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Digital Central: Mandate for Action

What the Digital Sector in the West Midlands needs to succeed

25th May 2007

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Executive Summary

This document presents a 'snapshot' of Digital Sector Small- and Medium-Sized Enterprises (SMEs) in the West Midlands of England.

The analysis aims to summarise what the sector needs for the future in terms of common threads of business development, with suggestions for cluster activities that could follow up to address them. A complementary report (*Digital Central – Key Sector Data*) has been generated from the same project to bring together data that can be used to engage investors, mentors and public sector funders in an evidence-based dialogue about what the Digital Sector is now in the West Midlands.

Both reports draw on the statistical findings of a project executed on behalf of Digital Central in the West Midlands of England by Pembridge during Q1 2007. The project applied the *Vital Statistics* benchmarking and diagnostic tool developed by Pembridge Partners LLP and BOP Ltd to 50 'Digital sector' SMEs.

Objectives

The objectives of this project were to:

1. Provide individual diagnostic reports and benchmarking services to 50 SMEs, highlighting how they compare to their peers, what their strengths, weaknesses, opportunities and threats are, and how they might address them.
2. Gather new and valuable data across the sector, disseminating it through this report to empower Digital Central, SMEs themselves, Advantage West Midlands, business clusters, Higher Education Institutions, Investors and Mentors to help the sector grow by devising policy based on evidence
3. To promote the Digital Central brand and create a platform for future engagement of a wider group of SMEs

All these objectives and contractual reporting compliance were achieved on budget in full.

Summary of recommendations

- Evidence gathered by this project demonstrates a strong need for the coordination that Digital Central offers and apparent demand to take up those services if the brand and service offering can be built coherently.
- Specific opportunities exist to develop the sector's contribution to the West Midlands economy, for example by helping SMEs to raise their game and have the confidence to expand sales ambitions beyond the local region.
- Business skills and strategic development is a priority and this can be most effective if resources are focussed on those SMEs which demonstrate a desire to grow beyond a 'lifestyle' model.

Conclusion

Based on the evidence gathered by this project, Digital Central has a clear mandate to seek resources to build its brand and offering and to start a dialogue with delivery partners that might address the needs of industry. A wide range of specific potential interventions are highlighted in the body of this report (and are underlined). These could be delivered by Digital Central itself, or through partnerships with existing providers.

Context

Digital Central

Digital Central is a regional development project that helps the West Midlands of England be nationally and internationally recognised for its digital media and music sectors. That includes Film, Television, Animation, Interactive Media, Computer Games, Digital Imaging, Music and Radio. Its aim is to develop an enterprise culture for cluster businesses that will help accelerate economic growth and increase employment through the promotion of innovative new ideas, the development of new market opportunities and the nurturing of a new generation of cluster entrepreneurs. Digital Central undertakes activity against three key strategic themes: networking, showcasing and innovation.

Digital Central represents a major collaboration between the regional development agency, the private sector and higher education. The project is funded by the regional development agency, Advantage West Midlands as part of their strategy for the development of the Screen, Image and Sound business cluster. Digital Central is managed by the University of Central England in Birmingham.

Pembridge Partners LLP

Pembridge Partners LLP was founded in 2001 to help owner-managers in the Creative Industries build and realise commercial value in their firms. It does that by providing finance and advice focussed on commercial growth for profit. Since start-up, Pembridge has raised or directly invested £25m, engaged with over 1,200 SMEs and typically has 50 current engagements across Creative Industries. Today, Pembridge comprises four partners and a support team of four based in London, but operating with a network of 20 regional associates across the UK, in Singapore and in the Netherlands.

In addition to its work directly with private SMEs, Pembridge operates a Joint Venture with Burns Owens Partnership Limited (BOP) to share its tools and techniques on a consulting basis with public sector organisations that share its mission to achieve growth in the Creative and Digital industries. Clients include the London Development Agency, North West Development Agency, Skillset, Screen Yorkshire, Film London, Northern Film and Media, East Midlands Media, South West Screen, the Singapore Media Development Authority and the University of the Arts, Utrecht. Higher Education partners include University of Central England and the University of Westminster.

Vital Statistics

Vital Statistics is a tool developed by Pembridge Partners LLP and its partners to deliver three outcomes at once:

- It provides a 'snapshot' of the current state of commercial development of a SME, giving affirmative insight to the owners of that business in an action-oriented report;
- By providing quantitative, auditable evidence about SMEs it allows a fair, rational allocation of development resources to be made by public sector agencies seeking to engage with the sector.
- In building a 'fine-grained' database of data about SMEs that was previously unavailable, it allows policy makers in both public and private-sector agencies to set policy based on real-world evidence and to evaluate the effect of interventions repeatably and quantitatively.

Vital Statistics has been applied to over 1,300 SMEs in the UK, Singapore and Netherlands. The bulk of the SME database on which it operates is focussed on the Creative Industries but this is now expanding to include many other sectors such as manufacturing. See Annexe for a detailed account of the methodology applied using Vital Statistics in this project.

Findings

This section summarises the development needs of Digital Sector SMEs in the region, offering suggestions to address those needs in context.

Self assessment of development needs

Table 1 shows the percentage of companies that we spoke to who identified each area on our list as a high priority. The three highlighted issues are the most popular.

Table 1: What firms need to grow – own assessment

Senior Management Training	5%
Training in Managing Finances	3%
Staff Training	4%
Help with developing new ideas for cash generation	18%
Help with improving processes and efficiency	9%
Help with marketing strategy	20%
Help with obtaining external (financial) investment in company	14%
Help with Strategy and business planning	18%
Help with international expansion	9%

The three highlighted areas were most needed: help with ideas for cash generation, help with marketing and help with strategy and business planning. We suggest that the need identified here is not so much around help with 'skills' but rather is more strategic: about how and where to apply 'skills' such as 'marketing' in the business, and when.

Target markets

Empirically, we find that marketing in its broadest sense (making a fit between products and services offered by a business and the market) is a weak point for many small creative business. So we probed this area in more depth. Table 2 shows the response when we asked SMEs where their customers were based. We found most were trading predominantly within the region.

Table 2: Where are the companies that buy from you based?

.Local City	20%
Local Region	26%
London	13%
UK	13%
Europe	11%
USA	8%
Worldwide	9%

We note that the pattern represented here is almost a mirror image of that which our research has revealed in digital sector SMEs in Singapore, a fast-growing territory where Pembridge has executed a similar project. We feel this is significant because, despite its many disadvantages as an island nation, Singapore has set out to make itself a 'Media Hub' for South-East Asia and its SMEs appeared primed to help achieve that goal in a way that the West Midlands SMEs are not. This is despite the fact that the region is home to the NEC, has an international airport and a long manufacturing history of being 'the workshop of the world'.

Digital SMEs in the West Midlands are not yet making the region a 'world hub', but answers summarised in Table 3 to our next question, about SMEs plans to expand geographically, suggests that there is some appetite to do so

Table 3: Do you have plans worked out to expand where you sell your services or products geographically?

Yes	57%
No	43%

We suggest that it would be worthwhile studying in more detail what is holding SMEs in the region back from trading internationally. Our project did not address questions such as the following, but a follow-up project could tackle them: Could languages be a factor? Does business seem easy enough at home not to bother? Could Digital Central lead the way to making connections necessary?

Market awareness: customers

We have found that many SMEs do not fully understand the market in which they are operating, so we asked the question summarised in Table 4 to probe the efforts they had made to map their customer base. While we did not ask for evidence to substantiate their claims, around a third claimed to have done this in depth.

Table 4: Have you done any work to map out the complete range of people you could sell to?

No/really hard to define	24%
Yes - ad hoc research	39%
Yes - in depth	37%

Given that nearly two thirds of SMEs had not yet mapped their customers formally, we suggest there is good potential for Digital Central to boost sales in SMEs by running workshops or individual mentoring sessions that help business owners to map their customer base. It may be that there is a local business information service affiliated to a major library or education institution in Birmingham that could facilitate such sessions: if not, the British Library offers precisely this kind of service to SMEs in London.

Market awareness: Competitors

Complementing SMEs understanding of their customer base, an understanding of the competition is critical to set marketing strategy. We found a picture amongst the SMEs sampled that was familiar from similar studies in the UK, which is summarised in Table 5.

Table 5: Have you done any work to try and pin down who your main competitors are?

No/it doesn't work like that	10%
Yes - but not formally	59%
Yes - proper market analysis	31%

Again, it seems significant that two thirds of the SMEs had not formally mapped out their competition. In that situation, it is not hard to see why many appear to offer services that are difficult to differentiate and which offer no 'unique selling proposition'. We suggest that there is an important role here for Digital Central to play in facilitating provision of cluster group workshops or similar events that could address this basic question.

We asked firms if they were aware of their competitors' activities in the marketplace and only one third claimed that they tracked this formally.

Table 6: Do you regularly track what your competitors are up to?

No	18%
Yes- formally	27%
Yes - informally	55%

Tracking competitors is a resource-intensive activity for an SME. It may be that there is a role for Digital Central to play in brokering a deal with a business information supplier to offer a feed/digest of sub sector specific news via its website. Such a service might be made available on a 'subscription only' basis given the costs involved.

Market awareness: networking

Given the majority of SMEs' lack of formal market research, we explored the energy they devoted to informal methods of gathering information about clients and competitors.

Table 7: When did someone from your company last go to a trade show/market or conference?

Within the last month	49%
Within the last 6 months	24%
Over a year ago	12%
Within the last year	8%
More than 5 years ago	2%
Never	6%

Table 8: Is your company in a trade association of any kind?

Yes	43%
No	57%

Table 9: Are you hooked in with any other local businesses that help each other out through something like a network or a cluster, with a view to saving costs etc?

No	65%
Yes - formally	16%
Yes - informally	20%

It seems that SMEs value face-to-face market insight gained through events such as trade shows, but most are not currently engaged with a trade association or network. There appears to be strong potential for Digital Central to fill that niche if the correct formula of services can be devised.

Promotion

We often find that Creative Industries businesses, even those whose specialism is communication, fail to communicate their own message effectively. Table 10 illustrates that this is probably true of at least a third of the Digital Sector SMEs in the region.

Table 10: Do you do any PR to publicise what your company is doing, like issuing press releases?

Yes - in house	51%
Yes - through an agency	18%
No	31%

Digital Central might help to encourage the businesses that are not telling their own story effectively through running a workshop at a cluster meeting on promotion.

Commercial foundations

Beyond the market awareness issues revealed above, we also wanted to explore the capacity within the SMEs for growth – how firm their commercial foundations currently were. We asked a series of questions designed to explore this, the answers to which are summarised in Tables 11-13.

Table 11: Do you have any kind of written business plan for your company?

Nothing written down yet	16%
Yes - a formal plan	61%
Yes - some ideas written but not formal	24%

We were surprised that nearly two thirds of SMEs claimed to have written a formal business plan. In our experience this would be high for Creative Industries SMEs. Tables 12 and 13 also suggest that two thirds have management accounts and the majority use budgets and forecasts, which would be equally surprising given our experience working with a wide range of SMEs in similar projects.

Despite these positive signs of businesses looking forward and trying to manage their finances, we suggest that the one third of SMEs who do not have business plans and/or management accounts could benefit from workshops facilitated by Digital Central that address these important issues.

Table 12: Do you have management accounts for the company itself to help you run it day to day, as opposed to the official annual accounts, or the cost and project reports that you might produce for customers?

Yes	67%
No	33%

Table 13: Do you find budgets and forecasts useful to manage the company's finances?

Yes	82%
No	18%

Business Skills

Table 14 reveals that 40% of business managers in our sample had no mentoring, coaching or training covering business skills. It could be that the data in this report would give local training providers in the region confidence to launch schemes addressing this gap.

Table 14: Have you or any of the other people that run the company ever had any professional mentoring, coaching or training covering business skills?

No	39%
Yes - at this company	43%
Yes - at a former organisation	18%

Table 15 explores the skills level of financial control in the business. The largest number of SMEs relied on external accountants, which is probably completely appropriate for statutory reporting purposes. However, coupled with the picture of basic business skills being required in many SMEs shown in Table 14, our research suggests that workshops facilitated through Digital Central addressing 'where the money goes' and 'how profit is generated in a business' could benefit many.

Table 15: Who looks after the accounts for the company and what training have they had?

Financial Director	6%
In-house book keeper	8%
External book keeper	6%
Internal Accountant	5%
External Accountant	44%
Member of management team - no training	17%
Member of management team - some training	13%

Tables 16 and 17 reveal that the general question of skills development may not be that high up the agenda of many SMEs given other pressing issues of business. There might be a role for Digital Central in facilitating SME management teams to painlessly audit their skills and to set a development programme in place for themselves and their staff.

Table 16: Has your company got a written plan for training and staff development?

No	51%
Yes - Formal	24%
Yes - Informal	25%

Table 17: Have you ever done an audit to work out what training would help your company to succeed?

No	67%
Yes - Formally	20%
Yes - Informally	14%

Entrepreneurial Ambitions

Working with over 1,300 SMEs in three countries has shown Pembridge that SMEs in this sector are frequently motivated by a mix of three core ambitions: to create work which is creatively and technically excellent; to 'change the world' in some way; and the motivation to generate financial wealth. Our evidence is that SMEs which succeed are driven by a mix of these motives but the core which seems consistently present for success is a desire to generate financial wealth. Table 18 reports the response of SMEs to our questions on this issue.

We are encouraged that two thirds of SMEs are motivated by financial wealth-building but highlight the fact that one in three SMEs is not: we suggest that this is a strong indicator that a significant number of Digital Sector SMEs do not share the economic growth agenda. On that basis, we suggest that it is vital that the bulk of any intervention in the sector is targeted towards those SMEs that demonstrably do seek to grow.

Table 18: How much money do you personally want out of the business?

£1 < £0.5 million	24%
£0.5m < £1m	12%
£1m < £5m	24%
£5m +	6%
Haven't thought about it/not about making money	31%
Other	4%

We suggest that there may be a key role for Digital Central in celebrating the commercial success of SMEs in the region as often we find that trade journals focus on creative or technical achievements. It may be that Digital Central could invite speakers to cluster meetings to share their 'war stories', could celebrate 'local heroes' and could make sure that commercial case-studies of relevant SMEs are included on its website.

Access to Finance

Growth may involve raising cash for the business, and that in turn generally demands that a management team submit to the disciplines involved in working with someone else's money. On that basis, we suggest that an attempt by an SME to raise cash is an indicator of entrepreneurial ambition. Table 18 reports how many SMEs have taken that path.

Table 18: Have you ever tried to raise finance for the business itself, as opposed to raising money for a specific project or a slate of development projects?

Yes	33%
No	67%

Given that Access to Finance is so often cited as a barrier to growth in SMEs, we were interested to see that two thirds of those sampled had never tried to raise cash externally. It may be that there is a role for Digital Central in organising workshops explaining what is involved in raising different kinds of finance for growth, and in running workshops that create the confidence amongst SMEs to go for growth down this path.

Recommendations

Immediate potential actions

- Rapidly follow up with SMEs engaged through this project, signposting them to support based on needs identified individually and writing case-studies around them to share the impact
- Develop cluster meetings and workshops to address business development issues highlighted in this report
- Run surgeries and workshops for mid-range companies
- Run phone-based mentoring to follow through on those
- Run breakfasts for networking amongst selected peer groups
- Organise face to face mentoring for those who could be role models
- Make sure follow-through feels personalised and that SMEs don't feel they are being used to score outputs for agencies

Mid-term

- Continue this project beyond the initial 50 SMEs covered until all SMEs that wish to be engaged with Digital Central are engaged (there are still around 250 SMEs on our list that have not been directly contacted and offered *Vital Statistics* profiling)
- Disseminate findings of this project to local partners and work out how to plug into existing schemes of support for this budget period
- Start dialogue with AWM, Business Link, Higher Education Institutions etc. to explore any review to policy/priorities for next budget period in the light of new evidence
- Disseminate findings to local professional services firms and banks and start dialogue about how they can get involved.
- The project was conceived under the Interactive Media theme of Digital Central but has been proven to add value to music businesses in the past. It would therefore be equally applicable under that theme.

Annexe: Methodology

The project with Digital Central followed a pattern of best practice established by Pembridge working with more than twenty public sector agencies around the UK and abroad.

Overview of project key stages

These were as follows:

1. We marketed the project to engage relevant SMEs, by distributing a notice about the project through existing mailing lists of organisations partnered to Digital Central, and by direct e-mail and phone approaches to relevant SMEs. The scheme was promoted as open to SMEs with more than two years' trading history.
2. SMEs wishing to participate signed up online using an e-form provided by Pembridge but appearing as part of Digital Central's website with its branding.
3. Following sign-up, each SME received automatically an acknowledgement e-mail including a fax cover sheet that they printed out and signed, thereby agreeing to the scheme's terms and conditions. They used the cover sheet to fax (or scan/e-mail) their last two years' accounts to Pembridge having been assured that confidentiality about this data would be maintained.
4. The accounts submitted were analysed by Pembridge and entered into a database system that schedules a phone interview with each SME.
5. Each SME was interviewed and data from this interview and the accounts used to generate a report automatically. The report was e-mailed to the SME.
6. At the end of the project, Pembridge collated together all the information gathered to produce several different summary reports as described below and of which this forms one.

Selection of participants

In the absence of a widely-accepted definition of the Digital Industries sector, we adopted a pragmatic approach to identifying potential participants who might wish to engage with Digital Central and specifically this project.

- Digital Central was able to provide contact details for 159 SMEs
- We bought 567 records from Experian using criteria based on geography and a liberal but reasonable interpretation of what the sector might include.
- We had 8 referrals from companies we called

These tactics allowed us to build a database of 736 records. Manual screening then established that 163 of those were judged not to be worth contacting because they were from the wrong sector, had no website, or no e-mail address. Therefore our 'cleaned up' list of positively identified Digital Sector SMEs comprises 573 businesses

Of the 'cleaned' list, we e-mailed 350 and 8 applied online directly as a result of that email (2.2% response rate)

We then made follow up telephone calls to explain what Digital Central was and what was being offered to 250 of the 350 on the e-mail list before we hit our budgeted quota of 50 SMEs willing to participate (a 'hit rate' of 10%).

Setting expectations amongst SMEs

Past experience with Vital Statistics shows that successful sign-up of SMEs, and their ultimate satisfaction levels with the process, are critically dependent on them having had their expectations about what the process can do for them set realistically and clearly up front.

Therefore, a consistent message was established early on and used in all communication, which could be summarised as follows:

- Digital Central is there to help the West Midlands be nationally and internationally recognised for digital media / music businesses.
- It's here to support companies like yours with the aim of making the West Midlands an exceptional place to build a business.
- We need your help and we'd like to offer you ours.
- We identified your company as an entrepreneurial business
- We invite you to take part in our Vital Statistics project. It's free and takes just 20 minutes of your time.
- You will get a totally confidential report showing how your business compares to similar businesses
- You will get an individual action plan that you can use to steer towards commercial success.

Delivery mechanism

The project was delivered on a fully outsourced basis by CCM Limited, the joint venture business operated by Pembridge and BOP to embody their *Vital Statistics* methodology. CCM assumed full responsibility for all aspects of marketing, project co-ordination and interviewing.

Outputs

Four types of output were delivered under this project:

A - Business Support

The key output delivered for Digital Central was Business Support. This was achieved by providing an individual *Vital Statistics* report to each SME participating. The confidential report showed how the SME compares to its peers, where its strengths and weaknesses lie and what it might do to capitalise on opportunities and avoid threats (an anonymised example report is available to interested readers on request to hugh.mason@pembridge.net)

B – Recommendations

A brief, pragmatic, action-oriented report was delivered to Digital Central complementing the document you are reading now. That report summarises the overall state of all the SMEs participating and draws together common threads of business development needs with suggestions for cluster activities that could follow up to address them.

C – Statistics

This report summarises in statistical terms aspects of the sector that will be of interest to investors, mentors and public sector funders as they set their respective policies for work with the Digital Sector in the West Midlands.

D – Presentation

The insight arising from the project was shared informally with an invited audience at the launch of Digital Central's London facility and developed further at a meeting of the Steering Group for Digital Central.

Limitations of the methodology

The methodology used was that judged to be best practice based on Pembridge's experience operating and reviewing similar exercises. However, practical limitations impose a range of restrictions on the inferences that can be drawn from the data gathered:

1. We are not aware of a generally accepted firm and useful definition of the Digital Sector – that used for this project is an empirical approach described above. This limits the capacity to compare data obtained through this project with other projects that may have used a different definition.
2. It is difficult to draw a firm line between enterprises that are micro businesses and those which are really just a freelance individual trading under a business name. The methodology we used attempted to exclude freelancers on the grounds that an enterprise based around one individual is difficult to scale. Our estimate of the size of the sector is affected by our decision to exclude such individuals and the basis on which they are excluded may mean that very small micro businesses are under-represented in our sample.
3. Only 20% of the businesses we contacted were both eligible to participate and willing to do so. Of those that participated, only 60% were able to provide financial data. The sample size is therefore small and not adequate for robust statistical analysis: hence we present this report as a 'snapshot' rather than a full report and recommend that the project is extended.

Timeline

22 JAN 2007: Contract for delivery executed.

29 JAN 2007: Marketing start. Applications for the scheme to be in by end February 2007 with a public cut off date for supplying accounts advertised as 16 FEB 2007.

From 29 JAN 2007: Companies sign up online and send in accounts as soon as they do so. Accounts analysed by Pembridge as soon as they arrive and interviews scheduled/executed as SMEs commit to participate.

From 12 FEB 2007: Main body of interviews start. Individual report generated as soon as practical after interview. Keep chasing for accounts from signed-up SMEs yet to supply them (from experience, expect some dropout at this stage)

5 MAR 2007: Real cut-off date for receiving accounts. SMEs that haven't delivered by this time dropped politely from the scheme

17 MAR 2007: Interviews all completed by now (SMEs that just can't get round to being interviewed politely dropped from the scheme). Final individual reports go out. Optional reports and presentation material generated (if required by Digital Central)

31 MAR 2007: Delivery of all agreed outputs complete.