



ANGLE Technology Limited

Rosyth Europarc Business
Innovation Centre Review

Scottish Enterprise Fife

Final Report

Prepared by ANGLE Technology

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Strictly private and confidential

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Rosyth Europarc Business Innovation Centre Review

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1. Approach to the project

1.1 Background

Scottish Enterprise Fife commissioned ANGLE Technology to undertake a review of Rosyth Europarc Business Innovation Centre (REBIC) aimed at determining its future structure and the means by which it could achieve financial sustainability. The Briefing Materials as provided by Scottish Enterprise Fife described the following as components of the review:

- ◆ critically assess the underlying assumptions of the original project concept;
- ◆ assess the original business model and summarise its key components;
- ◆ identify the critical success factors relating to the original business model and comment on its performance against the plan;
- ◆ identify and review the key resources available to REBIC commenting on variation from plan and related effectiveness;
- ◆ review the structure and membership of the Board, taking into consideration, wider stakeholder interests;
- ◆ assess and comment on the performance of the project to date;
- ◆ review project forecasts, (including P&L and cash flows), noting assumptions, and make observations on funding requirements and project sustainability, as currently structured;
- ◆ make an assessment of the future positioning of REBIC, including research into the niche role as defence technology commercialisation facilitator for Scotland;
- ◆ preparation of an “issues” paper encompassing both (a) the current operational performance against the original business model and (b) the wider strategic issues;
- ◆ develop a set of options for the future development of the project, and for each option, clearly indicating the extent to which it deviates from the original plan;
- ◆ for each option, describe the implications in terms of critical success factors, essential stakeholders, funding and sustainability of the project;
- ◆ recommend future project strategy, with an associated outline change plan.

The components described above, represent a very significant undertaking. In view of this it was agreed to prioritise the activities undertaken into those components that were critical initial steps in the process of delivering a full review, strategic options for future development and the preparation of a detailed

action plan for implementation. Following the briefing meeting that took place on 24 May 2001, ANGLE Technology re-examined the various components of the review to identify those that were absolute requirements in order to deliver meaningful outputs. This analysis resulted in the following redefined aims:

- ◆ to provide a sound, professional assessment of REBIC's position;
- ◆ make recommendations on the strategic opportunities available to REBIC;
- ◆ an indication of the actions necessary to realise these opportunities.

1.2 Objectives of the Study

Given the factors described in Section 1.1, ANGLE Technology believed the following objectives to be critical in the assessment of the REBIC performance to date and, equally importantly, the identification of the reasons for any deviation from the original plan and objectives. ANGLE Technology recommended that the objectives of the project should be to:

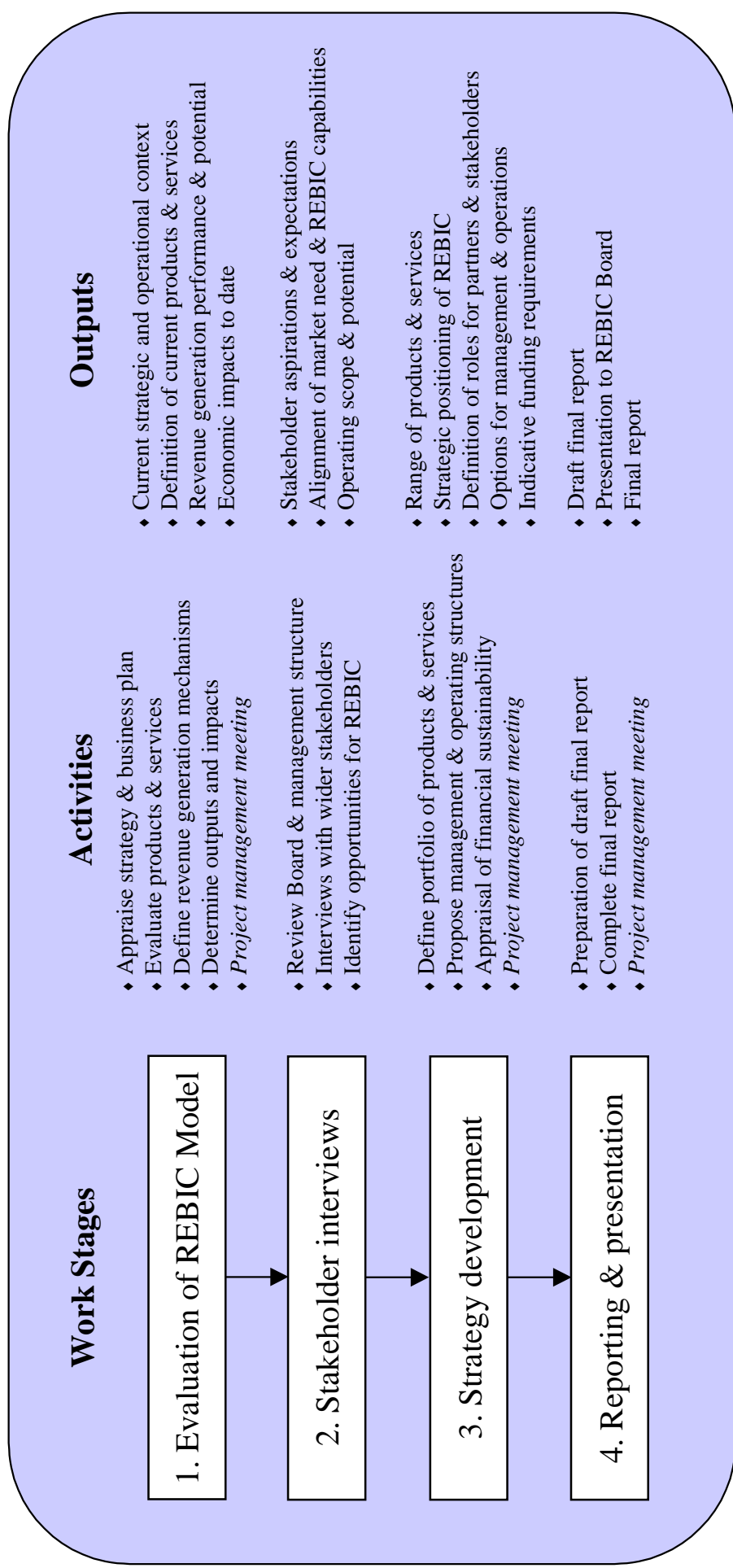
- ◆ conduct an in depth review of the REBIC current position and the processes and plans which guided its progress to date;
- ◆ evaluate the current structures in terms of their effectiveness in supporting the business plan;
- ◆ critically assess the strengths & weaknesses of the REBIC business model;
- ◆ conduct an appraisal of the organisational structures and support mechanisms relating to stakeholder, board and internal relationships;
- ◆ review the range and delivery of business services provided by REBIC on , a local, regional and national basis.
- ◆ conduct an overview of the competition and the current market, as a means of positioning REBIC to optimal effect.

The activities undertaken in delivering these objectives would result in the preparation of the following outputs:

- ◆ a range of strategic options for the future development of REBIC on a sustainable basis;
- ◆ recommendations for the appropriate organisational structures necessary to support and allow the delivery of a sustainable business plan;
- ◆ recommendations for linkages that REBIC could/should forge with other organisations to further secure its position and sustainability.

2. The approach

The approach for this project is summarised in the diagram below and described in the sections following.



This summarises the workstages undertaken during the project and the key activities associated with each work stage.

2.1 Evaluation of REBIC Model

ANGLE Technology believed that it was critical to gain a clear understanding of the basis and objectives of the REBIC. To ensure that this was comprehensively undertaken, an in depth review of significant background papers leading to the establishment of REBIC, including the current Business Plan, was completed. Additionally, a critical review was also be made of REBIC's products and services in conjunction with the definition of all revenue generation opportunities.

A summary of the findings was reported at a project review meeting in order to confirm REBIC's current position and its objectives and structure when established.

2.2 Stakeholder interviews

ANGLE Technology conducted a review of the effectiveness of the organisational structures in place to identify the extent to which expectations of partner organisations, Board Members and management were being met. The policy and decision making processes were reviewed as was the extent to which the structures allowed effective communication to take place. As wide a view as possible was taken of "stakeholders" and these were drawn from: Scottish Enterprise Fife, Fife Council, Scottish Enterprise National, Rosyth Europarc Limited, DERA/QinetiQ, DDA, Heriot Watt University, Fife College, Lauder College, Bank of Scotland, Sigma Technology, Technology Ventures Scotland and also from the current client base and service provider organisations. In all, it was estimated that some 15 interviews would be required to be conducted on a face to face basis.

This interview process enabled ANGLE Technology to gain an extensive perspective on the opportunities which were available to REBIC, going forward, and which would allow the identification of a comprehensive range of realisable strategic goals. A comparative view of similar developments in the UK was based on ANGLE Technology's knowledge and experience of the market sector.

2.3 Strategy development

Based on the data collected, and drawing upon its extensive knowledge and experience of current market conditions, ANGLE Technology have developed and defined a range of alternative strategies, for consideration.

2.4 Reporting and presentation

ANGLE Technology prepared and presented a draft final report which was discussed at a review meeting with the REBIC Review Steering Group where careful note was taken of all comments. As a result of this review meeting the Final report has been produced incorporating the comments and presentational guidance offered, and delivered to Scottish Enterprise Fife.

3. Evaluation of REBIC model

3.1 Original concept

The original concept for the Rosyth Europarc Business Innovation Centre was developed during a period when the role and face of Rosyth and the Rosyth Royal Navy Dockyard were under discussion at a wide variety of levels in local and national government. A fresh view was taken of the area and the likely mix of activities and drivers which would be required to stimulate and develop economic growth. One of the elements perceived as being potentially beneficial, within the action list mix, was a business incubator, which would encourage “new economy” knowledge/technology based high growth businesses to start up and develop in the Rosyth area.

3.2 Background to Rosyth developments

Rosyth 2000 Ltd was formed to move the redevelopment and re-generation of the area forward. Rosyth 2000 Ltd comprised, Fife Council, Forth Ports Authority, Babcock Engineering, Bank of Scotland and Scottish Power and a Steering Group formed to guide the project. One of the early developments was the formation of Rosyth Europarc, a Joint Venture between Rosyth 2000 Ltd and Teesland Group plc. The stated objectives of Rosyth Europarc were “to create 4,000 jobs and transform the 15 acre site into a centre of industrial and engineering excellence”. To achieve this, the development plans included:

- ◆ extensive refurbishment of existing industrial and office buildings;
- ◆ new landscaped high-technology office environment;
- ◆ new campus area for retail and leisure use;
- ◆ direct ferry link to continental Europe.

The time horizon for the completion of these developments was seen as being around 2010.

These aims identify that a function, which was considered to be a necessary part of the Rosyth 2000 development, was the means by which the initiation and development of high growth technology founded companies was encouraged and managed. This would ensure that the commercial landscape of the area would, over time, be populated by knowledge and technology based businesses, some of whom would be locally initiated and nurtured. The vision for the outcome of such an activity was the creation a vibrant and sustainable economy centred on Rosyth.

The opportunity which the regeneration of the Rosyth area offered, was further strengthened by the decision, by Government concurrent with its Strategic Defence Review, to establish an Agency which would be responsible for

providing access to technology, which would enable knowledge/technology based companies to be formed. The Rosyth area has had a long association with the Ministry of Defence and its work, through the Rosyth Royal Dockyard facility. The consultative Green Paper, published March 1998 sought views on the proposals to provide new impetus to the process of driving technology companies forward by releasing technology to SMEs. In November 1998 the White Paper "Defence Diversification: Getting the Most out of Defence Technology" was published and The Defence Diversification Agency (DDA) came into being.

The DDA is a key initiative aimed at creating greater benefit for small and medium sized enterprises (SMEs) from the nation's investment in research and development within the Defence Evaluation and Research Agency (DERA) - the largest science and technology organisation in Western Europe with a turnover of £1 billion. DERA has an extensive expertise base, some 8000 scientists and engineers, spanning almost all the engineering and scientific disciplines and a significant range of facilities available for use. It also boasts an extensive patent portfolio (over 5000 patents) available for licence. The main features and technologies that DERA and DDA could provide access included:

- ◆ Technology Transfer;
- ◆ Design and Prototyping;
- ◆ Advanced composites;
- ◆ Structures;
- ◆ Modelling and Testing;
- ◆ Materials selection and development;
- ◆ Communications Sensors;
- ◆ Signal / data processing;
- ◆ Facilities & evaluation.

With this backdrop of Rosyth regeneration and a major new initiative to encourage the establishment and development of SMEs fuelled by access to a significant source of intellectual property, there appeared to be an excellent opportunity to build on the coincidence of good circumstances.

3.3 The REBIC business

3.3.1 The company and members

It was incorporated as a Company Limited by Guarantee on 8 December 1999 under the name Rosyth Europarc BIC Limited. The name was subsequently changed on 12 May 2000 to Rosyth Europarc Business Innovation Centre Limited.

The development of the Rosyth Europarc Business Innovation Centre has been built upon the skills and resources of a range of diverse but complementary parties. These included (not in any order of priority)

- ◆ Scottish Enterprise –National
- ◆ Scottish Enterprise – Fife
- ◆ Fife Council
- ◆ DDA
- ◆ DERA
- ◆ Fife College
- ◆ Lauder College
- ◆ Rosyth Europarc Ltd
- ◆ Heriot Watt University

3.3.2 Members commitments

The company secured commitments, all expressed in legally binding agreements, from its initiators and initial Members in the following manner:

Participant	Commitment	Timescale
Fife Council	£46,000	Cash to year ending 31.12.99
Scottish Enterprise – Fife	£175,000	Cash over 3 years ending 31.12.01
Scottish Enterprise National	£180,000	Cash over 3 years ending 31.12.01
Heriot Watt University	£135,000	In kind contribution over 3 years ending 31.12 02 *
Lauder College	£50,951	In kind contribution over 2 years ending 31.12 01 *
Rosyth Europarc Ltd	£155,120	Cash to upgrade the physical infrastructure

- * Although these in kind commitments are confirmed in Contribution Agreements Heriot Watt University and Lauder College did not permit these sums to be included in ERDF Claims made by REBIC.

There are no binding agreements or commitments with DERA/DDA. In particular there are none in relation to secure the perceived opportunity to partner DERA/DDA in its mission “to create greater benefit for small and medium sized enterprises (SMEs) from the nation's investment in research and development within the Defence Evaluation and Research Agency”. There is a specific and tangible link, however, in that, DDA has staff based within REBIC which has provided REBIC with the appearance of having a unique identifier regarding access to technology. DDA's actual presence, however, has permitted the use of that “investment” by DDA as a basis of securing ERDF funds for REBIC. This DDA “investment” has been increased during the life of the project by the placement of a second DDA staff member in the facility.

3.3.3 The Board

The position of Board membership was confirmed as at 28 February 2000 during the audit for the 14 month period to that date as comprising:

- ◆ Catherine Alexander (Chief Executive)
- ◆ D C Clements (Fife College – since resigned)
- ◆ C Di Ciacca
- ◆ I D McLaren (since resigned)
- ◆ L M Steedman

There is no formally designated Chairman.

3.3.4 Partners

The organisations described as Members in 3.3.1 have been expanded from time to time and other parties have participated to a variable extent in discussions both formal and informal. These additional organisations include, University of St Andrews and Technology Ventures Scotland.

3.3.5 Finance

Apart from the finance and in kind support detailed in Section 3.3.2, REBIC has derived the bulk of its capital and revenue finance from ERDF funding. The table below represents the monies claimed for and the timescales in which the funds were to be drawn.

Funding type	Signatories	1999	2000	2001	Total
Capital	Rosyth Europarc, Fife Council, Scottish Enterprise Fife, DERA		£248,068		£248,068
Revenue	Fife Council, Scottish Enterprise Fife, DERA	£13,483	£90,511	£203,006	£307,000

REBIC's own revenue generation from core activities only began in Q4, 2000 and has been building slowly. This revenue stream has been drawn almost entirely from accommodation charges.

3.3.6 Property

The REBIC facility is a refurbished two level building comprising some 10,474 sq ft gross and 4,760 sq ft net rentable space as currently configured. The building has been finished to a good working standard, and reasonably equipped, largely equating to reasonable quality office provision. Visibility of and access to the property is good with adequate parking for staff and visitors. REBIC pays an annual rental of £60,000 to Rosyth Europarc Ltd for the property.

In terms of being an attractor of knowledge/technology high growth businesses, there are no specific differentiators in this respect in relation to the property or property based services.

3.3.7 Services/Products

In terms of what tenant companies seeking to initiate or quickly develop their companies within the REBIC facility can expect, there is, in reality, little of proven substance. There is no "programme" which can be offered to a prospective incubating company and no defined Client Value Proposition which would both attract and convince would-be entrepreneurs to commit their emerging businesses to REBIC. It is a characteristic of successful business incubators that they provide key business and technology support services to their client base, which are proven to significantly benefit small and emerging business clients. To attract new clients and to justify either enhanced accommodation charges, fee for services proposition or equity participation requirements, these incubators have a Client Value Proposition which effectively sets out what incubating companies will get from the incubator and it will benefit them.

There is still some of the original promise and opportunity, but it is not in a fully defined and committed state.

REBIC effectively offers:

- ◆ easy in/easy out property letting terms, for reasonable quality property;
- ◆ an environment which permits and encourages informal contact to take place between incubatee tenants and tenants with established roles, particularly in the area of technology transfer and promotion i.e. DDA and Technology Ventures Scotland;
- ◆ two full time members of staff who are available and accessible and have a credible amount of knowledge and experience about general business matters and more advanced knowledge and practical expertise in business strategy and marketing issues. These staff have additional duties in respect of the facility and its operations and as such, have a lessened availability to provide these necessary services;
- ◆ the prospect of more specialised help and support from the associated HEIs and FEIs but again each identified incubatee need would require work to identify and set up an appropriate response;
- ◆ the prospect of access to a unique source of technology, but there is an ill-defined process which makes it difficult to closely describe the real benefit.

Whilst these, at least at first sight, have an attraction, they do not constitute a real business incubation service or a serious business development proposition. See Section 6.1 for the generally accepted characteristics of a successful business incubation operation.

3.3.8 Financial performance

In viewing the company's performance to date, it must be remembered that it has not been fully operational for a full 12 month period. Despite that, however, there are issues which are clear at this time. A view, abstracted from the Management Accounts presented at the Meeting of Board of Directors on 11 July, 2001 is shown below:

REBIC Historical Financial Performance

	Mthly Ave. 3mths to 31 May 2001	Mthly Ave. 14mths to 31 May 2001
Accommodation Charges	£4,310	£1,764
Total Expenditure	£17,499	£19,373
Operating Deficit	(£13,189)	(£17,608)

This clearly indicates that:

- ◆ income from accommodation charges is rising and that the monthly average expenditure has fallen but only marginally by 9.7%;
- ◆ the average monthly operating deficit is substantial, £13,189, and currently sustainable only through the application of external grant funding.

These figures for the quarter, to 31 May, represents the building 56% occupied, of the 4,760 sq ft currently configured as lettable. If the remaining 44% were let the Rental Income would rise to nearly £10,000 per month still representing only 57% of the current average monthly expenditure level. Looking at the best position possible, that of letting the whole of the space which could reasonably be commercially let, monthly income would only rise to nearly £12,000, still £5,500 short of covering the current expenditure levels. Clearly, this still represents less than 70% of the costs and so as a property initiative with its current cost base there is little prospect of breakeven.

In all of the above considerations, the currently accepted rental rate of £30 per sq ft has been used. It is felt that this rate is unlikely to be improved upon, and certainly not the point that it could be raised to produce a breakeven position from the currently allocated space for rent as it would necessitate a rate of nearly £45 per sq ft, or nearly £35 per sq ft for the case where almost all the available space was let. This latter situation could only be achieved by reducing the levels of facility performance and services, thereby increasing the pressure on the rental rate.

3.3.9 Staffing

REBIC currently has two full time employees, the Chief Executive and a Marketing/Business Development Manager. Additional services are contracted for, through Amey for reception/administration and through Teesland Management Services for accounting and company secretarial services.

3.3.10 Summary of findings

3.3.10.1 Base strategy

The strategy of establishing a business incubator facility within a major economic regeneration programme is, in principle, valid, particularly, as in this case, a specific unique feature was to be part of the attraction to prospective and emerging companies to use the incubator, that of a working relationship with DERA/DDA through which companies would have access to a wealth of exclusive patents and intellectual property. In addition there was a wide acceptance between interested and influential parties that they would support, in cash and in kind, the setting up and running of the incubator.

The outcome has been somewhat different. Although the cash has been paid and in kind help agreed to in binding contracts, none of the critical support agreements, particularly the manner and method of working with DERA/DDA has been secured, no service structure has been set up and no development of relationships has occurred in the light of experience of demand from emerging client companies.

3.3.10.2 Strategy development

It appears that there was no detailed assessment of the market demand for the services of a business incubator and as such the business model on which REBIC has been founded, concentrated on the availability of support from the supply side and not the demand side. As a consequence, REBIC comprises a building which is a stand alone facility with no specialist technology or market focus and few, if any, features, either in the building or in the services provision, which differentiate it from any other multi-occupancy property opportunity.

Rather than evolving a business strategy which was informed by a feasibility study or demand assessment, a business has been established on the strength of a concept which was attractive and had positive but untested differentiating elements and crucially commanded support sufficient to bring it into reality.

3.3.10.3 Revenue generation mechanisms

An examination of the revenue streams which REBIC has shows that there is only one which it has established currently, that of property rental income. The property has a gross rental space of 10,474 sq ft and a currently configured rent earning opportunity of 4,760 sq ft. Currently, the building is only 56% let (2,686 sq ft). Even if the building was 100% let (4,760 sq ft) at the current rental rate of £30 sq ft, the income would not cover the current costs. A redesignation of space could produce rentable space of around a further 1,000sq ft. Even at this level, the incubator could not generate sufficient rental income to meet all its costs. There is, however, an assumption that sufficient demand can be identified and generated to take up all the available space

The reality is that sustainable business incubators are at least double the size of REBIC. In addition, business incubators normally have developed non-property revenue streams that will include payment for specialist services. In some cases equity participation will be a condition of entry to the incubator for companies as a form of “future payment” for services or an advantageous rental rate.

REBIC has no such additional revenue generation structures in place or in prospect and there have been no agreements with current tenants for that option to occur.

3.3.11 Summary

Against the generally accepted criteria which are found in successful business incubators, REBIC in its current form, has not succeeded in developing any key differentiators and thereby has not created a visible position for itself as a place of first choice for entrepreneurs to initiate or develop their business in the Fife/Forth Valley area. Although the incubator is still only in its first year of operation much of the policy and direction needs to be established in advance of the building's opening and the character and market offerings as described in a Client Value Proposition defined and understood by everyone associated with the enterprise.

The realities are that REBIC has:

- ◆ a property offering which is reasonable but not exceptional;
- ◆ no defining technology or market focus;
- ◆ ill defined and unstructured service provision;
- ◆ a lack of clear operating policies;
- ◆ no specific attachment or access to funding sources.

4. Interview programme

4.1 Conduct of programme

A detailed list of interviewees was drawn up by the Steering Group and advised to ANGLE Technology at the commissioning meeting. Although the period in which interviews were due to take place coincided with the peak Scottish holiday season, interviews were conducted with almost all of the interviewees identified by the Steering Group. The one exception, was that of the Chief Executive of the London BIC. This was not for the want of repeated efforts by ANGLE Technology staff to secure a meeting. In all, some 17 face to face interviews and 2 telephone interviews were conducted.

It is worthy of note that a welcome willingness was demonstrated by most interviewees, keen to play a positive role in the Review.

4.2 Overview of responses

The views brought out in the section relate to all organisations (see Annex A List of interviewees) except tenants.

4.2.1 **Background to parental organisation involvement in REBIC**

There was general confirmation that, at the time, the concept of establishing a business incubator, particularly with the perceived relationship opportunity with DERA/DDA was accepted with some confidence. REBIC was an organisation carrying many hopes and expectations.

4.2.2 **Views on performance to date**

Considerable disappointment was expressed. The initial hopes built, on the perceived opportunities arising from the unique linkage with DERA/DDA coupled with the wide ranging nature of the organisations confirming support, were very high and this may have produced high expectations. The outcome as recognised and understood by the support organisations has been very discouraging.

4.2.3 **View on current position**

Although there was a degree of confusion amongst the members as to the validity of the accounts, to 31 May, 2001, provided to ANGLE Technology, this was actually only a minor deviation from the unanimous view that REBIC was in a very poor financial position. In addition there was deep concern that no established relationships had been cemented with external bodies which would allow the prospect that REBIC's income stream would improve significantly in the foreseeable future.

Furthermore, there was an increasing disappointment that the tenants committing to REBIC were less “high growth” than had been originally anticipated, and, despite that, their numbers were only growing slowly.

4.2.4 Operation

This area of investigation raised a number of issues relating to operational aspects. The most frequently mentioned matter was that of financial accounting and related management reporting. This issue raised considerable frustration that a key function to any organisation was not operating in a condition that had the full confidence of management and the Directors. The continuing lack of resolution was adding to the feelings of frustration.

The marketing function, too, was viewed as being under performing with the lack of quality tenants being the direct evidence.

4.2.5 Board structure

There was a general disquiet about the lack of “certainty” about the Board make up and the Board function. It was felt that as with all well run companies and organisations, the Board and its functions should be providing the high level strategic leadership, the objective and regular review of the company’s performance, and policy guidance to the Chief Executive.

There was concern expressed that there was no formal Chairman and a demarcation of the responsibilities and duties between the Board of Directors and other representatives of interested parties.

4.2.6 Views of REBIC’s future

Considerable disquiet was expressed about the future viability of REBIC and the ability to make further resources available to support REBIC.

4.3 Themes

Given the diverse nature of the interviewee base, responses have been grouped into three broad classifications, tenants, external but interested parties, initiators and involved parties.

4.3.1 Initiators and involved parties

This group constituted the largest number of interviewees. Recurring issues included:

- ◆ lack of leadership, at Board and executive levels;
- ◆ lack of clarity and visibility in stakeholder roles;

- ◆ frustration at progress of the project;
- ◆ the perceived loss of opportunity;
- ◆ frustration that REBIC's own systems were not robust and capable of providing management information;
- ◆ determination that the current position was sustainable or supportable in its current form and a resolution had to be found.

4.3.2 External but interested parties

In this category, there were, at best, expressions of real disappointment that the perceived "new approach" of a business incubator with a close relationship with DERA/DDA in Rosyth had not produced anything of note and, at worst views that a real opportunity had been lost. There were notes of disquiet that there was no sense of urgency to secure relationships for the provision of services and the development of the necessary suite of services to allow REBIC to generate further income streams. Views were also voiced regarding the lack of apparent leadership from the Board and executive management.

4.3.3 Tenants

There was a general satisfaction expressed about their experiences of REBIC, which related to their pre-tenancy meetings and their current tenant status relationship. Whilst there were no negative views expressed, there was no expression of any substantial benefit to their business which had been experienced by the tenants. Overall, the tenants interviewed were positive about REBIC, a position one might expect from tenants who were in reasonable facilities, with reasonable terms, particularly the easy in/easy out tenancy, and were being reasonably treated.

4.4 View of the future

It was worthy of note, that in no category and on no occasion did any interviewee express a strong need for REBIC to continue in its current form. Excluding the tenant category, whenever the future of REBIC was raised as a topic, there were two views which were most often expressed. These views were either of disbelief that it could continue, at least in its current form, or a determination that, in the event, that there was a consensus for a business incubator facility to continue, there would be a need for wide ranging and substantial change.

5. Influence of changing external environment

There have been some significant changes to the environment in which REBIC is operating. These changes have a bearing on the current and future prospects of REBIC. The main issues are outlined below.

5.1 DERA - QinetiQ/DDA

When in November 1998 the White Paper "Defence Diversification: Getting the Most out of Defence Technology" was published and The Defence Diversification Agency came into being, there was a belief and a strong expectation, which was not unreasonably founded as the aspirations were backed up in correspondence, that a close working relationship had a real potential for the DDA's Scottish presence. This relationship, it was expected, would:

- ◆ provide the access to technology, which would enable knowledge/technology based companies to be formed and enter the REBIC incubator or receive the specialist support services from the incubator;
- ◆ significantly assist companies in the incubator by providing them with a gateway to a significant source of technology and patented intellectual property;
- ◆ provide REBIC with a possibility of significantly extending its range of influence beyond the strictly Rosyth/Fife area;
- ◆ allow a revenue stream to be established for REBIC based upon referrals and introductions which it was able to make to DDA.

In the event this has proved not to have been delivered, for a number of reasons which include:

- ◆ the initial thoughts regarding the potential of a DDA/REBIC relationship, were in large measure considerations arising during a period of considerable change within DERA, and such thoughts were always likely to have a degree of risk associated with them under such circumstances;
- ◆ there have been significant personnel changes and associated responsibilities relating to DERA and DDA personnel over the period in which REBIC has come from a concept and in to a reality. With these changes has inevitably come new views, perspectives and objectives;
- ◆ the concepts of a unique and beneficial relationship between DDA and REBIC were not followed up to secure formal agreements, if that were indeed even possible. Had the process to secure formal binding agreements been approached at a much earlier stage it may have only resulted in the current position being confirmed at an earlier point in time.

This, of course, would have provided clarity and allowed alternative strategies to have been considered, developed and actioned;

- ◆ the DERA and DDA objectives and strategies have continued to evolve with the latest development, of earlier this year, seeing the establishment of Quinetiq which, it is believed, yet further erodes the possibility of any substantive business relationship between DDA and REBIC.

5.2 REBIF/Sigma Technology

One of the single most important aspects of any business at any stage of its development is access to capital. The needs and the uses to which the capital is required change with type of business, state of market, stage of company development and many other factors but it only underlines the critical nature of the capital supply needs to businesses. Accordingly business incubators who have access to or have established relationships with funds have an additional attraction to would be entrepreneurs.

This aspect was clearly seen and one of the early considerations that arose when REBIC was being established was the possibility of the creation of such a fund, REBIF. The early expectation was that the fund would be established and be aimed at investing in Fife based emerging companies. There was the anticipation that it would have a clear link, not wholly defined, with REBIC, but such a relationship would have centred upon the strengths normally associated with business incubators and which would include the identification of potential high growth companies, the careful support in the technology and management needs of these incubating companies. Such a relationship was clearly seen as a further revenue stream for REBIC. The establishment of the fund has progressed with at least three bodies, Bank of Scotland, Scottish Enterprise Fife and Sigma Technology, committed to providing at least 70% of the proposed £5 million. The balance will be provided either through an application for ERDF funds or an existing/new investor. In any event, there was noticeable confidence that the funding issues would shortly be resolved and that investments in companies would proceed shortly thereafter.

Although this may not yet be clear, what has become apparent is that the earlier mooted link with REBIC will not be progressed and that Sigma Technology is seeking to establish its activities in a 12,000 sq ft building, within sight of REBIC and on Rosyth Europarc. Sigma Technology, a plc which specialises in the investment of capital and management time and expertise in growing companies, is intent on establishing a “hothouse” in which it will accommodate up to 10 companies which would be in receipt of invested funds from either Sigma Technology or REBIF.

The removal of the opportunity to be directly associated with the REBIF fund is in itself a significant blow to REBIC, in terms of how that would be perceived by the “market”. Additionally the decision to proceed without a commercially based service provision agreement which would have included REBIC has ceased a opportunity for a further income stream for REBIC.

Furthermore, the arrival of, what will undoubtedly be seen by the market as an alternative source of incubator facilities and services to those offered by REBIC, will undoubtedly have the effect of further reducing the level and quality of demand for REBIC, at least as the first choice incubator. Although there will be rational and explainable entry conditions and qualifications, the small available market will inevitably draw its own conclusions and these will have the distinct potential to confuse and that, in turn, is likely to both reduce the demand for REBIC and indeed, early stage company incubation in the Rosyth area and Fife Region.

6. Business incubation – successful models

6.1 Base criteria

In general terms, successful business incubators have a limited range of common elements in their business models. The relative balance of each of these varies depending on the strategy being adopted and will recognise and be responsive to the strengths of the local market and the target client base that they seek to serve. These commonly occurring elements are:

- ◆ property;
 - provides relevant property and services for the type of technology/knowledge base the incubator is aimed at.
- ◆ market/technology focus;
 - this enables the creation of a community of interest;
 - allows the provision of highly relevant services to be assembled and provided.
- ◆ services;
 - a range of clearly defined and relevant services.
- ◆ defined operating policies, these will include;
 - permitted activities;
 - entry criteria;
 - charging structures/equity participation;
 - performance monitoring;
 - graduation policy.
- ◆ access to funding sources

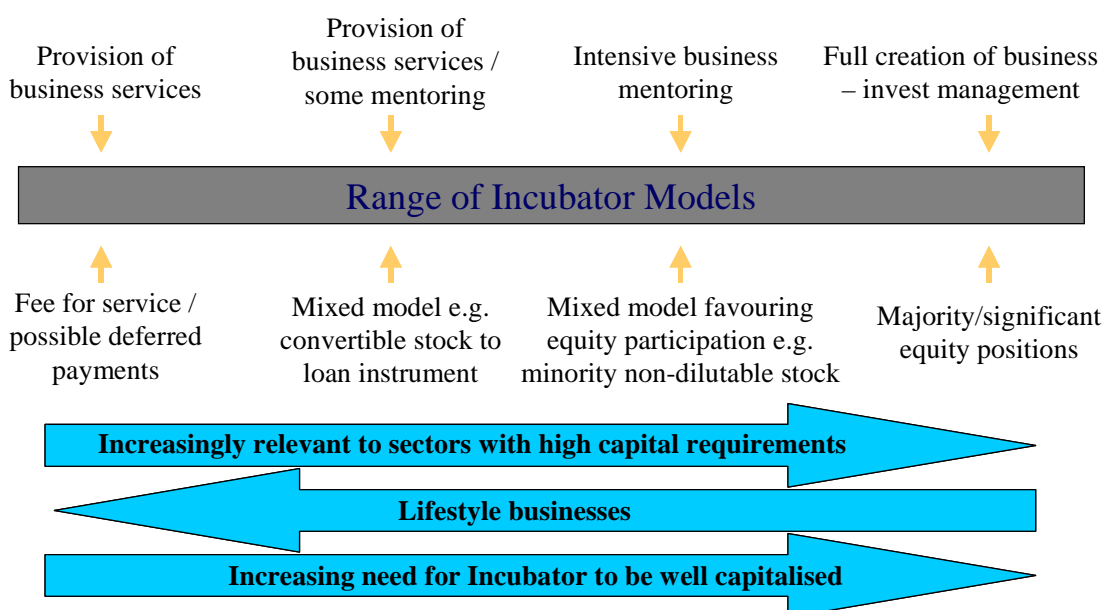
These elements are blended in the appropriate proportions to form the Client Value Proposition which both informs the potential market of the benefits of entering the incubator with the expectations, standards and costs of the host incubator. This ensures that the incubator and the incubatee are both, through acceptance of these laid down operating procedures and standards, empowered to concentrate on the development of the incubatee business.

In more recent years, with the development of a track record and the acquisition of experience and expertise, the “without walls” incubator services have become an increasing aspect of this specialised type of business development. This clearly provides the incubator with greater “reach” into the specialised market it seeks to serve and extends the utilisation of its services and expertise. Additionally this type of “without walls” incubator service provision is attractive as a means allowing the possibility of such specialised service provision in less populated areas. This type of development, however, has not insignificant operational difficulties and is not an “easy” option to make successful.

6.2 Structures – strategic options

The diagram below indicates the range and type of structures which are possible and necessary to establish and sustain a business incubation facility. The specific model and structures will be dependant mainly upon the factors such as the technology or market focus which the incubator has, which, in turn, will dictate the infrastructure requirements, the potential rate of incubating company growth and other significant structural and operational consequences.

Incubator model continuum



This, in conjunction with the aspirations and objectives of the owners or sponsors of the incubator, will dictate the revenue/capital requirements of the incubator business. The incubator model continuum, as indicated above, ranges from income derived primarily from accommodation charges and service provision and low capital input. This provides, effectively a short lead time to reaching a breakeven position and will be significantly affected if projected occupancy levels

are not achieved (reduction in accommodation charge income) or does not have a vibrant growing client base seeking business/technology services (reduction in fee based service income). At the other end of the continuum there is the possibility, normally technology dictated where incubatee companies require the use of capital intensive facility and equipment provision and specialist support. Funding of this need normally requires the incubator to seek equity participation, reflecting a longer position for the incubator. The incubator therefore must be well capitalised to allow it to make this type of investment and ultimately necessitates significant upside through equity release in successful incubating in, realistically, a 3 to 5 year time horizon. Not every company will be successful and as the outcome may take 3 to 5 years to become apparent, it is critical that, for would be incubatee companies, the assessment criteria and processes pre-entry are extensive and robust.

There is no right answer to which model makes one incubator operation better than another. The optimal incubator model will evolve from the type of technology or market focus which is best for the incubator and the incubator owner's objectives. Examples of such objectives are, economic development primarily with the ability to provide regular financial support, or optimising IP and other resources to produce an income stream for the parental body.

7. Strategy development

7.1 Key issues

In considering the options which would be possible for REBIC to adopt as a means of securing the desired position of sustainability there are several issues which require to be noted before considering the potential options which REBIC has. These issues are:

- ◆ Property – the current facility is too small and has no special tenant benefits e.g. access to broadband, to be able to generate sufficient revenue against its current cost structure to operate in a break even position. The average physical size of a UK single site business incubator is 22,000 sq ft.
- ◆ Services - there are no established specialist services currently available through REBIC which would allow the generation of additional revenue, within the REBIC facility and which would allow their provision to non-tenants. The development of such services, and the marketing of them would require investment and time to establish
- ◆ Staff - REBIC has only two staff and so the opportunity for either cost savings or any significant changes in new revenue generation is low. The staff are occupied in a diverse range of activities which include, the operational management of the facility, development of its business and services, attraction, identification and assessment of potential new incubatee companies, delivery of a range support services and liaison with external organisations to further the objectives of REBIC.
- ◆ Tenants - the current client base does not appear to match the proposed high growth, technology/knowledge based profile. There is still a significant degree of doubt regarding the profile of the market demand which REBIC can hope to appeal to. There are non-rent paying tenants currently. Unless REBIC has demonstrable benefits accruing from their presence, this must be an area for revenue generation improvement.

7.2 Options

From the evidence which has been received and reviewed coupled with the wide ranging information and opinion gathering discussions which have been held, in our experience there would appear to be three main options available to REBIC. These options are offered from the perspective of a realistic view of what REBIC is now, and a recognition that, not only is it not financially viable now, it is some considerable distance from being so and with severe doubts if it realistically could be. It is currently substantially dependent on grants and subsidies and will need such ongoing support for the foreseeable future. It is also recognised that all its current external funding and its in-kind agreements, bar one, are due to end on 31 December 2001, and so there is the need for decisions to be taken with a degree of urgency.

7.2.1 Option 1: Re-launch REBIC

This option could only be undertaken properly after a comprehensive market demand analysis has been carried out to ascertain the nature and extent of the opportunities that may be realistically achieved by, and relevant to, a business incubation facility, based in Rosyth.

If this carefully researched assessment identified a sufficiently significant potential demand and the technology or market focus associated with that demand, a further stage of winning committed support and strategic partnerships would require to be undertaken to clearly establish the nature of the organisation which would be required to make the re-born REBIC successful.

Additionally, and consistent with views expressed throughout this review process and confirmed through commentary made throughout this report, there would require to be an organisational restructuring which would have to result in a Board equipped and committed to drive forward the development of the incubation facility. Flowing from those changes, management and staffing requirements would be assessed and informed by the market demand analysis. Initially and for some time the Board should engage closely with executive management, ensuring that there was collective responsibility for the achievement of the overall Business Plan which would evolve from the market demand analysis and the aspirations of the members.

It is already clear that the current property is not large enough on its own, to make business incubation activities viable. Furthermore, there is no suite of specialist services available to support the incubation process and provide a means by which REBIC can derive a revenue stream from tenants of the incubator and, potentially, from emerging companies, outside the incubator. Again a full understanding of the potential and type of demand will allow clear plans to evolve as to what is required and how the need could be satisfied.

Clearly this option would demand a considerable amount of expenditure in terms of cash, executive time with no certainty at this time as to what the extent of that cost would be. The original concept for Rosyth was of a significant and growing economic development with a 10 to 15 year time horizon. With such a large scale development, there should be the means, on a carefully assessed basis, to establish the means by which high growth businesses are initiated and developed to further populate the development with sustainable successful “new economy” companies, new and growing technologies and their applications and importantly an increasingly educated workforce.

In Section 6 above the general criteria found in successful incubation activities have been outlined. Setting this option against those criteria, the relaunch of REBIC would require:

- ◆ a comprehensive market demand analysis. This would provide clear indication as to the focus for the incubator and the likely sources and level

of demand. Furthermore it would identify and define the specific support services and sources of those services which the incubator would require.

Outcomes: Incubator focus, services specification and incubator size and specification

- ◆ a stakeholders facilitated workshop. A presentation of the opportunities, identified by the comprehensive market demand analysis, would form the basis of a facilitated workshop through which, the aspirations, objectives and commitments of key stakeholders could be clarified and identified. The participants in the workshop should be those empowered by their respective organisations to make the necessary and agreed commitments.

Outcomes: Committed support covering capital, technology and service support. Additionally, Board membership, would be resolved.

- ◆ the key relationships necessary for a re-launched REBIC would be identified and would include, in addition to those established through the workshop process, e.g. links to allow access to funding for incubatee companies, links to other incubators with a similar technology focus to augment the specialist support provision, and links to sources of IP and technology expertise from research bodies and institutions working in the same or related technology fields.

Outcomes: Committed support covering venture capital and other investment assistance. A broadening and deepening of the specialist technology and service support.

The processes described above would require time and investment without any guarantee of success. They would, however, make more sure and secure the key elements which, through experience must be present in a successful incubator service provision.

7.2.2 Option 2: Redefine REBIC as “feeder” to Sigma Technology’s Hothouse

This option is raised as a possibility worthy of consideration but is predicated on the Sigma Technology Hothouse activity becoming a reality in the next few weeks.

It is clear that there is a demand by emerging companies for accommodation to allow them to develop their businesses in the Fife Region. This demand, as evidenced by the tenants in REBIC, is not currently strong in terms of numbers, or technology based high growth potential. There has been less than 12 months REBIC operating experience and in that time there has not been a high level of aggressive focused marketing to fully communicate with the sources of technology based business start ups. Notwithstanding that, there would not appear to be much sense in operating two separate and potentially competing organisations who would wish to draw their clients from the same “pool”, at least in a non coordinated manner. Whilst the separate organisations may believe that they offer distinctly different propositions, it would be nothing less than confusing

to a market which will be relatively uncertain as to the best options to pursue for the development of its business. Such confusion will help neither organisation and certainly will not be a positive image for Rosyth and its economic regeneration objectives.

It is clear that REBIC is of a size and structure which will not be able to be financially viable solely from the revenue stream it can realistically achieve and it currently provides neither the facilities nor the services to secure the opportunity to share in the potential benefits of equity participation. In what would be potentially a competitive environment between REBIC and the Sigma Technology Hothouse, REBIC would continue to financially struggle.

In our experience companies, particularly the early stage ones fair better if there is a means by which they can have early and intensive help primarily in business practices and their many related needs in this area. As the Sigma Technology Hothouse concept has been described, there is the likelihood that the early stage companies would not either qualify or may not have the visibility to gain access to the Hothouse programme. In such circumstances, there is a risk that a “class” of potential high growth companies may be lost to the Rosyth area either because they are never started or that they fail without the careful and close nurturing which incubation facilities provide. Additionally they may fail due to the fact that their ideas are not brought to market quickly enough because of some lack of resource, measured encouragement or relevant advice.

A “feeder”, specialising in early stage companies or entrepreneurial individuals, overseen by the Sigma Technology professional staff would ensure that the widest possible market was being served and allowing Sigma Technology the earliest opportunity to gain contact with these emerging companies.

The delivery of this concept would be possible, at least from a practical perspective, due to the proximity of the two buildings within Rosyth Europarc. Its advantages apart from opening up the opportunities to early stage companies would be the opportunity to reduce the cost base of the REBIC facility and service.

In order to take this option forward there would be a need to identify the views of Sigma Technology management about their willingness to accept a management responsibility for the overseeing of the early stage companies and emerging entrepreneurs who would become the feedstock for REBIC. Consideration would also be required as to the structure of the final operation.

- ◆ REBIC - property only: awarding contracts for property services and Sigma Technology having a management contract for marketing and selecting tenants and the provision of incubator services.
- ◆ REBIC being responsible for the property and the marketing and selecting of tenants with Sigma Technology having a management contract for the provision of incubator services.

- ◆ REBIC's entire operations being taken over by Sigma Technology.

The resolution of these options would require to be based on the economic and financial objectives of Scottish Enterprise Fife and its partners and to develop an optimal strategy to put to Sigma Technology.

It is recommended that in the event of this option being considered as the most viable the following steps should be undertaken with urgency:

- ◆ Meet with the management and promoters of Sigma Technology plc to ascertain their views on whether an ongoing relationship with REBIC would benefit their business model for the "Hothouse" development at Rosyth.

Outcomes: a definition of the options available and Sigma Technology's responses. An action plan for the next stages.

- ◆ Develop resource options and cost models, in terms of each service and resource which will be required for the revised responsibilities of REBIC.

Outcomes: detailed and costed plans for the each service and resource indicating the consequences of each agreed option. A critical date analysis to secure or dispose of resources and support services.

- ◆ Prepare a detailed communications plan to advise and inform all parties and the wider world of the positive developments being implemented on Rosyth Europarc.

Outcomes: a clear communications plan with allocated responsibilities and achievement dates.

7.2.3 Option 3: Return the REBIC facility to managed workspace

This option, effectively of closure of the incubator styled facility, could be seen as a significant negative for Rosyth Europarc and the area. It is not offered lightly but without ongoing and substantial financial support for its current form or a significant and beneficial relationship as per Option 2, it will fail. To allow it to do so would only increase the negative nature of the end message. It would be much more beneficial to "manage" the message of REBIC's future in as positive a manner as possible.

In addition, REBIC currently has a number of tenants who are clearly benefiting positively from their presence in the building and by implication with REBIC, although without a major input in their business practises from REBIC. It would be particularly unhelpful to these companies' business development to end their association with the building and potentially the area.

Given that there is an active managed workspace business, adjacent to REBIC it should be possible to extend that operation to take in the REBIC facility, continuing to offer the property option to current and future emerging businesses.

This would also permit the continuing presence of those tenants, such as DDA and Technology Ventures Scotland who are not incubating businesses and through whom there may be some beneficial opportunity arising from their locally sited presence.

It is recommended that in the event of this option being considered as the most viable the following steps should be undertaken with urgency:

- ◆ Meet with each of REBIC's tenants to advise them of the impending changes to REBIC's structures and objectives and

Outcomes: a delivered message which is understood by all tenants.

- ◆ Ascertain the needs of each tenant in respect of each tenant for ongoing support and to ensure that these needs are secured and met.

Outcomes: arrangements and agreements in place, confirmed with tenants and suppliers as appropriate.

- ◆ Review and alter as necessary all legal agreements with tenants as necessary.

Outcomes: all commitments secured.

8. Conclusions

The Rosyth Europarc Business Innovation Centre was originally seen as a part of an overall economic regeneration initiative for Rosyth. The overall Rosyth regeneration initiative is extensive and multifaceted with a 10 to 15 year time horizon. There are many interested and involved parties both in the overall Rosyth initiative and in Rosyth Europarc Business Innovation Centre. Under such circumstances it is clear that not every separate action will be as successful as originally hoped and individual shortfalls in success will not in themselves damage the overall long term wellbeing of the regeneration initiative. What is important is the early recognition of problems and action to correct, close or re-focus.

Rosyth Europarc Business Innovation Centre, whilst a good concept, is not in reality performing the role it was envisaged to undertake and there is no likelihood of it being anything other than requiring regular injections of cash to sustain it. The study undertaken has identified options which seek to better the current position and recognises the vital role which new start businesses will have in the achievement of the overall Rosyth regeneration goal.

8.1 Options prioritisation

Of the three options detailed in Section 7, the optimal one would be Option 2 Redefine REBIC as “feeder” to Sigma Technology’s Hothouse. This option would:

- ◆ consolidate and extend the Rosyth Europarc based facilities and services which would be focused on new company starts, through to high growth company developments, being encouraged under a business incubator environment;
- ◆ continue the use of the recently redeveloped building;
- ◆ allow the necessary changes to be delivered in an acceptable timescale;
- ◆ there would be the direct and visible involvement of the private sector, in a public sector initiated activity;
- ◆ maintain a positive view of Rosyth as an active business creation and development opportunity.

As a “fall back” position Option 3 would be the next realistic as this would:

- ◆ continue the use of the recently redeveloped building;
- ◆ be “delivered” in a relatively quick timescale;
- ◆ allow new start companies to occupy facilities within Rosyth Europarc, thereby permitting, in part, some of the originally intended outcomes;

- ◆ allow Rosyth to be viewed as an active business creation and development opportunity.

Option 1, re-launch of REBIC, would be the least realistic option at this time as it would require further financial and time investment in primary market research, to properly assess the realistic opportunities for REBIC as originally conceived. When the research findings were analysed there is no guarantee that they would show the need for a REBIC type operation. On the other hand it might identify an opportunity which would require very significant investment. This option would therefore be the least able to meet the urgency of REBIC's immediate needs whilst offering the greatest risk in terms of a proven solution in the longer term.

Annex A: List of Interviewees - Face to face

David Anderson,	<i>Director, Quentin plc</i>
Professor Damien McDonnell,	<i>Director General, DDA</i>
Dr Stewart Brown,	<i>Head of Commercialisation, Competitive Business, Scottish Enterprise, National</i>
Margaret Baird,	<i>Competitive Business, Scottish Enterprise, National</i>
Gillian McFadden,	<i>Director of Technology Research Services, Heriott Watt University</i>
Cesidio Di Ciacca,	<i>Director, Teesland Group plc</i>
Ian Shanks,	<i>Director of Structured Finance, Bank of Scotland plc</i>
Graham Barnet,	<i>Jnt. Managing Director, Sigma Technology Group plc</i>
Jackie McKay,	<i>Asst. Director, Business Development, Sigma Technology Management Limited</i>
Linda Steedman	<i>Lauder College</i>
Antonia White,	<i>Technology Diversification Manager, DDA</i>
Douglas Mundie,	<i>Chief Executive, Technology Ventures Scotland</i>
Alastair Bremner,	<i>Scottish Enterprise Fife</i>
Tony Aldhous,	<i>Director, ASTP</i>
Jim Driver,	<i>Fife Council</i>
Ian Hynd,	<i>Partner, Harris Hynd, REBIC Tenant</i>
Neil Baldwin,	<i>Director, VeriSim, REBIC Tenant</i>

