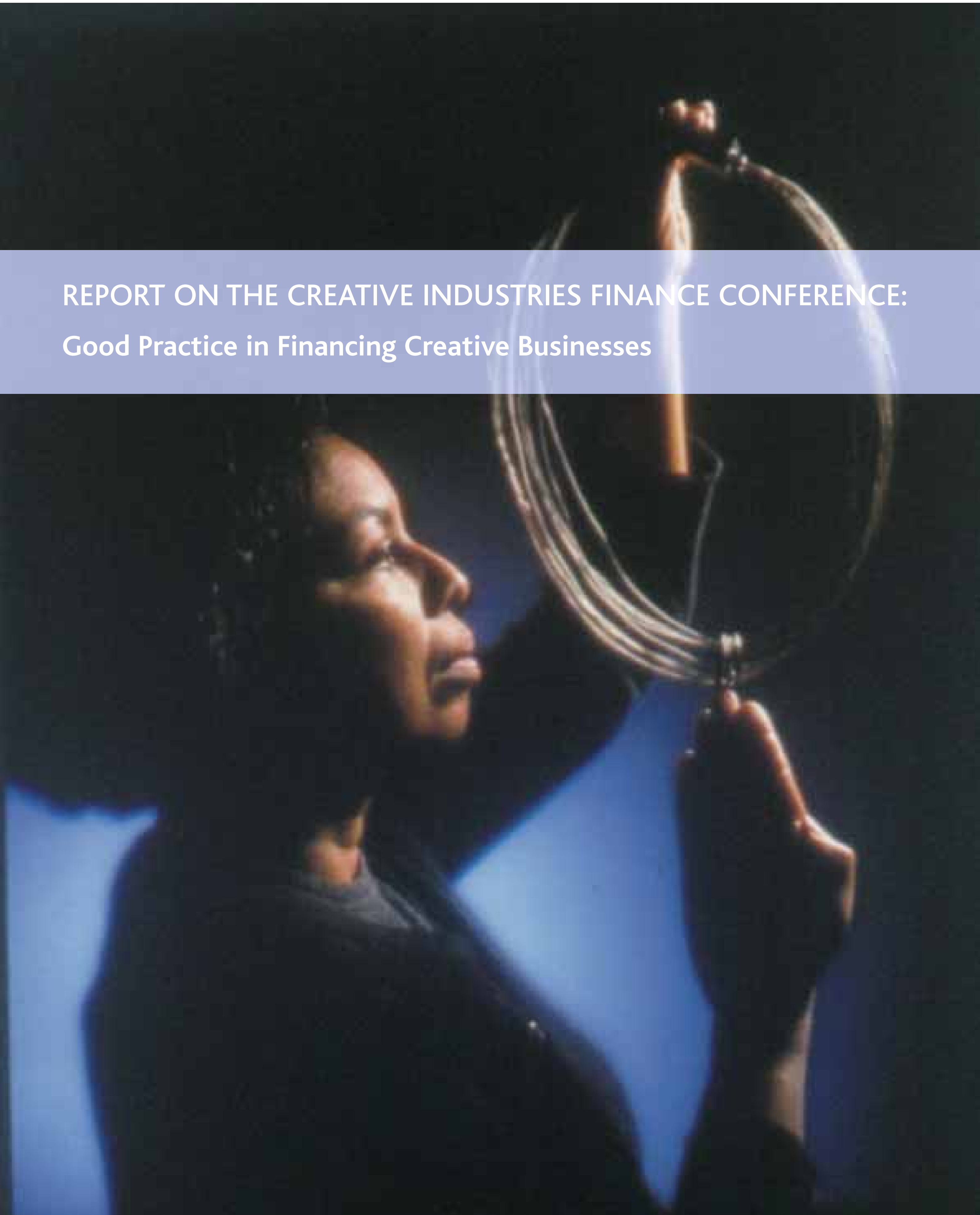
Department for Culture, Media and Sport
Creative Industries

# REPORT ON THE CREATIVE INDUSTRIES FINANCE CONFERENCE:

## Good Practice in Financing Creative Businesses



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Cover photograph: Jewellery designer Disa Allsopp, who works in gold and silver using the techniques of oxidising, hammering, soldering, texturing, inlaying and fusing (Disa Allsopp/Marc Burden/Crafts Council).

# FOREWORD

**KIM HOWELLS MP**

**Minister for Tourism, Film and Broadcasting**

We can be enormously proud of our creative industries, some of which are world leaders in their field. The *Creative Industries Mapping Document* (2001) estimated that they generate revenues of over £112 billion; exports of £10.3 billion and employ some 1.3 million people. These are impressive statistics but it is crucial that these industries are able to thrive and reach their potential. That is why I warmly welcome this report of the conference held in Birmingham in October 2001 on the theme of 'Good Practice in Financing Creative Businesses'.

Securing access to appropriate forms of finance is clearly vital if the industries are to realise this aim. This conference highlighted a wide variety of instruments used to help finance creative businesses, from venture capital funds such as *Creative Advantage West Midlands* to the 'new money' schemes such as *Creative 'LETS'* in Liverpool. I very much welcome all these approaches. But as I said at the conference, I would like to stress the need for a supportive framework from both the financial and business support agencies and to ensure there is a common language between creative businesses and the financial sector to ensure they understand one another's needs.

There is also a challenge for the Regional Development Agencies in England and their counterparts in Scotland, Wales and Northern Ireland. I know they have all recognised the importance of creative businesses to their region's economies and I would like to encourage them to continue to work to find new ways to ensure creative businesses can contribute to stimulating regional economic activity.

I hope that this report and the October 2001 conference will raise the profile of the issues creative businesses face in securing finance and will go some way to develop the relationship between these businesses, the financial sector and the business support and economic development agencies.

Kim Howells

KIM HOWELLS

# INTRODUCTION

**CHRISTINE CRAWLEY**
**Chair,**
**West Midlands *Regional Cultural Consortium***

Our creative industries are a precious asset to this country. As well as their economic benefits, they enhance our profile and reputation overseas, with the UK accounting for some 16% of world trade in creative products, second only to America. Creativity, manufacturing and design have long been associated with the West Midlands. As Chair of its *Regional Cultural Consortium*, I know the valuable contribution creative businesses are making to the West Midlands' economic development. That is why I was delighted to Chair the 'Good Practice in Financing Creative Businesses' conference, held in Birmingham at the University of Central England on 10 October 2001.

The conference had three main aims. The first was to raise awareness of innovative new ways of financing creative businesses, highlighting good practice. We also wanted to identify where further improvements in provision and practice could be focused and to raise awareness among key decision and policy makers of the issues creative businesses face in securing finance.

The conference proved to be a great success. I am grateful to everyone who contributed: to our enthusiastic sponsors, *Advantage West Midlands*, the *British Phonographic Industry* and the *University of Central England*. To our guest speakers – John Edwards, Stephen Pegge, Ian Charles Stewart and Darryl Collins – and to all the chairs of the workshops and their speakers.

I believe the conference was a catalyst in forging greater links and understanding between creative businesses, the financial sector, business support and Regional Development Agencies. I hope this dialogue continues and warmly welcome the new innovative schemes designed to help finance creative businesses.

CHRISTINE CRAWLEY

# KEY RECOMMENDATIONS

**The key recommendations arising from this conference are set out below:**

1. Regional agencies should be encouraged to consider holding regionally focused finance conferences.

2. Financial sector should improve its understanding of the commercial potential of creative businesses.

3. Regional Development Agencies should develop innovative new ways of reaching out and supporting creative businesses.

4. Higher and Further Education institutions should consider how students can be given better opportunities to understand and learn about business.

**KIM HOWELLS MP**
**Minister for Tourism, Film and Broadcasting**

It is a great pleasure to be here in Birmingham. I first used to come to this city with my dear departed Dad who was a lorry driver and he used to bring foam rubber up here for the car factories from Hirwaun, in the Aberdare Valley. It was a place that fascinated me because it seemed to epitomise a great industrial city and I can remember – and there will be people here who will disagree with me – its decline. To come back now and to see the way in which Birmingham is re-inventing itself on the basis of creative industries – jewellery, music, dance, drama, theatre – is quite extraordinary. These are not peripheral industries: they are right at the centre of our economy.

First of all, I would like to thank our sponsors, the *British Phonographic Industry*, *Advantage West Midlands*, and the *University of Central England.* I also want to thank our guest speakers, many of whom have travelled from far and wide to be here today. It is a national conference and it is the first that I have had the privilege to be part of.

### Commercial and Economic Value

We have long recognised the intrinsic values of the creative process. What we have not always recognised is its commercial and economic value. In Sweden, for example, *ABBA* were at one point the country's fifth largest export earner and it is undoubtedly the case that in the UK there have been groups very recently, like the *Spice Girls* for example, who were earning more foreign currency than some of our very biggest industrial corporations. That message, however, has not always got through to the financial sector or to Government.

At a time when manufacturing industry now accounts for less than 20% of the workforce, we need to look at the areas where there is growth and where tomorrow's jobs are going to be. We need to be more innovative and more creative, because that is where commercial advantage lies in the 21st Century. When we realise that in today's economy large service companies can earn more from exploiting their databases than they can from their core business, then we know we are in a different league.

In the United Kingdom, we have a long track record of cultural achievement and there are many reasons for this, not the least, of course, is the English language. We are responsible for a disproportionate share of new inventions and of scientific research papers. Where we have not been so good, however, is in taking many of these ideas to the market and of maximising the value-chain through, for example, exploitation of intellectual property. This is something the whole nation does not take seriously enough, and it is a very fragile thing. If people continue to download music for free through the Internet, where are the writers, musicians and composers going to get their revenue from? We have got to take this issue very seriously. We hope that somehow it is a problem that will go away, but it will not. There is a whole generation of young people who believe that music is free and should be free on the Internet and we have a lot of explaining to do yet, and some enforcement, I dare say.

I will give you an idea of what these creative industries are worth. In 1997, America produced $414 billion of books, films, music, TV programmes and other copyrighted cultural projects. These industries in that year became America's premier export. They overtook aerospace. They outsold clothes, chemicals, cars, planes and computers and we believe our creative industries generate over 5% of our GDP. The *Creative Industries Mapping Document* (2001) calculated revenues of about £112 billion, exports of £10.3 billion and employment created for about 1.3 million people. Twice the size, for example, of the tourism and hospitality industry. This is a gigantic industry. The *British Council* has suggested that we account for about 16% of world trade in creative products, second only to America. As somebody put it to me the other day, we are second best, but we are *Bradford Town* compared to *Manchester United*. That is the competition we face. Indeed these industries reflect what Rosabeth Moss Kanter in her book *World Class* said: "Being the best in the neighbourhood isn't good enough anymore. Companies must look good against the best in the world just to survive in the neighbourhood." [1]
It is absolutely true.

## UK's Creative Industries Success

Against that measure, the UK has a good story to tell. Our music industry went from being a backwater in the early 1960s to being a world leader. Our actors, directors and technical specialists win international acclaim on a very regular basis. Stephen Spielberg works in this country because of our global reputation for excellence. British architects design stunning buildings around the world. Think of the Reischstag building in Berlin: a fantastic achievement. Think of Hong Kong's new airport, one of the most exciting in the world and an extraordinary building. Also the substantial building programme in this country which has been created largely because of *National Lottery* funding. British advertisers are renowned for their creativity the world over. British designers are in

[1] Rosabeth Moss Kanter (1997) *World Class: Thriving Locally in the Global Economy*, Simon & Schuster

strong international demand. I remember walking through *BMW*'s plant in Munich and I saw its new 'Z 3' model. I asked who designed it and they replied that it was a British designer. The *Royal College of Art* has been producing great car designers: they design cars in America, in Japan and they certainly design them right across Europe, and yet, who knows about this? It is one of our hidden treasures.

### Workforce Development

All of these industries face a range of issues which threaten their continued success, particularly the need for a skilled workforce. I was talking to David Puttnam recently about film education and he said that although we have about £500 million worth of films on the books at the moment in this country, mainly American money and American projects, we are short of world-class editors and world-class camera people. We have got to tackle this. I chaired the first meeting recently of the Creative Industries/Higher-Education Forum. Universities have begun to realise that we have to do something about this and that is a huge culture shock for them in so many ways. We need to think about the organic link between what is taught in Higher and Further Education institutions and what we need in society.

### Business Support Services

There is also a need to act globally; to challenge the competition in other markets and to sell our excellence. Selling on our expertise is so very important. *Granada*, for example, are collaborating with a Hong Kong company to produce a Chinese version of *Coronation Street*! There is also a need for a supportive framework from both the financial and business support centres. We are absolutely determined to ensure that there is a common language between creative businesses and the financial sector so that they understand one another's needs. I am delighted that two key-players in the financial sector – Stephen Pegge from *Lloyds TSB* and Ian Charles Stewart from *Seven Peaks Capital* have agreed to participate today.

We want to ensure that the business support mechanisms address the real issues and develop solutions which are culturally acceptable. That is a substantial task for the *Small Business Service*. Too often in the past, agencies such as *Business Link* were seen by the creative businesses as not always understanding the problems they were facing. This was probably for a variety of reasons. One certainly is language. Our work on exports highlighted a very simple example of this.

We talked to a number of theatre companies about their exporting activities. They complained they didn't export – they *toured*: that is a problem of communication. They were taking creative talent out and selling it but they did not understand that. Or if they did, they could not communicate what they understood it to be to those who might see that it could have been an opportunity for investment. We need to avoid such misunderstandings and I very much welcome the participation of people from the financial sector and from the *Small Business Service* and *Business Link* at today's event.

## Banking on a Hit

One creative industry which has looked in some depth at the problem of raising finance is the music industry. It is one of Britain's biggest and culturally most significant industries and to help ensure our future musical success we need to identify and nurture talent which in turn has to receive time to develop, managerial support and inventiveness. It also requires money. From talking to many of you in the industry, I know that getting this money is not always easy.

Whether you are a small urban music company in Walsall, looking for funding to get off the ground, or perhaps a larger firm of classical music publishers in Wolverhampton, trying to reach the next stage of growth, money is a key barrier to growth. We have all heard anecdotal evidence of the problem but what is less well known is the precise nature and scale of the problem and how it might best be overcome.

This conference is designed to help break down the barriers to future success of firms like that. That is why I am very pleased that DCMS was able to fund the *Banking on a Hit* research by Kingston University. It sets out the following three questions:

- What are the finance options available to companies in the music industry?
- What are the barriers to accessing these options?
- What can Government and the Industry do to help overcome these barriers?

The report found that, despite the economic success of the music industry, difficulties in raising finance are affecting the ability of music businesses to grow. Some of these difficulties are shared with creative industries generally, but some are unique to the music business. At the same time, the report paints a picture of a forward-looking industry, run by skilled entrepreneurs who are comfortable with new technology and optimistic about the future. Clearly, the music industry is a huge investment opportunity waiting to happen.

The recommendations in the report are addressed to finance providers as much as to ourselves in Government and to the industry itself. Our goal must be to improve the music industry's appreciation of the funding opportunities which currently are available and the business skills that they need to apply to access this funding. At the same time, we need to ensure that the nature of the music business is better understood by financiers, so that realistic risk assessments can be made and funding schemes tailored accordingly.

I very much welcome *Banking on a Hit* and its recommendations and I want to explore with my colleagues in Government and the industry as a whole how we can take forward the specific suggestions contained in the report. May I repeat that, although this report focused on the music industry, many of the findings ring true across all the creative sectors. These are industries which have always lived by their wits and by their inventiveness. They have had no choice but to develop new and innovative measures to help meet their needs.

Creative industries have three very commendable features. The first is their creativity and the desire that motivates them to produce quality products. Secondly, people in these industries can survive on very small amounts of funding for long periods of time. But we must have cost-effective mechanisms for providing the support and the means of supporting those who wish to maximise earnings to do so. That is a key question both for the *Small Business Service* and the Regional Development Agencies (RDAs). Thirdly, creative people are incessant networkers. They socialise together and they network like no other group that I know of.

We need to get smarter in terms of understanding how creative businesses work and how we can access their informal as well as their formal networks. We need to spread messages through these networks and let them know what help, tried and tested by people they know, is available. That was one of the keys to the growth of Silicon Valley, the greatest cluster in the world. It is about networking and it is about getting across boundaries so that those boundaries become eroded.

## Challenges for the Regional Development Agencies

I want to talk just for a moment about the challenges faced by the RDAs in England and their counterparts in Scotland, Wales and Northern Ireland, and I am delighted that John Edwards, Chief Executive of *Advantage West Midlands*, joins us as one of our guest speakers. *Advantage West Midlands* provided enthusiastic support for this conference, reflecting the fact that it, like other RDAs, has recognised the importance of the creative sector in its Regional Economic Strategy. The challenge for RDAs now is to make a difference on the ground. Can they access the informal networks and use them to reach those who traditionally have been suspicious of public sector intervention? Can they develop innovative new ways of reaching out to these businesses? Can they use the creativity used as a norm in these businesses to get other, more conservative businesses, to learn some new tricks? It works both ways.

I welcome, for example, *Scottish Enterprise*'s plans to commit £25 million over the next five years to developing the creative industries as a key industry cluster and the ideas being promoted in Northern Ireland for a *Creativity Seed Fund*. I also welcome the innovative approaches being developed by the *Arts Council of England* and other bodies. There is always likely to be a subsidised sector among the creative industries, particularly in the performing arts area, but this is a training ground which prepares many of its practitioners for working in the commercial world.

What many people have failed to appreciate to date is that increasingly the creative sectors are about real commercial opportunities. When I was in southern California two years ago, I was told that the State had lost 400,000 aerospace jobs in twenty five years and gained 500,000 jobs in the entertainments industry. Think about that. It is vital that our financial sectors are awake to the opportunities and that they respond to them. It is very interesting the way in which we regard risk in this country and what constitutes sane capital investment and what constitutes really risky capital investment. I would say that if there was an industry which consistently has been a good little earner, it has been the entertainments industry in this country. But they have found it difficult to raise capital, especially when they are small and when they really need it. In turn, of course, our creative people have got to understand the language of finance.

For the British economy to thrive we must invest in that talent generally. The Government has got to be even more alert to this. In the 21st century the most successful economies are going to be those who demand recognition and nurturing of talent and creativity. We need to be smart, creative and innovative and to challenge conventional wisdom.

It is our job to give what we can to the creative industries, but the creative industries themselves also have to wake up to the fact that they must communicate with what they have often regarded as the 'enemy': the suits. We have got to help them to talk to each other, and today's event is the start of that process. I urge everyone here today to work together to champion one of the UK's great hidden treasures: its creative industries.

The conference saw the launch of *Banking on a Hit*, a major research project sponsored by DCMS into the problems faced by small and medium sized enterprises (SMEs) in the music industry in securing access to finance. **Click here to read the executive summary.**

### Background:

Despite being a great economic success story, the British music industry is not without its share of problems. Over 90% of music businesses are SMEs and they face distinct challenges which hinder their ability to grow.

Following discussions at DCMS's *Music Industry Forum*, a specialist group was set up to look at this issue, with members drawn from across the music industry and Whitehall. The main concern of the group was the problem many SMEs face in securing access to finance to fund start-ups or to fund second stage growth. The group identified problems on both the demand-side and the supply-side, but felt more work was needed to identify the precise nature of the problems and suggest ways in which they could be overcome. DCMS agreed to commission and fund a research project undertaken by the *Small Business Research Centre* at *Kingston University* to map the finance opportunities available.

### Rationale for the Report:

The report was needed for a number of reasons. Despite the wealth of anecdotal evidence in this area, there had been little or no published research available. The anecdotal evidence suggested that music companies were not aware of the range of funding opportunities available, and possibly lack the necessary business skills to access these funds successfully.

There was also a perception that the banking community had insufficient understanding of the music business and other creative industries for whom royalty income is critically important. In particular, there was concern that banks might find it difficult to reconcile their desire for a guaranteed rate of return, with their suspicion of the music business as being inherently high risk. There was also a sense that Government funded support for SMEs had been largely designed with manufacturing business in mind.

The terms of reference for *Banking on a Hit* were as follows:

- to examine how small businesses in the music industry access finance to fund their growth;
- to examine to what extent such businesses encountered problems in accessing finance, and to explore the reasons for this;
- to estimate the extent to which this is proving to be a barrier to growth; and
- to make recommendations to industry and Government on measures that might help overcome these problems.

## Conclusions:

*Banking on a Hit* was a much needed and welcome piece of research. A key task now for DCMS and the music industry is to work together with the financial sector to actively consider how to take the report's conclusions and recommendations forward.

**JOHN EDWARDS**

**Chief Executive, *Advantage West Midlands***

Welcome to the West Midlands. We are delighted that we are hosting this event. The West Midlands is home to 5.3 million people. It is significantly larger than Wales and is about the same size as Scotland so we are a region of cohesion; a region of real brands and a region of creativity and design. We are the manufacturing heartland of the UK. Thirty per cent of the region's GDP – about £20 billion a year – comes from the manufacturing sector. The West Midlands has been manufacturing strong for three centuries.

At the heart of that lies creativity and design. It is what differentiates this region from anywhere else. We are home to the UK's premier automotive manufacturing sector with *Jaguar*, *Land Rover* and *Aston Martin* based in this region. The West Midlands' ability to design and create new products lies at the heart of what it is and what it will be.

### Regional Economic Strategy

When *Advantage West Midlands* launched its economic strategy in October 1999, one of the target sectors it identified was the creative industries. We recognised that to grow this region, to build on its sense of purpose and creativity, we really had to work with the creative sector. Most Regional Development Agencies have the creative sector identified as a target for them. How do we actually make a reality of that in the future? How can we support our creative industries to really become a dynamo for growth and change in this region?

As we developed the economic strategy, we have moved from a sectoral approach based on business growth and development to one focused more on clusters. We began to refine our thinking about the creative sector. As we have moved more towards market placing clusters, we have got a number of creative sectors that play a key part in the ten market placing clusters identified in the economic strategy.

### New Media and ICT

This region is very strong in the games industry. Leamington Spa is home to a cluster of five businesses that are world leaders in computer games technology. If we can build and grow this cluster so that it becomes recognised as a sector, more companies will re-locate because there will be a pool of talented people available. The region's universities will start to create courses which deliver the qualified workforce those businesses require, so we will be helping to create something quite new and quite different.

## Incubation

The West Midlands is home to ceramics: north Staffordshire, Stoke-on-Trent, the Potteries. Never mind what Limoges or Dresden may say, the West Midlands is the world's home of ceramics. We have supported a small operation here called the *Hot House*. It supports creative young people coming out of universities in the north of this region to help them develop their products, their ideas and their businesses. As you know, incubation is about how we can bring a group of people together with the right support and the right assistance to help them devise and develop their own businesses. Incubation is so important and it is not only those technology businesses that we believe need incubation. Any sort of business, and certainly the creative sector, benefits enormously from that sort of incubation support. But it is quite difficult to fully understand the components of the creative industries cluster and *Advantage West Midlands* is beginning to research what it has in this region.

This conference is about how we provide support and finance for creative industries. I would love to be in a position in five years time where we do not need to have an event like this because support for the creative industries is mainstreamed into the way in which we support business in general. But listening to the problems that face the record industry, I think we have a long way to go yet because it is a different sector. People look different. They talk differently. Their products are different and we need to embed that into the way that institutions fund the development of the creative industries sector.

## Creative Advantage Fund

*Creative Advantage West Midlands* is a venture capital fund to support the creative industries in the West Midlands. It works if you have a business that you want to invest in where you can take an equity stake. But it does not work so well if you have got a project that is a little bit different: this is possibly a gap appearing in the funding available in the West Midlands. But *Creative Advantage West Midlands* is making a tremendous step forward.

Consider also the *Advantage Technology Fund*, another venture capital fund, this time focused on technology businesses. I would hazard a guess there are a significant number of businesses that we would target as being a technology business which – if we looked closer – are also creative businesses as well. I think there are opportunities in the *Advantage Technology Fund* to support creative industries.

## Regional Venture Capital Fund

*Advantage West Midlands* will soon launch its *Advantage Growth Fund*, the Regional Venture Capital Fund – hopefully £20-£30 million of resource to invest in businesses, up to £250,000 of equity. But it will only really take a part of the market because equity finance is a part of it. Debt finance from the normal funding institutions is going to be the bulk of funding for any business growth and business development.

The *Small Firms Loan Guarantee Scheme* has been around for a long time. How effective is that at supporting the creative industries sector? I think it is something *Advantage West Midlands* will want to explore as it looks at the way it supports the creative sector in this region, because businesses need that mixture of equity finance, debt finance, and personal finance as well. What we also can do at a regional level is pull together a range of funding instruments and a range of resource to support the creative industries sector. At the national level the policy framework can be set but that is too far away from the market. At the very local level the difficulty is finding sufficient critical mass to pull together the level of funding. At the regional level there is a real opportunity to pull together the level of resource that we want to see.

I think we are seeing a clear recognition of what a great creative industries offer we have in the West Midlands: the cluster of games businesses in Stoke-on-Trent; the development of the performing arts; the East Side and Learning Quarter in Birmingham and the cultural and creative quarter in Stoke-on-Trent. There is the work the ceramics industry is doing to use design to drive up its productivity; using design to drive up its profitability and using design to position itself in a very competitive global market. At the heart of the West Midlands is that issue of design and creativity and it underpins all that it does. It also underpins the creativity that *Advantage West Midlands* has to find in the way that it supports the growth of creative businesses and industries in this region.

**STEPHEN PEGGE**
**Head of External Affairs,**
***Lloyds TSB Business Banking***

At the last creative industries finance conference, I said *Lloyds TSB* were lending £800 million to creative industries. It is now more like £1 billion, a 25% increase which is about double the general rate of growth in its portfolio. For *Lloyds TSB*, small and medium sized business is big business and the creative sector is big business. It represents one in eight of its customers and the best part of a billion pounds worth of facilities.

That 25% growth is not universal across all the various sectors that are included within creative industries. The fastest growing areas I have seen are software, fashion and publishing on a broad basis. Publishing, rather surprisingly, because you would think it is one of the largest markets and quite a mature market in some ways, but it has been growing very fast in terms of borrowing. There has been rapid growth of between 30% to 40% in music industry lending but it has been principally focused on the smaller business end.

### Demand Side

I think the starting point for this, given that 91% of people who were asking for bank finance were getting bank finance, is to really think about who is not asking for it and to ask why they are not asking for it. How comfortable and how much do these people understand sources of bank finance? The figures are pretty dispiriting. According to a survey commissioned by *Lloyds TSB*, only three-quarters of people are saying they are familiar or really comfortable with understanding how to access and how to use traditional bank forms of finance. What we might see from *Banking on a Hit* is perhaps a higher awareness of grant-aid funding in the small and medium sized creative industries.

### Attitude Towards Finance

Attitude to finance is also quite important and even with bank finance, peoples' attitudes are conditioned by their experience, business acumen and contacts. I think here the evidence of the higher level of business education in the music industry could be very powerful. That might suggest there are more people in the music industry in particular who are likely to see finance as a tool of business growth, compared to people in other sectors who find themselves reluctant borrowers. These people may be reluctant to use credit and perhaps are stretching trade credit as the way of making ends meet or constraining their growth because of the issues they face.

I think those people who are reluctant borrowers, who are not pro-actively planning the financing of their business, are going to be in particular difficulty when they need finance quickly. That issue of speed, in terms of being able to capitalise on an opportunity to make a business opportunity work, could be a particular problem for a creative businesses. So a lot of *Lloyds TSB*'s work needs to be focused on moving people from that kind of 'push side' onto the 'pull side' where they are demanding finance facilities up-front. What we find is that those people who are pro-active make a big noise about what they need and quite rightly, too. They are more likely to be successful in other ways, too.

Overall, though, the evidence *Lloyds TSB* is seeing is that demand for finance is relatively strong. It has growth in its lending portfolio. I looked through the *National Business Angels Network* bulletin for June, July and August 2001 and 40%-50% of the opportunities being circulated were for the creative industries. Really high proportions. So why does there seem to be a gap? It is not necessarily that people are failing to coming forward. Maybe it is to do with investment readiness, investor confidence and awareness. And when security is an issue, the *Small Firms Loan Guarantee Scheme* is quite popular in a lot of these sectors where it is open to them. I do absolutely agree with the point about widening the sectors that are eligible for this Scheme and we seem to have indications that the Government might be open to doing that and to think about making it more accessible.

But that still leaves day-to-day cashflow problems. Increasingly, what *Lloyds TSB* is trying to do is get itself in a position where it can say to its customers upfront: "if you need to borrow, this is already in place for you", rather than having to do a lot of work after the point where they really need the finance, and that is going to be important in maintaining relationships when times are tough.

### Success Stories

I want to draw out some key lessons from four different businesses which *Lloyds TSB* has been dealing with. The first one is a firm based in the West Midlands, a very successful software consultancy company who have been doing business all round the world. Eighteen months ago, it was one man who was a contractor. Now employing thirteen, it has a growing reputation internationally. *Lloyds TSB* financed them through the *Small Firm Loan Guarantee Scheme* and through unsecured overdrafts. I think the real lesson from that is ambition and planning and how important it is that where people are ambitious, they identify their skills and management as well as finance needs and be assertive and say: 'this is what I need to manage your risk and expect to be provided with it'.

The second example I wanted to mention is *Paper White*. It has done fantastic work in terms of stretching the limits of design and marketing and creating a whole new way of operating and whole new business models for dealing through the Internet. I think the lesson from *Paper White* is that it has been open enough to say: "if we are going to do what we need to do and develop this business to the next stage of growth, we really need to bring in other people and to widen our circle of contacts and bring in investors".

The third set of examples are social enterprises such as the *Community Action Network*. The *Aston Re-investment Trust* provide intensive support for creative businesses as a vehicle for regeneration. Incubation, I think, works really well with creative industries because of the affiliate nature of businesses who work in these communities.

Finally, *Music Copyright Solutions*. The lesson from its success in developing this concept for the collection and distribution of royalties has been effective networking. They are out there, know people, they talk to people and they manage to combine a very innovative new business model with new innovative financial systems as well. They were out there, getting to know people, talking to people from across the finance community and so they managed to combine a very innovative new business model with new innovative financial systems.

## Issues

There are still a few things the high street banks need to work on. They need to try and move away from the idea that only a very limited range of risk and reward is acceptable in a lending situation. Anything outside the risk/reward envelope framework then becomes rather difficult and I think we need to be able to extend that still further than we have at the moment. There are some helpful signs but we need commentators to be realistic.

The second one is marrying financial and business support and accepting that those people who say that access to finance is a barrier are not necessarily just talking about finance as the only component of their need. There are other resource issues that they face in terms of skill, network and the development of their business that need to be in place as well.

Finance in a sense could be more the symptom than the cause of growth issues they are facing. The *National Business Angels Network* and others were instrumental in putting together some work for the *Department for Culture, Media and Sport* on what are the particular gaps and issues in the equity market. It talked about trust, investor understanding, financeable business processes and structures and I think that is where clusters and vehicles which enable people to finance projects on an on-going basis will be very important.

## Future trends:

I think we are beginning to see barriers breaking down, certainly between finance provision and solution providers. *Lloyds TSB* sees itself much more as a solution provider of which finance is one form of solution than just a financier these days, and equally there are many more organisations out there who can sometimes provide more appropriate finance and frankly who it should be directing people towards. If *Lloyds TSB* cannot meet their needs, then maybe other people it is in contact with can. It must be in its interest to help businesses do that.

Secondly, there is the evidence that we are beginning to see the emergence of slightly more imaginative flexible finance vehicles. The *Small Business Service* is talking quite seriously about 'knowledge funding' now and creating some vehicles which can enable higher risk propositions to be financed with higher reward that will bring in finance on a commercial basis (they might be, for example High Coupon Debt Vehicles; Preference Share Capital Vehicles or perhaps variations of the *Loan Guarantee Scheme.)*

Clusters and incubation are finally becoming a reality and I think the Birmingham Jewellery Quarter has been a long unsung model for how that might work throughout the creative industries. Finally, and a slightly controversial one, *Lloyds TSB* have for years been trying to come up with all sorts of different models for mass market segmentation and I have to say that it has given up! With small and medium sized enterprises, the diversity of motivation, skills and awareness defy any easy segmentation models. We have to come down to individuals. We have to recognise their individual definition of success and I think that is incredibly hopeful for creative industries because if we are no longer stereotyping businesses as to what they need and what they want, then being individual and creative is no longer an obstacle. The last thing I wanted to leave you with is a diagram of the framework we use as the context for *Lloyds TSB*'s lending decisions and how finance fits in. It starts with their definition of 'success', which is really a commitment to understand what it is that people want out of their business and it may not always be money. If it is to disseminate the fruits of their ingenuity; their artistic talent or cultural goods. Whatever it is, we can help people prioritise where they should spend their time to build a better business to achieve those goals that should be the test of our support for them. Finance is a solution that is a means to an end but we have got to be prepared not just to provide that finance and walk away. We have to be prepared to anticipate their needs and, where we are not able to lend, ask how can we get their business in a position where they are able to justify finance.

The creative sector is a market *Lloyds TSB* is really interested in and taking seriously. I think in reality it is where future growth of its business has got to come from. That means it has to change and become more creative itself and it is determined to increase the expertise of its network in getting there.

**IAN CHARLES STEWART**
**Chairman, *Seven Peaks Capital***

You have already heard a fair bit about the different types of finance available today. Most of them are fairly structured and involve financing a business and most of them involve an assumption that there is something that looks like a business in the first place; something with a business plan; some form of equity. Something that traditionally is possible to finance. I come from that sector. I am a venture capitalist, it is what I do.

*Seven Peaks Capital* is a company that does nothing else but finance companies in the creative services sector – most of them media companies, content publishers or content creators for the media sector. But I do not think that is all that might be useful here. I do not believe venture capital is the only thing that the creative sector in the UK needs.

There are two things that would greatly help build profitable creative sector businesses in the UK:

i. **Better understanding of the creative sector by banks and finance houses:**

There were a number of discussions at 11 Downing Street recently organised under the auspices of *The Smith Institute*, with the help of Gordon Brown. These talks underlined the degree to which financiers understand the creative sector, (or not). As an entrepreneur myself, before I went back to being an investor, I had often found myself forced to turn to the US for funding because I could not find investors in the UK who understood my businesses.

The long term involvement necessary within a sector to understand it well enough, to understand whether anybody has a chance of making a business out of it, is not an investment most venture capital institutions want to make. It tends to be people that come out of that background (I started my career as a photographer and publisher) who tend to have enough understanding to then re-apply what they know, to the businesses of others. To act as mentor, business angels, to new businesses.

ii. **Better understanding of business and finance by creative sector professionals:**

In American universities, in their arts and science institutes, or technology schools, they have 'electives' which are courses students' can do alongside their core subjects. The most commonly chosen elective in all of these schools is business studies. That means that a student doing a jewellery course can decide to take, somewhere within the three year stream, a single course that talks about what a business means from a banker's perspective; from an owner's perspective and from an employer's perspective. The course will also talk about what the simple mechanics are of making a profit out of something that you put effort, love, money and devotion into. Not a very difficult concept to anybody who has worn a suit, but sometimes incredibly difficult for students who are going through the training to develop products that they care about.

We do not have this level of business focus (even as an option) within many arts & science schools in this country. I think Templeton College at Oxford have programmes on offer to non-business students, but I am unaware of many others, and yet this is available in almost every single arts and technical college in the US. It is hardly surprising – it is the capitalist centre of the world – but it is something that means that more exploitation of creative product happens in US even where the product origination happens in the UK or elsewhere.

Someone mentioned earlier that this country is a great centre for computer games and has been for some time. I agree some of the best sellers around the world have come out of the UK. But it is extraordinary how many of them end up being financed, published and marketed again in the US – i.e. taken from initial production and then spread out in the market place and sold to consumers around the world. There is simply not enough business training here, even amongst what is a fairly established cottage industry now, nor enough business people to run the games companies, even though we have fantastic producers.

I think this is a critical problem. If we had more ability to create within further and higher education institutions in this country an opportunity to understand and learn about business and therefore work out what potential investors may require, then our budding creative entrepreneurs could work out in return what they could try and ask of them. Stephen Pegge is right: it is about working out what it is you can ask for and being bold enough to ask for it. You will be surprised: people will often give it to you.

## DARRYL COLLINS

### Founder, *Black Star Films* and *blackstar.co.uk*

I started in the film business the same year as *Channel 4* – this gives me a certain pedigree. If nothing else, I can confidently say that I have survived in the media business for seventeen years! I started my own company, *Black Star Films*, in 1987 and have made a large number of TV commercials and a feature film called *Korea*. I produced a series of anti-terrorism commercials that each won a number of international awards.

In 1996, I decided I wanted a more stable lifestyle. I wanted to settle down with my young family and enjoy them growing up rather than having to always work away from home. However, I needed to try and find something that paid the rent and gave a regular income. I believed the Internet was my chance to try and find stability in my own personal life and to make money. Together with two partners, we decided to create *blackstar.co.uk* and sell every video and DVD currently on release or available in the UK.

We had been watching the growth of 'dot.com' businesses like *Amazon* and *CDNow* and thought that if it could work in America, it could work in the UK. We started our market research and development in early 1997 and were well ahead of the rest of the UK – most people had not even heard of the Internet!

*blackstar.co.uk* began trading in March 1998 and now has over 300,000 paying customers in one hundred and sixty countries. It is the largest private client of the *Royal Mail* in Belfast and is generating an annual turnover of over £10 million. We did it in only four years and the company is still growing. Most importantly, it is profitable. *blackstar.co.uk* was started by three entrepreneurs, but is now run by real managers. This is one of themes I will develop in this talk.

We understood from day one that there was no point in setting up the new company if we did not aspire to be the best. We also knew that to create a 'world-class' brand and company, particularly in Belfast, we needed access to risk capital. We had no collateral, no cash and no assets – only my house. One of the biggest lessons I learnt along the way is: only go into business with partners who also have a house! My house has been on the line four times in the *blackstar.co.uk* story.

To raise the necessary cash, we started out on informal angel investment networks. This seemed to be the most viable way to raise start-up finance, but in practice was typically driven by sheer panic and need to pay the rent and staff. The first investor was my brother. He was an oilman working in Dubai and had some money saved. The second investor was our landlord, who saw the growth of the business and was fascinated by the range of countries we were shipping goods to.

The next investor was a friend-of-a-friend. A classic sort of private equity trail, always driven by need. The last private investor came with a lot of decent high-level contacts – he was Deputy Chairman of *Ryanair*, for instance. Through this connection, he introduced us to the Chairman of *Ryanair*, David Bonderman. He runs a company called *Texas Pacific Group*, with $46 billion under management. We approached him as a potential investor and were pleasantly surprised by his reaction. Having examined our business plan and our desire to raise $3million, he told us bluntly that we were not being ambitious enough. So quite simply, we took a long hard look at our strategy and what it was we wanted to achieve. We then doubled all of our figures and asked for $6 million. Fortunately, he agreed our revised request.

This first round funding was for marketing – we spent a lot of money telling people about *blackstar.co.uk*. There was no point in having a great product if no one knew about it. We built our customer base and increased turnover by over 3,600% over two years, so we were clearly doing the right things.

The bursting of the 'dot.com' bubble and the stock market crash in 2000 gave us serious cause for concern. Driven by an urgent need, we managed to raise a second round of funding of $6.2million. It sounds like it just all came together very easily, but the fact is that we were very close to being declared bankrupt. We survived only because we had 'blue-chip' investors who still believed in us and were prepared to invest more money in the company.

The second round of investment was for more marketing and creating capacity to grow the business. I am happy to say that we have now experienced three 'e-Christmases' – quite a phenomenon for an on-line retailer consistently growing at 20-30% per month. Incidentally, we have no pretensions that we are anything other than a retailer. We are now a profitable and self-reliant retailer. We only depend on customers now, no one else, which is a huge relief.

Coming from a creative and media background, I have observed many creative people operating in what can be a tough business and have noticed several common threads:

- Creative people are often entrepreneurs but do not know it
- Most entrepreneurs are not great managers
- Most first-time entrepreneurs lack basic business skills.

Finally, one of my favourite quotes about the film business comes from a wonderful book called *Adventures in the Screen Trade* by William Goldman[2], author of *Butch Cassidy and the Sundance Kid* and many others. Having gone through the whole process of being a writer in Hollywood, he came up with this line: "Nobody knows anything". I have adapted my own version "I know as much as anyone"! Thank you.

[2] William Goldman (1996) *Adventures in the Screen Trade* Abacus.

**Q: One point that occurred to me was that the reason why this country is so good at innovation and inventions of things is that we do not send our inventors to business school and confuse them. What we actually need in this country is a way of nurturing the creative people and keeping them away from those influences so that they can get on with it. Chris Thorpe, *Serendipity Audio Productions:***

**A: Ian Charles Stewart:** Many of the people I know who work in production or who work on the creation side of projects that we get involved within the UK, would agree with you. That does characterise, I think, the attitude of a lot of people in the UK. But the problem is that the greatest risks on the financing side are when you are trying to sell something because, for every pound that goes into the production of an average media asset – this ratio varies – you have got to spend three on sales and marketing. You do that by trying to make an assessment of whether it is going to succeed or not and then distributing it hard out in the market place and marketing it to the right people at the right time. Because that is the expensive and risky bit, those people tend to take a higher percentage of the profits. To manage this process and thus take a bigger chunk of the return, takes more business understanding.

But to return to the comment I made about computer games earlier: one of the things that *Seven Peaks Capital* is trying to do is to create a consortium of three or four computer games producers to turn them into a publisher. There does not exist a real publisher in this country. By publisher we mean someone who is actually able to take the product from three or four different companies and create within this country a small powerhouse that is then able to manage the sales and distribution around the world, because that is where all the capital is invested and where big returns can be made.

If we remain only creators in this country and not exploiters, then it will continue to be – looking at the games industry – the Japanese platform manufacturers and/or the American distributors like *Electronic Arts* and the others, who will make three-quarters if not more of every profit out of every dollar from every game sold. We can leave the creative sector exactly where it is and we can support them and we can provide them with the capital for grants that I think are still not in wide enough supply in this country, but we will not build the industry that I am hoping we will build out of the sectors that we invest in.

**A: John Edwards:** I support all that Ian has said. I would also emphasise the point that Darryl was making, that he had to go to the library and get out a book which allowed him to go and present his case to his bank manager. We are not expecting to turn creative people into suits. But we do want to turn them into people who can ask the right questions and know where to go and obtain the information that they require. When you are looking to potential investors, it is very useful to understand their language and to look to them not only for finance but advice. Invariably the people that want to invest in your business are experienced businessmen in their own right who will know what it takes to make a really good idea and turn it into a marketable product.

Christine Crawley mentioned that 56% of all inventions come within a ten mile radius of Birmingham. Taking that a step further, 75% of inventions come from within a 35 mile radius of Birmingham. How many of those are actually turned into marketable ideas? Very few I suspect. A lot of that is due to not understanding how to take an idea and turn it into a marketable concept. Do not turn yourselves into suits or financiers, but do understand their language. Do understand how to ask the right questions. Do understand the market that you are going into – the trouble potentially that you are getting into – otherwise you find yourself with 100% of great ideas and zero per cent of the business benefit of that idea.

**Q: I was interested in Stephen Pegge's figures that the sector least accessing bank finance was films. Does the panel have any views why that might be given that films might require a lot of development and risk finance?**
**Jonnie Turpie**
**Chairman, *Maverick Television***

**A: Stephen Pegge:** I think there has been some more finance from Government, to be fair, for film over the last three or four years so some of the slack might have been taken up by other forms of finance. I would also put a bit of a health warning over the categorisation that some of these sectoral things. We use 'standard industry classifications', but it relies on people being absolutely precise as to what they input and I am a little bit suspicious about the publishing figures: why are they growing so strongly? Is there a lot of on-line material? Maybe there are bits of film and music that are slipping into the publishing figures. We need to do some work on that. I think it could be indicative of an issue and maybe it is another sector for research.

**Q: The film industry gets investment from the Government to the tune of £130million per year. The record industry, however, is one of the three most successful industries in the UK. Why do we not invest more in the record industry?**
**Paul Birch**
**Managing Director, *Revolver Records***

**A: Stephen Pegge:** First of all, I absolutely agree that the record industry is an incredibly important industry and a very successful one and requires backing. I do agree that investment finance for small and medium sized businesses is not working as it should do in this country. For every proposition that comes forward, a very small minority manage to make it through to get backing. That may say something about the investment readiness of people who come forward with finance. It may say something about the mechanisms to bring people together. It may say something about the open-mindedness of investors. So all we can do is raise that level of awareness and shout about the success stories so it does encourage more people to come together. But I think we also need to tackle the cultural issues and those attitudes and perceptions which perhaps hold people back. I do not know whether there are other views on the investment side as to why investors seem to be reluctant to back record companies and music businesses.

**A: Ian Charles Stewart:** As venture capital investors, we do look at music businesses and there were eight last year that I can think of, but there is one other way the music industry and the film industry are very similar. The power is in the distribution. Being a producer is one thing but getting the film actually played in the movie theatres, or getting the shelf space or distribution capability for an independent label is the trick. Because so many people like producing films, and because so many people like producing music, there is no shortage of sources of music and sources of discs – the issue is getting the distribution capacity out of *EMI*, *Warner Music* or the others who will ensure that they get produced and distributed well.

In a sense, those big distribution companies are the gatekeepers for producers in the industry. It is almost the same problem that we have with the computer games industry but it has been solved, to a degree at least, in Europe for music because there are big music distributors who control a lot of the power.

But we do look at these music businesses because, if someone can show us how they can bypass the distribution control in the hands of the big four or five music distributors around the world, we will talk to them.

We did have one we came very close to last year, if you want an indication. This was a business that had very good intellectual property rights control and had access to the majority of the artists in this particular space within the UK. The key issue was it thought it could bypass the existing distribution systems by doing what *blackstar.co.uk* is doing, which is distributing via the Internet and picking up access to customer groups and developing communities of interest for the artists in this case and developing those. At this point in time, our assessment was that it is very hard to develop a lot of sales for individual artists that way.

Maybe you could build a community from which you could sell products with a large number of big artists but if you are a niche producer it is harder. As investors we are waiting for the number of people in this target market likely to buy CDs to go up to a level where it would support such a business. But doing it now for only a few artists is really quite tough. The issue overall for the music industry is not production, but distribution.

**A: John Edwards:** I would like to make one point on the taxation and intellectual property rights issue. I think occasionally an industry like this suffers because it lies with a particular government department and where you really need to shape the policy is at the Department of Trade and Industry. So I think I would encourage the Department for Culture, Media and Sport to talk to the Department for Trade and Industry about the importance of this particular cluster for growth in the future and not to ignore it just because it lies somewhere else. That is an institutional issue at the centre that needs to be addressed.

**ANN BRIDGWOOD**
***Arts Council of England***

Creative finance is one of the areas in which the *Arts Council of England* and the Regional Arts Boards have been working to support the cultural sector. The cultural sector is one of the key growth sectors in Europe. The *University of Warwick* has forecast that cultural occupations are going to be amongst the fastest growing in the UK. Existing financial institutions and business support services do not necessarily support the sector adequately.

### Banking on Culture

I would like to say a few words about *Banking on Culture*, an important project examining a range of financial instruments, and to say how some of the project's conclusions are being taken forward. *Banking on Culture* was a European-wide project, involving seven countries. There were five partners in the UK, led by *North West Arts Board* and including the *Arts Council of England.* The reason for mentioning the number of countries and partners is to show that it was a very wide-ranging project, which tested a number of models. The conclusions that can be drawn from it are therefore well-based and sound.

The project involved surveys and analysis, and three reports were produced on 'Employment in the Cultural Sector', 'Third-System Financial Instruments', and 'Business Support and Financing Needs in Merseyside'.

The second part of the project was demonstration and piloting, testing out different financial models. The third element was dissemination and that consisted of two conferences.

The 'Third System Financial Instruments' which the project looked at were of three types. First of all 'Equity Instruments' i.e. venture capital; film funds; social venture capital. The second type was 'Debt Instruments' i.e. micro credit; loan guarantees and social credit. The third type was 'New Money Instruments', which are quite fascinating. There are people here today from *Creative LETS* – Local Exchange Trading Schemes, which was one of the models examined. It uses 'currencies' like card money, time money and web-currency.

Having described what the project actually did, I would like to focus on three key messages. First, there is a need for specialist business support. As well as actually raising the money through different means, people need advice on marketing, management development, innovation and intellectual property rights. There are some specialist providers who can provide this kind of financial advice to artists. We have taken on board some of the issues that people have raised about the need to bring business education into art schools. The *Arts Council of England* has been working with the *Design Council* and the *Higher Education Funding Council for England* on identifying ways in which that can be done. *Arts and Business* has a pool of people who spend a lot of their own time working with small arts organisations and giving them advice on things like marketing. Of course, the *Arts Council of England* itself and the Regional Arts Boards are there to give specialist advice to people.

The second key message is that the most successful pilots were those which were based on partnerships between specialists and the mainstream. The arts sector cannot do it by itself. The business sector does not necessarily understand the arts sector in the depth that is needed. Effective results comes when the two get together and we work in partnership.

The third key message that came out of the research was the inter-dependency of the 'not-for-profit' and the 'for-profit' sector and one of the things that the *Arts Council of England* and the Regional Arts Boards have been working very hard on is looking at how we can use grants and subsidies in conjunction with other types of financing to provide that seed corn financing to get people started.

It is very interesting to find that quite a lot of the authors who are short-listed or who win the *Booker Prize* have, at some point in their career, received had *Arts Council* writer awards. So that is the sort of inter-dependency of the 'not-for-profit' and the 'for-profit' sector. We should not see ourselves as separate.

What are the *Arts Council of England* and the Regional Arts Boards doing now, carrying on from the *Banking on Culture* work? There is a *Creative Finance Task Group* bringing together the four UK Arts Councils, the Regional Arts Boards and external agencies. It engages in research, advocacy and identifying good practice. One of the key aims is to disseminate good practice. There are good schemes going on everywhere and one of the points of a conference like this is to bring people together so we can all hear about what everybody else is doing. The Task Group will also liaise with Government and national partners to develop new pilots and partnerships and also, of course, liaise with the arts sector itself.

## Examples of Good Practice in Financing Creative Businesses

### GROUP A

**Chair:** Martin Manning

**Leaders:** Vivienne Upcott-Gill, *TEChINVEST (North West Development Agency)*
Bob Barnsley, *Investor Champions plc*

### Background:

*Investor Champions* provides introductions for growing small and medium sized enterprises to risk investors – business angels and corporate venturers. These investors are the main source of equity capital for a requirement of less than £1 million.

*TEChINVEST* is a *Business Angels Network* operating from within the *North West Regional Development Agency*. It seeks to place individual business angels and investors in touch with companies in the North West seeking investments for growth. Its recent investment portfolios contain a large number of potential investments sought by companies and partnerships working in the creative industries.

### Good Practice:

1. 'SON' – *Studio of the North* in south Yorkshire. This is a 'virtual' studio whose aim is ultimately to become a physical studio providing finance and support to people who want to make films in Yorkshire.
2. The *Creative Advantage Fund* was viewed as an interesting example of industry specific funding. Is it able to create links to the *Business Angels Network* and the other networks who do not necessarily know as much about the creative industries?

### Concerns:

1. Production funding for research and development projects (artistic) is too thin and not consistent around the country.
2. Other countries are investing substantially in developing the future of their creative industries development – South Korea, for example. Can the UK Government do more to help?

### Recommendations:

1. Government needs to ensure there is a wide range of financial instruments for investing in the creative industries sector.
2. A web-portal should be developed for information on creative industry finance initiatives.
3. As well as finance, a long-term commitment to developing the creative industries is required from Regional Development Agencies, *Small Business Service*, *Business Links*, and the financial sector, not just from DCMS.

### GROUP B

**Chair:** Michael O'Neill

**Leaders:** James Warnock, *Moving Image Development Agency*
Steve Walker, *Aston Re-investment Trust*

### Background:

Launched in 1997, the *Aston Re-investment Trust (ART)* was established to fill a gap in the finance needs of Birmingham based small businesses and voluntary organisations that are unable to access full borrowing requirements through the banks. ART does not compete with banks: they are among its major supporters. ART lends at commercial rates for activities with a social and economic purpose and focuses on job creation, job preservation and local services for the community.

The first to be established in the UK, Liverpool's *Moving Image Development Agency*, together with the *Liverpool Film Office*, works to stimulate employment in the local media industry by providing investments in film productions made in Merseyside.

### Good Practice:

1. The use of social enterprise vehicles in targeting and developing creative industry business start-ups and business development.
2. The use of EU grants as an investment to attract commercial production and therefore private sector development.

### Concerns:

3. Lack of certainty about the benefits of the public sector intervention and how it is valued. How can we quantify the benefits?
4. Standing outside mainstream financial mechanisms might isolate creative businesses.

### Recommendations:

5. To ensure that creative businesses have a balance of different types of investments, including public/private across the regions.
6. Public sector investment should not just be in terms of 'in kind'. Business support needs to be monitored and quality assured.

### GROUP C

**Chair:** Marc Collett

**Leaders:** John O'Neil, *MidVen Ltd*
Elaine McCartney, *The Prince's Trust*
Karen James, *Northern Arts*

### Background:

Elaine McCartney, *Prince's Trust* Tyne and Wear Area Manager, spoke about the Trust's 'Cultural Youth Business Venture', a grant/loan fund for young people with the potential to set up a creative business. It ran as a pilot scheme in partnership with *Northern Arts* and Elaine discussed its overall effectiveness and future plans for taking the project forward.

Karen James, *Northern Arts*, gave a presentation on the 'Cultural Business Venture', designed to provide financial support to small and medium sized enterprises which work in the cultural sector.

John O'Neil of *MidVen Ltd* has won the contract to run the new DTI Regional Venture Capital Fund for the West Midlands.

### Good Practice:

1. The *Prince's Trust* is a good example in terms of investing in the creative sector at the start up stage. It not only had an excellent track record over time but it provided a good model to follow as well. It is very good at working in partnership with other people to make sure there is the broad range of provision coming in.

### Concerns:

2. There is still a need for small grants, particularly at the pre-start up and start up stage of the business development, particularly where people have recently been dependent on benefits or have existing loan commitments. It is an important incentive for people to get involved and take the risk of starting a business.

### Recommendations:

3. There needs to be a broader, longer term approach to supporting businesses – a 'cradle-to-grave' approach. Creative business people need to be educated to look beyond the next investment into their business and to look to where it might grow.
4. There is a need to ensure that consultants recruited by generic business support agencies bring the right kinds of skills and qualities and reflect the needs of the businesses that they are working with. The accreditation process that the *Business Links* tend to use are not always the best way of ensuring they have the right kind of advisers.

## GROUP D

**Chair:** Danyal Sattar

**Leaders:** Rachel Boden, *Arts and Cultural Industries Development Fund (ACID)*
Caroline Forbes, *Full Circle Fund*
Robert Martin, *South East Arts*

### Background:

The *Full Circle Fund* was established in 1997 by the Norfolk based *Women's Employment and Enterprise Unit* to provide loans to women seeking to establish their own businesses. *Full Circle Fund* provides access to micro-credit loans for women, prioritising those who have, for whatever reason, a poor credit rating, on condition that the women have a workable business plan and agree to become a member of the lending circle.

*South East Art's* 'Part Payment Scheme' offers interest free loans in 17 galleries across the region and the loans are repayable over a maximum 12 month period. The scheme has benefited the economies of the participant artists, craftspeople and venues in England through an additional seven hundred plus sales: a net increase in income to the artistic community of some £270,000 in one year.

*ACID* is a non profit making organisation based in Liverpool. It provides grants and support for individuals and micro-businesses, who are unable to realise their potential due to their economic circumstances, to become self-sufficient.

### Good Practice:

1. All three initiatives were focused on the longer term. *ACID's* business support programme is a two year process working with the entrepreneur. The one hundred businesses supported by *ACID* are now trustees of the Fund so it can get a return back from the people it originally supported. Fifty businesses are providing business support back to other new businesses.
2. *Full Circle Fund* also has a long term emphasis, creating peer groups of women who they lend to, who are there to support each other.
3. *South East Art's* 'Part Payment Scheme' also has a long term view – a five year process. In some of the galleries in which it operates, it has contributed turning them from a moribund gallery to a successful gallery.

### Concerns:

4. The need for creative businesses to market and sell their products effectively.

### Recommendations:

5. Education and the need to start the business development process right down to secondary school, not just picking it up at higher education level.
6. The issue of confidence. These schemes are bringing people into enterprise and into business and that is a risk. Funding institutions often put the risk on to the person borrowing the money. Starting a new business is a risk, so building confidence for them and supporting them longer term as they develop and grow, is critical.

## GROUP E

**Chair:** Allan Ferries

**Leaders:** Sara Smith and Geri Burns-McCombe, *Creative LETS*
Iain Johnson, *Paper White*

### Background:

*Creative LETS* is one of a series of *LETS* operating in the Merseyside area which seeks to find alternatives to a cash economy. Essentially, a group of people come together to 'barter' their skills, in this instance using their creativity. The scheme started in January 2000, and provides a mechanism for formalising favours, giving each an exchangeable value.

*Paper White* is a successful design company which won an award in 1997 as the most promising design company in the UK. The departure of one of the founding partners provoked a senior management rethink, and the introduction of a business 'angel', who has helped the company sharpen its focus, track costs to projects, and consider profitability as well as cashflow.

## Good Practice:

1. *Creative LETS* is 'needs driven', makes strong use of its people resource, and allows access to cultural goods to a wider range of individuals. It also helps reinforce that creativity has an economic, as well as a cultural, value.
2. *Paper White* ensures a good cash flow, and looks to profitability in determining whether to retain customers. It has an eye for short term detail, combined with a longer term perspective of what it wants to achieve.

## Concerns:

3. The need for *Creative LETS* to develop a strategic focus, particularly in terms of securing funding.

## Recommendation:

4. That the benefits of *Creative LETS* should be recognised and supported in policy development terms particularly playing into the Government's social inclusion agenda, and should be developed to provide a clear pathway for those who wish to enter the mainstream economy.
5. That commercial companies develop the ability to keep control of both short term cashflow issues with a longer term vision of the direction of the business.

## GROUP F

**Chair:** Phil Wood

**Leaders:** Kevin Caley, *Creative Advantage West Midlands*
Stuart MacDonald, *Creative Industries Company Development Programme*

## Background:

The *Creative Advantage Fund* provides venture capital in the West Midlands to assist the growth of businesses in the creative industries. The fund has been established, with support from the *European Regional Development Fund*, to help address some of the difficulties that companies in the creative industries encounter in attracting venture capital funding because of their smaller size and relative risk perceived in this young sector. The fund will provide capital investments of up to £130,000 for new and established creative businesses.

This joint *Scottish Arts Council* and *Scottish Enterprise 'Creative Industries Company Development Programme'* will assist companies with the ambition and potential to expand their business. A total of £120,000 will be made available for the programme. In stage one up to eight companies will receive £3,000 grants to help them develop a business plan to expand their business.
Applications for funding will be evaluated on the basis of commercial potential, the artistic quality of the proposal and the management experience of the business. From the eight business plans, two of the companies in each sector will receive up to £25,000 in refundable grants.

### Good Practice:

1. Both initiatives are regionally focused. Local knowledge is important.
2. The subtle blending of public and private finance, initiative, knowledge, expertise and vision is very important. They are not always easy bed fellows and strong leadership is required to ensure the best of all worlds is brought out.

### Concerns:

3. Were the programmes simply distorting the market? There is a need to be vigilant. However, these programmes only exist where there is a demonstrable market failure.
4. There is a danger of creating too many finance initiatives. But the creative industries are diverse and have diverse needs. There needs to be some way of synthesising that diversity.

### Recommendations:

5. Hold similar regional events with the aim to get the same level of local, regional and national players focusing in on the needs of the regions.

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