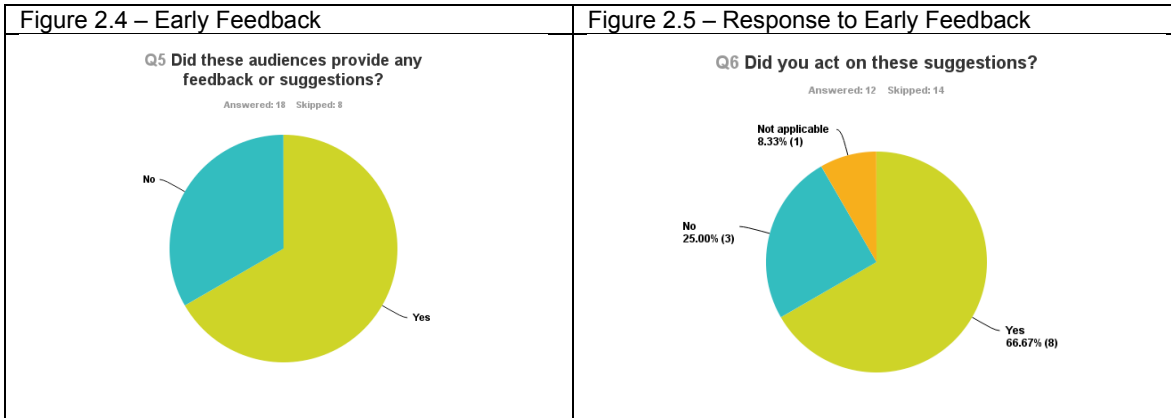
2.5 Feedback and openness

Applicants are scored based on evidence provided of a) likelihood of achieving £400k cumulative turnover over 3 years; b) likelihood of creating up to 5 new jobs in 3 years; c) demonstration of entrepreneurial spirit (leadership qualities, building the right team, knowing the gaps); d) a product, process, service or model which is innovative; e) evidence that they understand the risk and cost of growing their business; f) evidence that the intended use of Scottish EDGE funding would move their business forward towards growth; g) evidence that they not only intend to internationalise their business but that they understand how to do this and have a plan to move it forward.

Scores range from 1 (low) to 10 (high) at the initial assessment (undertaken by a panel comprising representatives from each partner organisation). 60 companies are invited to make a first pitch to a panel comprising representatives of each partner organisation plus two external private sector representatives, e.g. investors), and following 30 companies are invited to pitch to a senior business panel (with each applicant is given a score allocated against each category set out above).

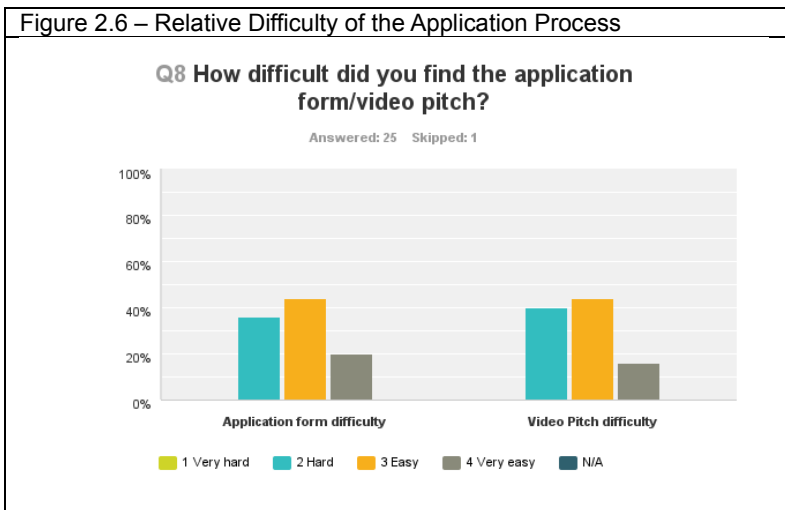
In Rounds 1-3 attempts were made by SE to capture discussions around each applicant and provide a few bullets of feedback along with their scores. In Round 4 of the competition the decision was taken not to give feedback, other than beyond the final.

The findings presented in the following two charts are positive in that they signify that the applicants were generally open to receiving feedback from the selection panels and (two thirds) acted on the suggestions made. Open-ness to receiving external advice and acting upon it are two key characteristics of growth-oriented businesses.



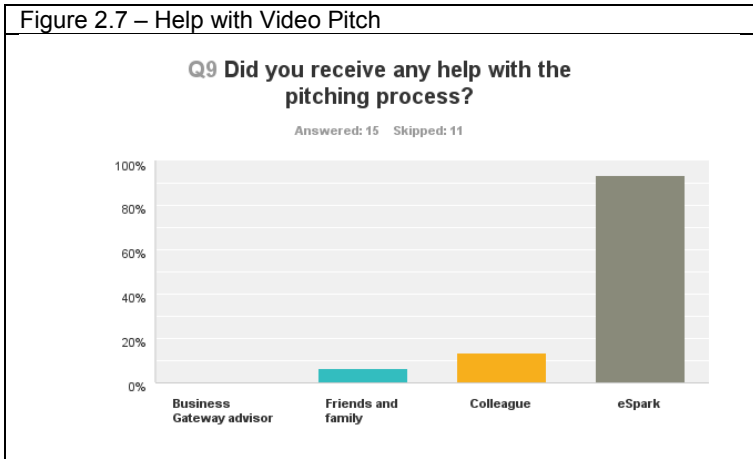
2.6 The difficulty of the application process

The data in Figure 2.6 suggest that the application process is relatively straightforward.



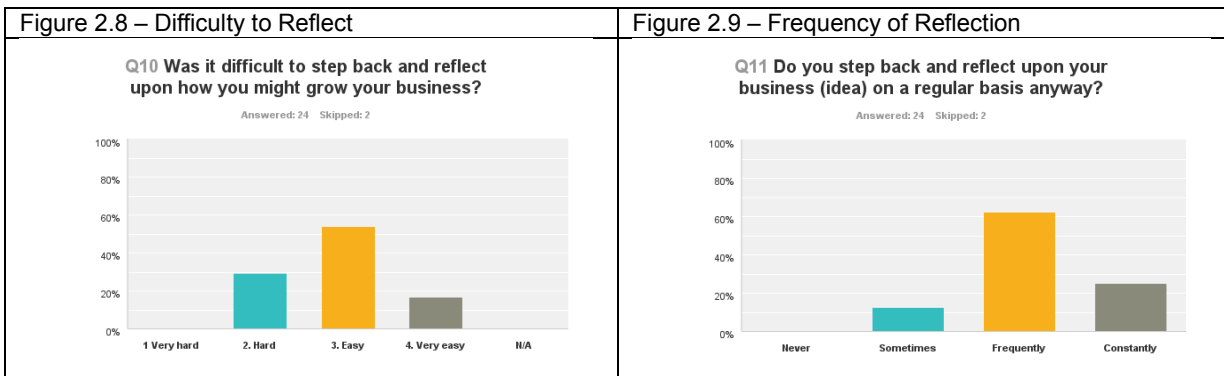
It can be seen from Fig. 2.6 that the Application Form and Video Pitch submissions were not considered to be unduly onerous, especially given the scale of the potential award that could be attracted. The challenge of the Application Form was considered to be greater than that of the Video Pitch.

Those who were participating on the Espark Hatchery/Accelerator programme received the greatest level of practice.



2.7 Strategic reflection

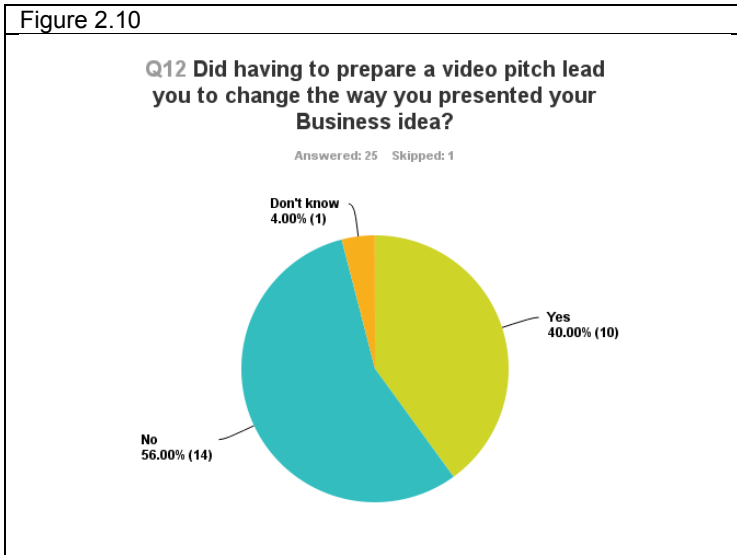
The application process requires participants to step back and reflect upon their businesses.



The main driver for this reflection was down to this group seeking external finance as the process of self-reflection was essential for putting forward coherent cases to potential external investors. Thus, the Scottish EDGE does not appear to have been a significant driver of reflection for successful applicants.

2.8 The influence of the Application process on the business proposition

The data in Figure 2.10 indicate that those who were successful tended to be actively reflecting on their business.

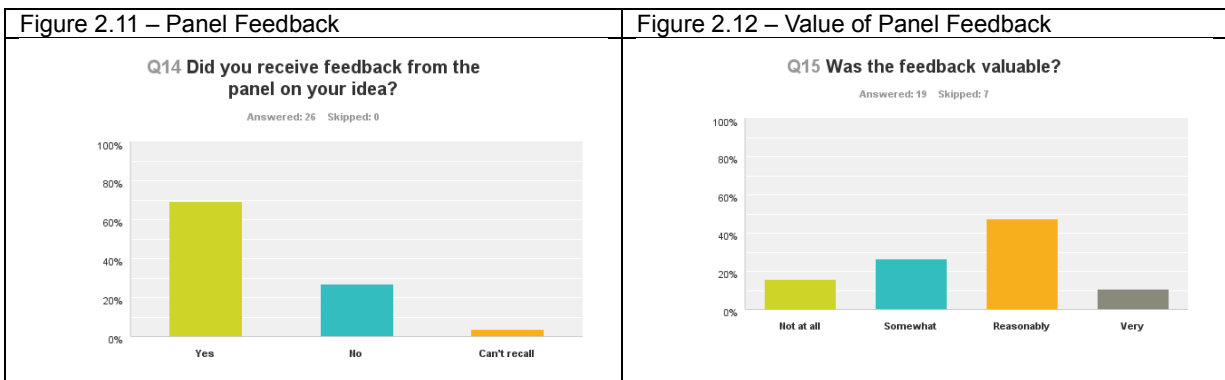


The key areas where the process was felt to have helped was around:

- Increased belief in their business proposition
- Improved communication
- Overcoming fear of public speaking (specifically relating to the final Panel session at Gogarburn)
- Developing a sharpened pitch that convinced subsequent investors to make an investment.

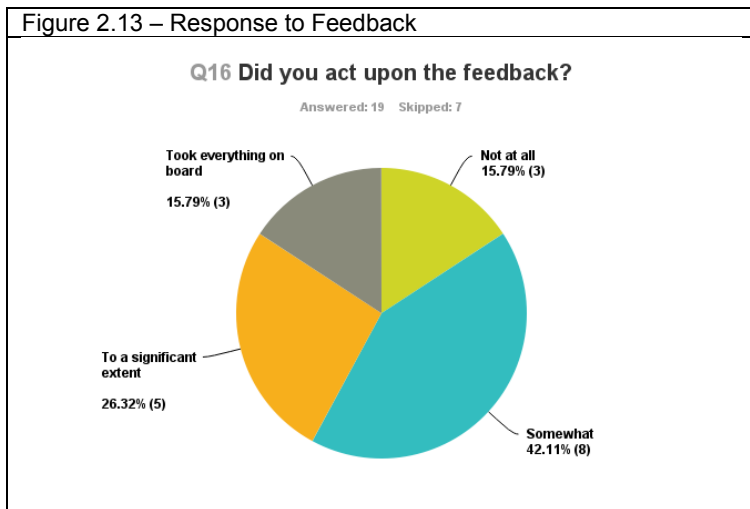
2.9 Feedback from the EDGE Panel

The interpretation of the responses from successful candidates on “feedback” is complex. When asked whether feedback was provided, respondents tended to be vague.



Respondents noted that they had received some feedback but that it was not always in a form that was actionable. Generally most value was derived where the Panel made suggestions for improvements (both to the pitch and the business idea) at the Regional Pitch stage as this

allowed them to refine their proposition for the Semi-Final and Final. We would note that the process for providing feedback was different for each of the three Rounds, and that these data relate to feedback from participants from all three Rounds. For round 4, no feedback is being provided.



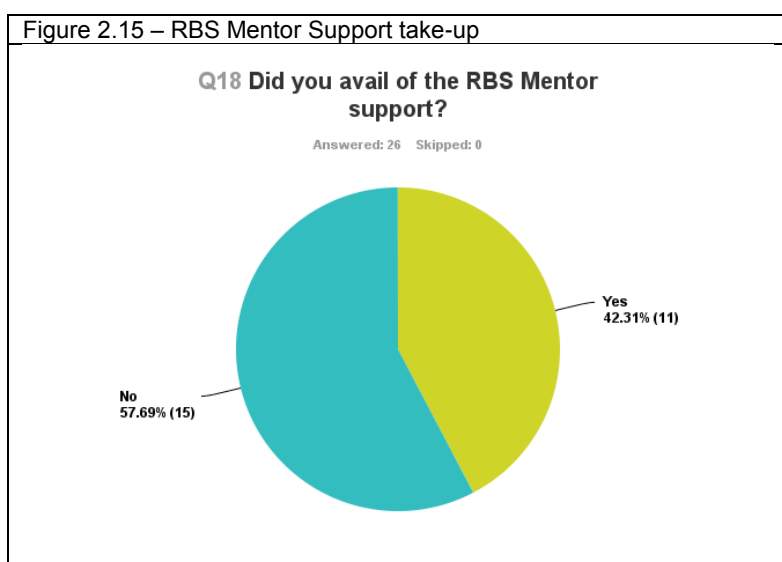
One firm was critical of Scottish EDGE as the firm suggested it had changed its business proposition in the period between making the application and the Regional Pitch stages. Although it claimed to have made this clear in the content of the pitches (notably at the Semi-Final and Final), when the award was made, it focused on the content of the application form. The firm felt that this was inappropriate and that Scottish EDGE should be more flexible in responding to firms' evolving business propositions and their consequential needs (although, they did indicate that they might have been too "early-stage" when making their submission). We note this feedback but would counter that Scottish EDGE aims to reflect commercial assessment processes. In this regard, private investors would expect firms to think through their business plans before submitting them for appraisal and would also expect them to stick to the core principles of their business proposal. In addition, once awards are made, it is at the discretion of the Scottish Enterprise/Highlands and Islands Enterprise or Business Gateway advisor to change the use of the funds, so long as the revised use continues to meet with the ambitions of Scottish EDGE and achieves the required growth.

2.10 RBS Mentoring Support

Just under half (42%) of the successful firms availed of the RBS Mentoring support but just three could name their mentor. Those who could were generally positive but noted that the input was comparatively "light touch". Many of those who had not availed of support indicated that they received mentoring support (both formal and informal) from other sources.

There were indications that:

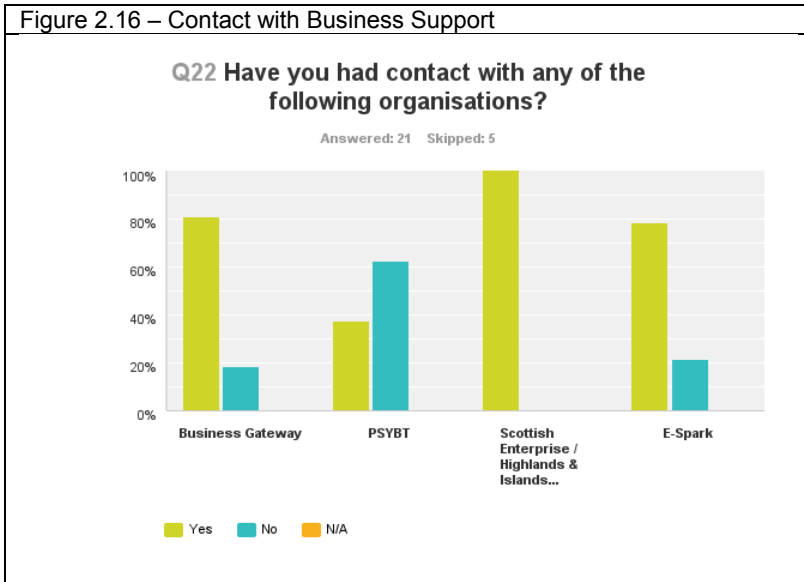
- Firms did not know what comprised RBS mentoring support
- Some firms were uncertain of RBS motives and feared being pressurised to open an account with the Bank
- Applicants felt there was scope to be proactive and to “match” the mentors to the firms (based upon the firms’ needs) – at present, the matching was described as being laissez-faire.



2.11 Contact with other organisations

Successful firms had good contact with the enterprise support networks in Scotland. The principal *active* engagement had been with Business Gateway - although the principal engagement is shown to be with Scottish Enterprise in Figure 2.16, this may appear misleading as many of these citations were from firms who were in the process of progressing to being Account Managed, had recently progressed to being Account Managed or had approached Scottish Enterprise/Highlands and Islands Enterprise for funding. In terms of active engagement and business development inputs, Business Gateway was the predominant player for firms at the point of application.

Figure 2.16 – Contact with Business Support

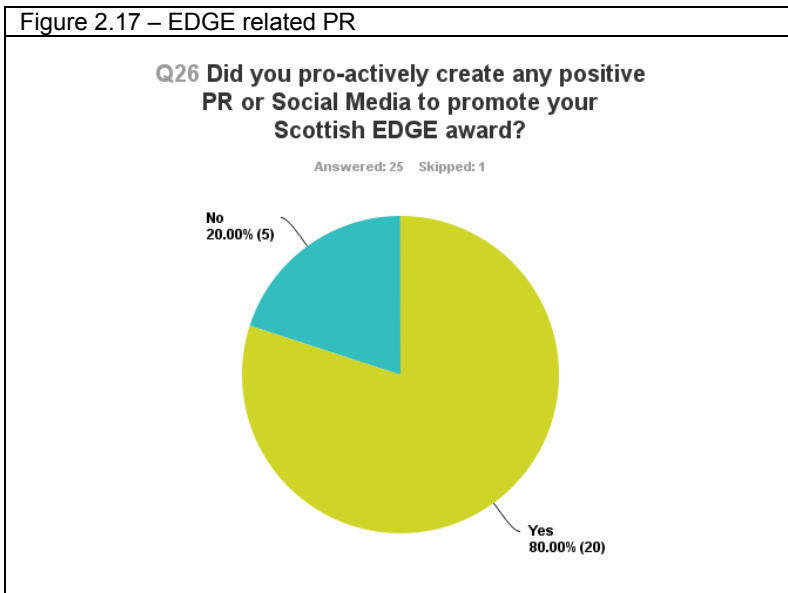


All but one of those responding positively to this question had a nominated contact within these organisations.

2.12 PR Deriving from Scottish EDGE

Four fifths of the sample derived positive PR from their success on Scottish EDGE (Figure 2.17).

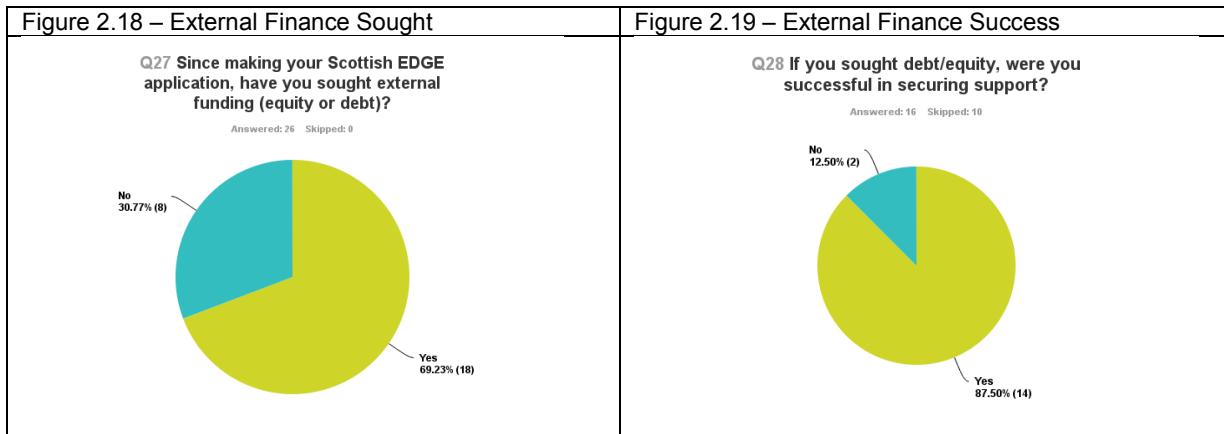
Figure 2.17 – EDGE related PR



In their feedback, applicants frequently mentioned Scottish EDGE related coverage in the Herald and Scotsman newspapers. Twitter campaigns and Facebook were also cited as being used appropriately.

2.13 Other funding sources

The data in Figure 2.18 shows clearly that these firms actively seek equity or debt funding as fractionally under 70% provided detail on this factor.

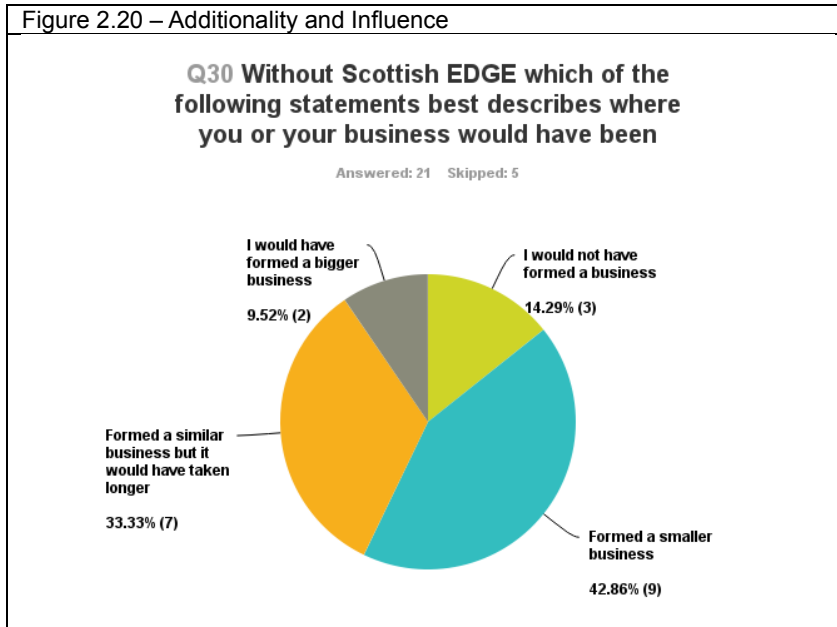


It can be seen that of those who sought support, the vast majority (approaching 90%) were successful. This is a positive finding as the high conversion rate suggests that Scottish EDGE is influential in facilitating firms’ success of converting a developed business plan with ability to successfully pitch this to investors.

2.14 Additionality and influence of Scottish EDGE

The chart in Figure 2.20 presents the influence and additionality associated with EDGE. Note that the questions as presented related to the formation of a business but in reality we adapted the question to match the developmental status of the participant (specifically for firms that were already established). It will be noted that two of the firms suggested their turnover might have been greater. These were projects where the firm had plans to expand – in one case, unexpected market changes in their new location adversely affected business and in the other, the firm suggested that they needed to focus on winning orders rather than investing in manufacturing capacity, the latter being the focus of the Scottish EDGE award.

Figure 2.20 – Additionality and Influence



In summary, the findings suggest that there was a high level of scale and timing additionality – had they not been successful, firms would have formed smaller businesses or it would have taken them longer. Based upon our conversations with firms, we feel that the level of absolute additionality (i.e. ‘we would not have a business at all’) is likely to be under-represented and scale additionality over-represented as through conversation some firms (three to four cases) suggested that they would have struggled to continue had their Scottish EDGE application been unsuccessful.

The following Chapter presents survey feedback from unsuccessful applicants.

3 Survey Findings – Unsuccessful Applicants

3.1 Introduction

It is recognised that the overall benefit of the Scottish EDGE is derived not only from participant ‘winners’ but also from those who benefited from the experience gained throughout the application process. The aim of this survey, therefore, was to capture positive effects on unsuccessful applicants (that the application process may have had on the business through making the application, video pitch, and, where appropriate, Regional, Semi-final or Final Pitches). Our on-line survey was issued to 510 unsuccessful applicants. We received responses from 134 people, equating to a 26% response rate for the on-line survey. (Information on business performance improvement is addressed in para 3.15.)

3.2 Categorisation of the sample of unsuccessful applicants

Of those responding:

- 19 had applied for Round 1
- 27 had applied for Round 2
- 49 had applied for Round 3
- 27 had applied for Round 4 and
- 12 people had applied for more than one round.

Additionally, 12 people had applied for either Round 2 or Round 3 but couldn’t remember which one. (Those identifying that they had applied for Round 4 will also have applied for an earlier Round as the survey focused on those who had applied between Rounds 1 and 3)

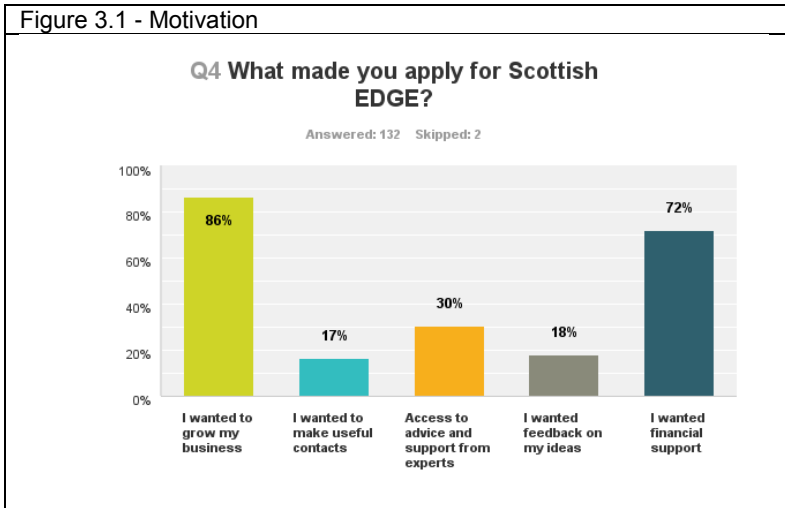
Seven people of the 131 full responses had applied for Young EDGE, or for both Young EDGE and Scottish EDGE.

3.3 Reason for applying

In line with the responses given from the successful applicants, financial support and business growth support were key factors in applying: most people responding (Figure 3.1) said that their main reason for applying was to help grow their business (86%). The next most common response was that they wanted financial support (72%). Some people applying saw that there might be additional benefits from applying:

- 30% mentioned access to experts and advice, and
- 17% and 18% respectively mentioned contacts (networking) and feedback on ideas.

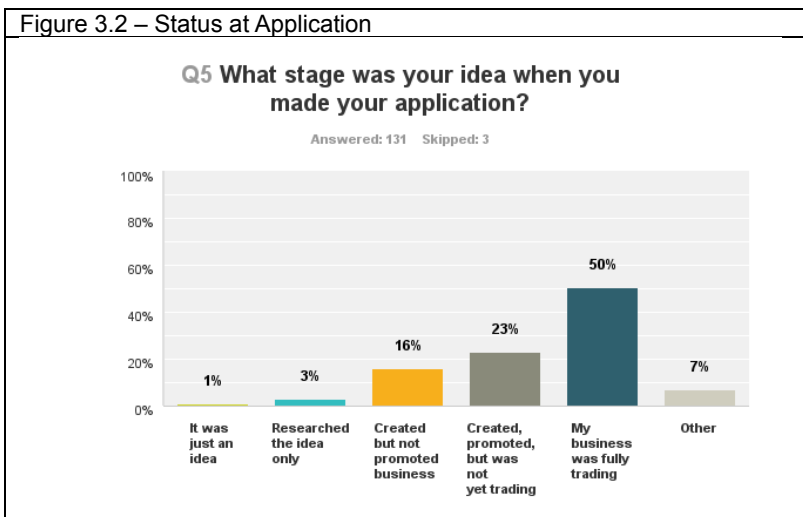
Figure 3.1 - Motivation



3.4 Stage of idea at application

The stage of business development of these businesses was shown to be slightly behind the ‘winners’ at the application stage. Half of those applying had a fully trading business when they applied. Just under a quarter (23%) had created and promoted a business but were not yet trading. At the end of the questionnaire, we asked how many businesses were currently trading, and this figure had increased to 69%.

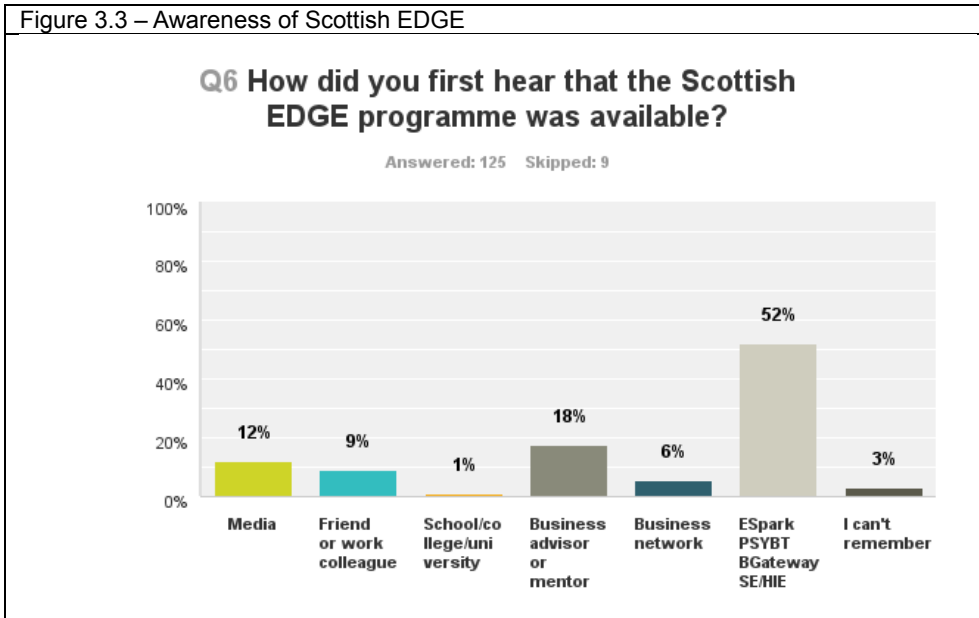
Figure 3.2 – Status at Application



3.5 How did people first hear about Scottish EDGE?

A variety of marketing sources were cited as routes to engagement. Sixty five people (52%) first heard about Scottish EDGE through either Scottish Enterprise, Highlands and Islands Enterprise, Business Gateway, Princes Scottish Youth Business Trust or Entrepreneurial Spark. Fifteen people heard via some form of media – Twitter was mentioned specifically by several people. In addition to these categories, two people mentioned that they had heard via Royal Bank of Scotland.

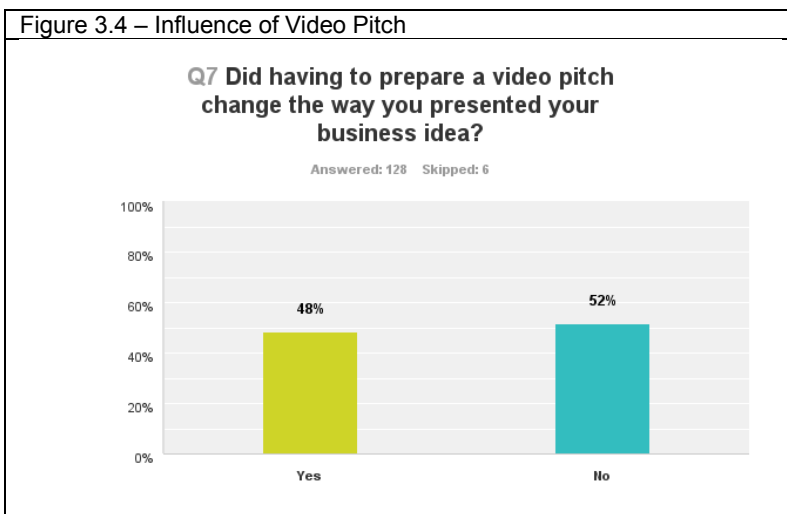
Figure 3.3 – Awareness of Scottish EDGE



3.6 Effect of the video pitch on the ideas

We asked for more detail from those who said this discipline did change how they presented their business. The majority of those giving more detail mentioned having to be more concise. Choosing which aspect to focus on was also mentioned, and in particular a process of identifying the strengths of the business and how best to present these. Several people explained that the process had made them strip back their original idea and focus on the most promising aspect. While many people mentioned being more concise, only a few said that they had worked on being clearer or easier to understand.

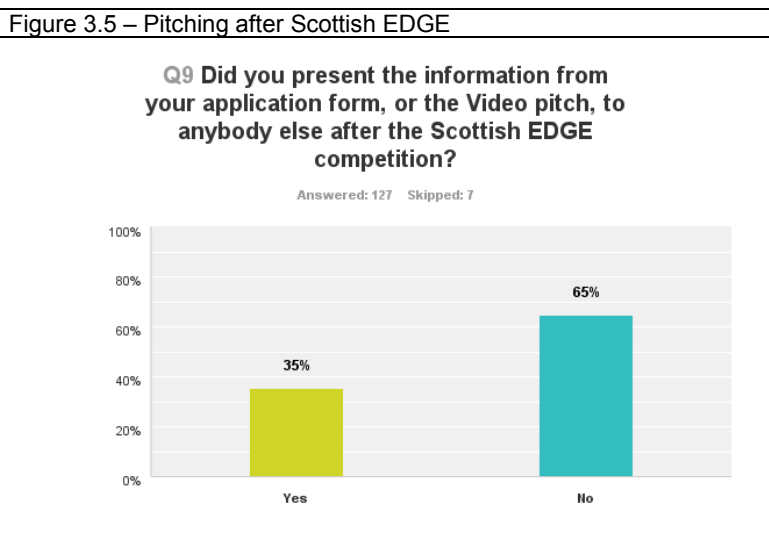
Figure 3.4 – Influence of Video Pitch



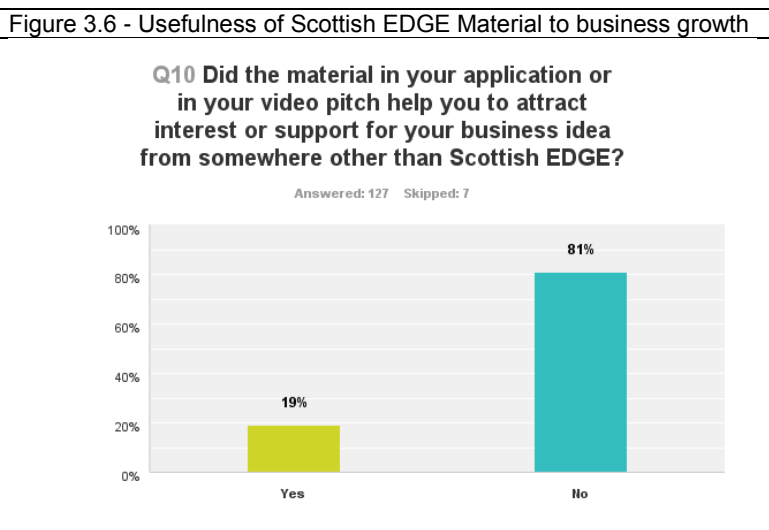
To balance this view, however, a smaller number of people felt the process had an adverse effect on how they presented their business: in particular it was mentioned that having to focus on slick presentation came at the expense of the substance of the idea, and that the idea became oversimplified. One person said that IP issues made it impossible to be sufficiently informative about the core idea.

3.7 Subsequent use of pitch material

Just over a third of people (35%) had used the material from their application or their video pitch after Scottish EDGE. In some cases, they presented to potential investors, and in some cases they used aspects of it to present to potential customers.



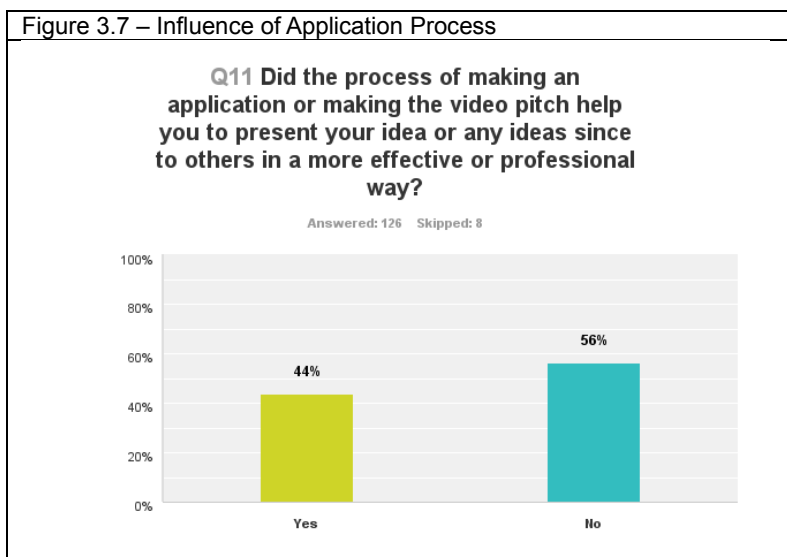
A significant although not overwhelming number (nineteen percent or 24 people) said that the material was useful in terms of attracting interest or support for their business idea.



Several people gave more information on this. As a result of applying for Scottish EDGE, two firms were now on the Scottish Enterprise High Growth Pipeline. Two mentioned joining Entrepreneurial Spark. Two mentioned Business Gateway. Four mentioned other awards or competitions, including Dragon’s Den, Mumpreneur, Great Retail Revival and the Scottish Institute for Enterprise New Ventures Competition. Three mentioned investors, including Venture Capital and Crowdfunding. One mentioned Women in Enterprise. One person mentioned Shell Livewire.

3.8 Effect of the pitch process on more recent presentations

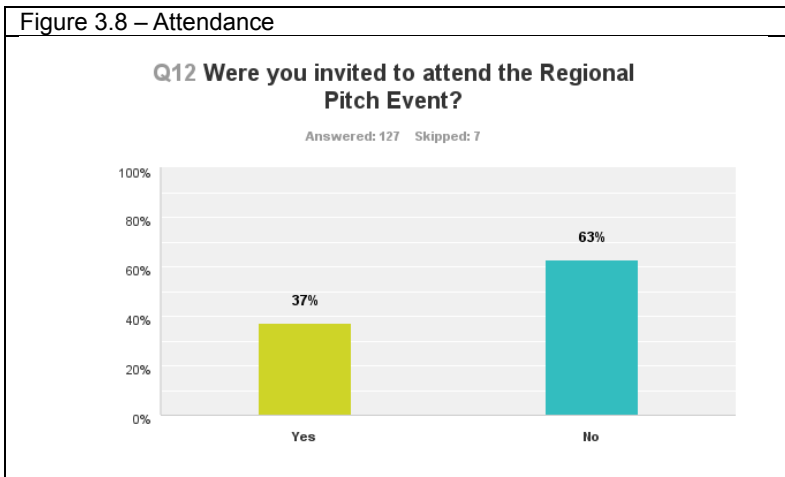
Aside from material content, we asked had the process of applying or making a pitch improved how the respondents presented their ideas since Scottish EDGE. Forty four per-cent or 55 people said it had helped them appear more professional or present more effectively.



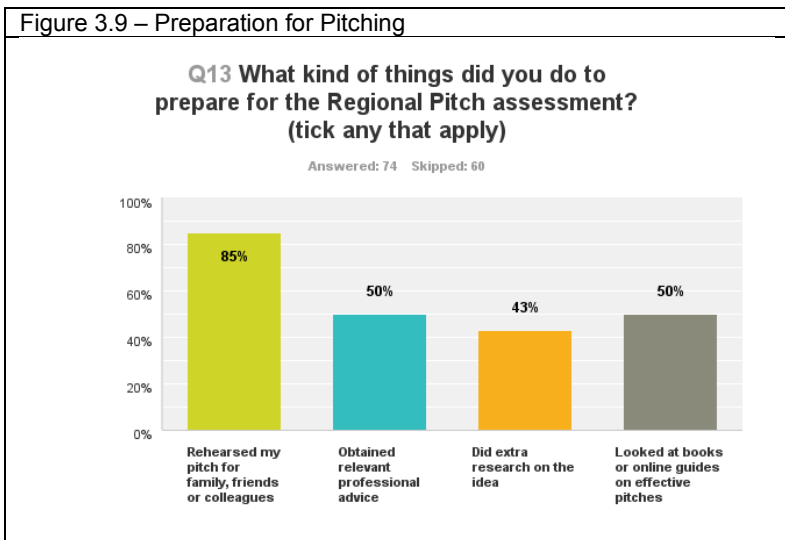
Many people gave additional detail: they said the process had given them a clearer structure which they were able to use for other discussions, that they had used their elevator pitch since, that the process had helped them either look forward or reflect on their existing business. Many commented that it had made them more effective at getting their ideas across:

- “It helped me hone .. my marketing strategy and business model, both of which have been drastically altered due to this application process”
- “I won “Pitch of the Day” at EIE (Engage Invest Exploit), thanks to the presenting workshop by that (Scottish) EDGE put on for us”.
- “The structure of a pitch has helped me clarify exactly what we do and now when with new potential clients I find myself delivering much of the pitch (in conversational tones).”

3.9 Number of those replying who made the Regional Pitch stage



We asked applicants who made it to the Regional Pitch Stage, what kind of preparation they had undertaken. Data in Figure 3.9 indicates that family friends and colleagues are a key group but half of those responding obtained professional help to prepare for their pitch to the Regional Panel. This emphasises the seriousness with which the applicants view their submissions.

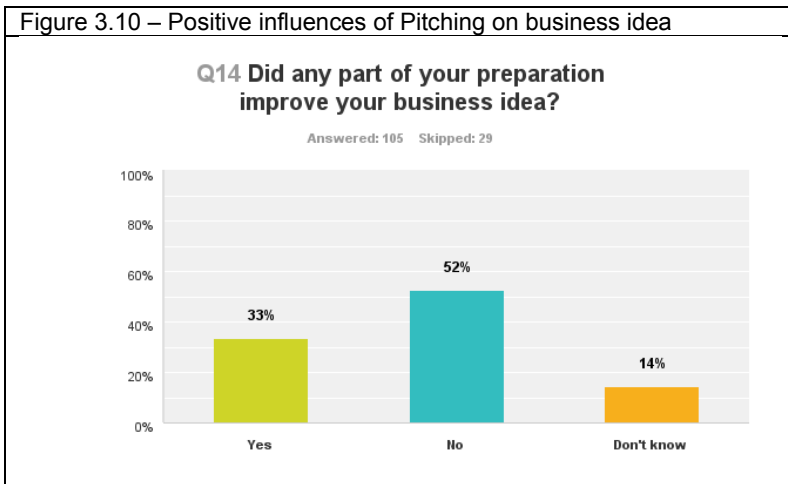


We asked whether the pitch process had helped the respondents improve or refine their business idea.

One third of the sample identified ways in which the application process improved their businesses. These principally included:

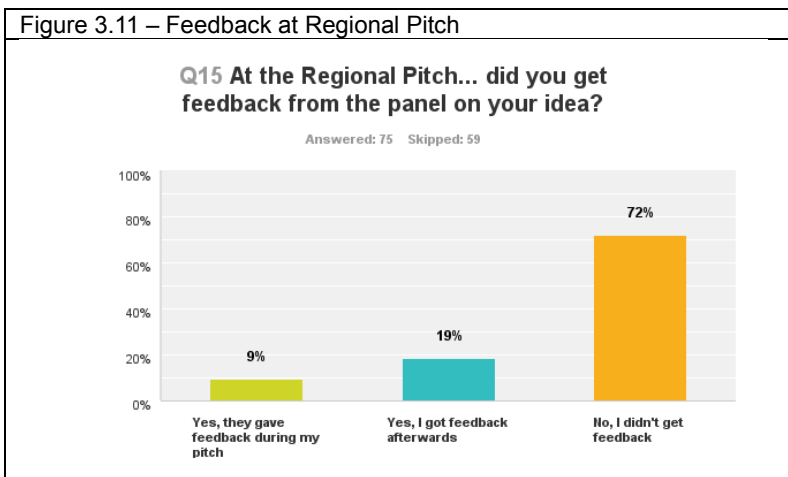
- Improved confidence through presenting the business idea in public and being able to handle questions
- Sharpening the business proposition

- Pitch practice in advance of subsequent presentations to external investors.



3.10 Feedback from panels

A total of 72% or 54 people reported that they did not get any feedback after pitching. Twenty eight per-cent or 21 people got feedback either during or after their pitch. As our sample included respondents from each of the three Scottish EDGE applicant cohorts the findings will reflect the different approach to providing feedback that was used in each of the Rounds.



Forty five people (67%) said the feedback they received (whether verbal during the pitch or in the form of scores after the pitch) was not helpful to them in terms of developing their business.

Those who had received feedback gave further information. Many people received scores and mentioned that these didn't really give any information on what specific concrete things could be changed or improved. More detailed feedback given fell into four broad categories and is presented below.

Feedback on the presenter or presentation:

This feedback focussed on ways the candidate could improve their performance. It included suggestions on preparation, how to remain calm and project self-assurance without being overly earnest or nervous, and comments on self-belief.

Feedback on the business proposal:

This feedback incorporated suggestions on ways the business ideas could be changed or improved. Several people reported that they were told either to simplify their offering or to focus on specific aspects of it. Related to this, one person said they had been told to draw out and highlight the unique aspects of their idea. One person mentioned being told to think about additional products. Engaging relevant specialists and preparation of an investor-ready business plan were also mentioned. One person had been told they should consider how their product could be manufactured in Scotland.

Feedback on why the idea was not successful:

Several people reported the feedback they had been given when their pitch was unsuccessful. Several people had been told that their idea was unlikely to “make a financial impact”, and one person said they had been told there was not enough expansion potential in the idea. “Unlikely to create employment” was feedback given to another candidate. Finally, one person was told to reapply later as their idea was in too early a stage of development for Scottish EDGE, and one person was told the scale of their idea was too large for Scottish EDGE.

Unhelpful feedback:

A few people mentioned unhelpful or non-constructive feedback. One person reported having been told that people from their profession were “too rich and shouldn’t be applying for Scottish EDGE”. Several people mentioned that the panel lacked understanding of the high tech or digital sector and so said the idea presented wasn’t interesting to them. Two people said their idea was rudely dismissed by at least one member of the panel.

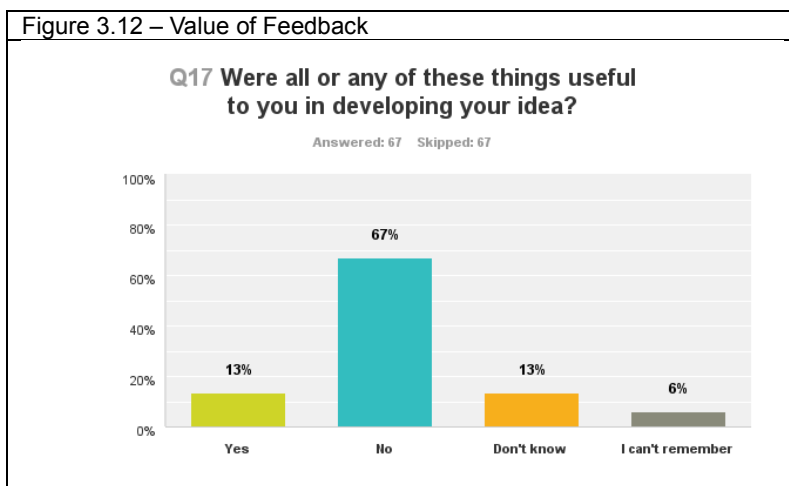
Additional comments

There were two comments from respondents with respect to the feedback process that were informative:

- “Please include more specific feedback for semi-finalists within the process. I received feedback outside the process from panel members which was extremely helpful in taking my business forward.”
- “My feedback was through a scoring system. I felt my scores were unfair as during my pitch no one asked me one financial question or how I was planning on growing my business and the scoring system I didn’t find helpful, it would have been more effective if there were notes to go with this.”

3.11 How helpful was the feedback and did it result in any changes?

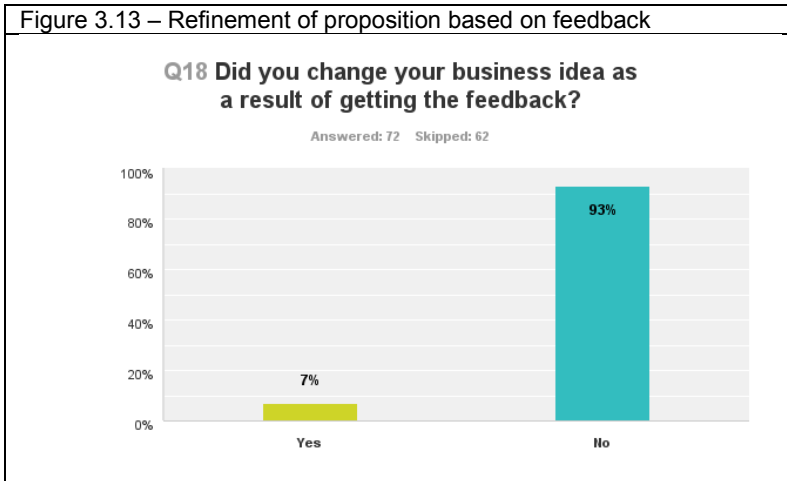
In contrast to the benefits accrued through participation, it was clear that the formal feedback element was not perceived as helpful. As a result of the data presented in Figure 3.13 below, it is not surprising that 67 people (93%) did not change their business idea as a result of the feedback.



One person commented:

- “Not being shortlisted [for the final] damaged our business. There was no feedback and quite frankly we do not believe those making the decision did so on objective grounds”.

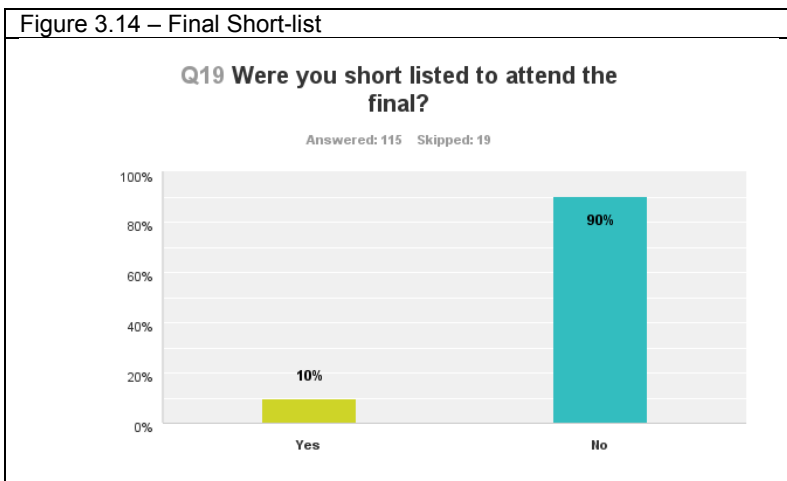
Figure 3.13 – Refinement of proposition based on feedback



3.12 Final Pitch

Eleven people (10 of those who responded) made it to the Final Pitch stage.

Figure 3.14 – Final Short-list



3.13 What difference did it make to be shortlisted for the Final?

We asked people whether being shortlisted had made any difference to them. The feedback on this question – albeit from a relatively small group of respondents – divided into strongly positive and strongly negative responses.

Positive

Typical of the positive responses were comments about how being able to pitch to the (senior business) panel and in front of an audience had a very positive effect on confidence and on belief in the strength of their ideas. A couple of typical comments included:

- “To pitch to an audience was great but also validated my idea which gave me huge amounts of confidence moving forward”.

- “Boosted my confidence, helped me develop pitching skills. Has also increased my appreciation of the funding and how much even a little can move things forward”.

Negative

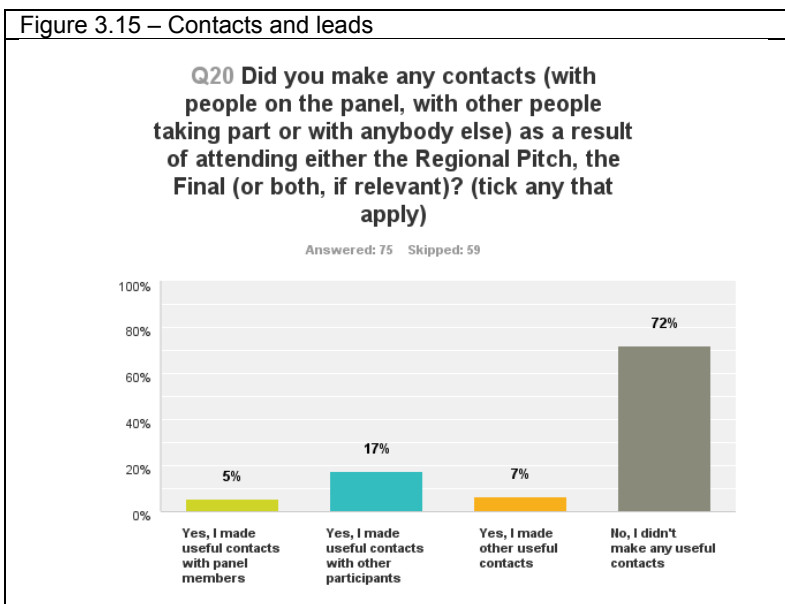
The negative comments tended to focus on whether the panel were truly impartial, and on the candidate’s perception of the waste of their time and effort. Typical comments included:

- “No positive difference. We don’t object to not making the final but did object to the hostile approach of one panel member”.
- “It was a negative, costly and time consuming experience”.

On balance, there was one negative comment for every two positive comments (there were 12 comments from people who made either the regional pitch stage or the final pitch stage, and of these, four were negative and the remainder were positive).

3.14 Networking and contacts

Where participants made useful contacts, they tended to be with other participants (17% or 13 people made useful contacts with fellow applicants).



3.15 Influence of the Scottish EDGE application on subsequent business activity (additionality)

In terms of what happened since Scottish EDGE, the largest group (94 people) continued to develop their business/business idea but their application to Scottish EDGE had no effect on this. Seventeen people said that Scottish EDGE had either some or a significant influence on their development of the business since applying. Only two people said that they had done nothing to develop their idea since applying, although 21 people chose not to respond to this question. Figure 3.16 highlights (from the self-selecting sample) 15% of these businesses signify levels of additionality attributable to participation with the competition.

Can you tell us briefly what you've done to take your project forward?

This question was answered by 95 of the 135 people responding. An analysis of the text answers shows that the largest group within the 95 who answered had continued to develop and grow their business, some with notable success. A total of 69 answers mentioned progress or growth of the business. A smaller set of answers (15) mentioned continued development of the business, albeit at a slower pace or on a smaller scale than would have been the case if the Scottish EDGE award had been secured. Four answers suggested the respondents were involved in the current round of Scottish EDGE and were still hoping to progress to the next stage. Similarly, four answers suggested that the respondents felt that they were unable to progress their venture as they hadn't obtained Scottish EDGE funding. These respondents also felt that engaging in the competition had been either unfair (they felt that everyone who applies should be awarded a grant) or fundamentally detrimental to their business.

Looking in more detail at the 95 answers, further trends emerged. A large group of people mentioned either being in the process of applying for or having received funding elsewhere. Some of the funding was for significant amounts (£300k and £500k). Some was for smaller awards or amounts (e.g. SMART awards). Some had applied to banks, some to Business Angel networks, some for public sector grants and some to Crowdfunding. In total, 27 of the answers referred to investment or funding either awarded or imminently anticipated. Of these, 5 mentioned Crowdfunding specifically.

We examined the answers to see how many people had mentioned growth in terms of new customers, new sales or new markets. Eighteen answers contained specific references to growth of their business. One person mentioned that their idea had been bought by a multinational organisation and that it was currently selling well.

We also examined answers for mention of export sales or international distribution agreements. A total of 10 answers contained mention of exports, and the countries mentioned included several mentions of the US, as well as India, Europe and the Middle East.

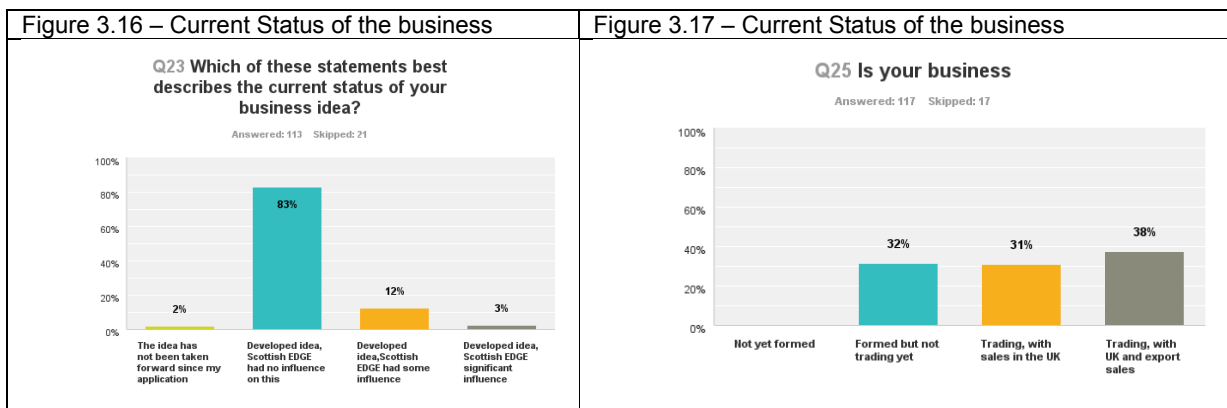
In terms of employment, eight answers mentioned increased employment, one having taken on more than 6 people since their Scottish EDGE application.

A total of 10 answers contained reference to having developed a completed prototype since Scottish EDGE or to having run a successful pilot.

Finally, seven answers mentioned Scottish Enterprise or Highlands & Islands Enterprise support or having been selected for HIE or SE initiatives or programmes (e.g. the Start Global programme, Investor Ready Support).

3.16 Current status of business or idea

We asked people what was the current status of their business or idea. We had earlier ascertained that 50% of those responding had businesses that were fully trading at point of applying to Scottish EDGE.



In terms of the current status of respondents’ businesses, the 50% trading at point of application had increased to 69% trading, with 38% of these trading with export sales.

3.17 Other effects of Scottish EDGE

We asked people to rate the effects of Scottish EDGE on several scales.

- Personal confidence
- Ability to pitch
- Follow-on support

- Networks
- Contacts
- Mentor support

For many of these (networks, contacts and mentor support), almost all respondents either didn't reply or said it had no value.

Benefits to personal confidence was rated by 114 of the 134. Of these, 62% (71) people said it had not improved their confidence. Many of these expanded on their answer to say that it had actually reduced their confidence. However, despite not winning a Scottish EDGE award, 16% (19 people) said that the process had improved their confidence either "quite a lot" or "a lot". A further 21% (24) said that it had had "a small positive effect" on their confidence.

Of the 116 who rated the effect on their elevator pitch, 38% (44 people) said it had improved either "quite a lot" or "a lot", and 26% (30) said it had "improved slightly". Thirty four percent (39 people) said that participating in Scottish EDGE had not improved their elevator pitch.

In terms of the value of follow on support from Scottish EDGE or partner organisations, 115 people answered, and 61% of them (83 people) said that they had not had any useful follow on support. 9% (12 people) said they had follow on support that was of some slight use, and only 5% (7) said that they had derived either quite a lot, or a lot of value from follow-on support.

3.18 Any benefits of applying

A total of 59 of the 134 respondents were willing to choose a key benefit they had derived from going through the application and pitching process. These benefits included:

- improving or refining the business idea or business plan (31 people or 23%)
- improved pitch (17 people or 13%) and
- improved confidence (4% or 6 people).

However 33 people (24%) said they couldn't think of a single benefit – quite a few of these referred to perceived unfairness or inequity of the process – and 31% (42) didn't answer the question at all.

The following Chapter presents a summary of our feedback from stakeholder consultations.

4 Stakeholder Consultation Feedback

4.1 Introduction

Consultations were undertaken with a range of key stakeholders and interested parties:

- SE Account Management
- SE – Press & Communications
- Highlands & Islands Enterprise
- Prince’s Scottish Youth Business Trust (PSYBT)
- RBS Mentors
- Massachusetts Institute of Technology (MIT)
- Business Support Consultants
- Venture Capitalist

Before considering the specific elements of feedback from consultees, we would note that the tone of the consultations was notably different to that of our interviews with firms (and indeed a fair proportion of the feedback from the unsuccessful applicants): specifically, the fact that the competition provided high value developmental funds that were targeted at the growth needs of individual successful firms, rather than requiring these firms to tailor their applications to the needs of a grant or funding programme. This led some consultees to question its sustainability; though this targeting of resources was felt by successful applicants to be a key, uniquely positive attribute of the Scottish EDGE.

Feedback from applicants indicates clearly that they see Scottish EDGE as being different from other forms of business support as they felt it was designed in a way that fitted the needs and aspirations of entrepreneurial people. The applicants generally understood well that the Public Sector was taking a risk with Scottish EDGE in providing significant levels of funding to businesses that were often early stage and small and they respected this commitment. Although entrepreneurial by nature, virtually all of those interviewed had used the Scottish EDGE award to take the actions they set out in their applications and pitch.

Two consultees suggested splitting Start-Up applicants from those who were already well-established trading entities. Interestingly, this observation was also made by several of the established firms that were successful – they observed that some of the pre-start businesses came across as naïve and that it might be appropriate to have a different “stream” for this grouping. The established firms also suggested that it might be appropriate to introduce milestone achievements when making awards to Start-ups as this would encourage them to

focus on achieving outcomes in a similar way to that required by investors making equity investments.

In addition, consultees raised issues around:

- the scale of the award being too low
- the (lack of) fit between Scottish EDGE and other forms of support
- The “free” nature of the award – awards do not have to be repaid (as would be the case with a loan)
- Linked to the previous point, the future sustainability of the Programme and how it might be supported.

Our review coincided with parallel exercises that were undertaken by two other consultants, one looking at future funding models for Scottish EDGE and the other looking at possible future organisational models for Scottish EDGE. The latter was undertaken by EKOS Consultants and the consultations with PSYBT, Highlands & Islands Enterprise and COSLA were undertaken jointly with EKOS (so as to minimise “interviewee load”).

Given EKOS’s role, we have not included a detailed discussion of potential future organisational models in this summary.

4.2 Awareness limited amongst non-core stakeholders

Our consultations included both those who were involved in supporting or delivering Scottish EDGE and those who are working in fields that might provide applicants (University spin-out/commercialisation, high-growth start-up support, early stage risk capital etc). It was striking in their responses that while the non-core consultees had a view on Scottish EDGE, their understanding of its structure and operation was less well developed.

The press coverage of The Scottish EDGE programme, in particular suggestions of a potential conflict of interest through having the Chief Executive Entrepreneurial Spark engaged in the selection process, was considered to have had an impact on the image of the Programme. This negative media profile came across fairly strongly in those who provided consultation feedback.

Our risk capital consultee was not aware of Scottish EDGE other than by name.

4.3 Strong support for the competitive element

Those stakeholders who were engaged in the delivery of Scottish EDGE felt strongly that the competitive aspect of its design should be maintained. They felt that this was effective in

attracting applicants who might not otherwise come to the attention of Scotland's business support infrastructure (although we would note that in our survey of applicants, contact with Business Gateway was frequently cited). They also felt that the design of Scottish EDGE was very well suited to entrepreneurial people/businesses who typically shunned other forms of support.

4.4 Differing views on appropriate terms for the Scottish EDGE Award

There was a fair degree of diversity when discussing the terms of the Scottish EDGE award with those stakeholders who were involved in the management and delivery of the programme. These views can be summarised as:

- Scottish EDGE should be a repayable loan as this would help the fund to be self-sustaining and would introduce a degree of responsibility to the applicant to use the support appropriately and generate a return
- Scottish EDGE awards should be lower/higher – those who suggested “lower” considered awards are notably above the typical support level from other sources while those who suggested “higher” felt that the £50k limit was not enough to be significant for high growth potential start-ups
- One of the leading financial institutions should fund Scottish EDGE as it was introduced to address their lack of commitment to providing debt funding to the market - they should either support Scottish EDGE in its current form (gaining positive PR in the process) or start to provide debt finance to sufficient levels for high potential start-ups and thereby make Scottish EDGE redundant.

4.5 Promotion and marketing

Consultees suggested that there is scope to promote and market the Programme more effectively. There is little hard copy supporting material that can be distributed to potential applicants and information on SE's website was viewed as being hard to locate by one of the consultees. The opportunity to undertake more proactive marketing was mirrored in our interviews with successful applicants – if they were not engaged with Espark, applicants tended to learn about Scottish EDGE by chance.

4.6 Declining demand

Several of the consultees noted the declining application rates for Scottish EDGE and wondered whether the market for ambitious, early stage growth businesses had been reached.

4.7 Too early for Value for Money assessment

The key question raised by all of the core stakeholders was whether Scottish EDGE generates sufficient value for money. These consultees recognised that it is too early to judge but, intuitively, seemed to feel that it would generate some high performing cases and that would likely prove to have been a good investment.

They also noted that there are likely to be significant and possibly high profile failures – but that this is a key facet of the entrepreneurial process and is therefore appropriate given the entrepreneurial approach being adopted.

4.8 Young EDGE

Young EDGE evolved through the Scottish Government wishing to encourage a greater proportion of young people to enter the competition, but to do so without diluting Scottish EDGE's appeal to more experienced applicants.

They recognised that this necessitated a simple entry point and that it was appropriate to use lower turnover growth targets given younger applicants were likely to have less experience and face greater hurdles raising sufficient finance (target was set at £200K rather than £400K).

We understand that the Scottish Government has committed to supporting further Rounds of Young EDGE in the future.

4.9 The time resource required by partners

The resource required to appraise applications and to manage the process is significant – especially so for SE but also for the other partners who contribute to the assessment process. The existing level of commitment appears unsustainable for SE in particular, where the same person assesses all applications to ensure consistency, whereas in most other partner organisations, applications tend to be distributed for appraisal.

4.10 The engagement of Espark

Espark was the source of the original Scottish EDGE idea and concept. Given its origin, there is consistent feedback from all sources that the involvement of the Espark CEO in the appraisal process has been problematic in terms of public transparency and has been the cause of much of the negative press coverage (and feedback from unsuccessful applicants).

Regardless of the fact that Scottish EDGE is a publicly funded, the breadth and strength of questioning on the role of Espark in the assessment process is significant and understandable.

Our view is that the involvement of Espark in the appraisal of applications might be reviewed..

4.11 A leading external perspective

We consulted a highly experienced practitioner of entrepreneurship development programmes who is also a former staff member of the Massachusetts Institute of Technology (MIT) and was acquainted with the approach being adopted by The Scottish Edge programme. He currently chairs an overseas MIT programme designed to promote entrepreneurship globally.

His view generally on these types of programme is that they should be designed to be very “open” at the front end so as to attract as broad a population of motivated individuals as possible.

This openness should also be applied to the selection panels – invitations to the panel should be designed to attract both the “usual” and “unusual” suspects to judge applications. Panel selection is a critical part of the process as it is panel members who interpret the guidelines when deciding who proceeds through to subsequent stages.

Thus, if the promotion is “open” and the assessment panel has people representing a range of different perspectives, it maximises the chances of attracting some genuinely novel businesses. This observation is striking given the profile of many of those who applied but whose application was unsuccessful – a significant minority successfully pursued their business idea regardless. The fact that this group applied and their applications could be appraised indicates that “openness” of the Scottish EDGE process is good.

However, the issues surrounding the engagement of Espark in appraising applications and the separate feedback around the questioning of applicants at the Regional Pitch and Semi/Final Pitches suggests that the profile and briefing of the Panel might be reviewed going forward. A review of the process for appraising applications is likely to have to be undertaken anyway given the considerable time investment required by the core partners in appraising applications.

The following Chapter presents our analysis of survey feedback.

5 Interpretation of potential economic impact – a thought piece

As outlined in Chapter one, the aim of this assignment was to undertake an early-stage *strategic* review, rather than a detailed *evaluation* of the Scottish EDGE programme. It was considered therefore inappropriate to focus on assessing economic impact at this very early stage, given that only the first cohort had completed full participation on the Programme, and were early in their developmental journey. This view was confirmed by the stakeholders we consulted (see Chapter four).

Despite the limited elapsed time available within which to assess the benefits that are attributable to Scottish EDGE, we aimed to capture as detailed information as possible from our telephone sample (Chapter two). We focused on establishing each firm's 'progress' (defined as company growth) as presented by beneficiaries and this proved fruitful in identifying the *change* in business performance of the successful applicants. This is a welcome finding that further highlights the positive characteristics of this business cohort's performance.

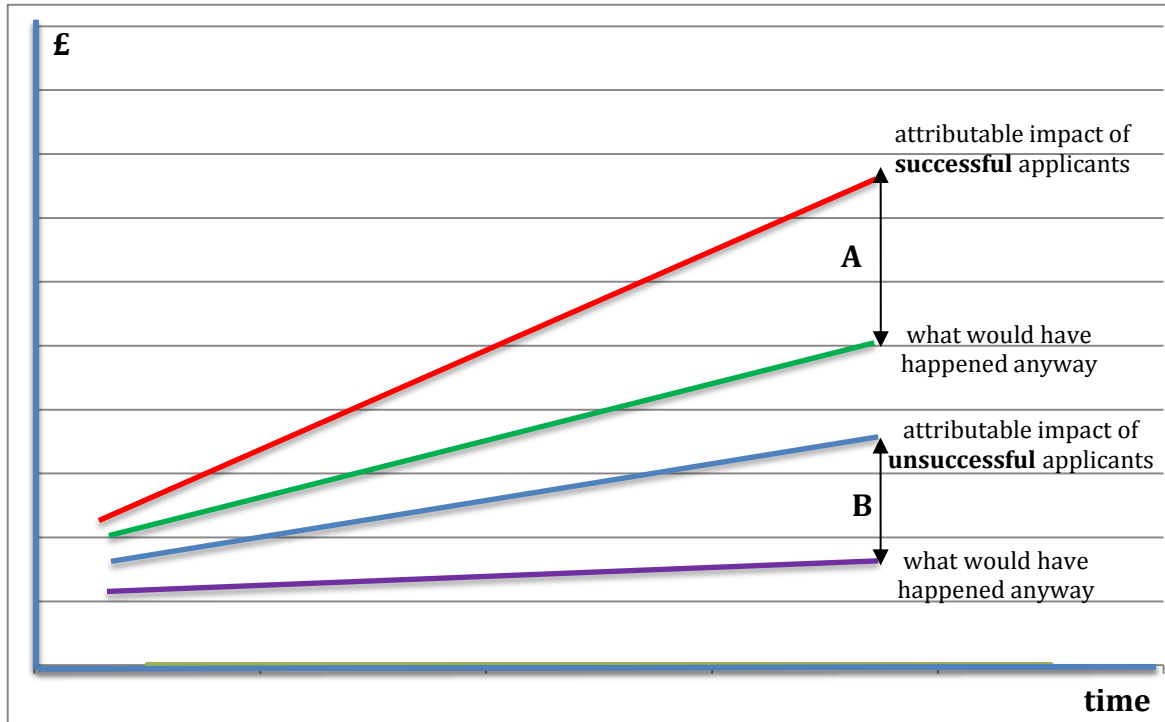
Quantitative data was captured for "current" turnover and employment, allowing an assessment of performance change as well as near-term three-year forecasts (to 2017). A perspective on additionality was also captured based on activity achieved to-date and a sense of what was likely to be achieved over this three-year time horizon. There are two points worth of note:

- in those cases where firms were part way through their financial year, we asked them to estimate (on a pro-rata basis) what their turnover would be at the end of the current year. This may lead to differences between the turnover levels recorded in SE's monitoring visits and that *estimated* by firms in our survey (the data presented here tends to be higher)
- the recording of employment is likely to be more consistent as firms stated their employment numbers as at the date of interview. Where there was a mix of part time and full time employment quoted, we assumed that one part time position equated to 0.5 full time position.

For illustration purposes only Figure 5.1 sets out our conceptual approach to assessing the degree of total economic impact derived for the programme: attributable performance change from the successful applicant business cohort (A) **and** those unsuccessful applicants who have experienced a performance uplift as a result of participation in the competition (B); while a number of benefits leading to follow-on performance improvement have been recognised by

this cohort in a limited number of cases, a quantitative assessment of this element was not determined¹.

Figure 5.1: illustrating how economic impact would be derived for the intervention



Tables A1.1 and A1.2 (Appendix 1) highlight clear evidence of both turnover and employment growth amongst the sample while Table A1.3 provides detail on the calculation of net gross value add (GVA²) for the sample.

$$\text{GVA} = \text{turnover less cost of inputs}^3$$

Turnover change

In Table A1.1 relating to turnover:

- Nine businesses (from the sample of 25) are early in their development journey and not yet generating sales

¹ The On-Line Survey of unsuccessful applicants also highlighted that EDGE had a (limited) influence on their businesses but that a proportion of these businesses had been successful in attracting external investment and support.

² GVA measures the contribution to the economy of business activity

³ That is bought in materials, components and services

- Turnover for the sample was £2.43 million when the application was made vs accrued gross turnover of circa £8 million for the current year's trading, an increase of over 300%, or an average of £550k per trading business
- Considering ability to export, a key weakness in Scottish businesses, 38% (of 'successful' participants) claim to be exporting.

These data allow us to consider net impacts at a strategic level. The calculation of net impacts requires consideration of key adjustment factors, namely:

- *Optimism Bias* – the demonstrated, systematic tendency for project appraisers to be overly optimistic. We recognise the figures for future turnover are ambitious and optimistic: the sample estimated that at a point in three years time (2017) their turnover would be £59 million. Based on our interview feedback we however believe that several of the firms citing significant further growth are very likely to make good progress against their plans. We make this observation based upon the detail provided by interviewees when we inquired on how they will develop their business.
- *Additionality* – the net positive difference resulting from an intervention. It is important to note that the majority of businesses cited time additionality, i.e. bringing a project forward in time as opposed to deriving greater levels of overall growth, in addition to scale additionality
- *Cost of inputs* – an estimate is made of the cost of inputs so that the Gross Value Added effect of the activity can be assessed
- *Multipliers* – the multiplier effect measures the overall effect on the economy as a result of increased expenditure (relating to an uplift in the outputs of suppliers and expenditure of additional employment). Type II Multipliers have been applied on a case by case basis using 2011 Input – Output Tables published by the Scottish Government.

By way of illustration and for insight purposes only, we consider the level of performance in 2017, and adopt a high case scenario for optimism bias at 75% along with a conservative level of cost of inputs at 60%. Applying these adjustments suggests a *gross* additional gross value add (GVA) in 2017 of circa £6m.

Applying a conservative scenario of deadweight of 70%⁴ suggests a *net* GVA of circa £2.8m in 2017⁵ for the cohort of 25 supported businesses.

⁴ via qualitative assessment for illustrative purposes

⁵ Gross GVA adjusted for deadweight, optimism bias, timing and multiplier effects

Comparing this to Programme costs over the three Rounds of circa £1.9m highlights that likely overall benefits will determine a value for money scenario (i.e. impact generated for the economy will be greater than costs incurred). While it should be recognised that full impact calculations will be undertaken during a full evaluation this should be viewed as a positive finding and hopefully gives a flavour of programme performance at the very highest level.

Employment change

The employment change is slightly more straightforward to analyse as firms were able to state clearly their current employment levels, rather than project employment to the end of this year.

Key summary data on employment reveals:

- employment levels have doubled in the 'successful' firms – the employment total for the sample at application was 70.5 FTEs while at the point of interview it was 139 FTEs (an almost 100% increase over a short time span)
- The average employment in the sample on application was 3.1 FTEs (median 2) with the average now is 5.3 FTEs (median 3)
- In three years time (2017) the sample estimated combined employment would be 368 FTEs with average employment per firm would be 8.8 (equivalent rise of 234% on current levels) - while this may seem a high estimate over a small timeframe, it reflects both the ambitious nature of the successful applicants and the rate of achievement they have made thus far since receiving their prize
- Confidence gained from the growth trajectory to-date, along with pushing businesses to justify the forecasts made indicate that with application of a conservative level of optimism bias indicates the programme returning a strong employment growth impact, and therefore, a low cost per job figure relative to other programmes we have evaluated.

5.1 Effectiveness, Efficiency and Economy

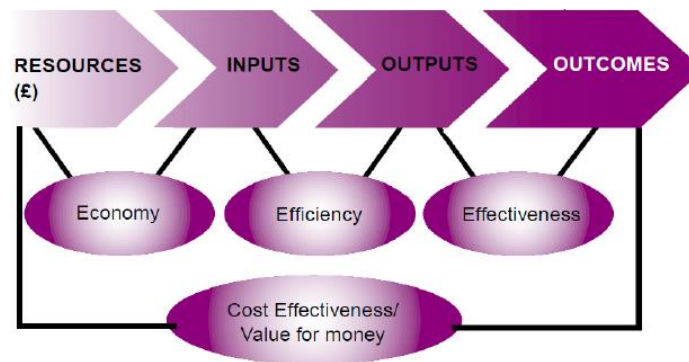
Accepting that this assessment is being made at an early stage for the Scottish EDGE, we can use a framework put forward by HM Treasury to provide context for the assessment of Effectiveness, Efficiency and Economy (Figure 5.2).

Using this framework it can be determined respectively that:

- At this early stage the businesses overall are showing a clear and rapid **effective** flow through the stages of the logic model, towards generation of demonstrable and sustainable outcomes

- The ratio of inputs to outputs indicates a highly **efficient** programme
- The ratio of input costs (at circa £1.9m over the three Rounds) to overall programme inputs and activities suggests a strong level of **economy**.

Figure 5.2 : A framework for determining value for money investment and support.



Source: HM Treasury et al: Choosing the right FABRIC – a Framework for Performance Information

The following chapter presents our Conclusions.

6 Conclusions

6.1 Context

Overall, we would observe that the firms interviewed for our “successful applicants” sample were quite different from the typical business support interviewees we tend to engage as part of our evaluations and strategic reviews in Scotland. They came across as being more ambitious and entrepreneurial than the norm. They appeared to be (genuinely) more export-oriented by type and many were achieving export sales early in their development.

Successful applicants to Scottish EDGE and a proportion of those who were unsuccessful, were highly focused and “driven”. Most applicants, and virtually all of the successful sample, identified strongly with their business ideas and came across as being very determined to succeed.

An objective observer might ask “Aren’t all start-up firms like that? “. In our experience, start-up businesses tend to be more focused than established businesses but in this instance, the applicants’ grasp of what they needed to do to achieve their growth plans was deeper and more coherently developed. During the interviews we pressed applicants to justify how they would achieve their future targets and their responses were virtually all comprehensive, informed, generally based on facts and appeared realistic. This is both positive and unusual.

6.2 Barriers

Market failures are the key criteria for government intervention. As noted in Section 2.1 established rationale for intervention in this area relates to imperfect and asymmetric information. The barriers that emerged from our telephone interviews (with successful applicants) confirmed this evidence, specifically in the areas of :

- Knowledge on *how* to grow the business
- Knowledge on *how* to raise finance.

Successful firms were generally clear on what they needed to do and where they were aiming – their need revolved around *how* to achieve their goals, which was addressed by the Scottish Edge programme.

6.3 “Money” and its Motivation

Most firms, both successful and unsuccessful, cited “money” as their key motivation for engaging in the Scottish EDGE.

While six of the successful cases explicitly identified the award as being “funds to grow the business” it was apparent in all of the other successful cases that the funding was being applied for growth purposes. For unsuccessful applicants, the motivation factors were similar.

Interestingly, the Scottish EDGE award was used by successful applicants for New Product Development (NPD) in five cases while several unsuccessful applicants had developed prototypes in the period since they engaged. The NPD activities were specifically around enhancing the firms’ product offerings. In the case of software products, it would take prototypes through to a marketable product. For service offerings, it supported the internal business infrastructure necessary to make the service scalable and viable.

Most successful cases aimed to use the Scottish EDGE award to gain knowledge of the market or new market entry. An example would be a firm that employed an experienced exports adviser who is working on technical aspects of the firm’s market offer, while also mentoring the CEO and making contacts for them. When the adviser’s input is finished, the CEO will have an established contacts book and detailed knowledge of the market entry requirements.

6.4 The Scottish EDGE award is unique

The maximum size of the award is very much higher than complementary support/grants. That said, the feedback from successful cases in particular suggests that all applicants should be informed that they may not get the full amount they seek and/or part of the application may be funded. In one instance of a successful applicant, the firm received part of the award sought but felt that the element of the application that was not funded was a foundation – thus, the elements that were funded could not be effectively pursued without the foundation in place.

The Scottish EDGE award is highly additional in that it enables firms to put forward a case for support in areas that they need to grow the business. *The applicant* defines the areas of need and presents the causal return that will be generated through the Scottish EDGE investment being made.

For applicants, this approach contrasted favourably with other grant support measures which they considered required them to change the focus/activity of the business in order to fit the grant’s conditions. This was a key differentiator in favour of Scottish EDGE and was viewed by applicants as evidence of the public sector taking a genuinely entrepreneurial approach to supporting early stage, high growth potential businesses. However, some consultees appeared to suggest that a more traditional approach to supporting these cases through using programme-led support or provided support through a loan fund might be more appropriate.

6.5 The Application process

Both the Application Form and the Video Pitch were considered to be appropriately challenging for the level of award on offer (scoring 2.87/4 and 2.75/4 respectively, where 4 is “easy”).

Applicants derived value from the Panel process but this was achieved indirectly rather than directly. The value gained by successful applicants was principally the increase in confidence their success gave them through being given the “seal of approval” by commercially prestigious panel members. Increased confidence was also cited by some of the unsuccessful applicants but we would note that a proportion of the latter group also cited a loss of confidence due to their failure.

The move in more recent Rounds to invite a large audience to the Finals held at RBS in Gogarburn was considered by some applicants in Round 1 to be especially daunting. Those questioning this move wondered whether the extra stress of having to present in front of a large cohort of people would test skills and competencies of applicants that would be valuable to them in the building a successful businesses – implicitly, they feared that it might favour extroverts. When compared to Round 1, raising the profile of the Final Pitch (in front of a public audience of up to 100 people) was felt to enhance the confidence of those who were successful but equally to dampen further the enthusiasm of those who were unsuccessful.

6.6 Programme Management

Programme management and organisation was considered to be very good by successful applicants. Respondents constantly cited the good communication on the process and accessibility of SE staff. However, some of those who were unsuccessful were less positive.

6.7 Clarity of the Assessment Criteria

Successful applicants who had applied more than once (this feedback is notably mirrored amongst unsuccessful applicants) suggested that the assessment criteria and the process used to appraise applications could be more transparent. A lack of transparency in the assessment criteria was frequently cited by unsuccessful applicants. This feedback linked to, but was independent of, separate feedback relating to the role of Espark in Scottish Edge. We return to this issue separately.

6.8 RBS Mentor Support (successful applicants only)

In contrast to the clarity with which they answered questions about their business, successful applicants were notably vague about their understanding and awareness of the RBS mentor support.

Eleven respondents (42%) indicated that they had “availed” of mentoring support but just three could name their mentor. Those who could were generally positive but noted that the input was comparatively “light touch”. Many of those who had not availed of support indicated that they received mentoring support (both formal and informal) from other sources.

There were indications that:

- Firms did not know what comprised RBS mentoring support
- Some firms were uncertain of RBS motives and feared being pressurised to open an account with the Bank
- Applicants felt there was scope to “match” the mentors to the firms (based upon the firms’ needs) – at present, the selection process was described as being reactive and laissez-faire.

Our conversations with applicants around this issue suggests that there is an opportunity to review the RBS mentoring offer and to position its contribution more clearly for the Scottish EDGE firms’ needs.

In parallel, our consultation feedback suggests that RBS is reviewing the provision of mentoring support in future. We understand that they are considering converting the current model into one where the mentor has a single, detailed meeting with the firm soon after the award is made. If this approach is adopted, we would question whether it should still be termed “mentoring” as this is generally viewed as being support that is provided strategically and regularly over a period of time.

6.9 Experience of pitching

Sixty one per cent of successful applicants for Scottish EDGE had been involved in “pitching” previously. There was a mix of audiences but the top four were:

- Potential Investors
- Scottish Enterprise
- Business Gateway
- Espark.

Around half of unsuccessful applicants who responded to a question on their preparation for the Video Pitch had sought professional input when preparing their submission – this emphasises the commitment applicants place when making their submission.

Generally, if an applicant was not part of Espark, they did not get assistance with their pitching or practice. Successful firms who were part of Espark recognised that they may have been at a potential advantage given the experience of pitching that Espark gave them.

The introduction of “pitch training” in later Rounds that was supported by Scottish Enterprise was felt to be very good by those who used it and they suggested that it could be mandatory.

6.10 Levered Finance

Just under seventy percent of firms (18) of successful applicants sought external finance following their Scottish EDGE award. This comprised a mix of debt and equity. The average value of the investment sought was just under £310k (the highest combined package was £1 million comprising £200k equity and an £800k loan facility) while the median was £250k.

Unsuccessful applicants were also active in attracting finance, but less intensively.

6.11 Quantitative change

Appendix 1 presents data on the quantitative changes that were cited by the sample along with an assessment of indicative net impact based upon their responses. As mentioned in Chapters 1 and 5, it is very early to attempt to assess impact from the Scottish EDGE as only successful applicants to Round 1 had received the full programme of support at the date of interview.

Accepting this proviso, it can be seen that:

- Nine businesses (from the sample of 25) are not yet generating sales
- Turnover for the sample was £2.43 million when the application was made vs accrued gross turnover of circa £8 million for the current year’s trading, an increase of over 300%, or an average of £550k per trading business

Our conservative top level analysis for the sample (provided for insight purposes only, and considering the level of performance in 2017), indicates a *gross* additional gross value add (GVA) in 2017 of circa £6m. After applying an optimism bias adjustment of 75%) and level of deadweight of 70% to the sample’s projections suggests a *net* GVA of circa £2.8m in 2017⁶ for the cohort of 25 supported businesses. Comparing this to Programme costs over the three Rounds of circa £1.9m highlights that likely overall benefits will determine a value for money scenario.

⁶ Gross GVA adjusted for deadweight, optimism bias, timing and multiplier effects

Key summary data on employment reveals:

- employment levels have doubled in the ‘successful’ firms – the employment total for the sample at application was 70.5 FTEs while at the point of interview it was 139 FTEs (an almost 100% increase over a short time span)
- The average employment in the sample on application was 3.1 FTEs with the average now is 5.3 FTEs
- In three years time (2017) the sample estimated combined employment would be 368 FTEs with average employment per firm would be 8.8 (equivalent rise of 234% on current levels).

When turnover and employment impacts are combined and assuming these early returns are replicated in future Rounds, Scottish EDGE is likely to generate a good return on investment.

6.12 Qualitative Change

As mentioned above, the single most significant qualitative benefit was an uplift in confidence that winners gained through having their business ideas assessed by the leading entrepreneurs. The competitive element of Scottish EDGE, requiring applicants to set out their business idea and have it independently appraised by many different people was also a factor, as was receiving tangible recognition in the form of significant finance. The (challenging) experience of having to pitch in front of a large audience was also a significant factor (positive for those who were successful).

Recognition by Business Gateway (e.g. transition to High Growth Pipeline) and progression to SE/HIE Account Management status were also valued. Applicants tended to be unable to cite the value of these inputs as the change to status had generally been fairly recent and the relationship needed time to be established.

Successful candidates derived notable benefits. A proportion of unsuccessful candidates (and indeed a couple of successful) candidates felt that their experience had a negative effect on their business plans. These proportions are comparatively small.

6.13 Panel feedback

The majority successful cases commented on the lack of feedback and this was a significant area of dissatisfaction for those who were unsuccessful applicants. All would welcome more.

We appreciate fully that this is a challenge for SE/HIE:

- Resources are limited and the “overhead” required to provide detailed feedback to every applicant is not practical
- Where feedback has been provided on the past, it has tended to generate more requests for detail and has been counter-productive
- Different forms of feedback have been trialled across the three Rounds but none has been particularly effective in addressing the demand
- Applicants are very strongly attached to their business ideas and don’t take rejection lightly.

On balance we accept all of these points and understand that SE/HIE has stated that no feedback will be provided in Round 4.

6.14 Linkages

Successful applicants noted that their engagement in Scottish EDGE helped them establish links with key support organisations

- Business Gateway Growth Pipeline
- Scottish Development International for export development
- Account Management.

It will be seen below that this was a benefit for a number of unsuccessful applicants too.

6.15 Influence of the Scottish EDGE on unsuccessful applicants’ subsequent business activity

In summary and for unsuccessful applications there are three broad themes :

- First, those who apply and fail and where Scottish EDGE is their principal or sole source of funding and the failure ends their progress. This group tends to be vocal and critical of Scottish EDGE and the process (and most things in fact) but are very few in number (less than 10)
- Second, those who apply and fail but who are philosophical and continue to pursue their idea. They are not yet successful but are trying to be.
- Third, those who have a clear view of their business and where they are trying to get to. They see Scottish EDGE as one of the ways to help them get there. Failure to attract Scottish EDGE funding has required them to make some difficult changes to their plans (lay people off etc) but does not distract them too much. They keep a focus on the long game and several have made impressive gains (in terms of business growth and investment) – this is the largest group and some have shown significant growth success.

Ninety four unsuccessful applicants continued to develop their business/business idea but Scottish EDGE had no effect on this activity. Seventeen people said that Scottish EDGE had either “some” or “a significant” influence on their development of the business since applying. Only two people said that they had done nothing to develop their idea since applying, although 21 people chose not to respond to this question.

Unsuccessful applicants’ actions post-Scottish EDGE

The largest group within the 95 respondents had continued to develop and grow their business, some with notable success:

- 69 answers mentioned progress or growth of the business
- 15 mentioned continued development of the business, albeit at a slower pace or on a smaller scale than would have been the case if the Scottish EDGE award had been secured.
- 4 answers suggested the respondents were involved in the current round of Scottish EDGE and were still hoping to progress to the next stage
- Similarly, 4 answers suggested that the respondents felt that they were completely unable to progress without having obtained Scottish EDGE funding, and that the whole process had been either unfair or very detrimental to their business.

Looking in more detail at the 95 answers, further trends emerged – specifically 27 respondents of the answers referred to investment or funding either awarded or imminently anticipated:

- A large group of people mentioned either being in the process of applying for or having received funding elsewhere, some for significant amounts (£300k and £500k) and others were for smaller awards or amounts (e.g. SMART awards)
- Funding sources included banks, Business Angel networks, public sector grants and Crowdfunding (5 specific mentions).

Eighteen respondents contained specific references to growth of new customers, new sales or new markets. One person mentioned that their idea had been bought by a multinational organisation and that it was currently selling well.

A total of 10 answers mentioned exports, and the countries included several mentions of the US, as well as India, Europe and the Middle East.

In terms of employment, eight answers mentioned increased employment, one having taken on more than 6 people since their Scottish EDGE application.

A total of 10 answers contained reference to having developed a completed prototype since Scottish EDGE or to having run a successful pilot.

Finally, seven answers mentioned Scottish Enterprise or Highlands & Islands Enterprise support or having been selected for HIE or SE initiatives or programmes (e.g. the Start Global programme, Investor Ready Support).

6.16 Strategic Positioning

Scottish EDGE is a competitive and highly (publicly) selective programme. The successful applicants and many of those who were unsuccessful considered that this was its uniquely defining characteristic and the one that should remain going forward. The consultees felt that the selective/competitive element should be maintained going forward too.

Philosophically, these highly competitive/highly selective characteristics are unusual for a public sector funded initiative. Other public sector support can be selective (e.g. Account Management) but the competitive element is not an inherent aspect of its design.

Some survey respondents expressed a concern around this aspect – it wasn't straightforward to calculate the proportion of the sample as they tended to be those who contacted us outside the formal survey process indicating that they disagreed with the process and felt that Public Sector support should be equally available to all of those with business propositions that warranted it. We estimate that it was circa 10-15 people.

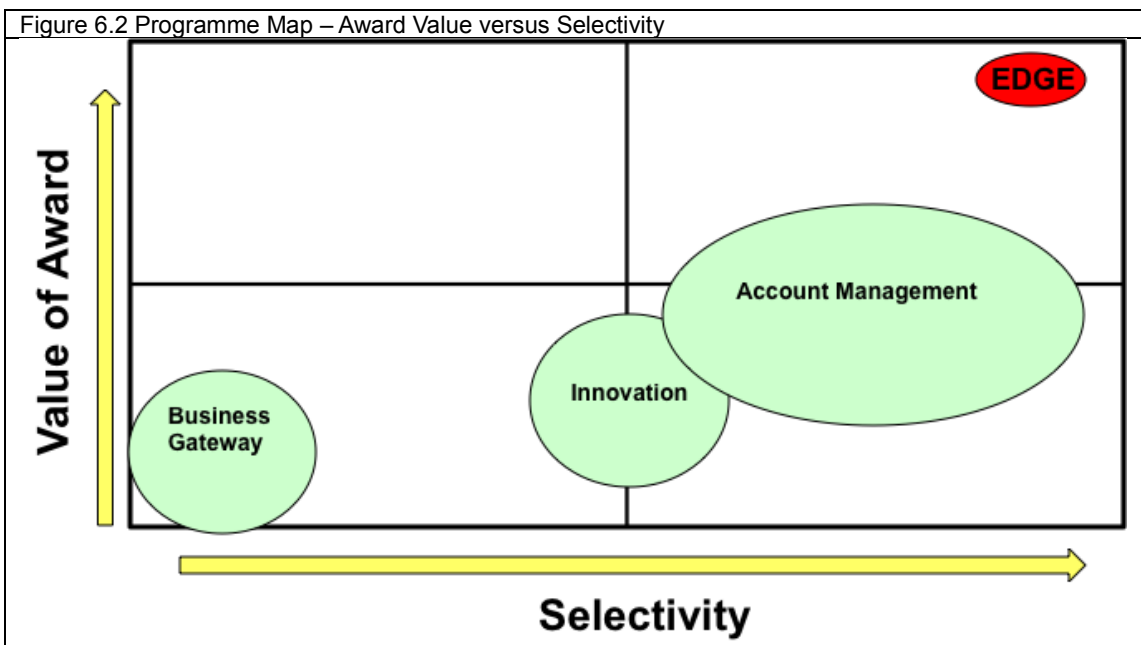
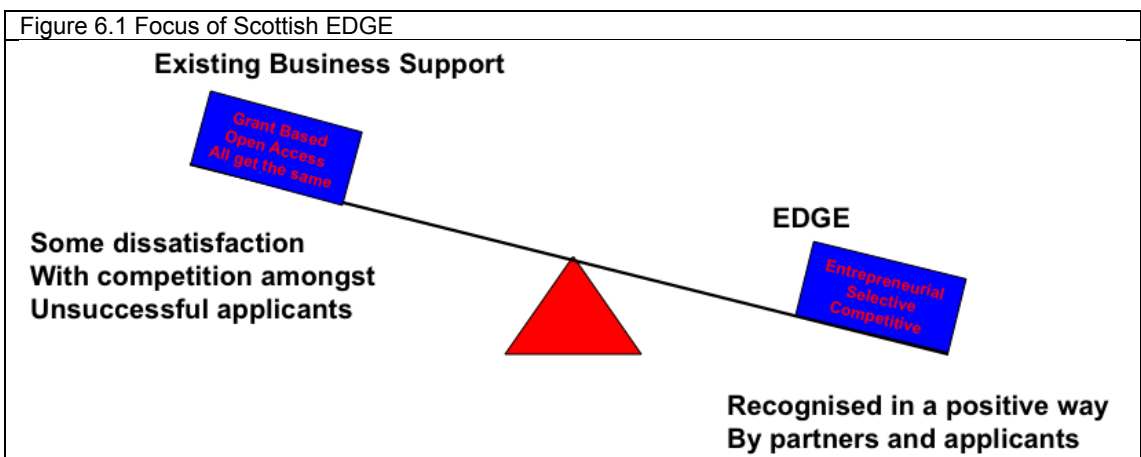
By contrast, all of the successful applicants, and many of those who were unsuccessful emphasised the importance of maintaining the competitive/selective aspect of Scottish EDGE. They applauded the Public Sector for taking a different approach and recognised that it was inherently more risky for it to do so. In essence, this group felt that the Programme was one of the very few (if not the only one) that was truly geared towards the needs of ambitious entrepreneurs. They viewed it as being an entrepreneurial Public Sector initiative that was unique in the UK (if not Europe) and that the Scottish Government/SE&HIE should be commended for having the foresight to introduce it.

The principal caveat to this is the role of Espark. There is no doubt that Espark's engagement has impacted upon the wider Scottish EDGE brand and that the impact has been largely negative. Many of those who were part of Espark and were successful noted that they were

probably at an advantage – but they also noted that they were more effective in presenting their business idea as a result of Espark’s support.

Scottish EDGE Positioning

It is worth considering the Scottish EDGE positioning explicitly. In contrast to other forms of support, it is a “high selectivity – high award value” programme (Figure 6.1). But in terms of budget, Scottish EDGE is comparatively smaller. Figure 6.2 aims to show the positioning of Scottish EDGE, relative other key forms of business support, using the value-selectivity axes which highlights that as a one off award (of up to £50k) it is of much greater value than other products such as innovation support for example.



From our perspective the programme should continue providing:

- The negative influence of Espark can be addressed
- SE/HIE can continue to support a highly selective, high value, high profile competition of this kind
- The market demand continues to exist (which intuitively, we feel it does but needs more proactive marketing to identify).

APPENDIX 1

Change in Turnover & Employment

Table A1.1 – Turnover for Sample

	AT START	Change	NOW	Change	FUTURE
Turnover	£200,000	<i>£540,000</i>	740000	<i>£460,000</i>	£1,200,000
	0	<i>£0</i>		<i>£0</i>	
	0	<i>£0</i>	0	<i>£100,000</i>	£100,000
	£190,000	<i>£110,000</i>	300000	<i>£300,000</i>	£600,000
	0	<i>£30,000</i>	30000	<i>£7,970,000</i>	£8,000,000
	0	<i>£0</i>		<i>£500,000</i>	£500,000
	£72,000	<i>£28,000</i>	£100,000	<i>£900,000</i>	£1,000,000
	£897,000	<i>£63,000</i>	£960,000	<i>£840,000</i>	£1,800,000
	£150,000	<i>£0</i>	£150,000	<i>£450,000</i>	£600,000
	£20,000	<i>£0</i>	£20,000	<i>£0</i>	£20,000
	£5,000	<i>£0</i>	5000	<i>£3,995,000</i>	£4,000,000
		<i>£0</i>		<i>£300,000</i>	£300,000
	0	<i>£40,000</i>	£40,000	<i>£1,960,000</i>	£2,000,000
	0	<i>£0</i>		<i>£5,000,000</i>	£5,000,000
	£15,000	<i>£75,000</i>	£90,000	<i>£510,000</i>	£600,000
	£130,000	<i>£3,370,000</i>	£3,500,000	<i>£6,500,000</i>	£10,000,000
	£27,000	<i>£123,000</i>	£150,000	<i>£2,850,000</i>	£3,000,000
	£250,000	<i>£850,000</i>	£1,100,000	<i>£7,900,000</i>	£9,000,000
	0	<i>£0</i>	0	<i>£1,000,000</i>	£1,000,000
	0	<i>£0</i>	0	<i>£1,000,000</i>	£1,000,000
	£400,000	<i>£0</i>	£400,000	<i>£100,000</i>	£500,000
	0	<i>£0</i>	0	<i>£4,000,000</i>	£4,000,000
	0	<i>£250,000</i>	£250,000	<i>£0</i>	£250,000
	0	<i>£0</i>	0	<i>£2,000,000</i>	£2,000,000
	£35,000	<i>£71,000</i>	£106,000	<i>£494,000</i>	£600,000
	£45,000	<i>£95,000</i>	£140,000	<i>£1,860,000</i>	£2,000,000
Total Sample	£2,491,000	<i>£5,645,000</i>	£8,081,000	<i>£50,989,000</i>	£59,070,000
Average					
Sample	£99,960	<i>£217,115</i>	£367,318	<i>£1,961,115</i>	£2,362,800
Population	£5,173,615	<i>£11,724,231</i>	£16,783,615	<i>£105,900,231</i>	£122,683,846

Table A1.2 – Employment of Sample					
	AT START	Change	NOW	Change	FUTURE
	10	12	22	18	40
	0	2	2	2	4
	2	0	2	3	5
	2	5	7	23	30
	6	0	6	0	6
	2	0	2	4	6
	1	12	13	2	15
	12	0	12	0	12
	4	-1	3	0	3
	1.5	0	1.5	4.5	6
	1	0	1	8	9
		1	1	10	11
	1	0	1	39	40
	1	2	3	8	11
	1	1.5	2.5	7.5	10
	2	2	4	14	18
	3	0	3	7	10
	1	0	1	5	6
	3	0	3	7	10
	0	8	8	0	8
	8	-2	6	14	20
		9	9	11	20
		2	2	28	30
	2	6	8	4	12
	3	5	8	3	11
	4	4	8	7	15
Total Sample	70.5	68.5	139	229	368
Average Sample	3.1	2.6	5.3	8.8	14.2
Population	146.4	142.3	288.7	475.6	764.3

Table A1.3 - Calculation of Net GVA											
AT START	Change	NOW	Change	FUTURE 3-yrs	Gross GVA (Assumes Cost of inputs at 60% of gross T/O)	Optimism Bias	Estimate of Additionality %	GVA net of Additionality	Time Value effects (3 years at 3.5%)	Type II Multipliers (Scottish Government I/O Tables)	Net Anticipated Impact 2017 (at 2014 prices)
Turnover		Turnover		Turnover							
£200,000	£540,000	740000	£460,000	£1,200,000	£480,000	£120,000	0%	£0	0.898632		£0
0	£0		£0		£0	£0	-10%	£0	0.898632		£0
0	£0	0	£100,000	£100,000	£40,000	£10,000	0%	£0	0.898632		£0
£190,000	£110,000	300000	£300,000	£600,000	£240,000	£60,000	0%	£0	0.898632		£0
0	£30,000	30000	£7,970,000	£8,000,000	£3,200,000	£800,000	0%	£0	0.898632		£0
0	£0		£500,000	£500,000	£200,000	£50,000	25%	£12,500	0.898632	1.8	£20,219
£72,000	£28,000	£100,000	£900,000	£1,000,000	£400,000	£100,000	0%	£0	0.898632		£0
£897,000	£63,000	£960,000	£840,000	£1,800,000	£720,000	£180,000	0%	£0	0.898632		£0
£150,000	£0	£150,000	£450,000	£600,000	£240,000	£60,000	50%	£30,000	0.898632	1.6	£43,134
£20,000	£0	£20,000	£0	£20,000	£8,000	£2,000	75%	£1,500	0.898632	1.9	£2,561
£5,000	£0	5000	£3,995,000	£4,000,000	£1,600,000	£400,000	0%	£0	0.898632		£0
	£0		£300,000	£300,000	£120,000	£30,000	0%	£0	0.898632		£0
0	£40,000	£40,000	£1,960,000	£2,000,000	£800,000	£200,000	75%	£150,000	0.898632	1.7	£229,151
0	£0		£5,000,000	£5,000,000	£2,000,000	£500,000	75%	£375,000	0.898632	1.7	£572,878
£15,000	£75,000	£90,000	£510,000	£600,000	£240,000	£60,000	0%	£0	0.898632		£0
£130,000	£3,370,000	£3,500,000	£6,500,000	£10,000,000	£4,000,000	£1,000,000	0%	£0	0.898632		£0
£27,000	£123,000	£150,000	£2,850,000	£3,000,000	£1,200,000	£300,000	50%	£150,000	0.898632	1.8	£242,631
£250,000	£850,000	£1,100,000	£7,900,000	£9,000,000	£3,600,000	£900,000	75%	£675,000	0.898632	1.7	£1,031,180
0	£0	0	£1,000,000	£1,000,000	£400,000	£100,000	75%	£75,000	0.898632	1.8	£121,315
0	£0	0	£1,000,000	£1,000,000	£400,000	£100,000	75%	£75,000	0.898632	1.9	£128,055
£400,000	£0	£400,000	£100,000	£500,000	£200,000	£50,000	0%	£0	0.898632		£0
0	£0	0	£4,000,000	£4,000,000	£1,600,000	£400,000	0%	£0	0.898632		£0
0	£250,000	£250,000	£0	£250,000	£100,000	£25,000	40%	£10,000	0.898632	1.9	£17,074
0	£0	0	£2,000,000	£2,000,000	£800,000	£200,000	40%	£80,000	0.898632	1.7	£122,214
£35,000	£71,000	£106,000	£494,000	£600,000	£240,000	£60,000	75%	£45,000	0.898632	1.8	£72,789
£45,000	£95,000	£140,000	£1,860,000	£2,000,000	£800,000	£200,000	75%	£150,000	0.898632	1.9	£256,110
£2,436,000	£5,645,000	£8,081,000		£59,070,000	£23,628,000	£5,907,000		£1,829,000			£2,859,313