Better understanding the SME Instrument

Opportunities, experiences and challenges arising from new approach

Warsaw, February 2015
Introduction

• *Positioning*
• *Facts & Figures*
• *Tips*
SME Instrument – Positioning

What are we looking for?
Management objectives for innovation:
1. Abandon early – filtering ideas (P1-Feasibility assessment)
2. Minimize accumulating costs to launch (well-defined P2 project)
3. Minimize time to market (early inclusion of clients)
4. Minimize time to profit
5. Maximise revenue (P3 – support)
Options to innovate – and build 'competitiveness'

Business model and value chain innovation are 'disruptive' and have larger growth potential for the economy.
Key EU support for SME innovation

Flagship R&DI programme of the Innovation Union
Overall budget - 77bn €

Horizon 2020 (2014-20)

Industrial leadership (LEITs)
6 key technologies

Societal challenges

SME Instrument

Collaborative projects

EUREKA

Eurostars II

Collaboration among SMEs and with R&D providers

Positioning

EUREKA / Eurostars - intergovernmental cooperation (incl.CH, KOR, CAN) with EU participation / contribution
Total €0.9-1.3bn to 2020

3 ways for SMEs within Horizon 2020 & Eurostars

Special rules for 'coordinated funding' between ESIF & H2020

EU Structural and Investment Funds (national / regional implementation)

Structural funds in Poland (2014 – 2020):
€9.9bn to strengthen R&DI
€5.6bn for enhancing competitiveness of SMEs
### 3 opportunities for SMEs in H2020

<table>
<thead>
<tr>
<th>Objective</th>
<th>EU Budget 2014-2020 (bn €)</th>
<th>SMEs targeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D by topics - 6 Key technologies / Societal challenges</td>
<td>77 overall incl. up to 5,8 for SMEs (excl. SME instrument)</td>
<td>- SMEs with core business in R&amp;D, as partner in large projects</td>
</tr>
<tr>
<td>Applied R&amp;DI - product development</td>
<td>0,3 (0,9 - 1,3 overall incl. Bugets by Member States)</td>
<td>- SMEs which can provide an 'application environment' for R&amp;D projects</td>
</tr>
<tr>
<td>Business innovation - breakthrough</td>
<td>2,8 (linked to Horizon 2020 umbrella)</td>
<td>Innovative SMES with an ambition to develop, grow and have an international impact</td>
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</table>

**Established SMEs with high growth potential**

**Research intensive SMEs (>10% turnover)**

**SME instrument**

**EUREKA Eurostars**

**Horizon 2020 – collaborative projects**

**SMEs**

**Overall**

**Innovative SMEs**
3 opportunities for SMEs in H2020

- **Horizon 2020 – collaborative projects**
  - Participants in the call: Large consortia
  - Call focus: Issues to be addressed are defined
  - Key success factor: Scientific excellence
  - Application deadline & Evaluation: Typically a single deadline

- **EUREKA Eurostars**
  - Small transnational groups
  - Transnational R&D
  - Technical excellence – market prospects
  - Several deadlines per year to start evaluations

- **SME instrument**
  - Single company (but SME partners & sub-contracting possible)
  - Existing market gaps to attract investors to radical innovation
  - Innovation excellence – create or shape new markets
  - Continuous stream of evaluation (cut-off dates for award)
### Champions league’ for the most innovative European SMEs

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idea / Concept Feasibility assessment</td>
<td>Innovation project Development / Product testing</td>
<td>Access to markets and finance</td>
</tr>
<tr>
<td>% Budget 2014/2015</td>
<td>10%</td>
<td>88%</td>
</tr>
<tr>
<td>EC funding per project</td>
<td>50 000 €</td>
<td>0,5 -2,5Mio €</td>
</tr>
<tr>
<td>Project duration</td>
<td>ca 6 months</td>
<td>Ca 12-24 months</td>
</tr>
<tr>
<td>Voluntary Coaching – (coach suggested by EEN, selected by SME)</td>
<td>3 days</td>
<td>12 days</td>
</tr>
<tr>
<td>Support and networking to facilitate access to risk finance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other benefits</td>
<td>Recognition among the best European SMEs Visibility at European and global level</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>What to do - application</th>
<th>Business Plan 1 (10 pages)</th>
<th>Business Plan 2 + description of activities for project (30 pages)</th>
</tr>
</thead>
</table>

| Business Plan 2 + description of activities for project (30 pages) | - | - |

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| Business Plan 2 + description of activities for project (30 pages) | - | - |
SME instrument looks for

**Enterprises**
Companies with high growth ambition and potential
Companies already on the market
- More convincing if they have a record of successful innovation

**Ideas**
Ideas that relate to a published topic
Ideas that 'shape new markets'
Business ideas that develop into an ambitious business plan

**AND Start-ups !**
- Specific issue to finance phase 2 without steady revenues

**NOT: 'ideas for technology projects to enhance an existing product to be sold to the same customers'**
Facts & Figures

This is the first two rounds of the SME Instrument Phase 1 and first round Phase 2 evaluation - it is too early to generalise. The data are correct at this moment in time but not final, and further checks will take place.
On every evaluation, 4 evaluators

- 2 experts for the 'societal challenge'/ 'technology area
- 2 experts in enterprise / business development / financing businesses

⇒ Evaluation focussed on market & growth opportunity
<table>
<thead>
<tr>
<th>Cut-off</th>
<th>Proposals</th>
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<tbody>
<tr>
<td>Actual 1st/2nd</td>
<td></td>
</tr>
<tr>
<td>2nd cut-off received</td>
<td>2,662 / 1,994</td>
</tr>
<tr>
<td>1st cut-off eligible</td>
<td>2,602 / 1,917</td>
</tr>
<tr>
<td>1st cut-off evaluated above</td>
<td>317 / 237</td>
</tr>
<tr>
<td>2nd cut-off funded</td>
<td>155 / 178</td>
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Initial estimate $p_1$ per cut-off:

2,500

3rd cut-off:

12/2014

2,316
<table>
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<tr>
<th><strong>Proposals</strong></th>
<th><strong>Actual 1st cut-off</strong></th>
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</thead>
<tbody>
<tr>
<td>Initial estimate p2 per cut-off</td>
<td>580 received</td>
</tr>
<tr>
<td></td>
<td>571 eligible</td>
</tr>
<tr>
<td></td>
<td>132 evaluated above threshold</td>
</tr>
<tr>
<td></td>
<td>60 funded</td>
</tr>
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<td></td>
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Success rates

7,1 % P1
10,3 % P2

success rate
Success rates

BUT

>50%

proposals above threshold funded
ONLY

12 %

good proposals! for P1
Why apply for SME Instrument?

- "Champions' League"
- Support from idea to EU/global market
- Promotion and networking at international level
  - Access to investors/clients
- Up to €2.5m grant (exceptionally up to €5m)
  - Unattainable amount from regional/national funds

Poland

Phase I:
- 144 proposals submitted (1\textsuperscript{st}+2\textsuperscript{nd} cut-off)
  - 1 funded project

Phase II:
- 18 proposals submitted
  - 2 SMEs as partners in a project led by an Italian SME
Tips

companies with a real potential for the SME Instrument
Applications – first lessons

What worked

- Application responding to call requirement – innovation excellence
- Market driven
- Radical / step innovation – the product aims at creating a new market
- Convincing company description – why would this company succeed rather than the competitor? Providing information on competing solutions
- Proof of existing marketing concept
- Proof of EU added value

What didn't work

- Project or research driven and not market driven
- Incremental innovation – the product already exists in the market and doesn't aim at creating a new market; it isn't a breakthrough
- Company description doesn't provide information or not enough on competing solutions
- The market is defined but not the share the company aims at - what is the ROI - at least approximately?
- A good idea but without marketing strategy behind it
- Proof of EU added value – only rationale presented, European consortium
- Description of the company contains nice CVs of techies but nobody with a marketing expertise
- <8 or <10 points – either presented case inadequately or not in the excellence league
- Response by chance a bit like a lottery ticket?
Evaluation – 3 key questions

- Market potential and economic impact
- Market opportunity
- Company's potential to achieve proposed results
- Solution is feasible and better than existing ones
- Company's growth potential
- Excellence in innovation

Additional requirement for EU funding:
EU added value to be demonstrated by the applicant
Phase 1 - 10 pages to convince the jury

- As the competition is high, a good presentation is essential and can make potentially the difference between good and excellent application.

- The successful described in 10 pages not only what their business opportunity was all about, their solution versus their competitors' solutions, their ability to achieve it.

- The questions to be addressed by the feasibility assessment should be clearly outlined.

- It has to be logical, coherent and easy to read by people who are not technical experts in the sector.

Assessment question- How clear is it? Does the content come out clearly as an evidence?
Market opportunity

• The market opportunity should be described from a marketing viewpoint and not only from a technological/technical point of view

  *Assessment Question* - *Can these questions be responded*– "*How big is the market? Where is it geographically? In which value chains? Is the company already present in these markets? How good is the estimate of market size?"

• Often competitors and solutions already existing in the market are not mentioned

  *Assessment Question* - "*Why would customers prefer this solution above the existing ones and even pay for?*"
Excellence in Innovation

- Innovation in this programme is about breakthrough (radical) innovation, to shape new markets in priority areas of Horizon2020

*Assessment Question – How radical is this innovation? Is it changing radically an existing market? Or creating a brand new market?*

If the company aims at incremental innovation (a gradually better product with limited growth potential) => Direct this company to alternative funding programmes that may encourage cooperation with a 'R&D provider' to enhance the technical features.

- Essential for Phase 2 – Demonstrate 'Freedom to operate' regarding Intellectual Property Rights (IPR): i.e. SME has the rights needed and is not blocked by third party's rights

*Assessment Question – Is another IPR blocking the proposed development? By the end of Phase 2, will they have developed or acquired all IP to put the product/service on the market?
Company's growth potential

- Growth potential and ambition have to be described in a clear and understandable way

Assessment Question – Can the enterprise demonstrate: its ability to carry-out the project? its management and financial ability to address the proposed market opportunity and create jobs and growth?

- In case of a start-up – Assessment question – How ambitious are they? Are they able to co-finance the Phase 2 project (for example with the help of early stage investors)?

- If they are already on the market – Assessment question – How ambitious are they? What track record have they got to drive successfully innovation projects? How aware are they of their own weaknesses and how ready are they to address them through coaching & consulting services provided in phase 2?

NB: The funded companies were in general larger and older than the overall population of applying companies
Phase 2

The outcome of phase 1:

- a better substantiated business plan
- no obligation for a phase 1 – but useful

An assessment of strategic weaknesses & a coaching plan
Phase 2 Evaluation

Same approach as Phase 1 - More detailed, better substantiated and with a detailed work programme for the development project. The feasibility done in Phase 1 should have helped!

- Detailed work programme for the P2 project
- Coaching plan & consulting
- Company's potential to achieve proposed results
- Market potential and economic impact
- Market opportunity
- Solution is feasible and better than existing ones
- Company's growth potential
- Excellence in innovation
- Additional requirement for EU funding
  EU added value to be demonstrated by the applicant