



'NewCo'

Derby City's Entrepreneurial Engine

Outline Business Case - Draft 1.0

 **Archemys**
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Preamble

It must be borne in mind that this document is an Outline Business Case. It's not a comprehensive Business Plan, which would normally be built following a short Pilot. Hence its purpose is to assess the viability, opportunities and challenges of an enterprise, owned by the Council, providing products and services to local businesses.

It draws upon information provided by in the public domain and, principally, the insights and outcomes from a series of Management Workshops.

In order to deliver returns that can be re-invested by Derby it's important to consider the options for the trading vehicle that is likely to develop the venture – say, after a short Pilot stage.

Via its City Local Plan – Core Strategy, Derby has already identified a rich portfolio of hard [tangible] assets. This Outline Business Case complements these with a focus on soft [intangible assets]. These portfolio of assets are the areas where the essential transformation of can take place relatively rapidly:

- ✓ Customer
reach
engagement
relationships
- ✓ Skills
internal
in-sourced
- ✓ Trust & Standing
- ✓ Credible Specialisations
- ✓ Managing an Ecosystem

Derby is pivotal to the Economic Strategies of D2N2 LEP and NewCo has a significant opportunity to help drive these via practical products & services. It's worth mentioning that our experience elsewhere with Growth Hub initiatives is mediocre – hence NewCo can leverage its more pragmatic contribution.

High Level Goals

The current Economic Development Team needs to change:

- to become a commercially focused delivery body
- rapidly growing revenues that deliver net returns of £300K within 3 years
- continues to further develop the enterprise thereafter
- to buy into and commit to these goals
- to execute the strategies that achieve them

These goals won't be achieved by simply adding new tasks to the current work-load. It will mean a fairly radical but motivating transition to an Integrated Provider of compelling and valuable products.

Elsewhere in this Business Case, we outline the concept of an Ecosystem. Several other Authorities have recognised that whilst Economic Development should be the engine of community growth and development, they're not themselves exploiting its enterprise potential.

Overall Viability

Approximately 60% of UK businesses will be failing after their first five years.

The greatest business problems

- insufficient sales
- flawed business model
- margins too low
- under capitalised
- poor cash management
- poor cost control
- weak resources – skills > tools

Providing practical tools and solutions to a market that obviously needs them is demonstrably a viable business. Crucial will be the ability to articulate the problems and communicate the availability NewCo's portfolio of relevant products

Selling the team's spare time for money is not a great business model. Besides failing to generate sufficient revenue, the venture would likely fail to gain traction and stall.

The various aspects of Economic Development that are related to Business Development and Support can be conducted within NewCo, with dedicated people resources. Initially there would be a short Pilot to establish the validity of assumptions and this management resource would be seconded. The Pilot would be cash-flowed on a similar basis of a loan, recouped from an agreed % of Gross Margin.

The proposed Business Model has four key elements

1. Productise Skills
2. Systemise Sales & Marketing
3. High Value Rather than Volume
4. In-source Specialist Resources from Fulfilment Partners

To produce the target return, the venture needs to have a higher margin than normally derived from a professional services business model. Thus our Business Model also needs to be scalable. With limited initial resources, only possible with the above two components. In other words exponential growth is maintained with a decreasing units of execution [people and overhead].

The targets are challenging yet deliverable. Much depends on People resources combined with a proactive Sales & Marketing programmes.

Markets

It's very difficult to develop and market products that will apply to every prospect. Also it would be next to impossible for a small team to fulfil the management and delivery load.

There are around 7,600 VAT registered businesses within Derby. This could easily be doubled by extending NewCo's reach to neighbouring towns. With local successes there's opportunities to engage a regional audience.

Mature companies are generally well-resourced with established strategies – this is a sector for re-visiting later.

Hence we're proposing to focus on early wins with businesses that ideally:

- ✓ employ 5 – 75
- ✓ have min 3 year track record
- ✓ sales in excess of £250K p.a.
- ✓ majority owned by management

Customer Profiles

Each product will have different emphases and values to businesses. Over time Data Analytics will increasingly shape product messages and also functions - to be better value to individual firms. To begin with we'll group businesses into broader profiles:

➤ Growth

Those businesses that show or have identifiable potential to become tomorrow's high-performers.

➤ Early Stage

Slightly beyond start-ups that are yet to trade and don't have paying customers.

➤ Relaunch

Businesses that could be successful, presently slipping or struggling.

Opening Assumptions

The focus should be those businesses that NewCo's team have already made contact with.

NewCo Value Proposition

It's important that NewCo's proposition generates continuous revenue. Hence we're proposing that a Subscription/membership business model – complemented with a Product Catalogue.

Developing an Economic Ecosystem should be the ultimate aim. Some of today's most valuable businesses are digital ecosystems – Amazon, Ebay, AirBnB etc. A large Authority has potential engagement with several thousand businesses. Most will be prospective customers, a few specialist ones can be in-sourced Fulfilment Partners.

It's vital that NewCo's prime asset of the Customer Relationship is retained and managed, including transaction processing. Fulfilment Partners will normally be paid the majority of each transaction – as, for example with Bookings.com etc.

With double the National average employment in manufacturing Derby is well served by Engineering Innovation/Tech businesses. NewCo staff have a solid knowledge base relating to the issues facing this sector. Whereas many new businesses today are service and tech related and support skewed accordingly.

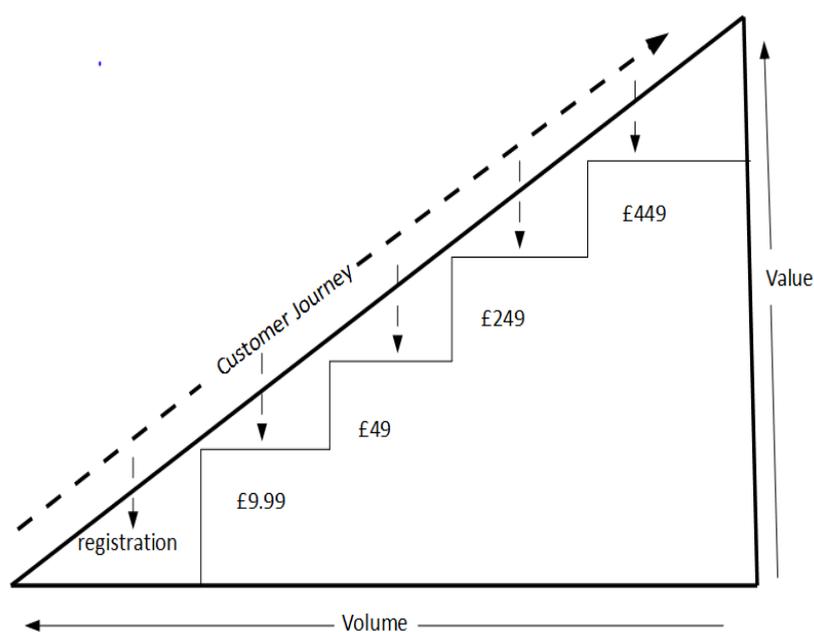
80% of businesses are marginal or vulnerable.

Hence NewCo will be concentrating support towards those with high growth potential to maximise effectiveness of resources. This can include re-engineering / re-inventing those that have exceptional potential yet are presently slipping or flat-lining.

There's a case to manage a number of Start-up Boardroom Groups of 5-10 to induct core business principles and strategies for acceleration and scalable growth.

Products & Pricing

As already mentioned this is an Outline Business Case, thus definitive pricing of a series individual products is not yet possible.

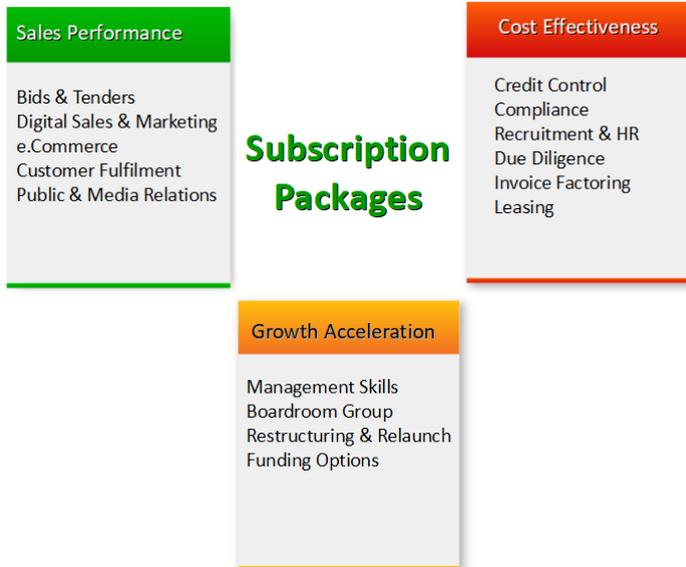


However it is realistic to establish initial target Price Points for monthly subscription services.

The next step will be to establish the what services can be assembled to build the value of monthly subscriptions.

Customers join at a level that's most compelling and delivering greatest value. The objective is to motivate them to upgrade to increasingly more valuable subscription packages.

Core packages should be matched to customer profile and include:



We conducted a survey for an Authority wanting to establish a Business Hub. We asked local MSME businesses – “what keeps you awake at night?”

70% of respondents said:
1] more sales 2] lower costs.
In other words they were primarily concerned about results rather than the means.

Hence we've focused NewCo products and services within a results-centric schematic

NewCo Success Criteria

As mentioned, there's two main factors that will fundamentally influence the degree of success of NewCo – People plus Sales & Marketing. Hence it would be useful to very briefly examine some of the current issues in this respect

Strengths	Weaknesses	Opportunities	Threats
Selective Skills & Experience Current Relationships Local Knowledge Trust & Recognition Product 'Raw Materials'	Entrepreneurial Skills & Experience Limited Internal Resources Brand ID & Values Testimonials	Market Size & Needs Customer Reach Resellers Fulfilment Partnerships In-sourced & Interim Support	Distinct from 'Day Job' Not a priority Lack of Member support Insufficient Implementation resources

Pivotal Decisions

The team have only a little experience of the issues of developing, growing and turning around business performance.

A major 'dividend' from NewCo will be the major transformational effect on the team by learning at the coal-face. It should be recognised however that not all are motivated/suited to the task of developing NewCo to the level required to deliver the targeted returns.

Hence NewCo benefits from a parallel programme of People training, mentoring - and provisioning with the right tools. As business levels allow, this can be accelerated by recruiting specific skills on either an interim or permanent basis. It's worth reflecting on the roles of a balanced Management Crew that was briefly considered during the Induction Workshop.

In the same workshop we also considered the following 3 principles:

- 1. You can't run a Council like a business**
- 2. A Council can run businesses**
- 3. You can't run a business like a Council**

It's our considered experience and belief that NewCo has to become 'the way that we now do these things'. In other words NewCo becomes the day-job for the areas and functions that is managing and developing. Rather than a part-time task to be accommodated when time / inclination allows.

We struggled a fair bit on the first day with a few of the principles of a successful business generally. And specifically how these would apply to the achievement of the target bottom line of Derby's proposed venture. Whilst the team are obviously competent they'd greatly benefit from experienced interim support, charged with achieving targets determined by Senior Management.

Provisional Targets

Opening Assumptions:

There are approximately 7,600 businesses in reach of NewCo that primarily fit within the

Subscribers

2.5% - 190 : year 1

5% - 380 : year 2

15% - 1,140 : year 3

Average monthly subscriptions:

Year 1 - £50.00

Year 2 - £100.00

Year 3 - £120.00

Assume a variable 5%-10% of businesses /month purchase stand-alone products
– average value £100

Lines of Business	Year 1	< Revenue > Year 2	Year 3
Subscription Memberships	£114K	£456K	£1,642K
'Catalogue' Sales	£ 17K	£ 34K	£ 103K

Using the above provisional targets and assuming a Margin of 20% on Memberships and 10% on products – NewCo can be delivering a profitability run rate of c. £339K by year 3.

NB: Managing targets will always be a 'Work in Progress' – particularly before Newco is trading.