Business Survival and Growth

within Oxford Innovation’s Centres

Research Findings
2003 to 2013
Foreword

Oxford Innovation has been at the forefront of business incubation and Innovation Centre management since 1987 and is the UK’s leading operator with 21 Centres under management. Having created Europe’s first Innovation Centre in portakabins in Oxford, it became affectionately known by the Daily Telegraph as the “Oxford Science Slum”. Since then, our model for Innovation Centre operation has been refined and developed to deliver a unique blend of financial sustainability and economic outputs for our clients (the building owners), as well as providing the best possible environment to support our customers (the occupiers).

Our sister company, SQW, is the leading independent provider of research, analysis and advice in economic and social development. SQW were perfectly positioned to research and produce the report but, to demonstrate independence and rigour, we are delighted that UKBI (UK Business Incubation) independently helped develop the survey questions, verified the data analysis and reviewed the final report. We benefit from working with leading industry experts, such as UKSPA (UK Science Park Association) and UKBI to benchmark our services against best practice and inform our own continuous improvement programmes.

Our thanks to customers for their assistance in providing feedback in support of this research.

The review of this report, by UKBI, is not an endorsement or accreditation of processes or any relationship between business incubation and the practices in place at Oxford Innovation.
This study has looked at 10 years of Innovation Centre management within Oxford Innovation and made comparisons to the broader incubation market in the UK and Europe, examining and quantifying the value-add of Innovation Centres to the entrepreneurs, start-ups and SME’s that have been our customers.

As well as giving us the statistical evidence about the impact of our Centres on the growth and survival of our customers, the data we have gathered has led us to develop some unique tools. These tools enable us to provide evidence based forecasts of financial performance and the economic impact of Innovation Centre investments. This research base also helps us to understand how Innovation Centre best practice needs to evolve to support our future start-up and SME customers. Amongst broader social trends and attitudes, the internet, cloud technology, mobile telecommunications and social media have changed the way business is conducted. The inherent flexibility and support of services offered by Innovation Centres have therefore never been more important to support the growth of start-ups and SMEs.

We plan to provide this research freely, at a summary level, to inform policy and shape economic development strategies. It has already informed the management of our own Innovation Centres and also enables us to support our clients better in areas such as feasibility studies, financial modelling and Centre design.

We are incredibly proud of what we have achieved since the early days of the Oxford Science Slum. We are now looking to the future and as market demands continue to evolve, we intend to be at the forefront of delivering the best platform for growth for future entrepreneurs.

My thanks go to the team in Oxford Innovation, SQW and UKBI who have undertaken and published this important project over the last year. Most importantly, however, a big thank you has to go to our customers, past and present, for taking their time to contribute to this report. Without their tireless dedication to their own businesses we would not have successful Innovation Centres.
Business and Innovation Centres

Oxford Innovation manages 21 Business and Innovation Centres across England. For our clients, both public and private sector building owners, we offer management services that create financially sustainable Centres with real economic outputs.

1. Barnsley Digital Media Centre
2. Stockport Business and Innovation Centre
3. Worksop Turbine Innovation Centre
4. Mansfield i-Centre
5. Newark Beacon Innovation Centre
6. Harborough Innovation Centre
7. Scott Bader Innovation Centre
8. Cherwell Innovation Centre (Upper Heyford)
9. Bicester Innovation Centre
10. Witney Business and Innovation Centre
11. Oxford Centre for Innovation (Head Office)
12. Culham Innovation Centre
13. Glory Park Business Centre (High Wycombe)
14. Harwell Innovation Centre
15. CEME Innovation Centre (Dagenham)
16. Stanmore Business and Innovation Centre
17. Bracknell Enterprise and Innovation Hub
18. Nucleus Business and Innovation Centre (Dartford)
19. Lily Hill House (Bracknell)
20. Ocean Village Innovation Centre (Southampton)
21. Portsmouth Technopole
Introduction

The Oxford Innovation network of Centres is a varied portfolio, in a range of locations. In each location we tailor the services provided based on the objectives of the Centre, the type of customers occupying space and the nature of the building. Each of the 21 Centres is very different, has a wide range of companies in different sectors and varying stages of development so it is never a case of one size fits all.

To help us determine the best range of services and delivery, we categorise our Centres based on the following diagram. In practice, this means that we look at the economy of the town or city the Centre is based in, and identify the purpose of the Centre – is it a regeneration tool to boost a declining town or is it located on a high technology research park aiming to commercialise cutting edge technologies? In order to be successful every Centre needs to position itself as a vibrant business hub tailored to the local environment.

The Innovation Centre Landscape

Enterprise and Entrepreneurship
- Supporting the development of knowledge based economies
- Incubating new businesses
- Landing zone for inward investment
- Priorities based on regional economic development agenda
- Grow and move-on strategies:
  - Broader economy
  - Science Parks

Structural Economic Shift
- To stimulate growth of new sectors and industries
- Sector focussed
- Growing an eco-system

R & D Centres
- A ‘translational infrastructure’ that bridges research and technology commercialisation
- Technology focussed
- First step for spin-out companies

We do however ensure that the fundamental principles of an Innovation Centre are provided at each Centre:

- Flexible office, laboratory and workshop space
- A wide range of shared and co-working spaces
- On-site support from a trained Centre team
- High speed broadband and excellent telephony
- A range of conference and meeting rooms
- Access to networking and collaboration opportunities
Background information

This research was undertaken by SQW and Qa Research on behalf of Oxford Innovation, and with an independent assessment of methodology, findings and conclusions undertaken by UKBI. It is, to our knowledge, the first independent assessment of the effectiveness of Innovation Centres (ICs) in supporting business survival and growth to be commissioned by an organisation that manages ICs.

The research focused on 15 Innovation Centres for which data was available over a sufficient time period. From these Centres, 1,863 businesses were included in the initial analysis (621 current customers and 1,242 graduates).

277 businesses then took part in more detailed online/telephone interviews. These respondents represent 15% of all graduates and service users at the time of the research.

<table>
<thead>
<tr>
<th>Centre Name</th>
<th>Date opened / OI took over management</th>
<th>Net lettable space (m²)</th>
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<tbody>
<tr>
<td>Oxford Centre for Innovation</td>
<td>September 1987</td>
<td>1,860</td>
</tr>
<tr>
<td>Cherwell Innovation Centre</td>
<td>January 1998</td>
<td>1,860</td>
</tr>
<tr>
<td>Harwell Innovation Centre</td>
<td>March 2000</td>
<td>2,320</td>
</tr>
<tr>
<td>Culham Innovation Centre</td>
<td>February 2001</td>
<td>930</td>
</tr>
<tr>
<td>Crowthorne Enterprise Centre / Bracknell Enterprise and Innovation Hub</td>
<td>May 2001</td>
<td>1,100 / 698</td>
</tr>
<tr>
<td>Bicester Innovation Centre</td>
<td>November 2001</td>
<td>840</td>
</tr>
<tr>
<td>Portsmouth Technopole</td>
<td>April 2004</td>
<td>1,860</td>
</tr>
<tr>
<td>CEME Innovation Centre</td>
<td>December 2008</td>
<td>1,770</td>
</tr>
<tr>
<td>Nucleus Business and Innovation Centre</td>
<td>November 2009</td>
<td>1,580</td>
</tr>
<tr>
<td>Ocean Village Innovation Centre</td>
<td>July 2010</td>
<td>2,320</td>
</tr>
<tr>
<td>Newark Beacon Innovation Centre</td>
<td>April 2011</td>
<td>1,950</td>
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<td>Mansfield i-Centre</td>
<td>April 2011</td>
<td>2,040</td>
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<td>Worksop Turbine Innovation Centre</td>
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<tr>
<td>Harborough Innovation Centre</td>
<td>September 2011</td>
<td>1,580</td>
</tr>
<tr>
<td>Scott Bader Innovation Centre</td>
<td>September 2011</td>
<td>460</td>
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</tbody>
</table>
Profile of a typical customer

Between 2003 and 2013, 1,863 enterprises were based in the 15 Innovation Centres. By the end of this period, 621 of these were current OI customers and 1,242 had graduated.

A typical business in an IC is small, recently formed and operating in professional services, computer or IT services.

84% have less than 5 employees
94% have less than 10 employees
62% Have an annual turnover of less than £100k

58% Are local to the Innovation Centre and were previously working from home or had no prior office

29.2m² The average size of office space they occupy

20 The average number of months a company stays in the Centre

60% Stay local to the Centre after graduation
Reasons for choosing an Innovation Centre

The main reason for use of an Innovation Centre was the flexibility (e.g. short notice period) and cost effectiveness of the business space. The convenience of the location, the quality of the service, and the perception of the business by their customers were also important to over 75% of businesses. In addition, over half considered that access to professional services and networking opportunities were important.
Use of services

The majority of current and previous OI customers only took up one service - an office or shared office at one of the 15 Centres. The services provided vary from Centre to Centre, generally an office package includes telephone answering and message services, reception services, mail handling, use of the meeting and conference rooms and access to networking events, workshops and business support.

Most virtual office customers are those who have moved out of an IC but continue to have their mail and phone calls handled by the Centre.
Around two fifths of businesses in the report thought that without being based at an OI Centre, the business would not have survived a critical period.

National statistics show that less than half of businesses survive the first five years of trading. We analysed business survival rates for graduate businesses and found that survival rates of businesses that were based at OI ICs were substantially higher than those of all businesses in England which were established in the same year.

The above table shows the annual business survival rates for OI customers in comparison to the national average, using figures from businesses incorporated in 2005 and in 2009. As data becomes available for the grey bars, this table will be updated via our website.
The majority of customers grow in employee numbers while at a Centre – average annual compound growth of 38%.

Across the 15 Centres this equates to growth of 423.9 FTE jobs per annum.

Businesses continue to grow after graduation – average annual compound growth of 25%.

40% of companies recognised that they had achieved increased profitability as a result of being in an Innovation Centre.

30% recognised that without the Centre their business would not be growing as fast.

“I think perhaps I undervalued the part that Bicester Innovation Centre played in the success of our company. I would unreservedly recommend your service and have a great success story to tell.”

John Williamson, Learnership, Bicester Innovation Centre (Graduate)
Business survival and growth

Change in area occupied for graduates and current customers

Most businesses occupied the same amount of space throughout their stay at an IC, but between one quarter and one third (depending on whether they are graduates or current customers) took more space. About 10% reduced the size of space they occupied. This flexibility to change the size of units occupied, is a key characteristic of ICs.

Numbers of employees

More than half of current customers* grew between moving in and when the survey was carried out. Of the businesses that experienced employment growth:

- 21 grew by up to 20% per year
- 16 experienced growth greater than 20%
- 8 grew by more than 100% per year

*for which data was available (87 businesses in total)
The impact of ICs on business growth

A key question for this research is whether, and to what extent, the use of Innovation Centre services contributed to firms’ growth and survival.

The majority of companies located within an Innovation Centre are likely to grow. However, based on data provided, we can estimate that at least 10% of a company’s growth can be attributed to support from the Innovation Centre.**

Our research shows that 40% of office customers recognised that cost effectiveness associated with use of the IC had increased their profitability.

Other factors identified by businesses as supporting growth were:

- 74% – The image provided by an IC address
- 27% – Support and advice provided by the staff
- 52% – Networking opportunities

“The Centre was a great platform to build a business upon.”

Jason Rundle, Evora Energy, Crowthorne Enterprise Centre (Graduate)

**Based on the growth experienced by those businesses who said they felt being based in an Innovation Centre had a positive effect on their growth, assuming that where a business has fully agreed with the statement, 50% of their growth is attributable to being based in an IC, and where a business has to some extent agreed with the statement, 25% of growth is attributable, we can estimate that the additional effect on a business’ natural growth was 10%.
Business Survival and Growth Research Findings

Benefits of an Innovation Centre

- 49% recognised that being based at an IC had increased links and access to networks
- 57% recognised the increased credibility of their business through being based in an IC
- 25% recognised that the support and advice they received enabled them to find solutions quicker
- 40% of businesses recognised that without the Innovation Centre the business would not have survived a critical period

*Current OI customers have an average annual growth rate of 38%, in comparison to 24% for other incubators. Most comparable information is based on companies with at least 10 employees. This is because most incubators have a selection process in place to identify businesses with growth potential, usually those with a minimum of ten employees at the beginning of a three-year period that achieve an average annualised employment growth greater than 20% over that period. This is in contrast to OI customers, who effectively self-select.*
What makes OI’s Centres different?

Unlike other incubation managers, Oxford Innovation do not generally operate a strict selection policy at Centres, although this varies from location to location depending on the objectives of the Centre. This means that companies ‘self-select’ based on us having developed effective and appropriate branding, positioning and marketing strategies.

The purpose of an Innovation Centre is to provide early stage premises and support services for new and growing businesses, innovative companies and technology businesses. The primary aim will be to provide accommodation for the vital first three to five years of operation on a flexible basis therefore encouraging companies to grow and develop within the Centre, with the ultimate goal that they graduate to their own space.

Our research shows that the average stay at a Centre is shorter than at most incubators, and the companies based in an Oxford Innovation Centre are marginally smaller. However, a higher proportion of companies in our Centres achieved high growth (>20% annual growth) and they also achieved a higher growth rate than recorded at other incubators – 32% vs 24%.* These findings would indicate that our self-selection policy works – companies can identify for themselves whether they are suited and can benefit from an Innovation Centre environment and quite possibly, those incubators that do operate strict entry policies are rejecting companies that turn out to be high growth.

We have always operated a pricing policy at our Centres that is based on companies paying a market rate – that is we do not create an artificial business environment that cushions companies from the realities of the market. The fact that more of our companies experienced high growth than at other incubators, suggests that this strategy creates a situation where companies have to be focused on success, become more resilient, be more innovative and differentiate themselves from the competition; this helps them to survive and grow.

“The Centre gives us an edge on our competition and conveys the professional image we want to show our clients. This has allowed us to win business that I’m sure we otherwise wouldn’t have won.”

John Palmer, Nova Digital Media, CEME Innovation Centre

Businesses based in Oxford Innovation Centres achieve higher growth than businesses in other incubators*.
Conclusion

There is much we can learn from these research findings to assist us in continuing to develop and improve our management of Innovation Centres and to generate greater returns and impacts to the Centre owners.

- For most of the companies that are based in an Innovation Centre, it is their first office and they value flexibility, cost effectiveness, a professional image, and access to services and networks.
- Most of the companies do not take a virtual office before they move in – they tend to use this for continuity after they graduate, which may mean they either don’t know about the service or it is not valued as an option for them.
- In the long term, survival rates for companies based in an Oxford Innovation Centre are significantly higher than the national average.
- Businesses based in Oxford Innovation Centres achieve higher growth on average than those in other incubators, even though other incubators generally employ selection processes.
- A large proportion of businesses attribute their success to being based at an OI Centre.
- Based on the survey responses we can estimate that 10% of the growth companies experience can be directly attributed to their experience of being at an OI Innovation Centre.

It is clear that our policy of self-selection works and that the services and environments we create in our Centres are conducive to company growth, but there is more we can do. Our virtual services are not the early stage support service we envisaged when we introduced it. We need to look at how this is packaged, what services companies do value and how we can improve this to provide very early stage companies with greater support.

At 20 months, the average length of stay at a Centre is shorter than at other incubators. We need to understand why this is, and whether there are additional services we could provide to enable them to stay longer.
Case Study

CEME Innovation Centre

Oxford Innovation took over the management of CEME Innovation Centre in 2008 on behalf of The Centre for Engineering and Manufacturing Excellence (CEME). Prior to Oxford Innovation’s management, the Centre had achieved high occupancy (around 94%) but at below-market rates, while the staffing and service provision had been reduced to a minimum.

During the first year of Oxford Innovation’s management, the recession was just starting to hit, and occupancy initially went down to around 70% as a result of some companies ceasing trading or coming to the end of projects. However, as a result of intensive marketing and a relentless improvement of the service provision, by the end of the first year, occupancy was back at 99%, the revenue on occupied space had increased by 25% and customer satisfaction increased from 65% to 85%. Since then, the revenue has increased further; occupancy has remained in the 85-100% range and customer satisfaction in the 85-90% range.

A package of business and incubation support has been developed and is delivered to customers by a dedicated Incubation Director, alongside an active events programme. With the Centre perceived by CEME and the Oxford Innovation team as a success, and with strong demand for similar space, plans are now being considered for a second Innovation Centre on the CEME campus.
How can we support your Centre?

Innovation Centre Management

Our existing portfolio of Innovation Centres is diverse and unlike the traditional serviced office market, we embrace this with individual branding and empowered Centre management teams. Ultimately, this is underpinned by quality-accredited processes to ensure consistency and delivery of financial and economic outputs. This makes us ideally positioned to support building owners, whether you are considering:
- A new build Innovation Centre
- Converting empty or redundant property, or
- Improving the performance of an existing underperforming Centre

Feasibility and Consultancy

Our experience in Innovation Centre management, coupled with the tools we have developed makes us well placed to assess the feasibility and likely performance of a potential Innovation Centre. We have undertaken a number of studies for both public and private sector clients, as well as providing a range of data and information to inform policy and planning decisions, funding bids and investments. This includes:
- 10 year economic impacts of a new Innovation Centre (gross jobs created, gross GVA)
- Full IC operational plans and reviews of all current activity including sales, marketing, FM and staffing
- Models for delivering business support, including cost per job created

Innovation Centre Design and Financial Modelling

Over the last four years we have been researching the ‘ideal’ Innovation Centre. From this we have created the ‘Concept IC’ which is an Innovation Centre design modelling tool using a theoretical combination of what has worked best over Oxford Innovation’s 27 years of operating Centres. Using this information and a range of benchmarking data and assumptions, we can model a 10 year business plan for any actual or theoretical Centre. Where necessary, we can then work with clients to optimise Centre design from a financial sustainability and economic impact perspective, whilst also working within planning constraints and considering how the Centre will be engaging for customers as a space to work in.

We continuously develop the tool to update benchmarks and to recognise emerging trends such as, the market shift toward smaller office sizes, shared work-hubs and co-working spaces and an ever increasing demand for high performance band-width.
If you would like more information about these research findings or how Oxford Innovation can support your Innovation Centre project, please contact:

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