IFF Research

BIS | Department for Business Innovation & Skills

APPENDIX 2: ACCESS TO FINANCE FOR CREATIVE INDUSTRY BUSINESSES: QUALITATIVE SURVEY

MAY 2011

Report prepared for the Department of Business, Innovation and Skills (BIS) and Department of Culture, Media and Sport (DCMS)

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1 Summary

Background

1.1 This report contains the results from a qualitative study on behalf of BIS and DCMS among creative industry SMEs, with comparative interviews with other types of SMEs, and supplementary interviews with financiers. A total of 50 telephone and face-to-face depth interviews were completed in January to February 2011.

1.2 The main aims of the survey are to examine the reasons why creative businesses might find it difficult to access finance, and how this compares to other SMEs.

Summary

1.3 Quantitative evidence from the 2010 Small Business Survey (SBS) shows that creative businesses (CIBs) are no more likely to apply for finance than other SMEs, but that they are more likely than average to experience problems getting finance (58 per cent of employers that applied had any problems, compared to 51 per cent of SME employers generally).

1.4 This is in spite of the fact that CIBs overall have better Dun & Bradstreet risk ratings. Those CIBs with above average risk ratings are the most likely to both apply for finance and experience problems with their applications, but the same is also true of non-CIBs. Whether CIBs and non-CIBs with similar risk ratings have different success rates obtaining finance is unproven from the SBS, but is addressed in detail in the econometric analysis (appendix 1).

1.5 Most creative businesses had applied for bank finance. Only the visual arts sub-sector, most of whom are social enterprises and registered charities, applied for other forms of finance (grants).

1.6 The majority of creative businesses interviewed in the qualitative research were offered bank finance, but rejected it because of the terms. Most commonly the loans and overdrafts were rejected because of the bank's insistence on personal property as security. The same was also true of the other types of SMEs interviewed that did not get the finance they needed.

1.7 The impact of not getting finance includes lower employment levels and turnover, but mainly curtailed growth of the businesses.

1.8 The characteristics of creative businesses are such that much of their value is vested in intangible assets. Certain sub-sectors such as publishing and film appear to have high risk profiles (according to financiers and the SMEs themselves), irregular payment cycles, and require long periods for production and development. This means they are less likely to fit the bank's criteria for safe lending, hence the insistence on personal security. However, these problems are not unique to creative businesses, and other innovative sectors may experience the same difficulties.

1.9 Banks deny that there is any discrimination against creative businesses, and that they are credit scored in exactly the same way as other SMEs. They concede, however, that the business models in certain sectors, and the lack of tangible measurable activity, means that lending to the creative sector comes at a higher cost than for other sectors, and other forms of finance may be more suitable.

1.10 As many of the creative businesses exist because of the vision of an individual, equity finance is less likely to be considered. The individual is not happy to relinquish control or future earnings. Furthermore, businesses that revolve around individuals are less attractive to investors. Business angels struggle to understand the revenue flows and the time it takes to get a return on an investment, and producers may not sell the full commercial possibilities to investors. It may be that many in the creative sector do not realise that a business angel investment will require the founder to exit the business in the not too distant future. Among the creative industry itself, there is little awareness of business angels per se, or how to seek investment.

1.11 Factoring and invoice discounting are unlikely to be utilised because of irregular payment patterns, and uncertainty of payment at all in some sub-sectors. There is also a suggestion from one respondent involved in fashion that these forms of raising finance look bad in his industry.

1.12 A finance gap appears to exist in certain sub-sectors among start-ups, where long development periods are required, with no payment received until completion. Business angels tend to consider this risky, and VCs are generally less interested in small projects. Specialist project funders such as Funds 4 Games, and specialist business angel networks such as CAIN, or VCs such as London Venture Partners are seeking to address this problem, but are as yet relatively small. Many of the larger creative industries have already relocated overseas where their businesses are better understood, and funding is needed for create the next generation of businesses. A Government matching scheme for funds is considered by some to overcome this problem.

1.13 Financiers and the businesses interviewed are in agreement that understanding of the financing options could be better. Creative businesses could benefit from training and mentoring, and actual assistance in putting together business plans that will help them to get finance.

Survey conducted and report written by IFF Research.

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2 Background

Aims of the survey

2.1 Creative industry businesses cover a range of different sectors[1]. For the purpose of this review they are advertising, architecture, design, film & video, music & visual arts, publishing, radio & TV and software. The Department of Media, Culture & Sport estimates that there were 157,000 of these in the UK in 2008, contributing around 6% to GVA. The creative industry grew 5% between 1997 and 2007, compared to 3% for the economy as a whole, indicating that it is an expanding sector.

2.2 There has been a long running discussion on whether creative SMEs growth potential has been curtailed by their inability to access finance. Since the onset of the Credit Crunch in 2008, which has resulted in tighter controls on access to finance generally, there have been concerns that banks are unwilling to lend on intangibles. This is thought to affect creative businesses in particularly.

2.3 This qualitative survey, commissioned by the Department for Business, Innovation and Skills (BIS) seeks to investigate the reasons why creative businesses may have difficulty accessing finance, to compare their experiences against other types of SMEs, and to get the views of financiers on whether there is a problem accessing finance in this sector in particular.

2.4 All interviews took place between the 13th January and 15th February 2011.

2.5 This survey is being conducted in collaboration with Dr Stuart Fraser's longitudinal econometric analysis of access to finance for creative industries, which will be reported separately in Appendix 1.

Survey method

2.6 Forty telephone qualitative depth interviews were conducted with owners and managers of SMEs – 22 of which qualified as creative businesses due to their SIC codes; seven others as 'otherwise innovative' businesses; and then a general sample of eleven other types of SMEs. These were SMEs that had taken part in the Small Business Survey or Creative Industry Boost, and they were sampled according to answers given in these surveys – whether they had applied for finance and received none; whether they had only gained finance with difficulty; or whether they had been discouraged from applying for finance in the first place.

2.7 In addition, ten face-to-face qualitative depths were completed with financiers: spokespeople from the main UK banks, Business Angel Associations, Venture Capitalists, other specialist funders and interested parties.

2.8 Profiles of the achieved interviews are shown in the appendix.

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[1] DCMS designate a number of SIC codes as being creative: http://webarchive.nationalarchives.gov.uk/+/http://www.culture.gov.uk/images/research/Creative_Industries_Economic_Estimates_2010_technica__note.pdf

Quantitative evidence from the 2010 Small Business Survey[2]

2.9 BIS's Small Business Survey occurred between July and September 2010, with a sample size of 4580 representative of all UK small and medium sized enterprises, 3817 of whom were employers. The survey showed that, overall, 26 per cent of SME employers had made an application for finance in the previous 12 months. Seventeen per cent had applied once, nine per cent more than once. The most common types of finance applied for were bank loans and overdrafts, which together accounted for 75 per cent of applications.

[2] This analysis is based on cross-tabulation and does not show explanatory factors. The data source is different from that used in the econometric analysis by Warwick Business School

2.10 In 2010 creative businesses were actually less likely to have applied for finance than non-creative businesses, as the table below demonstrates.

Table 2.1: Applications for Finance in the Last 12 Months – from Small Business Survey 2010						
Base = all SME employers[3]	**n=**		**Any Application**	**Applied Once**	**Applied More than Once**	**Did Not Apply**
All SME Employers	3817	%	26	17	9	72
All Creative Businesses	249	%	**19**	12	7	**79**
- Advertising	18	%	19	19	0	81
- Architecture	111	%	**14**	9	5	**82**
- Film & Video	12	%	23	11	12	75
- Music & Visual Arts	13	%	21	4	17	79
- Publishing	24	%	21	8	13	79
- Radio & TV	5	%	11	6	5	90
- Software	66	%	26	17	9	74
Non Creative Businesses	3568	%	27	18	9	72
Figures in bold are statistically significant against the total figure						

2.11 This low proportion seeking finance is mainly driven by the architecture sector. However, no other sub-sector was more likely than average to seek finance.

2.12 When looking at the result of the applications a different pattern emerges. Overall for all SME employers, 51 per cent of those that applied for finance had problems getting it from the first source they approached: 35 per cent were unable to get any finance from the first source; seven per cent obtained less finance than they applied for; and nine per cent obtained all the finance they needed, but only after some difficulty.

[3] Figures exclude SMEs with no employees as these are assigned high weighting factors which distorts the data

2.13 For creative businesses the proportion experiencing any problem is significantly higher at 58 per cent. Although sample sizes are small, this is statistically significantly more likely among advertising businesses (73 per cent), film & video (74 per cent) and publishing (75 per cent). Although the overall proportion of creative businesses unable to get any finance is no more than for SME employers generally, it is higher in the publishing industry (64 per cent).

Table 2.2: Problems Getting Finance in the Last 12 Months – from Small Business Survey 2010, and Boost of Creative Businesses

Base = all SME employers that applied for finance in the last 12 months[4]	**n=**		**Any Problem**	**Unable to Get Finance**	**Obtained Less than Applied for**	**Obtained Finance with Problems**	**No Problems Obtaining Finance**
All SME Employers	1193	%	51	35	7	9	47
All Creative Businesses	248	%	**58**	39	**13**	6	**39**
- Advertising	9	%	**73**	36	35	3	27
- Architecture	24	%	51	46	0	5	49
- Film & Video	24	%	**74**	33	**25**	17	**19**
- Music & Visual Arts	61	%	50	25	**16**	10	42
- Publishing	21	%	**75**	**64**	9	2	**17**
- Radio & TV	4	%	56	56	0	0	44
- Software	105	%	52	40	10	2	48
Non Creative Businesses	1129	%	50	35	6	10	48
Figures in bold are statistically significant against the total figure							

2.14 Dun & Bradstreet, which supplied the original sample for this survey, has a risk indicator rating which gives an indication of the credit worthiness of businesses. This is not dissimilar to the internal rating systems used by individual banks. The ratings range from ‘minimal risk’, through ‘low’ and ‘average risk’, to ‘above average risk’ and ‘unknown’. This last category might apply if information has not been received, e.g. if annual accounts are late or were not submitted.

2.15 The profile of creative businesses is such that their risk rating is actually better than non-creative businesses. Thirty-two per cent have a minimal risk rating and 43 per cent have a low risk rating. This compares with 23 per cent minimal risk for non-creative businesses, and 30 per cent low risk. Non-creative businesses are more likely to have average or above average risk ratings, or to have no risk rating at all. To a large extent the good credit ratings for creative businesses are boosted by the architectural sector, but with the exception of the low proportion of publishers that are rated as minimal risk, and the high proportion within film & video that have an unknown risk, the credit ratings for creative sub-sectors are good.

Table 2.3: D&B Risk Indicator – from Small Business Survey 2010

Base = all SME employers	**n=**		**Minimal Risk**	**Low Risk**	**Average Risk**	**Above Average Risk**	**Unknown Risk**
All SME Employers	3817	%	24	31	30	11	5
All Creative Businesses	249	%	**32**	**43**	**18**	**4**	4

[4] The creative industry sample is boosted here through a separate survey of 200 who had sought finance

- Advertising	18	%	27	32	39	2	0
- Architecture	111	%	**40**	**41**	**16**	**3**	*
- Film & Video	12	%	30	38	9	0	**22**
- Music & Visual Arts	13	%	34	48	15	0	3
- Publishing	24	%	**3**	**60**	20	7	11
- Radio & TV	5	%	44	51	6	0	0
- Software	66	%	30	**43**	**16**	5	7
Non Creative Businesses	3568	%	23	30	30	11	6
Figures in bold are statistically significant against the total figure * = a figure of less than 0.5% but greater than zero							

2.16 Those that apply for finance tend to have poorer credit ratings. Eleven per cent of creative businesses that applied for finance in the last 12 months have above average or unknown risk (compared to 6 per cent of all CIBs). However, the same pattern as before is observed among non-creative industries, with 21 per cent of these that applied for finance having an above average or unknown risk rating (compared to 17 of all non-CIBs).

2.17 Looking at the link between risk rating and finance applications, those with above average and unknown risk ratings are more likely to seek finance than those with minimal, low and average risk rating. This is true for both CIBs and non-CIBs.

Table 2.4: Applications for and problems obtaining finance – by D&B Risk Indicator – from Small Business Survey 2010/Creative Industry Boost						
Base = all SME employers	**All**	**Minimal Risk**	**Low Risk**	**Average Risk**	**Above Average Risk**	**Unknown Risk**
All Creative Businesses (n=)	433	146	158	89	32	8
	%	%	%	%	%	%
Did not apply for finance[5]	81	80	88	75	**52**	65
Applied for finance	19	20	12	25	**48**	35
- Any problem	11	10	7	14	**33**	32
- (Unable to get finance)	7	5	4	13	**23**	**25**
- (Obtained less than applied for)	2	4	2	2	**9**	0
- (Obtained finance with problems)	1	1	1	1	1	6
- No problem obtaining finance[6]	8	10	5	11	**15**	3
Non-creative Businesses (n=)	3568	1059	1014	904	344	247
	%	%	%	%	%	%
Did not apply for finance	73	**80**	74	73	**62**	**65**
Applied for finance	27	**20**	26	27	**38**	**35**
- Any problem	13	**9**	11	**16**	**19**	**20**
- (Unable to get finance)	9	**6**	7	11	**15**	**14**
- (Obtained less than applied for)	2	1	2	2	2	1
- (Obtained finance with problems)	3	2	2	3	3	4
- No problem obtaining finance	14	**11**	15	**11**	**19**	15
Figures in bold are statistically significant between the risk rating sub-group and the total for CIBs/non-CIBs						

2.18 Those with above average risk are more likely to experience problems getting finance overall, and this is the case both for CIBs and non-CIBs. The question is whether CIBs with above average risk are more likely to experience problems than non-CIBs with the same credit ratings. The table above seems to indicate this on the face of it, but the low sample sizes for CIBs with above average risk means this is statistically unproven.

2.19 The rest of this report, which is based on qualitative interviews with creative businesses and other types of SMEs, as well as interviews with financiers, examines in detail what these problems that the CIBs experience might be, and possible reasons for the problems.

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[5] Including unsure whether applied for finance.

[6] Including unaware of any problems when applying for finance

3 Creative businesses' use of finance

Introduction

3.1 This section looks at the need for finance among creative businesses, and the experiences of those who applied and had problems obtaining it. The section starts with summaries of needs and experiences for the three types of SMEs interviewed in this survey, with short case studies of the creative industries interviewed to follow.

3.2 Please note that although most of those selected for this survey were sampled on the basis that they had received no finance, most did in fact get offers from banks, but turned these down for the reasons that follow.

Creative Businesses - Summary

3.3 With the exception of the visual arts, for which finance applications are mainly for grants, most creative businesses look to their banks for loans and overdrafts, sometimes with the backing of the Enterprise Finance Guarantee Scheme.

3.4 Although some of the creative businesses were turned down flat for finance, mainly because of a lack of trading history, the majority simply rejected the terms of the finance offered to them. A recurrent theme here is that, because of the lack of assets in the business, banks required the personal security of Directors' homes, which Directors were reluctant to give. This in turn led to discouragement to seek further finance, and prevented the businesses growing as fast as they might.

3.5 There were no successful attempts to raise money through equity that bore any fruition, although the qualitative nature of this study and the small sample sizes meant there were very few applications in the first place. The equity solution appears unpopular with creative businesses, who are unwilling to relinquish future profits, and do not wish to lose control of their business. This desire for control may apply to a lesser extent in non-creative sectors.

3.6 Factoring and invoice discounting are rarely seen as solutions for creative businesses. This is partly because of lack of awareness of these as financial solutions, but also because of the nature of some creative industries. They may have unpredictable sales patterns (e.g. with publishing, music, film, TV), and may not even be guaranteed payment on completion (e.g. with architecture). None of those interviewed had attempted to gain finance through factoring or invoice discounting. Furthermore, there was a suggestion by one respondent in the fashion industry that this does not look good, as it might jeopardise a client relationship and suggest that there are cash flow difficulties.

3.7 Short case studies for some of the sub-sectors classified as creative business follow.

Other 'Innovative' Industries - Summary

3.8 Generally there are similarities with the experiences of the creative businesses among the otherwise innovative, a group which includes data capture, telecommunications and specialist manufacture. Most were approved for the loans and overdrafts they sought, but most of those interviewed turned these down because of the request for personal security.

3.9 Similarities with the creative industry include the lack of business assets, although they are more likely to have IP.

3.10 As with the creative industries a lack of finance is a barrier to growth. Solutions to overcome the lack of finance include Director loans, Directors taking pay cuts, and within this group invoice discounting and factoring were more likely to be used.

Other Industries - Summary

3.11 The 'other' industries interviewed included property, printing, healthcare, wholesale, and leasing firms. These organisations had mainly applied for bank loans and overdrafts, although applying few had applied for invoice discounting. In some instances this had resulted in outright rejection, whereas in others – consistent with the creative and other 'innovative' businesses – firms had been offered what they perceived to be unfavourable terms, and had chosen to turn down these offers of finance.

3.12 Unlike the creative and other 'innovative' sectors, a lack of assets was not cited as a barrier to accessing finance, and difficulties were instead attributed to a perceived lack of appetite for lending amongst the banks. Again, there were no examples of firms seeking equity-based finance.

3.13 Consistent with both the creative and other 'innovative' businesses, these difficulties led to restricted growth.

Understanding of different types of finance

3.14 There is mixed awareness of and understanding of finance amongst the creative industry organisations, with respondents fairly evenly divided between those with low financial awareness and understanding and those with a moderate awareness and understanding.

3.15 When prompted with specific financial products, very few were aware of or understood mezzanine finance, and many confused asset finance with generic borrowing against existing assets.

3.16 Many were aware of venture capitalists and business angels and grasped the broad concept of these, but few had ever had contact with them. For some, both VCs and business angels were viewed positively because of them being 'genuine business people' rather than individuals whose only experience was within the finance industries. Perceptions of business angels tended to be slightly more positive than those of VCs – typical comments were that the latter would 'interfere' and/or be 'greedy' in terms of their share of the business.

3.17 Some of the creative organisations were not-for-profit and therefore rejected the idea of using VCs and business angels, on the grounds that they would not generate any profits in return for the investment.

3.18 Respondents tended to be unaware of any specialist financiers in their sector, and a few even commented that such specialists would be hard to find. On the other hand, a few were aware of specialist VCs and business angels in the software, publishing and TV production sectors.

3.19 Although it has been suggested by some financiers that creative businesses lack financial awareness, this is not evidenced in this study. There were some interviewed that clearly lacked knowledge of specific financial products, but this was the case for the other sectors interviewed also. As a general rule, younger businesses are less financially knowledgeable, and the established ones are more adept in finding the right kind of finance. SMEs recognise their need for better financial understanding, but also tend to be unaware of where they might obtain this, as well as having little spare time to obtain this knowledge. Not one person interviewed was aware that their local Business Link offered courses to help business people understand finance.

3.20 In particular, SMEs would benefit from training in how to present their business plan to financiers, which might help their applications to be accepted on favourable terms.

3.21 Those working for social enterprises and voluntary organisations, e.g. those in the visual arts sub-sector, were probably the most financially aware, as a result of having to spend much of their time applying for grants.

Need for advice

3.22 The idea of a business angel as a mentor was a positive for some; others (correctly) surmised that, as a longer-established business, they might be of less interest to BAs, who would be more interested in start-ups.

3.23 When asked about the future needs and wants of creative industry organisations, the main recurring themes were:

a) Wanting genuinely impartial advice and financial education from an independent financial advisor that specialises in business financial advice. Businesses tended to want ‘hands on’ personal advice, rather than reading written information (“There are a lot of people shovelling information at you, but it’s the practical help that one needs”);

b) Although advice might be provided by banks, this can be mistrusted as banks are not seen to be independent, and more interested in selling their most profitable products;

c) Wanting Government policy on assisting start-ups and SMEs to be followed through on at the ‘delivery end’, i.e. in terms of more favourable terms and conditions of lending by the banks.

3.24 There were some other, more individual, suggestions by creative businesses:

a) Having access to online investment forums, which would allow organisations to locate funding from private individuals without having to pay arrangement fees;

b) Having more follow-through from winning innovation awards: currently recognition of the business’s potential does not translate into making it easier to access external finance – the suggestion was that this should be built in to such awards.

3.25 The other ‘innovative’ and ‘other’ organisations interviewed were relatively similar - particularly in terms of their:

a) Mixed awareness and understanding of finance;

b) Lack of experience in using Venture Capitalists or business angels;

c) Perception that supportive Government policy is not always translating into supportive decisions by finance providers;

d) Desire for genuinely independent, hands-on financial education and advice.

Future financial needs for creative businesses

3.26 Creative businesses will continue to need future finance, regardless of bank rejection, or their own rejection of the bank’s offer.

3.27 The ***software*** firms interviewed have not given up trying to obtain finance. Some are investigating VC finance, but others do not believe this is an option as their businesses are too old, and there is a perception that financiers generally are less keen on software and web-based businesses since the dot com boom and bust.

3.28 Others are shopping around to see if they can switch to a bank more amenable to the financial lending terms they need. Others are waiting to see if potentially improved market conditions will produce more favourable terms from their existing bank. In general the software firms are critical of the banks for being no better than administrators, and having little knowledge of the software industry, which tends to have an irregular payment pattern, and long periods devoted to R&D.

3.29 ***Visual arts*** firms have to carry on as best they can in the climate of grant reductions, but in some cases this means their future is threatened. Some have their own income reserves, others are hoping to improve sales from their own trading, although this is difficult with the lack of finance to expand. Whilst grants are still available, they will continue to apply for all and anything they can.

3.30 The visual arts organisations interviewed have no recourse to bank lending, and cannot give away equity. They are dependent on grants, donations and whatever income they can generate through trading.

3.31 The two ***publishers*** interviewed have no plans to look for non-bank finance. They feel that bank understanding of their sector is fine, and they accept that in the general economic climate it is difficult to get funding.

3.32 One of the two ***cinemas*** interviewed is more confident that they can get bank finance to aid the switch to digitalisation once their end of year accounts figures are published; the other would like finance to improve seating, but wants to concentrate on repayments for the projector rather than taking on further debt.

3.33 The ***TV production*** company interviewed may need finance in the future to cover the production of a show. They may return to the banks with an application for less money, or else seek private equity finance

3.34 The ***innovative*** and ***other*** SMEs interviewed have a wide range of future financial needs, but nothing that distinguishes them as obviously different from the creative industries.

Short case studies - Software

3.35 A software developer applied for a £100,000 loan over 2 years to market and sell a new product. They were rejected by all four main UK banks because of the lack of IP and no tangible assets as security. The banks briefly looked at personal security, but still rejected the applicant. This was done under the Small Firms Loan Guarantee, which was thought not to have done its job. They believe the lack of external finance is hampering business growth, as they can neither get finance to expand the business through acquisition, nor finance to afford sales/marketing staff to drive organic growth. They argue they could be a £20m turnover business by now (currently £250k). When loan applications were rejected, half the staff were let go and the owner drew on his pension fund for finance instead.

3.36 Another wanted a £100,000 loan for product development and expansion. He disagreed with the bank's assessment of risk as he had traded profitably for 20 years, and rejected their offer which was dependent on him putting up his house as security. The impact is that the business has remained static – they believe that, with access to finance, they could enter new markets and take on c.12 staff.

3.37 A website developer needed money to buy computers for his new business. He went to all four main banks but was rejected by all but one, who provided a loan to be paid back in 2 years, but no overdraft facility. This was only gained with the personal security of a house of one of the Directors. The main perceived impact was restricted growth: they believe they could increase the headcount by three and the turnover by 50% turnover with external finance; instead remaining static. The loan they received bought software that's allowed them to start trading. The only slight benefit is that the bank that granted the loan has been more proactive than their previous 'main' provider.

3.38 A software developer tried to re-arrange an overdraft facility to help manage cash flow and ensure salaries were paid. The bank wanted personal security, but as the Directors had already offered this for their credit cards they were unwilling to agree. They ideally need £100,000 to fund a sales team to drive future growth, but will not pursue this because of the experience on the overdraft. The directors have compensated for the absence of an overdraft by using personal credit card debt to a greater extent than they are comfortable with.

3.39 Another software developer applied for a £60,000 loan for start-up costs, salaries and other working capital. Despite having a Diptec business grant from Coventry University for £2,500 he was only offered 25% of the amount he requested, because of a lack of trading history. Discussions with business angels fell through as he felt the individuals were not a good fit. The result has been that he has had to do more work himself, rather than delegating, and he believes that, in consequence, he has been less able to drive business growth.

3.40 Exporters of technology to Africa had 60% of their overdraft withdrawn last year. They tried to rearrange with other banks but their fees and interest rates were too high. Their local MP wrote to the bank on their behalf, but to no avail. The reduction in overdraft meant making half the staff redundant and has restricted growth. The business has also come close to closing down due to the resultant cash flow problems.

Short case studies - Visual Arts

3.41 An international art exhibitor which is mainly funded by grants, including the Arts Council and the European Regional Development Fund, often needs to spend up front (up to £1 million) to host an exhibition, but only receives the funding at the end of it. They apply for all grants going, and are rejected for some. Their main problem is the complexity of the grant process, particularly with EU funds. As a social enterprise they feel that bank lending and equity finance are unsuitable. They do not have an overdraft, but have survived by managing to extend the period to pay creditors. They believe this has had mixed impacts: lower employment and turnover; but also innovation, in that they are setting up subsidiaries to widen their activities and customer base with a view to generating more income.

3.42 A theatre and arts centre with the potential to double its turnover wanted to increase its staff by 25%. It has funding from the Arts Council and Local Council, but did not get all the money it needed to expand, and had to postpone repairs to a building.

3.43 Another arts centre had made numerous applications for finance to Charitable Trusts, Foundations, Local Government, the Arts Council, Big Lottery Fund etc., to fund additional performance space, a cinema and a cafe bar, doubling the size of the centre. Some applications accepted, some rejected, but overall the result was not enough money for what they needed. Complaints of bureaucracy in the application process. They simply have to accept that they cannot carry out the projects that the funding was destined for – although, to some extent, they anticipate a certain level of rejection and over-apply for funding to compensate for this.

3.44 A dance studio social enterprise made 40 applications for grants to cover staff salaries, but is receiving a higher level of rejections due to public sector austerity; whilst a key £30,000 funding stream from the local authority has now gone. Tuition fees are unable to pay the wages alone. Discouraged from seeking bank finance as have no assets to speak of. They are having to employ more fund raisers to secure the same level of grant funding, meaning a higher salary bill against a static level of income.

3.45 A community arts organisations made 30 grant applications but received little funding. They overstretched themselves with their existing small business loan, ran up a £6000 overdraft and ran down their reserves, meaning they had to trade on profits. This damaged their relationship with their bank and discouraged them from seeking further bank finance. The impact is that they cannot afford to fund 3-4 full time marketing staff and a general manager, which would have allowed the CEO to focus on their core role of fund raising.

Short case studies - Publishing

3.46 A new magazine publisher wanted an overdraft limit of up to £5000, and a £25,000 loan to fund expansion. They were rejected for both because of a lack of trading history, their personal accounts not being strong enough, and having no tangible assets or home ownership. They were also not able to obtain the loan under the Enterprise Finance Guarantee Scheme, which they were aware of. They are discouraged from seeking further applications because of this, and fear that further credit searches will tarnish their credit rating. The impact of this is that it is difficult to manage cash flow; and growth is restricted in two respects: the owners are focusing on survival rather than long-term strategy; and they cannot afford to fund a sales team to drive expansion (they claim that, with finance in place, they could grow by a factor of between two and four).

3.47 A B2B magazine publisher, trading for nearly 10 years, went for a £30,000 bank loan under the EFG scheme to find new contracts and finance growth. They presented to their bank and were complemented on this, but turned down because of their lack of assets. They were offered a £25,000 overdraft limit instead, with personal guarantees, which they rejected. This has deterred them from seeking finance elsewhere. They believe the impacts of this are mixed: on the one hand, they had to let three sales people go and were able to fund fewer new contracts, thus restricting growth. On the other hand, this may have prevented them from investing in public sector contracts that were later pulled completely, thus reducing their exposure to contraction in the public sector.

Short case studies – Film & cinema

3.48 A recently opened cinema was seeking to fund the switchover to digital cinema equipment and needed £25,000, having already secured £75,000 from the group they are part of. Initial discussions with the bank, who thought they lacked security and had insufficient personal assets, meant they were discouraged from applying for a loan. The bank would not look at their business plan, despite an estimated profit of £60,000. Whilst there is no impact on the business currently, continued failure to fund this will result in the closure of the business within 3-4 years.

3.49 An independent established cinema applied to their bank for a £70,000 loan to buy a new projector. The bank did not recognise the value of the projector itself and wanted the building itself as collateral. The offer was turned down and instead they bought the projector on HP terms from the manufacturer. They believe that, as a result, they may have paid over the market rate for the equipment.

3.50 A video production firm for TV and online content wanted a £30,000 overdraft limit to cover rent and payroll because of late payment from clients. The bank wanted £1,000 in fees and the security of her flat, which she rejected outright. She perceives the impact of this to have been mixed: it resulted in the redundancies of all six staff as she was forced to adopt a model whereby she 'staffs-up' to handle a contract and then returns to being a sole trader at its end. The benefit of this is that she is no longer restricted in terms of the types of work they can deliver: whatever the skill set needed, she can simply hire the appropriate staff to deliver it.

Short case studies - Fashion

3.51 Not strictly in fashion, but an agent for fashion photographers with a large turnover despite employing only one other person. Already has a £45,000 loan which was used to expand into the USA. Would like to grow the business and represent more photographers, but that requires further staffing, and he is discouraged from seeking finance because of the existing personal securitisation. Factoring and invoice discounting rejected as a means of finance ‘because they don’t look good’.

Short case studies - Architecture

3.52 An architectural firm with 10 employees applied for an extended overdraft (up to £40,000) for working capital reasons as the construction on one of their larger projects had suffered delays, and they had yet to receive payment. Their bank wanted personal guarantees, but they rejected these terms. One of the Directors lent the firm money instead, and they all took temporary pay cuts. They generally find it hard to get bank finance because they are paid infrequently (possibly only once a year), despite having a long trading history. In architecture there are no guarantees of payment anyway, as planning permission may not be granted. They are not interested in seeking equity as they are a slow grower and do not want to give away control. They are aware of factoring, but do not think they would ever get it because of the infrequent and non-guaranteed payment factor.

3.53 A sole trader architect transferred his business bank account because his previous bank kept on lowering his overdraft limit by £150 per month. His new overdraft facility costs the same, but the limit is still lower than he originally had. He needs an overdraft in order to live because payment is infrequent. He would like to expand by taking on an employee, and needs training on specialist software, but the cost of this and the downtime means he is unable to do it.

4 Finance providers’ views on funding Creative Industries

4.1 The point is made by all financiers (banks, BAs, VCs and other) that the definition of creative businesses is very wide, and specific sector characteristics vary within it. Advertising firms are not considered differently from most other business service firms. Film and music have very different business models, as do the visual arts, many of which are social enterprises or charities.

Bank lending policy to SMEs

4.2 Each of the main UK banks has its own credit scoring system for approval or rejection of SME requests for finance (mainly debt loans and overdrafts). Requests are typically made by their own business customers, so banks are able to look at the history on the current account, other loans taken out, repayment history, regular payments and cashflow patterns. Profitability shown in account returns, the structure and the stability of the business are other factors. They assess the ability to repay, in a similar way in which personal mortgage applications are considered.

4.3 There is also an element of judgement in the decision making process. Most lending decisions are made by relationship or lending managers, who are either branch-based or operate from centralised business centres. The integrity of the applicant and application is assessed: the believability of the profit forecasts; and how good the applicant is judged to be at managing finance.

4.4 The manager will score applications by the various criteria, and a recommended decision on whether to approve or reject/refer the application is made centrally. This is normally accepted by the manager, but occasionally challenged if the finance is not initially granted. Banks claim that the vast majority of applications are accepted. The acceptance rate overall averages around 80%, but for larger business loans (e.g. £20 million or more) the acceptance rate is as high as 96%. This is because most of the loan structure has been worked out between the business and bank well in advance of the application. The acceptance rate is generally higher the larger the business.

4.5 Start-ups might be assessed on the personal financial record of their founder, or for non-customers via a credit search. The amount of finance sought and the strength of the business plan are taken into account. Future orders are also very important for start-ups. They are much more likely to be accepted for finance if they have firm orders, rather than just holding IP or having letters of intent. Banks are less keen to fund working capital for research and development, as it might take years before a saleable product or service is produced. However, banks are prepared to lend if personal securitisation is provided. The extent to which the business is tied to an individual is another concern, as it less saleable and likely to survive if the individual moves on. Start-ups with no firm orders but just a concept or idea, are thought to have a very high failure rate – perhaps two-thirds.

4.6 Banks request security as it minimises their risk and aligns the interest of the business owner towards repayment of the debt. However, banks claim that assets held, or the ability to offer security, does not affect the lending decision itself, but only the terms of the lending and the pricing. This may be misinterpreted by businesses who sometimes claim that lack of assets in a business is the reason for being denied finance.

4.7 In this case assets are not necessarily property or equipment based, but could relate to IP and future orders. If the borrower can offer security, whether personal or linked to the business, then the terms and price of the lending will be more favourable to the borrower.

4.8 Although there is some admittance that certain SIC codes are assessed in a different way because of the high risk element (e.g. speculative property development, fringe retailing, certain types of mobile phones, and certain types of hotels), this is not the case for creative businesses. Generally, creative businesses are not thought to be any higher risk than most other sectors. Banks report that they do not discriminate against creative industries because of their specific SIC codes.

Bank views on finance to creative businesses

4.9 For some sectors of the creative industries, e.g. publishing, film & video, TV/radio and music, the finance needed is contract risk. That is to say, there are no guarantees that the book or magazine published, record or film released, will sell as well as hoped. Contract debtors are difficult for banks to support, and they need risk capital, probably through equity. Whilst factoring and invoice finance are suitable for contract finance, they are not if final payment is not guaranteed, for example if a TV pilot is not taken up by a broadcaster, or if sales prove to be disappointing.

"It's a matter of assessing where they are in the life cycle versus the industry they are in. With films and music you're in and you're out. If somebody comes to us and tells us they are a great musician or a great film maker, how are we in a position to make a call on that?"

4.10 Partial public sector finance through grants etc. makes it more attractive to lend to a creative business. However, the view is that grants are drying up, and prospects for growth for grant-subsidised organisations may be low, as social value is their key objective rather than profitability.

4.11 The banks concede that whilst there is no discrimination against creative businesses, they find it more difficult to demonstrate their ability to repay debt. Creative businesses are more likely to be driven by the passion of an individual, meaning that the success of the business is more likely to be tied to one rather than several people. If a person comes to them for a loan claiming the business is theirs, or that they are self-employed, then banks are less inclined to want to lend.

“Banks don’t discriminate against the creative industries, but they do discriminate against people who they think can’t repay. It may just be in our eyes that there are more of them in the creative industries.”

4.12 There is also a view from the banks that creative businesses may be more than averagely discouraged to seek equity. If their business efforts are labours of love, they are less likely to accept the loss of control, and relinquishing of future profit. This view seems to be confirmed by some of the interviews conducted with creative industries.

4.13 Some creative people have no tangible measurable activity. This makes it difficult for banks to offer finance. However, banks think the same will also be true for venture capitalists, particularly where the IP lies with the owner rather than the company.

“Banks don’t fund people to paint pictures which they will then sell at a later date.”

4.14 For the music industry the business model has changed in recent years. It used to be that record companies provided the development capital for artists through their A&R programmes. Since the advent of online downloading there is less profit in CD issue, and more in live performance. Hence record companies have fewer funds, and are less inclined to sign up and nurture new talent than they were.

4.15 However, creative businesses that are large and established can be very attractive to lend to. Music companies might hold historical performance rights for artists, which is very good security, much better than IP held by software firms, which quickly becomes out of date.

4.16 Whilst some banks are adamant that creative industries are not a special case and should not be given special funding, other banks think an intervention may be justified, particularly at the start-up stage. However, in their view, this would not be within the remit of the banks, but rather VCs, business angels or even the Government.

4.17 Meanwhile the venture capitalists and business angels are of the view that banks have disappeared completely from the creative sector.

Business Angels

4.18 Business angels, whether individually or in groups, tend to specialise in early stage equity, and the investments they make tend to be smaller than that of the venture capitalists (VCs). About two thirds of business angel investment is in the technology sector, and they do not tend to invest in property, consultancies and financial services, for tax reasons (e.g. because of the Enterprise Investment Scheme restrictions). Creative industries are estimated to account for about a fifth of business angel investment, but this includes double counting with other non-creative sectors, especially digital technology and media.

4.19 An investment from a business angel or VC will require the business owner to exit as some point, either through a trade sale, acquisition or potentially floating on AIM or another Stock Exchange. The business buying the equity back is another possibility. Business angels consider themselves to be more patient than VCs, but nonetheless a business should not be looking for equity if there is no desire to exit.

4.20 Business angels use market intelligence as best they can to assess the potential of a firm they might invest in, but mainly it is down to sector specialist knowledge. Most investment by business angels is pre revenue or profit, so current cashflow does not enter into the investment decision. Having said this, like banks, business angels are generally unwilling to take equity in firms that have yet to prove their concept. In the creative sector this may mean investing in the concept of an individual with a proven track record. Evidence of a grant or some seed fund helps to prove the worth of an idea and will make it more attractive for equity investment.

4.21 The quality of the individual and their team, and the capacity to take the business forward is the main deciding factor in whether to invest, as is innovation. A strong business plan is essential and those that get repeatedly rejected for equity invariably do not know how to present themselves. The BBAA reckon that angel networks receive a million business plans a year, and only 2.5% of these business plans are ultimately invested in.

4.22 Angels can also offer mentoring which is less likely to be the case with banks. However, this is only for selected individuals, they do not have the resources to do this for everybody they invest in, at least not for free. The banks' pledge (through the Business Finance Taskforce[7]) to establish a mentoring network is thought to be a good thing to improve businesses' ability to obtain finance.

4.23 Very few angel networks specifically focus on funding the creative industries. This is evidenced by the fact that of the 30-35 networks that belong to the BBAA, only one (Creative Arts Investment Network - CAIN) specialises in the creative sector. Other networks tend to invest in ordinary propositions, or when they do focus it tends to be on medical or media technology.

[7] http://www.bba.org.uk/media/article/business-finance-taskforce

4.24 CAIN specialises in theatre, film and music. It exists because it believes VCs and film financiers are uninterested in smaller financing deals.

“There were lots of film financing organisations, but nobody in the sub £2 million space where VCs won’t get out of bed.”

4.25 Investment tends to be in a particular concept rather than the producer’s business itself. Increasingly this means investment is not just in a film, but in the theatre, game, phone app, franchise, merchandising and other opportunities that might spring from it. Some producers do not understand the full commercial opportunity, and this hinders their ability to sell their idea to investors.

4.26 CAIN admits that investment is risky, and that investors do not have a wide understanding of how creative businesses make their money, and the timescales involved in getting a return. There are theatre investors who invest through the love of theatre itself, with little expectation of ever getting a return. Film is different - CAIN’s view is that film makers try to raise money from whatever source they can find, which is problematic when returning the investment, and it can take 2-3 years to get the money back. Awareness and understanding of the film industry is much worse in the UK than it is in the USA. In their view this is why many creative businesses are lost to other countries.

4.27 There is a view from the BBAA that many creative businesses do not understand the concept of needing to exit in order to get equity. By the same token, many individual business angels don’t understand creative business people. The creative industries that deserve equity investment are those that have a high growth focus, potentially offer a 10 times return, and have founders who are focussed on exiting their business, moving on and setting up other ventures.

4.28 CAIN were only established two and a half years ago, and recognise that it take at least four years for an angel network to mature. They are still relatively small, and have gone through difficult times with no investors, but their sector expertise has enabled them to be successful in channelling investment.

Venture Capitalists

4.29 A view from a non-VC is that VCs are liable to support certain types of creative industries, but not others. They have a longer standing relationship with the film industry for example, and less familiarity with newer industries such as video gaming, which they tend not to support. This view is borne out by Octopus Ventures, a generalist VC, who mainly invest in film and TV, but have only just started to look at video game finance.

4.30 London Venture Partners (LVP) is an example of a VC that specialises in creative businesses. They agree that, on the whole, investors are risk averse and do not understand the creative industry. They also feel that many creatives lack financial sophistication, do not know what type of finance to go looking for, and often view commercialisation as 'evil'.

4.31 There is a huge amount of creative talent in the UK. Established players generally have fewer problems obtaining finance, but the start-ups do. Banks will not lend to them because of their lack of track records, traditional VCs are mainly interested in bigger deals with bigger returns, and individual investors consider creative businesses too risky. LVP suggest that a Government fund matching scheme similar to the one they have in Finland with Tekes money would be of benefit to the future economy, enabling the next generation of creative businesses to grow, as they consider that the larger creative companies have already moved abroad.

4.32 *The King's Speech* is lauded as an example of a British film partly financed by Government money, which has proved a great success at the box office, and which has just received seven BAFTA awards. On the other hand, critics point to the lack of success of many British films over the years which received Government money. Even with such success, the producers of the King's Speech are not guaranteed future finance.

"I've known the producers a long time, and the film has been a huge performance hit for them, but with their next two to three productions you don't know if they will be hits, so you can't predict revenue streams."

4.33 The *Harry Potter* franchise, the most successful film franchise ever, is another example of a British film success story, albeit without Government money, but one that is considered to have almost single-handedly saved the British film industry.

4.34 The UK Film Council is considered to have had a difficult problem in that on the one hand it was there to make commercial equity decisions that delivered a profit, but on the other it had the remit of promoting films that were culturally advantageous to the UK. The two do not necessarily sit together, and they tended to lean towards the cultural rather than the commercial aspect.

4.35 Octopus Ventures consider financing film and TV to be very risky, similar to the pharmaceutical industry which is highly speculative with long periods of R&D. Theatre is even harder to raise money for, though software is proving more attractive than it was previously. Generally, investment in businesses with capital assets is much easier.

4.36 Octopus do have a specialist media division which invests in film and TV, and music for films. They invest in spin off and start up businesses set up by individuals with good track records, nearly always using the Enterprise Investment Scheme (EIS). They provide debt finance as well as equity investment.

4.37 VCs also agree that more financial training for the creative businesses is also essential, as generally they are considered to be weaker in this area than other non-creative sectors.

4.38 Although VCs specialise in early stage finance, sometimes for risky ventures, they concede that there is a finance gap for start-up businesses with a lack of track record. VCs also tend to invest large amounts, from £500,000 to £5 million, and this makes start-ups less attractive, leading to an equity gap. This is perhaps a wider funding issue[8] which does not only affect the creative industry sector. However, with the exception of LVP, private sector VCs do not tend to make this type of investment in creative industry businesses, thinking it more suitable for business angels.

Project Financiers

4.39 Although not widespread, alternative models of finance provision exist which are neither debt nor equity. An example of this is Fund-4-Games (F4G Software Limited). This organisation provides all or part of the cost of development for video games, and gets repaid when the games are released. This is a specialist funder that does not take equity, and which provides an alternate source of funding for the video games sector.

4.40 New concept video games are generally sold at an early stage to one of a small number of publishers who will then fund the production. The business model here is similar to a book publisher giving an author an advance. A developer will need to pitch to win the contract to make these games, which could take 1-18 months, with a production time of 6-24 months. These contracts are large, between $3 and $30 million US dollars, and the developers get advances each month, with a royalty on eventual sales of the game once the advances have been recouped. However, it is rare for additional royalties to be earned, usually the advances are not fully recouped.

4.41 Previously some publishers used a proportion of bank funding, but this model has changed due to the general tightening of credit in the economy. In addition, as games have become more expensive to develop, there is more risk, and at the same time publishers have less money. Increasingly the publishers are leaving the developers to fund the development themselves, and only offer finance on delivery. However, whilst completion guarantees might exist in the film industry, they are rare in the games industry.

4.42 Some project financiers (but not Fund-4-Games) provide small amounts of seed capital (e.g. £10-£25k) to those in their specialist industry that are unable to get bank finance. It is a risky business, but because they are sector specialists they are generally successful. Successful video games are very profitable. The model is not dissimilar to the equivalent development finance used for film, theatre and music – one off project finance without the need to give away equity. In film the Film Council assumed a similar role, for television it is the BBC and other broadcasters.

4.43 One view from Fund-4-Games is that existing R&D tax credits could be enhanced to better support the video games industry. The industry faces competition from countries such as Canada, France and the USA which have successfully attracted video game developers with production tax credits, which can help to reduce production costs by up to 40%. However, production tax credits support existing models of game production while R&D credits and investment incentives could help to build new models of production, and better address new types of gaming. Although the video game sector can claim R&D tax credits, the strict rules exclude most of a game's budget. This is in contrast with other sectors, e.g. those developing telephone microchips.

[8] See SQW "The supply of Equity Finance to SMEs: Revisiting the Equity Gap" 2009 (BIS)

4.44 Another suggestion is for completion guarantees, a form of insurance that is relatively normal in the film industry bur rare in gaming. The French Government provides something similar which actively attracts people to invest.

4.45 Fund-4-Games are at the end of their particular fund, but hoping to do another one. They hope there will be more project finance players in the creative industries like themselves.

Government funds

4.46 To an extent early stage finance is also provided by business centres, such as the East London Small Business Centre (ELSBC), which does not lend to creative businesses specifically, but happens to be located in an area where many creative businesses are also located (fashion, software and digital technology in particular). ELSBC will provide debt lending to people looking to start up businesses (through *Finance for Business Solutions for Business Product*), from £350 upwards, and they provide support for small businesses seeking bank finance. They have some public sector funding.

4.47 ELSBC think banks are more likely to lend to businesses if they know that ELSBC is providing some of the funding, as this means ELSBC will underwrite 50% of any potential losses, and the banks will get their money first.

4.48 ELSBC charges 10% interest with a repayment term of 3 to 5 years. However, because much of their funding is to creative businesses, who tend to take a while before a return is made, they have issues with reduced capital, meaning they cannot lend as much as they want to. This is perhaps a misfortune of geography, as ELSBC receives similar funding to small business centres in other areas which deal with fewer creative businesses.

4.49 On the whole, the funding provided by organisations such as ELSBC is relatively small in comparison to the amount of funding needed by creative businesses.

5 Sector summaries

Music

5.1 Most of those interviewed under the ‘music and visual arts’ SIC code in the Small Business Survey and Creative Industry Boost (the source of all qualitative interviews for this survey) were dance studios or theatrical companies. The few musicians interviewed were unlikely to produce creative content, as these musicians are unlikely to find their way into business directories in the first place. However, although a music business or record company could not be interviewed in this research, there was some evidence for this sector, based on the views of financiers. The traditional model for music companies has changed. In the past they had hard sales from CDs, LPs etc. that enabled them to fund new talent through their A&R scouting networks. This has now changed because of downloading and music streaming, and there is less revenue available from recordings. Conversely, gigs and tours, which were once unprofitable and undertaken to promote albums, are now much more profitable.

5.2 Banks consider investment in music risky as any new product is a contract risk, with no guarantees of sales. However, an established company with a back catalogue is considered to have very good security unlike, for example, a software business where the technology dates quickly.

5.3 CAIN is a business angel network that specialises in creative businesses, but it is still small and music is not a special case above its other sector investments such as film and theatre. The VC’s interviewed do not choose to talk about music as a special case, and one only invests in music for film.

Video Games

5.4 VCs and business angels lack familiarity with the video games industry as it is a relatively new sector, although they are beginning to look at it now, as rewards are potentially big. Banks are not keen to fund the lengthy R&D periods that are needed in order to produce a game, and once again there are no guarantees of sales or even a finished product. It is a very competitive market, with consumers demanding ever more challenging and complex games, and increasingly games publishers and banks are withdrawing, leaving SMEs to fund their own development.

5.5 Fund 4 Games is an atypical funder in that it provides project funding rather than seeking to take equity, and takes royalties from sales. It describes this model as being similar to that of a book publisher giving an advance to an author. However, the funds provided are relatively small, and its success is mainly due to the specialist knowledge of those who run the fund.

Software

5.6 The software industry is more established than gaming, but it has similarities with lengthy R&D periods needed in order to produce a product. Although VCs and business angels are more inclined to invest in technological software than games, banks consider that it lacks tangible assets, with IP being poor security because it dates quickly. Although this will not necessarily affect the bank's decision on whether to lend (this tends to be based on cashflow records and behavioural scoring), it may mean less favourable terms are offered.

Visual Arts

5.7 The art galleries and dance studios that were interviewed in this research cannot survive on customer generated revenue alone, and survive through patronage, donations and grants. They tend to be relatively financially sophisticated, and apply for many different grants in a year, expecting to be turned down for many. As grants are perceived to be drying up, they are being forced to partake in more commercialised activities, although generally this required them to employ more people as fund raisers, which may not be possible without working capital. Some are asset rich, others not at all, but few rely on banks for funding.

Publishing

5.8 As with music and gaming, small publishers cannot guarantee the success of their content, and this makes it difficult to obtain bank finance. VC and business angel investment is suitable, but difficult to obtain.

Film & Theatre

5.9 Both of these are contract risk, with no guarantees of the success of the end product. Theatre is generally considered to be less profitable, and many of those that invest in it do so for love rather than money. Film can bring great rewards, but is very risky. VCs are more familiar with the concept of film finance than with most other creative industry sectors.

5.10 VC views on the abolition of the UK Film Council is mixed. On the one hand it perhaps should have favoured good commercial rather than cultural opportunities; on the other hand its abolition will deter investment in film, as Government funding acts as a surety to investors.

Architecture

5.11 Architecture is longer established than most other creative industry sectors, and SMEs are able to show good financial track records, but small firms tend to be paid irregularly, and may not even be paid at all for some projects they undertake. They have less need for loans, and giving away equity is unsuitable for the smaller firms, but they do have a need for working capital whilst waiting for payment. There was evidence in this survey that the small architectural practices find it difficult to get bank finance because of the irregularity and uncertainty of payment.

6 Annex 1: Sample profiles

Table 6.1: Profile of completed qualitative interviews (SMEs)			
Quota	**Company Business/SIC 2003**	**Founded**	**No. Staff/ Annual Turnover (£)**
Creative Industry Businesses			
Creative discouraged	Small publisher (2211)	1996 (ltd in 1999)	2/£30,000
Creative other problems	Publishing of B2B magazine (2213)	2001 (ltd)	16/£400,000
Creative no finance	Magazine publishing company (2215)	2010 (ltd)	4/£100,000
Creative no finance	Software development for the retail industry (7221)	2002 (Ltd)	18/£1 million
Creative no finance	Quality assurance testing to the games industry (7221)	1989 (ltd)	100/£11 million
Creative no finance	Computer and internet systems development and consulting (7222)	1995 (ltd)	9/£140,000
Creative other problems	Software development and services to other businesses (7222)	1997 (ltd in 2010)	2/£0 in 1st year
Creative no finance	Web site developers (7222)	2009 (ltd)	6/£120,000
Creative no finance	Software developer, mainly in E-learning (7222)	1989 (ltd)	13/£750,000
Creative no finance	Software developers (7222)	1994 (ltd)	8/£250,000
Creative no finance	Housing architecture (7420/1)	1984 (ltd in 2001)	10/£750,000
Creative other problems	Residential architecture (7420/1)	1998 (ltd in 2004)	1/£35,000
Creative, discouraged	Fashion photographer's agents (7481)	1992 (ltd)	2/£1.5 million
Creative no finance	Creative agency in branding strategy printwork (7487/2)	2005 (ltd)	17/£400,000
Creative other problems	Independent cinema (9213)	1981 (ltd)	3/£225,000
Creative no finance	Cinema (9213)	2009 (ltd)	10/£400,000 predicted
Creative discouraged	Video content production for broadcast, television and online platforms (9220)	1999 (ltd)	1/£300,000

Quota	Company Business/SIC 2003	Founded	No. Staff/ Annual Turnover (£)
Creative no finance	Dance studio (9231)	1983 (CLG, social enterprise)	13/£179,000
Creative no finance	Theatre and arts centre (9232)	1980 (ltd, charity)	30/£1.1 million
Creative no finance	International contemporary art, exhibitors (9232)	1999 (ltd, social enterprise)	16/£2.5 million
Creative no finance	Arts centre (9232)	1998 (ltd, charity)	25/£700,000
Creative – other problems	Community art exhibitors (9232)	1998 (not for profit org.)	8/£300,000
'Other Innovative' Businesses			
Innovative other problem	Specialist brick manufacture (2640)	1988 (ltd)	27/£2 million
Innovative no finance	Telecommunications equipment and support (6420)	2001 (ltd)	56/£8 million
Innovative no finance	Export technology to developing countries of West Africa (6420)	1998 (ltd, social enterprise)	2/ £650,000
Innovative no finance	Data capture for food companies (7240)	1996 (ltd)	17/£1.2 million
Innovative other problem	Design and develop aviation electronics (7420/4)	1966 (ltd)	10/£850,000
Innovative no finance	Community regeneration. Social enterprise (7487/3)	1996 (ltd, not for profit)	10/£423,000
Innovative, no finance	Repair and maintenance of cranes (7487/9)	2000 (ltd)	7/£1 million
Other SMEs			
Other – no finance	Industrial printers (2222)	2004 (ltd)	7/£500,000
Other – no finance	Market and distribute capital equipment (4525)	2008 (ltd)	1/£1 million
Other – no finance	Masonry and stonework sub-contractors (4525)	1995 (ltd in 2003)	4/£2.6 million
Other - other problems	Wine, beer and spirit importers (5134)	1984 (ltd)	75/£12 million
Other – no finance	Disaster response solutions (helicopter leasing) in Africa (6220)	2008 (ltd, social enterprise)	3/loss making
Other - other problems	Ship cargo (6322)	1892 (ltd)	200/£21 million
Other – no finance	Property developers (7011)	1998 (ltd)	3/£3.5 million
Other - other problems	Recruitment company (7450)	1997 (ltd)	3/£400,000

Quota	Company Business/SIC 2003	Founded	No. Staff/ Annual Turnover (£)
Other discouraged	Training in energy efficient housing assessment (8042)	1995 (ltd)	40/£4.5 million
Other - other problems	Hospice home service and charity shops (8514)	1982 (charity)	130/£800,000
Other – no finance	Hair and beauty salon (9302)	2010 (ltd)	13/£250,000

Achieved Financier Interviews

6.1 Ten in-depth interviews were undertaken with commercial lending spokespeople from the four main UK banks (Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland), and with representatives from venture capital firms, some of who specialise in equity to creative businesses, as well as business angel associations and other interested parties (Octopus Investments, Fund 4 Games, London Venture Partners, British Business Angel Association, CAIN UK, East London Small Business Centre).

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