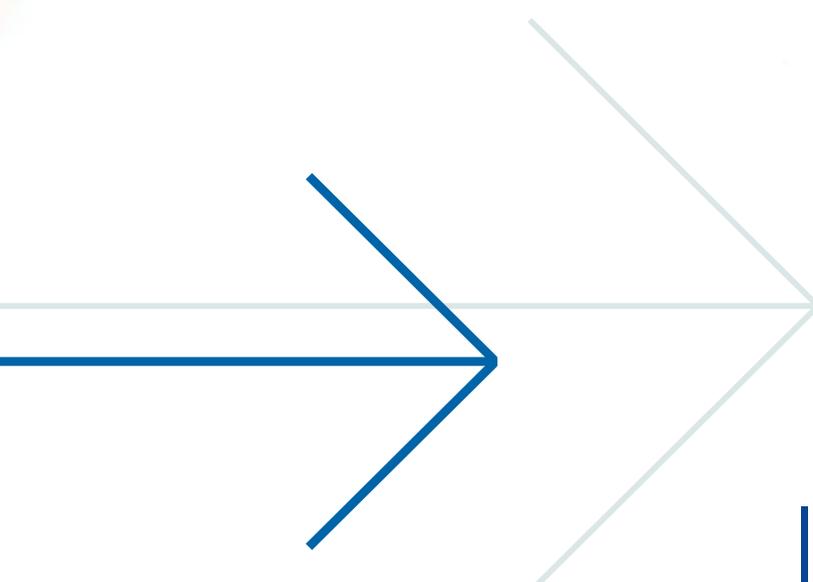


South Yorkshire
Investment Fund



Intermediary
Research



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I INTRODUCTION

- I.1 In July 2008, EKOS was commissioned by South Yorkshire Investment Fund (SYIF) to carry out independent research into its existing market position and the future direction of the planned Regional Successor Fund. This research has primarily sought views from 900 of SYIF's working intermediaries, that is, those businesses or individuals that SYIF works closely alongside and that act as key conduits for new client businesses. The research was commissioned with a view to informing SYIF's intermediary events in September 2008.
- I.2 An online survey was successfully sent to 700 intermediaries in early August 2008 and this received responses from approximately 70 intermediaries; a response rate of 10%.

Background and Context

- I.3 SYIF is currently in its seventh year of operation and the number of deals made by the Fund has steadily increased over this time. The Fund has matured and the estimated total value of deals reached £17.6m for Small Business Fund and £22.2m for the Capital Development Funds as of August 2008. Most recently, SYIF has added the pilot £4.65 million Seedcorn Fund to offer a more complete portfolio of investments which is on target to fully invest.
- I.4 Since its inception, SYIF has also operated the "Money with Management" programme which provides mentor or Non-Executive Director support to (a proportion of) those companies receiving finance. SYIF has been committed to the principle that providing businesses with support at the point of taking the loan or investment can bring benefits to the business (in terms of business survival and growth) which in turn brings benefits to the Fund through the reduction in attrition rates i.e. that businesses are less likely to default on their loan repayments.
- I.5 SYIF is seeking to reach a point where it becomes financially sustainable and is planning for this end as it reaches the end of its current investment period. Therefore, this is an ideal time to review the positioning and effectiveness of the Fund and to seek feedback surrounding its future direction.

Purpose of the Review

- I.6 This work represents a scoping exercise to research the views of SYIF intermediaries prior to SYIF's intermediary update events in September; this builds upon SYIF's previous open roadshows in February. However, the work does not constitute an evaluation of SYIF; instead, it has been designed so that it is of maximum use when a full evaluation commences. In summary, the work will provide an important interim evidence base for informing SYIF's current/future activities.

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- I.7 The primary research tool has been an online survey sent to the 900 intermediaries recorded as working with SYIF. This was agreed with a view to two main issues: intermediaries' satisfaction of working with SYIF; and the intermediaries' views of the market (including views around the planned Regional Successor Fund and the true value of the finance gap).
- I.8 Importantly, the survey also helps to reinforce the idea to intermediaries that the end of SYIF's current investment period does not spell the end of SYIF's work - far from it; rather, it seeks to hear how SYIF's practices can be best adapted moving forwards.

Structure of the Report

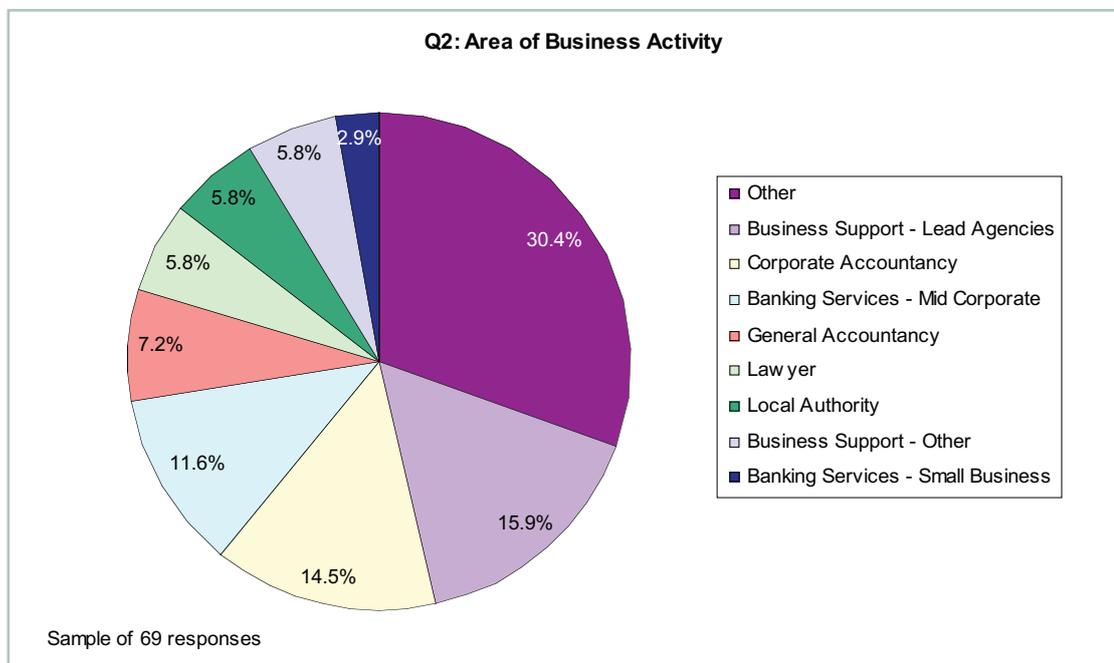
- I.9 The report is structured in the following way:
- Section 2 gives an introduction to the background and typology of the sample intermediaries;
 - Section 3 presents intermediaries' levels of satisfaction with SYIF and explores which elements score highest and lowest;
 - Section 4 recognises SYIF's central role in closing the South Yorkshire finance gap and finds how much of a constraint this represents for businesses;
 - Section 5 presents feedback regarding the future direction of SYIF and the creation of the Regional Successor Fund; and
 - Section 6 summarises the above sections to provide an overview of findings.

2 INTERMEDIARY BACKGROUND

2.1 SYIF provided EKOS with a database of 943 contact intermediaries with links to the South Yorkshire investment market. These individuals ranged from investment bankers to local MPs and covered the following groups:

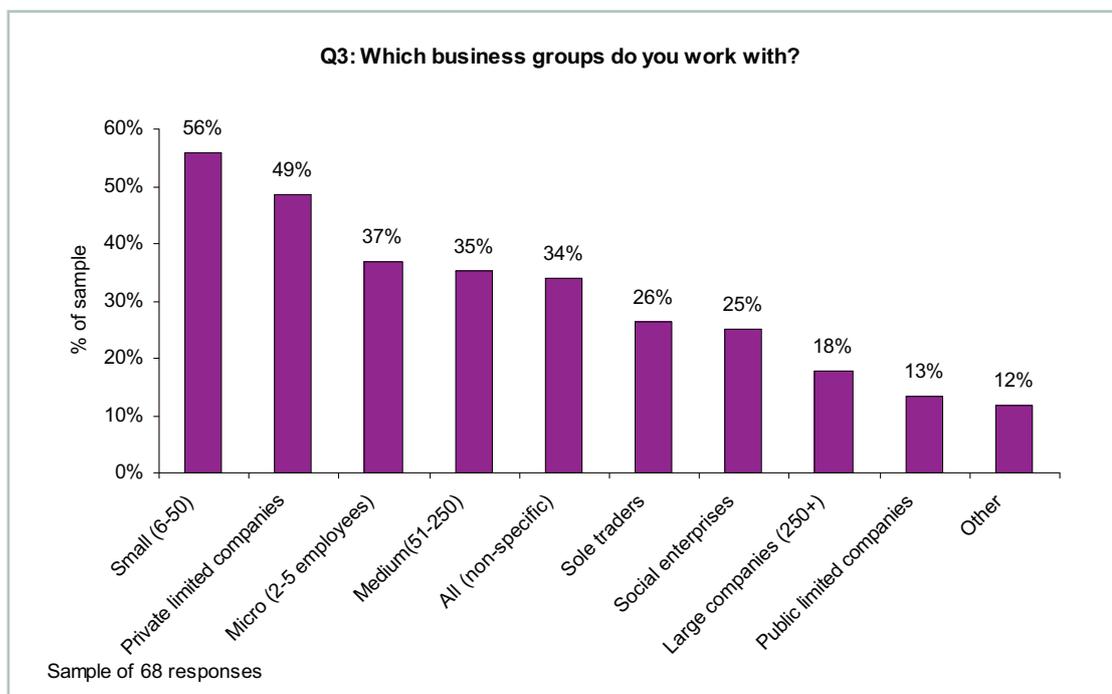
Corporate Finance	Other Intermediaries
Business Support Organisations	Other Stakeholders
Business Link advisors	Micro-loan Intermediaries
Banks	Financial Intermediaries (out of SY)
Accountants	Independent Financial Advisors
Solicitors	Incubation Networks

2.2 As of late August, there was a total of 70 responses to the survey, a response rate of 10% which is a strong return considering that the survey was conducted during the traditional holiday period in August and noting that the intermediaries had no requirement or obligation to help with the survey. These respondents can be split according to area of business activity as shown in the figure below:

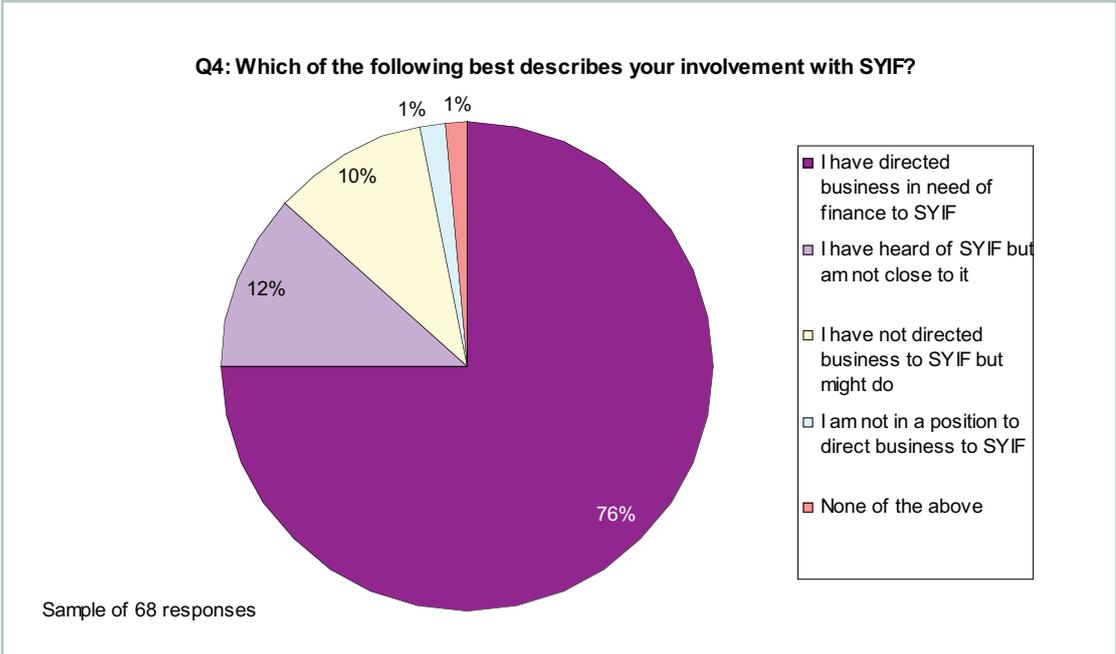


2.3 Discounting the Other category for now, the largest cohort in the sample was from public sector business support bodies (Business Link advisors and Business Support Organisations). Of the private sector respondents, the largest single group was Corporate Accountants (14.5%, 10 respondents) followed by Banking Services (Mid-Corporate) (11.6%, 8).

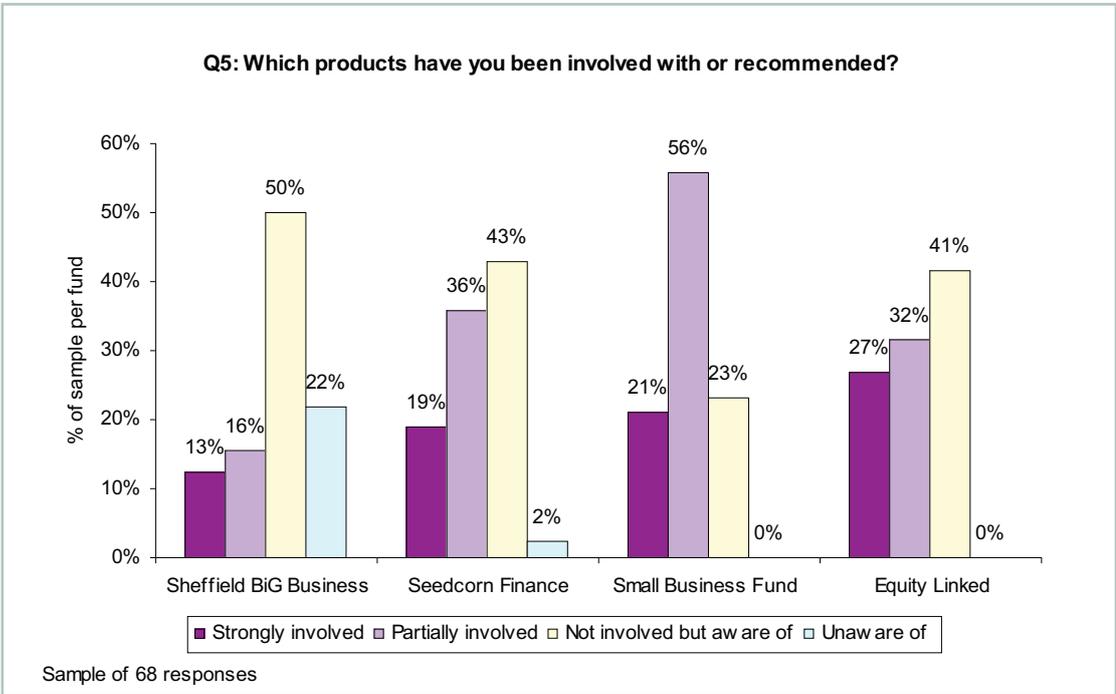
- 2.4 There is strong representation from private sector intermediaries amongst the survey sample and these groups comprise more than 40% of the respondents. These are drawn from accountancy, banking and the legal professions. The range of respondents provide a good balance between public and private sector perspectives of SYIF and its market position.
- 2.5 Representing 30% (21 responses) of the full sample, the Other category is the largest in terms of response. Individuals in this group are varied although 9 of the 21 are either local universities or companies specialising in commercialisation from universities.
- 2.6 Intermediaries work across a broad range of business groups, although there is a clear finding that most work with SMEs, whether micro, small or medium size. This is perhaps to be expected considering that SMEs account for the majority of SYIF's interventions, by number if not by size of investment. Over half of respondents typically work with small businesses (56%, 38).

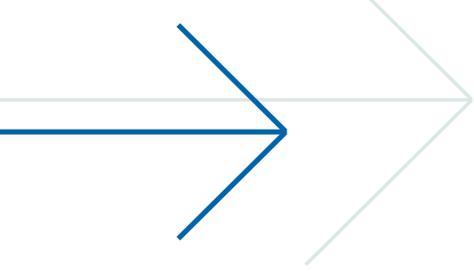


- 2.7 The survey finds that over three-quarters of the sample (76%, 51) have directed businesses in need of finance to SYIF, indicating that the majority of survey responses are from those individuals that can take an informed position on the Fund and its activities.
- 2.8 Aside from encouraging the existing key account intermediaries to continue recommending businesses to SYIF, the most immediate market opportunity is represented by the 10% that have not directed businesses in the past but would consider doing so in the future



2.9 In terms of the products that intermediaries have been involved with, highest levels of engagement have been with the Small Business Fund (either strongly or partially involved); whereby 77% (33) of the sample have been involved either strongly (21%) or partially (56%).

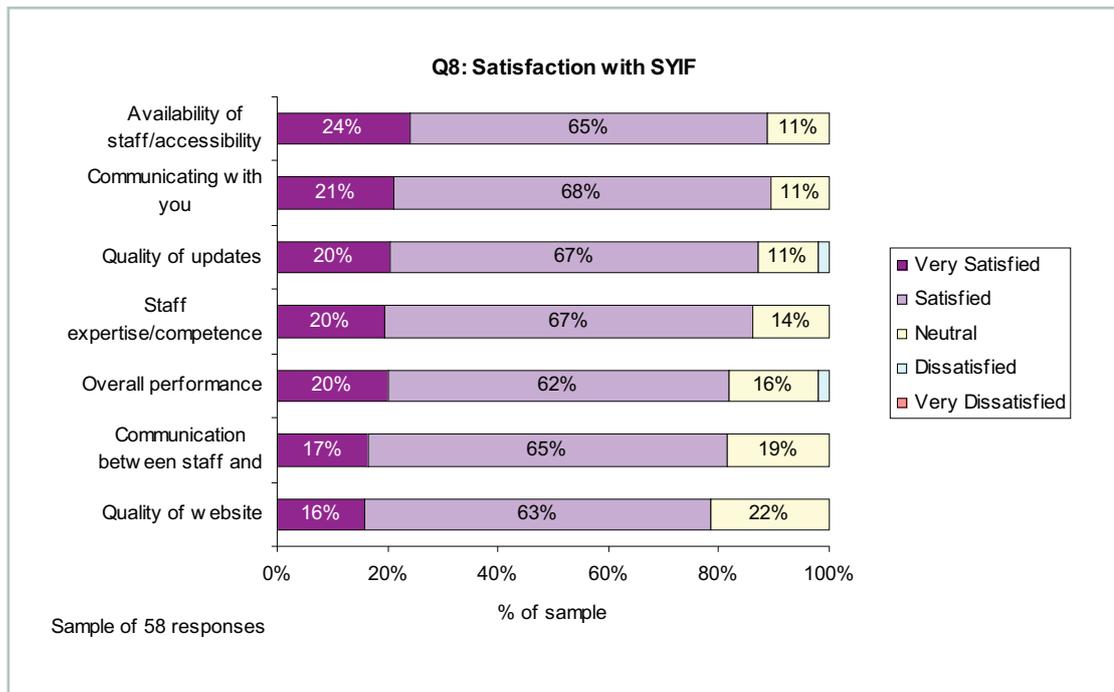




- 2.10 Sheffield BiG Business Loan Fund is the only product with any noticeable proportion of the sample unaware of it (22%, 7) although this is to be expected considering its relatively recent launch and the targeted market it has been designed for.
- 2.11 Two-thirds of intermediaries indicate that only 0-10% of their clients seek SYIF investment. This is important; firstly, it backs up the 'gap finance' role of SYIF and secondly it may indicate that there is growth potential in the marketplace for increasing the availability of these products. Of note, there were no respondents where over 40% of their clients had sought SYIF investment. Therefore, there appears to be a large number of clients not currently seeking investment that may be open to Fund opportunities if they cannot get funding from conventional sources.

3 SATISFACTION WITH SYIF

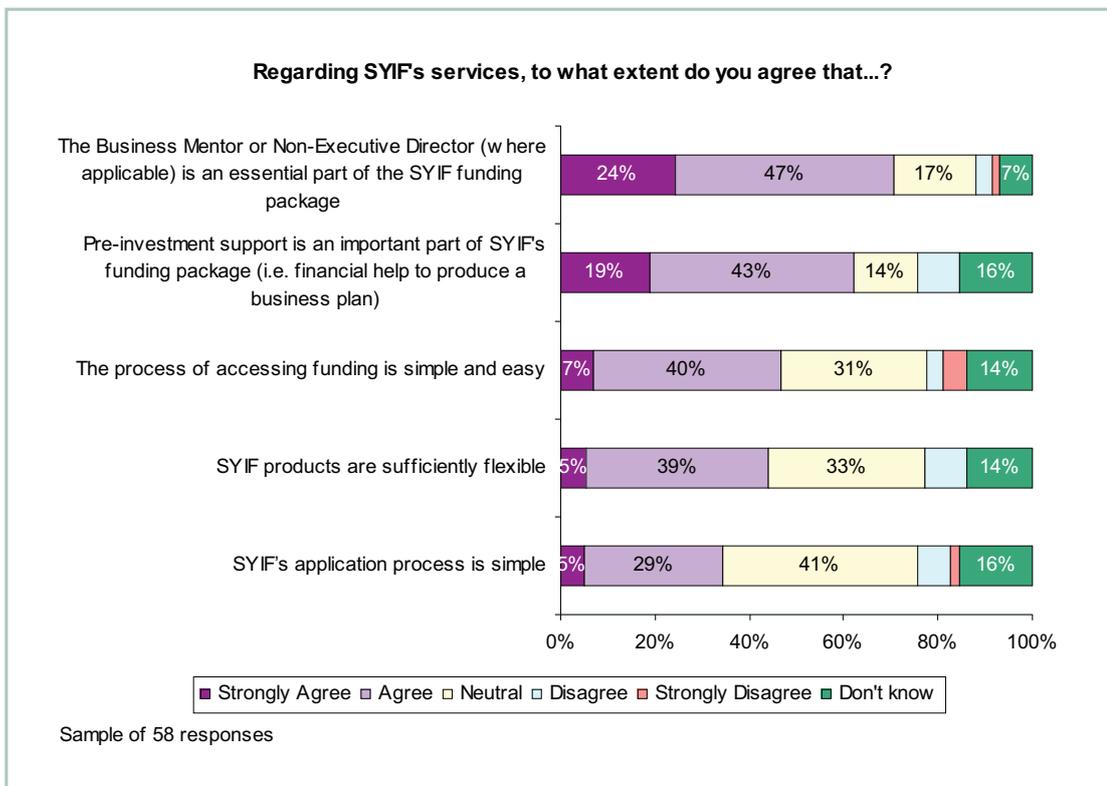
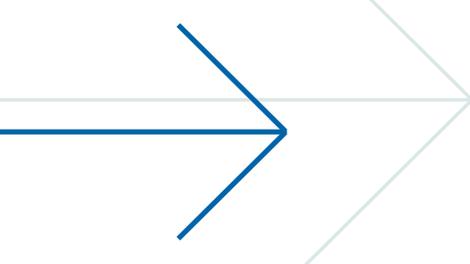
3.1 Overall, respondents are highly positive about their experiences of working with SYIF, and across all aspects of SYIF's activity.



3.2 In greater detail, the above figure shows that satisfaction levels are extremely high for customer service through staff accessibility and communication. The website received the highest number of 'Don't know' responses which indicates they have not accessed it.

3.3 When given the opportunity to expand on the views expressed, respondents made a number of suggestions as to how SYIF could improve its services. Of 12 replies, two indicated that the Fund should cover a broader area than just South Yorkshire, which is further tacit approval of the planned Regional Successor Fund. One respondent asked for a clearer policy statement on the Small Business Fund; whilst another asked for more personal contact rather than through focus groups. Two respondents added that they were very happy with the services provided by SYIF overall.

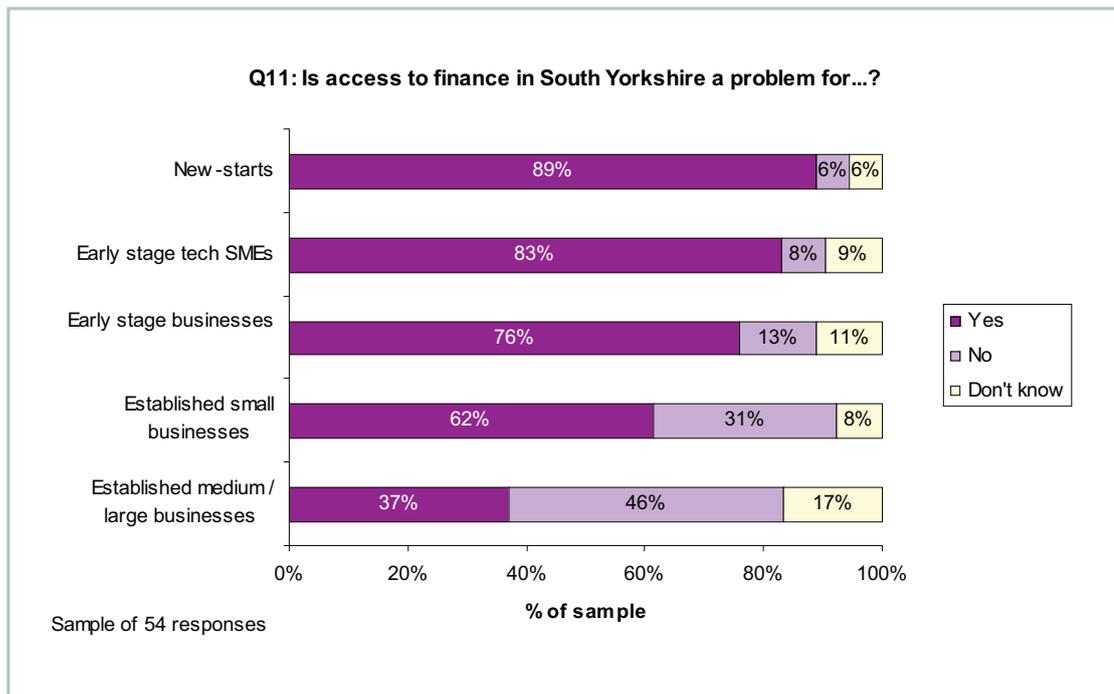
3.4 In relation to the SYIF services offered to business clients, feedback is again broadly supportive. Excluding 'Don't know' responses, the majority of the sample agree that accessing funding is simple and easy and that the products are sufficiently flexible. Moreover, there is very clear support for both pre-investment support and for the Business Mentor or Non Executive Director being an essential part of the SYIF funding package. Indeed, these two components receive the highest levels of support from the respondents; an area which merits consideration in developing the planned Regional Successor Fund.



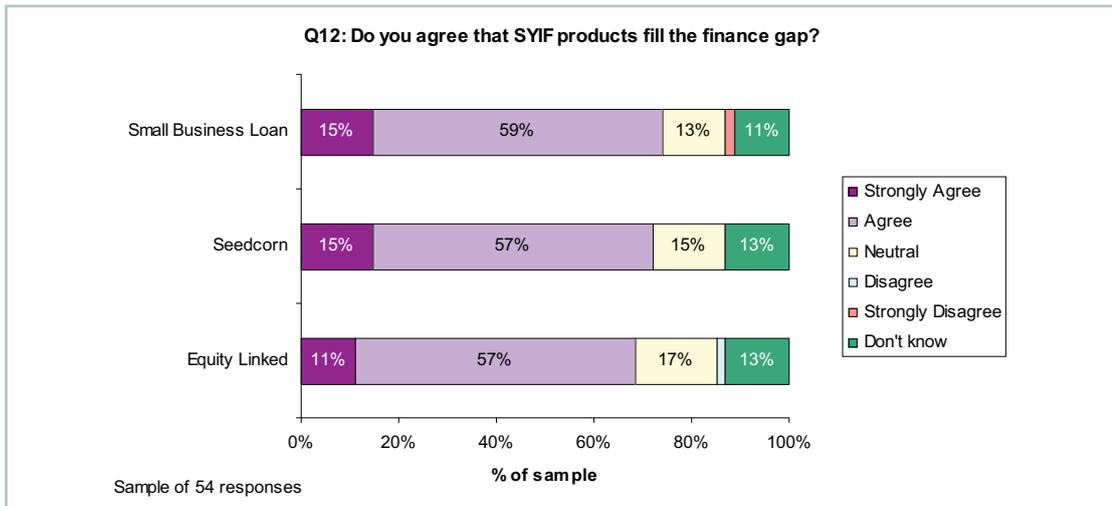
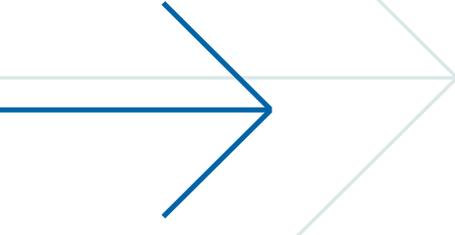
- 3.5 Continuing with the same question findings, there is a relatively high proportion of 'Neutral' and 'Don't know' responses. In some instances, such as the application process and the flexibility of products, 'Don't know' will refer to those respondents that have not had a direct involvement in the process itself. Similarly, for those that have been involved in the process, there was a noticeable 'Neutral' response to these two same statements. These are important areas in which to act on customer feedback, in order to avoid sentiment tipping towards the negative.
- 3.6 This is also the case when considering views around the application process, the only area in which Neutral outweighs agreement. However, it must be emphasised that feedback here is still very positive overall.
- 3.7 Additional comments (eight provided) around business satisfaction were varied, with no particular themes emerging. One respondent felt that there was a lack of Community Development Finance Initiatives among SYIF staff; another that applications should be made easier; a common line of feedback in almost all business support/investment initiatives but one which can be difficult to overcome.

4 CLOSING THE FINANCE GAP

- 4.1 Overall, there is a definite perception that South Yorkshire businesses continue to be affected by a finance gap.

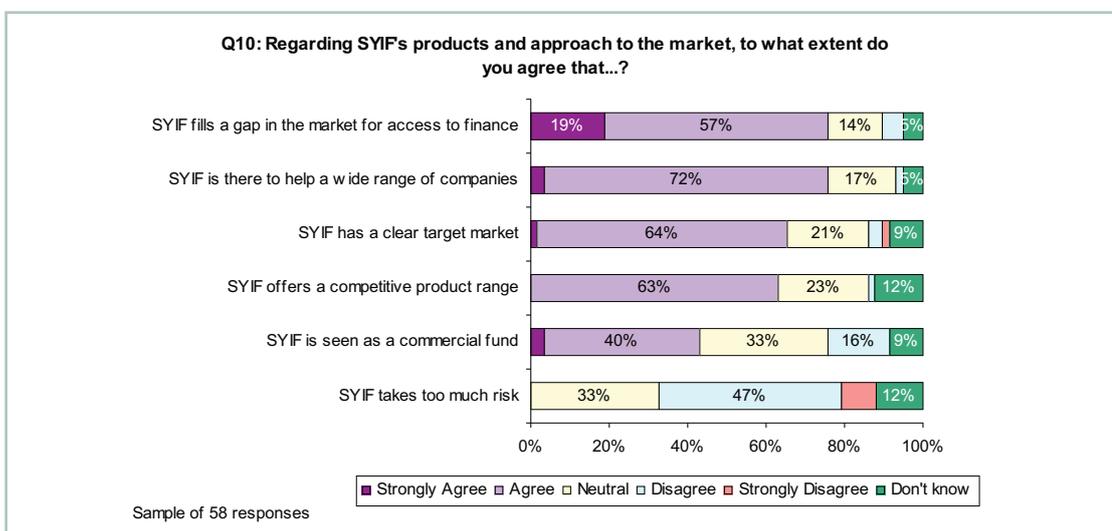


- 4.2 As shown in the graph above, and established medium and large businesses apart, the majority of intermediaries are of the opinion that accessing finance is a problem for every business group with the problem most acute for new starts (88%, 48) and early stage SMEs (83%, 43). Similarly, small businesses, even established ones, are seen as experiencing difficulties in finding appropriate funding (62%, 32). That it is more difficult for smaller and newer companies to access finance than larger, more established ones comes as no surprise; most importantly though, the weight of opinion that there is a problem accessing finance is instructive.
- 4.3 Although the finance gap is still seen as affecting SME businesses in South Yorkshire, related to this, a positive finding is the high level of agreement that SYIF products do help to fill it. Across the three main funds; 72% (39) of respondents strongly agree or agree that Seedcorn funding helps fill the gap; 74% (40) are of the same view about Business Loans; and 69% (37) for Equity Linked investments. Considering that 12% of respondents have heard of SYIF but have not had direct involvement with it as of yet (see Section 2), the noticeable 'Don't know' response in each category can be largely attributed to this group without experience of the products.



4.4 The above findings are also supported by Question 10 of the survey which finds that three-quarters of the sample intermediaries agree that SYIF helps to close the finance gap.

4.5 As shown below, intermediaries agree with the statements that SYIF is there to help a wide range of companies but also that on the whole there is a clear target market. This offers some potential for contradiction but is discussed further in the report. Intermediaries do not think that SYIF is unnecessarily taking too much risk through their investments. Rather, there is strong endorsement that SYIF is filling a market gap by providing products not available through commercial routes.



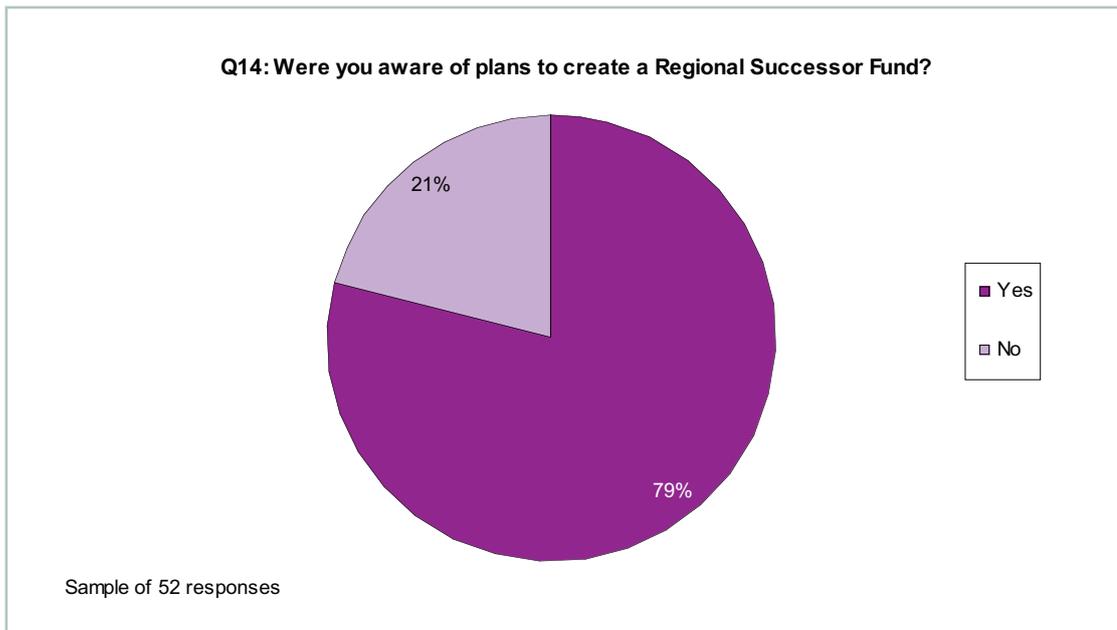
4.6 When probed for open comment responses a number of intermediaries indicated that further flexibility on investments would be welcome.

4.7 "SYIF have a track record of greater flexibility than some other providers. This is helpful and should be continued."

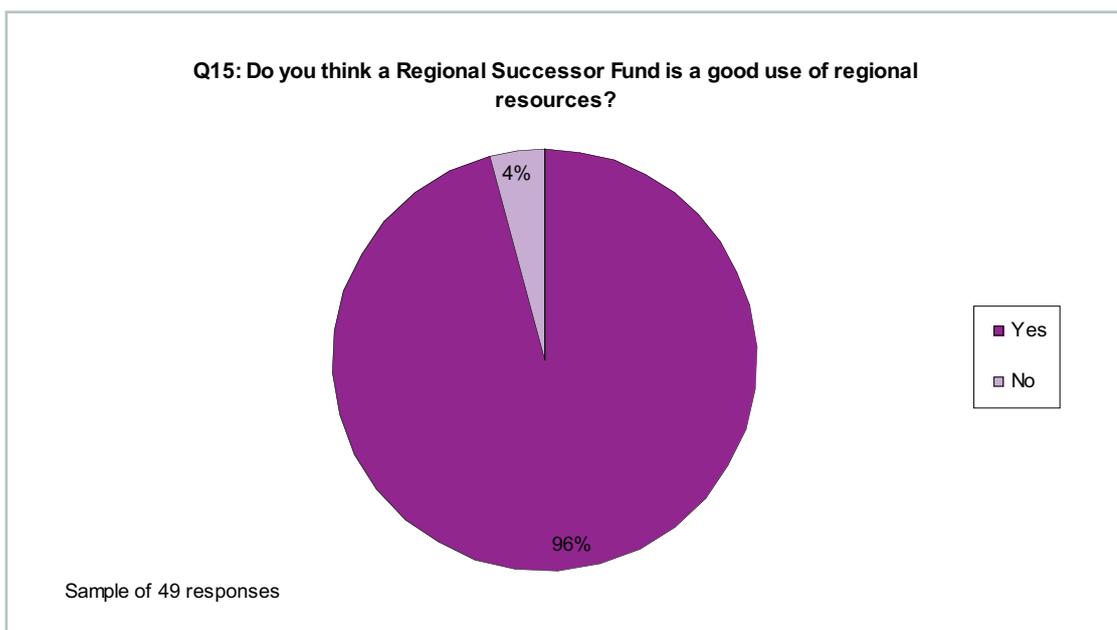
4.8 Other respondents recommended; taking more risks on early stage investment; developing sector specialist strengths; and having less focus on traditional sectors.

5 THE FUTURE

- 5.1 Encouragingly, the large majority of respondents (79%, 41) were already aware of plans to create a Regional Successor Fund. This is impressive considering that news of the plans has only been publicised relatively recently in the past year:

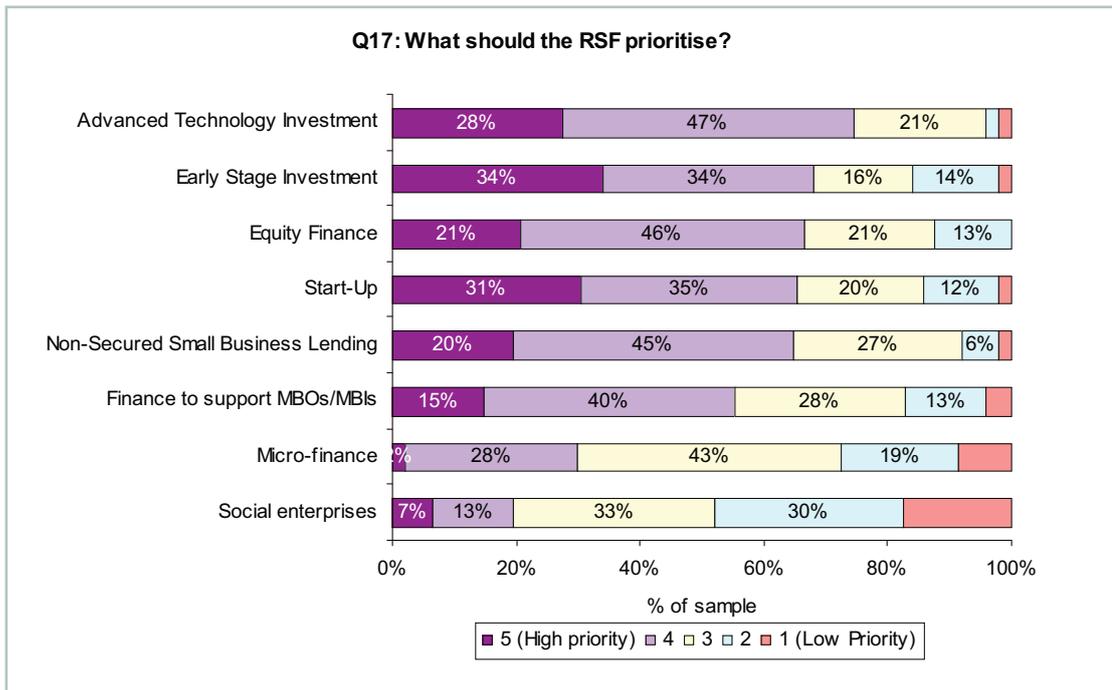


- 5.2 Moreover, an even greater majority (96%, 47) see the planned Regional Successor Fund as a worthwhile use of regional resources. Although this is based upon the respondents' individual understanding of how the fund will take shape, the finding is a strong endorsement for the continuation of the fund from the heart of the business community it operates with.



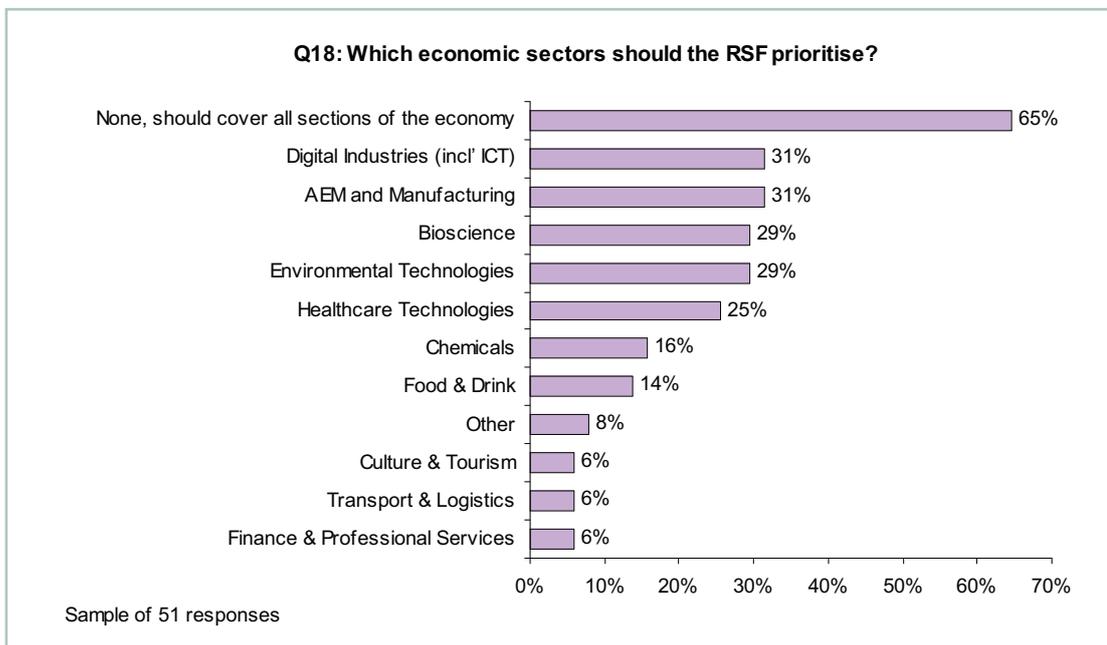
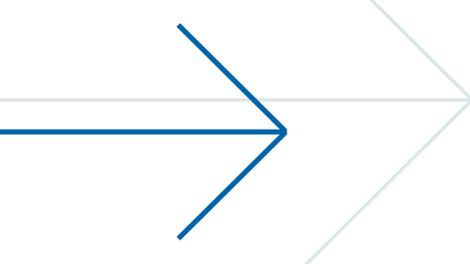
5.3 With regard to what the planned Regional Successor Fund should prioritise, there is relatively high priority given across the full range of potential interventions. Amongst these, Advanced Technology Investments are perceived as the highest priority.

5.4 Similarly, Early Stage Investment has a high level of support, which fits with responses to Q11 in Section 4 (access to finance in South Yorkshire is a problem for new starts) and also Q3 in Section 2 (the majority of respondents are shown to work most with small and early stage companies). Reinforcing this view, Start Up finance is the fourth most highly prioritised intervention.

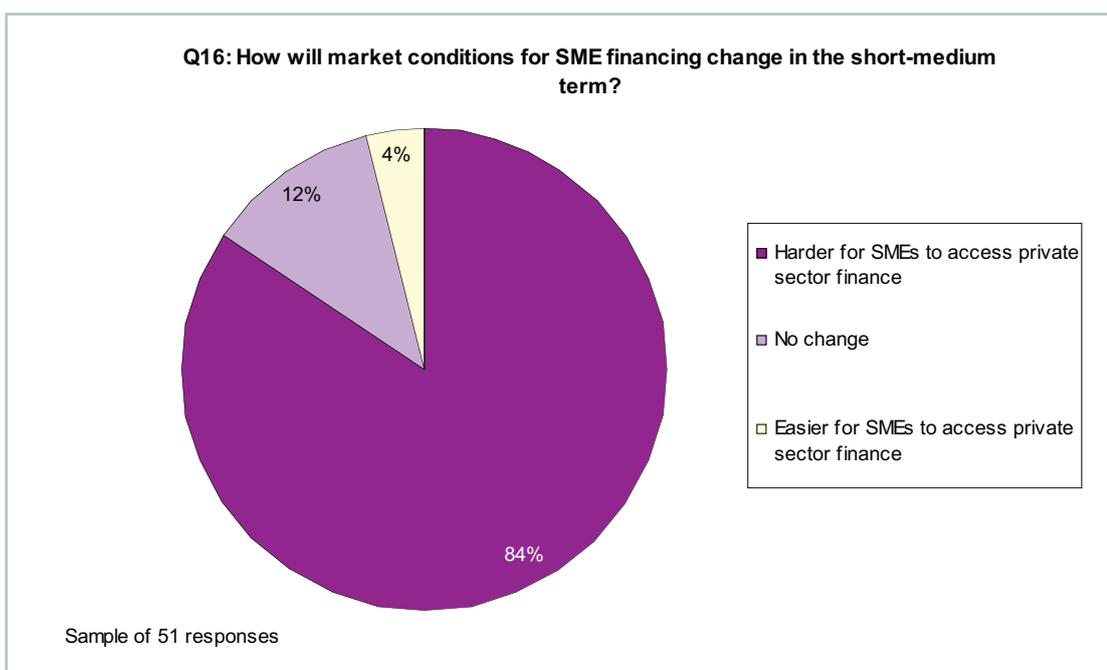


5.5 While there may be most need overall for early stage products, there is clearly widespread demand for specialised sectoral investment at all stages of company maturity.

5.6 Related to the above, respondents were further asked whether the planned Regional Successor Fund should prioritise certain economic sectors. As shown in the figure below, by far the most popular response was for the Fund to concentrate less on individual sectors and more on the stage of maturity that a business is at. However, for those that do perceive a need for sectoral focus, Digital industries and Advanced Engineering and Materials (AEM) and Manufacturing are seen as offering the best opportunities for this.



5.7 The overwhelming support for the planned Regional Successor Fund as an effective use of regional resources is perfectly understandable in the light of views around the short to medium term conditions for accessing SME finance. As can be seen in the figure below, the findings are reflective of the current caution and low expectations of the economy as a whole. Market failure in private sector investment from mainstream providers will mean that the availability of investment from other sources, particularly those with a targeted investment plan and knowledge of the regional market, will be crucial to early stage and start up firms.



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- 5.8 Continuing this theme, the survey also asked how the planned Regional Successor Fund might tailor its efforts to ensure that it works most effectively with intermediaries, and there were 24 open responses to this question.
- 5.9 The responses were wide ranging with three expressing the wish that SYIF carry on as it has been doing. A recurring view was for SYIF to continue maintaining close communication with intermediaries; to inform them about the nature of the products; and to ensure access to their networks. This tied in with a number of comments around increasing the speed and ease of applications, and decisions on applications.
- 5.10 There was one respondent calling for the funds to become profit making in order to justify continuing investments:
- “A fund should make money so it can justify more money being invested. Joined up thinking is needed between organisations supporting/encouraging business to grow and organisations investing in them.”

6 CONCLUSIONS

- 6.1 The survey results are extremely supportive of South Yorkshire Investment Fund including its staff, activities, and communications.
- 6.2 In relation to the business need for the products and to SYIF itself, respondents provide very positive responses. Intermediaries are satisfied with their relationships with SYIF, and its communications and staff.
- 6.3 Respondents feel that there is definitely a finance gap in South Yorkshire; however, they also feel that SYIF products have managed to fill this gap in the past. In addition, they expect this to be an even bigger consideration in the near to mid future due to the economic downturn and increased reluctance to lend or invest from mainstream lenders.
- 6.4 There is a high level of knowledge about the planned Regional Successor Fund and significant support for it from intermediaries. Whilst there is a range of opinions on exactly how the Regional Successor Fund should be prioritised in terms of its spend, there is a clear steer that this should be in the direction of early stage and small company support.