Review of Escalator Programme

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MINISTRY OF ECONOMIC DEVELOPMENT

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Contents

Executive Summary

This report presents the findings of the Cabinet-mandated evaluation of the Escalator programme. Escalator was established in November 2003 as a New Zealand Trade and Enterprise (NZTE) delivered initiative that endeavours to enhance business growth by assisting innovative firms to raise capital through providing a training and brokering service. The period of the evaluation is from November 2003 until June 2005. However, financial data is also included from the 2005/06 financial year to show what Escalator is currently appropriated (i.e., $2.395m[1] for 2005/06). Additional information on targets for the 2005/06 financial year is included to provide insight on how Escalator is currently doing.

The rationale for the Escalator programme is to provide capable individuals and small and medium enterprises (SMEs) with skill-based assistance to develop their ideas to a point where others can invest in them. This consists of training services to up-skill the investment ready capability of SMEs and innovators, and brokering/deal making services.

This rationale is based on a market failure problem identified as being what economists describe as an asymmetry of information essentially an information constraint to market entry for individuals willing to invest and for SMEs seeking external capital. Entrepreneurs seeking to grow their business may require additional capital to that which they can themselves provide. But they often don’t know how to prepare their business case, where to look for an appropriate source of equity or how to negotiate a good result. Such information and knowledge may not be available from the market or be at a cost that is too expensive for the individual firm. Equally, in the absence of these investor-ready SMEs, potential investors don’t know where to find opportunities to invest. They may also over/underestimate the risk.

Programme summary

The Escalator programme is contracted out to private sector providers. The programme is administered by the Economic Development Association of New Zealand (EDANZ). There are four steps to the programme. These are:

1. Initial assessment

The EDANZ programme coordinator assesses whether a firm is eligible to participate on the programme (as well as conducting other administrative programme duties).

2. Current position analysis

A business plan is submitted by the company and is assessed by one of contracted providers (i.e., broker).

3. Business needs assessment

A further in-depth assessment is conducted by the broker to ascertain whether the company is capable of raising capital.

[1] GST inclusive

4. Deal preparation and negotiation

Companies are offered a contractual agreement with the broker to engage in a capital raising process. In addition to the above stages, training workshops are also delivered. These workshops focus on specific investment issues relevant to enhancing a firm's investment readiness.

Cost

The programme was allocated $2.395m in 2005/05 and in 2005/06. In relation to the funding allocated to bigger NZTE programmes, this amount is small. However, the importance of assisting SMEs and entrepreneurs cannot be undermined by a reduction in funding. Supporting the development of SMEs is significant to furthering New Zealand's economic transformation. This is because these types of firms often have the potential to be high growth firms. Escalator is one approach that is successfully contributing to SME development.

Evaluation objectives

The purpose of the evaluation was to assess the effectiveness of the programme and inform NZTE's upcoming tender round. The objectives of the evaluation are as follows:

- To provide accountability to the government for the performance of the programme; and
- To provide those involved in policy development and delivery with an assessment of the overall effectiveness of the Escalator Service against policy objectives; and
- To inform NZTE's upcoming tender process for contractors within the context of the current environment. The request for proposals (for the tender round) is scheduled for May 2006; and,
- To provide insights on possible links between Escalator and related government programmes that contributes to the raising of capital by SMEs.

Key findings

Policy, programme delivery, efficiency and effectiveness

- Escalator is consistent with the policy intention of providing assistance to SMEs and entrepreneurs to grow their businesses. The capital raised in 2004/05 was $18.775m, indicating that seven times more capital was raised, relative to government expenditure during this financial year. At the end of January 2006, $14.275m of capital had been raised, indicating that six times more capital was raised, relative to government expenditure in the current financial year (2005/06).
- The investment readiness of participants was enhanced by attending Escalator. 69.1% of participants (who did not broker a deal) felt that they had improved their understanding of the capital raising process. 71% agreed that the workshops were relevant to their business needs. 80% of the case studies (participants that did go onto raise capital) agreed that their understanding of the capital raising process increased as a result of Escalator.

Matching expectations of the SME and broker

The evidence from this evaluation suggests that there is some misunderstanding in Escalator between SME expectations and the brokers (e.g., of the 55% of surveyed participants who responded, 85% of them felt in some way that their expectations were not met by the service provided by the brokers). This may reflect a lack of investment ready capability on the part of SMEs and entrepreneurs applying to the programme, as well as the mis-match with brokers (i.e., it may reflect the limited skill-set of brokers to address SME needs, given the small number contracted to the programme).

- Escalator is addressing the market failure problem. The average monthly application rate from SMEs has increased each year since Escalator began (see below):
- - 2003/04[2]: 29/month
- - 2004/05: 32/month
- - 2005/06[3]: 36/month

Programme linkages

NZTE delivers several other programmes that complement Escalator (i.e., Enterprise Training, Enterprise Development Grant, and Connect New Zealand). The Government has also made a substantial investment through VIF Ltd, a crown company, in the Seed-Co Investment Fund to stimulate angel investment development. A more integrated approach with these programmes will enhance Escalator's effectiveness through, for example, educating SMEs (in terms of investment ready capability) and investors (in terms of supporting the development of New Zealand SMEs). Additionally, these linkages enhance the possibility of bringing together SMEs and investors. In establishing these programmes, the government has recognised that New Zealand's capital raising market is in its infancy compared to other OECD countries[4].

Conclusions

Escalator is having a national impact in developing the market for SME equity finance. It does this by introducing into the market well-regarded learning and assessment tools (the current position analysis and business needs analysis) and building from scratch the related brokerage expertise. The small size of the programme (currently $2.395m) is appropriate to this 'pioneer' role.

The findings from this review show that the programme is enhancing the investment ready capability of SMEs and innovators to a point where they can raise capital, although it is

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[2] For 8 months – November 2003 to June 2004.

[3] As at February 28th, 2006.

[4] EDC (05) 11/1 refers to New Zealand's informal investment market being less developed than other OECD countries. This is because of the lack of scale and networks; the lack of specialist skills to assess and manage technology-based companies; the lack of professional capacity to intermediate between investors and firms, and the lack of liquidity of investments and concerns about the lack of second-stage or follow-on funding, which leads to a reluctance to invest. The Seed Co-Investment Fund is to assist in the development of the market for early-stage equity finance.

recognised that some companies have not benefited from the service. Operational targets (i.e., client participation and workshops delivered) are being met and the amount of capital raised (in 2004/05) was seven times more than what the government had invested.

The market failure problem of SMEs not being successful in raising capital due to a lack of investment ready capability and the lack of specialist equity brokers in the market is being addressed by Escalator. All of the brokers interviewed agreed that the market would not provide specialist capital raising services for SMEs as there are information and pricing constraints to entering the market.

The evaluation concludes that there is a continued need to offer subsidised training and brokerage services to SMEs that need to raise external capital. Over time, as more angel investors enter the market, more information should become available and the costs and information constraints to entering the market should fall. When this occurs the need for government intervention should be reviewed.

Recommendations

1. The programme should be continued for a further three years, with some modifications to the scope of the scheme. The modifications are set out below for consideration and action by NZTE.

    i. There should be a more stringent selection criteria to obtain entry into the Escalator programme. This would ensure that companies have a pre-requisite understanding and commitment of what is required to raise capital and therefore, greater benefit Escalator (i.e., not requiring generic investment ready training).

    ii. There needs to be a more integrated approach with NZTE's Enterprise Training Programme and other NZTE programmes that enhance a company's investment readiness. The investment ready capability of companies entering the programme is variable. If this capability can be developed to a certain stage through other NZTE programmes, closely aligned with Escalator and its objectives, then this should reduce the variability in companies' investment ready capability.

    iii. The programme should be marketed more extensively to increase interest from companies in smaller regions to participate in the programme. The use of regional Economic Development Agencies (EDAs) could facilitate this process. NZTE should continue to contract out the service to private sector providers (as the market is not yet ready to support a training and brokering service). In continuing with this arrangement, NZTE should:

        a. Continue to ensure that brokers demonstrate their excellence in delivering brokering services through monitoring processes that will be provided by the contracted provider.

        b. Expand the number of brokers contracted. This will ensure wider representation from the market and therefore, will provide a more varied regional and sector-experience spread. Thus, the mis-match between SMEs expectations and broker deliverables should be reduced as greater broker representation will enhance the services provided by brokers.

2. A broad policy review should be undertaken of the capital market for SME equity to ensure that the various policies that directly or indirectly seek to influence its development (such as SCIF, Enterprise Training and Escalator are well aligned and that compliance costs (such as Securities act requirements) remain appropriate.

3. Escalator should be fully reviewed by June 2009 to measure impact and recommend on scheme refocusing in the light of current market conditions at that time.

What success might look like?

The future of the programme is, primarily, contingent upon whether the market failure problem has been alleviated. Within five years, strategic government intervention should be able to significantly reduce this market failure problem, and consequently allowing government to withdraw from offering a training and brokering service. This depends on several factors, outlined below:

1. The development of a business angel network.

2. In due course MED would expect to see progress on the development of such a network. For example, compliance costs need to be assessed (i.e., angel investors suggested that the Securities Act needed to be revised in terms of the criteria specifying who is eligible investor, as the Securities Act currently makes it difficult for smaller investors to invest money into SMEs). The integration between different NZTE programmes also needs to be assessed to determine if this will enhance the development of an angel network.

3. Enhancing the investment ready capability of firms.

4. SMEs need to be more investment ready. This can be achieved through the integration of NZTE business training programmes to increase the investment ready capability of SMEs.

5. The gradual phasing out of subsidies to brokers.

6. By this time MED would expect to see an increased understanding that investors and SMEs have in the market and this may reduce the need for equity brokers. A more highly visible business angel network in New Zealand should enable investors and SMEs to meet, thereby enhancing direct engagement between investors and SMEs.

1. Introduction

Small and medium enterprises (SMEs) are often not successful in raising equity finance because they are not investment ready (Mason & Harrison, 2004; 2001a). Firms do not know what financing options are available to them; do not understand the requirement of investors and do not know how to present their business proposals to potential investors as attractive investment opportunities (Mason & Harrison, 2004). Investors are unable to invest at the frequency that they would like to, due to the lack of quality opportunities that they see in the market (Mason & Harrison, 1999; 2001b).

1.1 Context

1.1.1 International

Governments throughout the OECD have recognised the problem of SMEs poor investment readiness capability and are consequently implementing investment ready programmes to address this issue. For example, in Australia, the commercialising emerging technologies (COMET) programme is designed to increase the commercialisation of innovative products, processes and services by providing individuals, early stage growth firms and spin-off companies with tailored support to assist these individuals and companies achieve commercial outcomes (Howard Partners, 2002).

An example from the United Kingdom is the LINC Scotland's Trial Marriage Scheme (Mason & Harrison, 2002). LINC Scotland is a national business angel network that stimulates and supports the overall development of the Scottish business angel sector. The network also provides a nationwide business introduction network or "marriage bureau" for companies and investors, supported by a wide range of public and private sector sponsors. Thus, on the trial marriage scheme, a company applies to the scheme and agrees with LINC Scotland on a programme of work that the company is to carry out. LINC Scotland provides a small grant to the company to do the work. Angel investors are encouraged to invest in the companies by receiving grants from LINC Scotland to help them in assessing the business potential of a particular company that they might be interested in. If an angel decides to invest in a company the grant that was initially given to the company is converted into equity in the company for LINC Scotland.

1.1.2 New Zealand

In New Zealand, the informal investment market is less developed than other OECD countries[5]. There is a lack of scale and networks; specialist skills to assess and manage technology-based companies are also limited; there is a lack of professional capacity to intermediate between investors and firms, and there is a reluctance to invest in SMEs. Whilst there is not a lack of access to finance for most New Zealand firms[6], these supply limitations relate primarily to high-growth technological firms. Demand limitations, as Mason & Harrison (2004) claim, are that SMEs are often not successful in raising equity finance because they are not investment ready. However, it is recognised that there are firms in New Zealand that are investment ready and therefore, are able to raise capital. Thus, it could be argued that there does not need to be government support for SMEs as it

[5] See EDC (05) 11/1.

[6] See EDC (05) 11/1

is accepted that in the market there will be firms that are capable of raising capital and therefore, succeed, as well as firms that will not be successful. However, this argument does not negate the need for government assistance on the demand side as there will always be SMEs that are not investment ready. Hence, if the government wants to grow the New Zealand economy then it has to provide support to these SMEs. The primary strategy for this (given New Zealand's minor informal investment market) is to bring together investment ready deficient SMEs and investors, thereby, developing the market so it becomes self-sustaining. The market at present does not appear to support investment in SMEs with limited investment readiness. When the market is sufficiently developed, government will no longer need to directly support SMEs as this will be undertaken by the market.

Market

Table 1 lists the potential sources of expertise of private equity brokers and gives some indication of supply size. However, it must be kept in mind that it is difficult to assess whether these providers have specialised equity brokering knowledge and therefore, regularly deliver these services (although, one firm does regularly deliver these services nationally). The responses from the angel investors and market providers interviewed for this review suggest that a limited training and brokering service is provided by the market.

Table 1: Number of national market providers of brokering and possible training services

Provider	Number of providers
Law firms	1683
Merchant Banks	40
Chartered Accountant Firms	1617
Total	3340

Source: refer www.nz-lawsoc.org.nz www.nzica.com

The Deloitte/Unlimited Fast 50 is an index of New Zealand's fastest growing companies. These businesses can be from the public or private sector and are ranked according to their revenue growth. Businesses that have participated in government assisted schemes (i.e., Escalator and its predecessor BIZ Investment Ready Scheme) have been listed on this index. For example, over the five year period from 2001 to 2005 sixteen (i.e., 1.1%) of businesses that participated in either the Escalator or BIZ Investment Ready Scheme were listed in the Deloitte/Unlimited Fast 50 index.

Angel investment

The angel capital market in New Zealand appears to be steadily growing and is able to be developed further.[7] Possible interventions suggested include the education of existing and potential investors; encouraging the development of business angel networks, and raising the profile of the angel capital market to encourage further participation in the market

[7] New Zealand's Angel Capital Market (2004)

(ibid). There are many definitions of what constitutes an angel investor. However, if the definition is confined to 'those who actively contribute to the development of the business they invest in', the number of genuinely active angel investors in New Zealand is less than 100 (ibid).

Market failure

The market failure problem is the lack of investment ready capability of SMEs and the lack of specialist equity brokers in the New Zealand market. Mason and Harrison (2004; 2002; 2001a; 2001b; 1999) have recognised that this deficiency in investment ready capability and specialist equity raising services needs to be addressed; initially by governments so as to stimulate the private sector and secondly, by the private sector to ensure (over time) that the market will deliver investment ready capability and specialist equity raising services.

1.2 Escalator

The New Zealand government established an investment ready programme, which commenced in July 2000, known as the BIZ Investment Ready Scheme (IRS). The purpose of the IRS was to assist innovative firms to raise capital by delivering training and deal brokering services. IRS was evaluated by the Ministry of Economic Development (MED) in March 2003 and based on recommendations from that evaluation, IRS was replaced in November 2003 by the Escalator programme (an improved training and deal brokering service).

The Escalator programme is delivered by the private sector under contract to New Zealand Trade and Enterprise (NZTE). This review, in addition to its objectives and key questions, may provide insight into whether a private sector driven programme will build specialist expertise in the market in terms of SMEs investment readiness capability and investors supporting SME development.

The programme offers the following services:

- General information and assistance online at www.escalator.co.nz or via an Escalator help desk employee.
- Assessments of business/concepts and its investment potential.
- Investment-specific workshops.
- Brokering expertise and assistance to raise capital up to $5 million.
- Coordination, where applicable, with agencies and advisors such as accountants, lawyers, patent attorneys, share brokers, technical experts, government assistance programmes and other funding institutions.

This review has been undertaken by MED, in consultation with NZTE. The period of the review is from November 2003 to June 2005.

1.3 Review objectives

This is the first in-depth review of the Escalator programme since its inception in November 2003. The objectives of this review are:

- To provide accountability to the government for the performance of the programme; and

- To provide those involved in policy development and delivery with an assessment of the overall effectiveness of the Escalator Service against policy objectives; and

- To inform NZTE's upcoming tender process for contractors within the context of the current environment. The request for proposals (for the tender round) is scheduled for May 2006; and

- To provide insights on possible links between Escalator and related government programmes that contributes to the raising of capital by SMEs.

1.4 Key questions

1.4.1 Delivery and Efficiency

The focus of the review is on assessing the delivery of the programme, the efficiency of delivery and its effectiveness against policy objectives. As Escalator has been in operation for a relatively short period, measurable impacts against delivery and effectiveness may not be as significant as expected. However, it is assumed that a good understanding of how the programme is operating and potential impacts will be obtained.

- How has the programme been implemented across providers?

- Is implementation consistent with policy intention?

- How have changes to programme delivery been implemented?

1.4.2 Programme effectiveness

- How effectively has the programme achieved its policy objectives?

- To what extent has the programme:

    a. Improved participant's business awareness, knowledge and understanding of the capital raising process?

    b. Improved the supply of and accessibility to, information, training and deal brokering services in the wider market?

    c. Encouraged contestability and capability building within the market for supply of similar services?

- How many deals have been brokered?

- To the extent that it is possible to ascertain, have participants, upon completion of the programme, been able to raise further capital within the market?

- Would the observed outcomes have been achieved in the absence of the programme?

1.4.3 Programme linkages

- What are the links between Escalator and other related government programmes?
- What are the motivations and barriers surrounding involvement in Escalator by participants and Angel investors?

1.5 Report content

The report is in the following parts:

- Section 2 describes the programme and its policy foundations
- Section 3 outlines the review method
- Section 4 reports on policy implementation Issues
- Section 5 discusses the policy and programme delivery, and efficiency findings
- Section 6 discusses the programme effectiveness findings
- Section 7 discusses the programme linkages findings
- Section 8 summarises the review conclusions and recommendations

2. The Escalator Programme

This chapter summaries the policy foundation of Escalator as set out in the policy papers[8] that led to the programme's establishment. Escalator aims to assist SMEs and entrepreneurs grow their business by enhancing their investment readiness capability through a training and brokering service. The programme has been designed so that the services are delivered by the private sector, which ensures objectivity and commercial realism.

2.1 Policy direction

In a new approach to industry and regional development, based on partnerships between education and research sectors, the private sector and the government in 1999 agreed in principle to a new proposal for 'incubator initiatives' aimed at providing capable individuals and small businesses with skill-based assistance to develop their ideas to the point where others could invest in them.

Consultation between experts in business incubation and venture capital resulted in the government recommending that the incubator initiatives include:

- training services for SMEs and innovators focused on investment ready up-skilling
- brokering and deal-making services for innovative start-ups to provide assistance to get them to the stage where others will invest

2.2 Development of the programme

The BIZ Investment Ready Scheme (IRS), a programme designed to improve entrepreneurs' understanding of capital raising and to provide them with the skills and knowledge to become investment ready, began operating in July 2000.

The scheme was reviewed by MED in 2003 (see 5.3, page 31 for the recommendations).

The Escalator programme replaced the IRS in November 2003. It is currently delivered jointly by the Economic Development Association of New Zealand (EDANZ) and Deloitte, under contract to NZTE. Sub-contracted parties to EDANZ and Deloitte are I Grow, Ignition Partners and Realize Technology. Delivery contracts are negotiated annually with NZTE.

2.3 Policy objective

In light of the policy direction, the policy objective for the programme is:

- To assist business growth by providing innovative firms and entrepreneurs who need capital to expand their business or to commercialise a new concept, with information, skills and assistance to pursue investment opportunities.

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[8] Refer EDC (03) 52, EDC (03) 53, EDC (03) 54, EDC (03) 55, DEV (00) 5, CAB (00) M 7/2, CAB (99) M27/8, CAB (99) M 19/2B.

2.3.1 Programme cost

Escalator is classified under NZTE's Output Class 3.0: Foundation Services – Business Information and Advice; Output Class 4.0: Foundation Services – Training and Capability Building, and Output Class 6.0: Growth Services – Facilitating Business Opportunities. For 2005/06 Escalator was allocated $0.343m for Output Class 3.0; $0.243m for Output Class 4.0 and $1.809m for Output Class 6.0 (these figures include GST).

Services provided by NZTE under Output Class 3.0 are information on capital raising (via Escalator website and its helpdesk).

Services provided by NZTE under Output Class 4.0 are high level training and marketing, and EDA capability building workshops.

Services provided by NZTE under Output Class 6.0 are the assessments of business concepts and investment potential (i.e., Current Position Analysis and Business Needs Assessment) and the deal broking services to provide assistance in raising capital up to $5m.

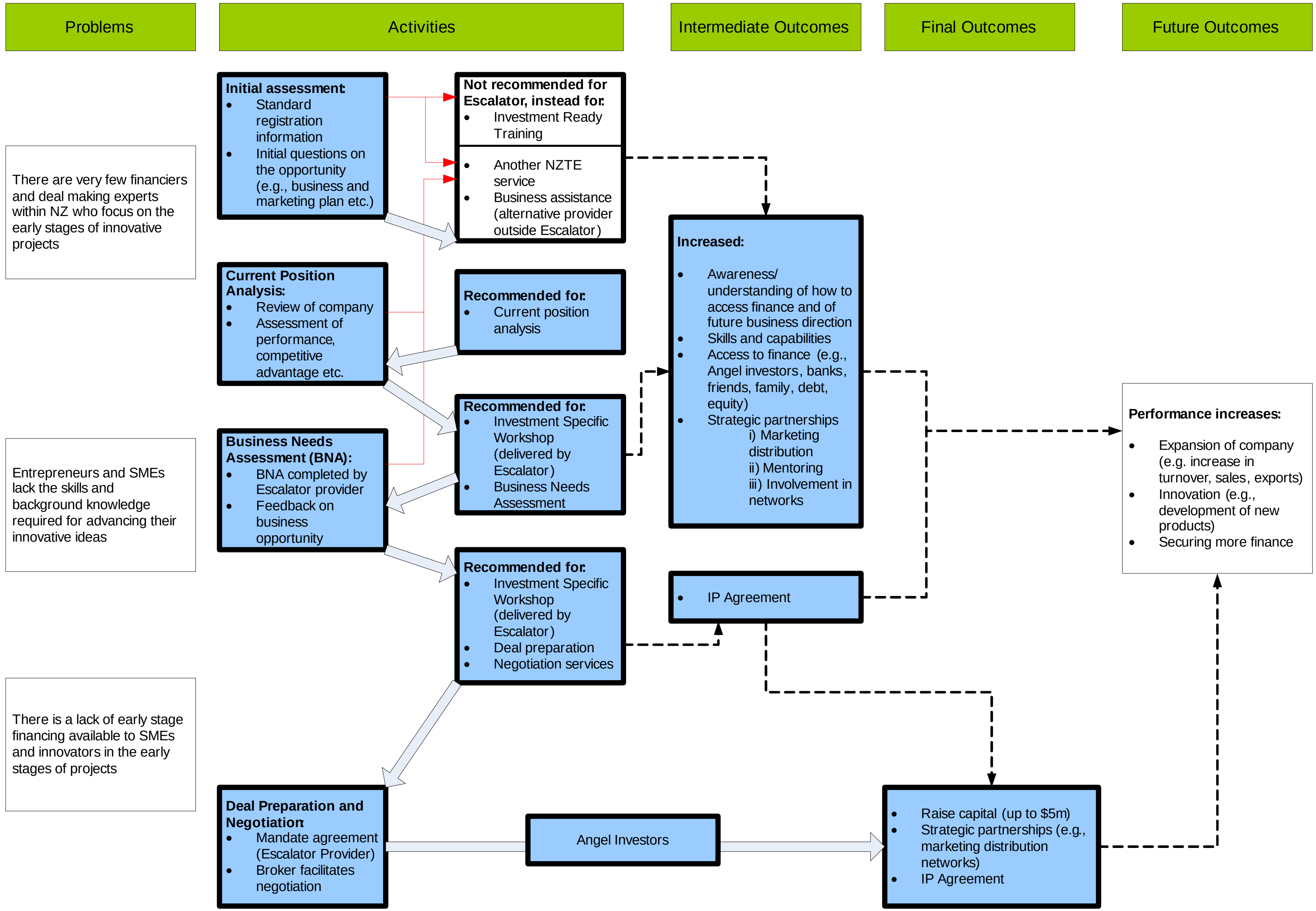
2.3.2 Intended programme outcomes

The intended outcomes for the programme are twofold: knowledge based and raising capital. The knowledge-based outcome is concerned with an increased understanding and awareness within participant firms of becoming investment ready. This may result in a company knowing how to access finance, enhancing skills and capabilities, and creating new networks. The second outcome, raising capital, can result in an expansion of a company, new innovations (e.g., the creation of new products) and forming strategic partnerships. The supply of capital depends on creating a successful link between the companies (the demand side) and investors. These two outcomes were measured as part of the review (see Findings: Sections 5 and 6).

2.4 Programme intervention logic model

An intervention logic model for Escalator that indicates how the intermediate and final outcomes are expected to address the policy issues is shown on the following page. The items in bold and coloured blue boxes are the focus of this review.

Escalator intervention logic model



3. Review Methodology

3.1 Review scope

The scope of the review, given the timeframes for delivery, took into account the intended outcomes for the programme, the companies that participated in the programme and the role of the programme in the market. A further purpose of the review is to inform the tender process for lead providers beginning in March 2006. The review scope and methodology reflect this timeframe for delivery. The review focused on assessing the approaches to implementation and delivery of the programme taken by the four lead providers, the efficiency of delivery, the effectiveness against policy objectives and market sector perceptions of the programme.

3.1.1 Time period

This review focuses particularly on performance over the period November 2003 – June 2005 (i.e., generally the last three quarters of the 2003/04 financial year and the 2004/05 financial year) on the basis that there have been changes made to the programme based on the recommendations from the previous evaluation in March 2003. However, information is also given on performance during the 2005/06 financial year to give an indication of how Escalator is currently doing. This information is additional only, as the primary focus of the review is for the period stated above.

3.2 Method

The review has used pre-existing information available from EDANZ and NZTE, and has collected primary data from programme participants (i.e., businesses), providers offering a similar training and brokering services in the market and from angel investors. Assessments of the effectiveness of the programme against policy objectives have been undertaken using all of these sources of information.

3.2.1 Data sources

Case studies

Case studies were conducted with five companies, four of which had successfully raised capital and one which secured a strategic partnership. The case studies involved face-to-face interviews and assessing information about each company provided by EDANZ. The interview questions are included in Appendix 1.

Interviews

Non-mandated clients

Structured face-to-face interviews were conducted with two companies that had participated in the programme but who choose not to go onto the brokering stage of the programme. The interview questions are included in Appendix 2.

Market providers

Structured face-to-face interviews were conducted with three companies and one association that deliver similar services to Escalator in the market. The interview questions are included in Appendix 3.

Angel investors

Structured face-to-face interviews were conducted with seven angel investors who invest in SMEs. The interview questions are included in Appendix 4.

EDANZ

A structured face-to-face interview was conducted with the programme coordinator at EDANZ. The interview questions are included in Appendix 5.

NZTE

Structured face-to-face interviews were conducted with two programme management representatives from NZTE. The interview questions are included in Appendix 6.

Online survey

An online survey was conducted of 166 companies that had participated in the Escalator programme, but only at the current position analysis and/or business needs assessment stages. There was a 50% response rate. The survey questions are included in Appendix 7.

3.3 Limitations

The limitations of the review primarily relate to assessing the programmes effectiveness and outcomes achieved, within the review time period, from a small sample participants who had completed the programme (i.e., brokered a deal) and those who choose not to mandate a deal. The operation of Escalator necessitates that companies, if they choose to mandate a deal, may be on the programme for longer than one financial year before securing capital. Thus, the benefits for companies who began the programme in the 2004/05 financial year may not be seen until the 2005/06 financial year or later.

The angel investors and market providers interviewed for this evaluation were identified using a snowball approach. Given the short timeframe for this evaluation, the small sample identified may not adequately reflect the views of the private sector. If more time had of been available, a larger sample could have been identified.

Self reporting by programme recipients also limits the ability to draw definitive and strong conclusions.

4. Policy Implementation

This section describes the way in which NZTE has implemented the government's policy for the Escalator programme. The programme does not exclude any company from applying but participation is determined by a selection process. It is expected that companies applying for the programme do have a certain level of investment ready capability. For example, the Escalator website advises that companies attend the Enterprise Training Programme prior to participating in Escalator, but this is not compulsory.

4.1 Providers

The Escalator programme is an open tendered scheme. It is contracted out to private sector providers who deliver the service on behalf of NZTE. EDANZ is one of these providers and administers the programme and Deloitte is the major broker, who, along with three sub-contracted specialist brokers (I Grow, Realize and Ignition) provide the training and brokering services.

4.2 Programme stages

There are four stages or steps to the programme. These are the initial assessment, the current position analysis (CPA), the business needs assessment and the deal preparation and negotiation stages. In addition to these stages, participants also have the opportunity to attend workshops to enhance their investment ready capability as they continue along the programme. Figure 1 shows the Escalator filter approach. The programme provides an effective funnel, with SMEs parked, diverted or advanced at the various stages. A current position analysis and a business needs assessment may find that the best course of achievement for a business may not be to raise capital. This is seen as a positive outcome. The four stages are described after Figure 1 and the description of the workshops follows the description of the four stages.

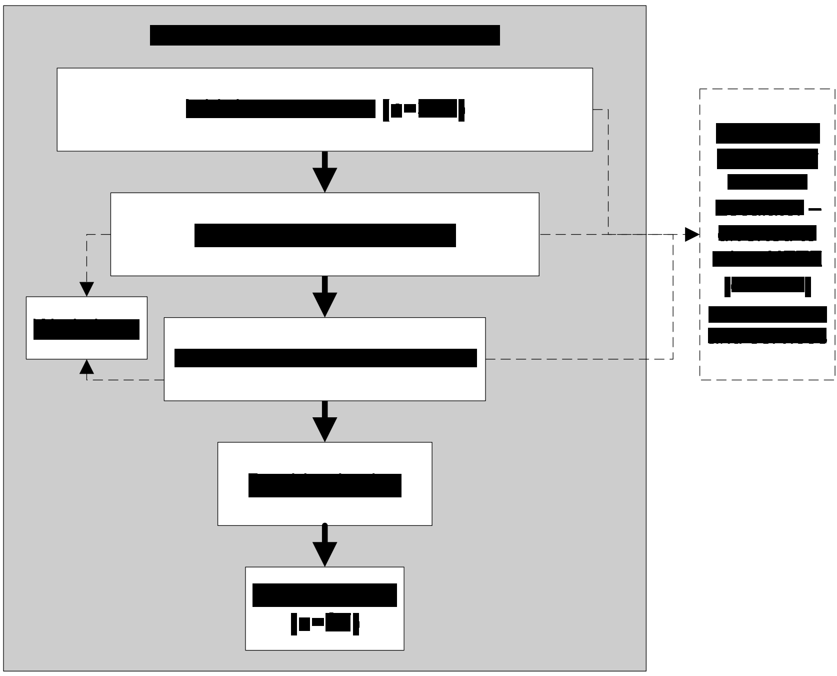


Figure 1: Escalator filter (participant figures for 2004/05)

4.2.1 Initial assessment

EDANZ has an Escalator programme coordinator who manages the programme. Below are is list of responsibilities of the EDANZ programme coordinator:

- Assessing firms' applications (this involves conducting in-depth telephone interviews with clients)
- Liaising with clients who are already in Escalator to provide feedback and assistance
- Selling or marketing the programme
- Reporting to NZTE (on a monthly basis)
- Monitoring the Escalator website and operating the 0800 (helpdesk) programme information number

As an EDANZ employee, the programme coordinator is responsible for making the regional economic development agencies (EDAs) aware of the Escalator programme and promoting it in their regions.

Programme entry

Participants' entry into the programme comes from EDA networks around the country and through active marketing undertaken by EDANZ (20%). The remainder (80%) comes from referrals (which are as follows):

- NZTE contact with the brokers
- NZTE contact with EDANZ
- Business advisors (e.g., accountants, patent attorneys etc) contacting EDANZ. The rate of these types of referrals has increased over time as the Escalator brand is becoming more known in the private sector.
- World Wide Web (i.e., via the V Capital website and NZTE websites)
- Brokers are getting referrals from their networks.
- Cold calling. Occasionally, companies call EDANZ after seeing a story about Escalator in the media.

Assessment

An Escalator assessment form is completed, although in some cases a form is not completed, as it can be determined by the EDANZ programme coordinator whether a company is suitable for Escalator (this is usually done by conversing with the potential client on the telephone when the client calls the helpdesk). If the company is not suitable, it is advised in writing as to why it is not suitable and is referred onto another service. If, in the opinion of the EDANZ programme coordinator, the company puts forward a good business argument, it is referred onto the current position analysis stage.

4.2.2 Current position analysis

A company submits a business plan and is assessed by the broker on the following:

- Stage of the company
- Competitive advantage
- Cash position of the business
- Governance/management structures
- Past performance
- Market opportunities
- Technical capabilities
- Level of intellectual property (IP)

Upon the completion of this assessment by the broker, the broker decides whether to refer the company onto the business need assessment stage or recommends that the company participate in a workshop or other investment ready programme outside of Escalator.

4.2.3 Business needs analysis

If a company is referred onto this stage of the programme, the following components of their business are assessed by the broker:

- Company needs analysis
- IP strategy and position/mapping
- Competitor information
- Alliances/synergies required
- Preliminary evaluation
- Deal alternatives
- Changes required to optimise deal outcome
- Technical strategy and position

Upon the completion of this assessment by the broker, the broker decides whether to refer the company onto the deal preparation and negotiation stage or recommend that the company participate in a workshop or other investment ready programme outside of Escalator.

4.2.4 Deal preparation and negotiation

If a company is referred onto this stage of the programme, they are now able to be offered an opportunity to enter into a formal contractual agreement with the appropriate broker (one who can best maximise the capital raising benefits for the company). Upon a mutual agreement between the company and broker, the programme offers the following services:

- Pre-due diligence review
- Alliance/partner identification
- Deal structuring
- IP review
- Director appointment (the broker assists with appointing potential directors)
- Legal review
- Investor identification and negotiation
- Financial review and valuation
- Offer document
- Term sheet structure and negotiation
- Due diligence management

Once the deal preparation is finalised, the broker will facilitate negotiations to either, successfully raise capital (up to $5m), form a strategic partnership or implement an IP licensing agreement. A success fee is charged by the broker when capital is successfully raised. The fee is set at 8% (of the capital raised under $250,000) and at 5.5% (of capital raised between $250,000 and $5m).

For the 2005/06 financial year, EDANZ paid the brokers up to a maximum of $22,000 for their deal brokering services; $2500 per business needs assessment and $720 per current position analysis.

4.3 Workshops

The recommendation (from the BIZ IRS evaluation, March 2003) to include additional course content and to condense the workshops from a five-day module to a one-day workshop have been implemented. Investment-specific training workshops are delivered, with the objective of improving awareness of the issues and requirements to access investment capital. The workshops are 4.5 hours long and approximately 20 are delivered annually. Delivery targets are set by NZTE through the contract negotiation process.

For the 2005/06 financial year, EDANZ paid the brokers $4500 per workshop delivered.

5. Findings: policy and programme delivery and efficiency

The findings are presented in terms of addressing each of the key questions of the evaluation. The programme participants', angel investors, market providers and stakeholders' responses are listed in relation to each of the key questions.

5.1 How has the programme been implemented across providers?

The programme's training and brokering service targets are contractually agreed between NZTE, EDANZ and Deloitte. These targets have been adjusted for every financial year the programme has been operating. Variation to these targets involves consultation and agreement between EDANZ and Deloitte upon whether the targets are realistically achievable given the number of investors and firms available in the market that are enrolling in the programme.

These target adjustments are listed below:

5.1.1 2003/04 (November 2003 – June 2004)[9]

- Current Position Analysis – Target: 150 firms to complete this process
- Business Needs Assessment – Target: 50 firms to complete this process
- Brokered deals (mandated) – Target: 22 firms mandated[10] to broker a deal
- Capital raised – Target: $15m

The four brokers have an allocated percentage for each of the above targets that they have to reach. These were:

- Deloitte: 32.5%
- I Grow: 32.5%
- Ignition: 20.0%
- Realize: 15.0%

The programme met the targets set by EDANZ for the current position analysis, business needs assessment and mandated brokering stages. All brokers met their relative targets, except Ignition for the current position analysis stage.

[9] The targets for 2003/04 are lower than for 2004/05 because the programme was restructured, hence the 2003/04 year was not a full year (i.e., 8 months).

[10] Mandating a deal means entering into an agreement with the brokers to raise capital. However, it does not necessarily follow that all companies entering to this agreement will raise capital (although this would be ideal).

Since the programme's inception in November 2003, the number of deals currently being brokered was 25 but as of June 30th, 2004, there had been no capital raised. Whilst this may appear to be a poor return for the cost of the programme, it must be kept in mind that the programme is still in its early stages and that the financial benefits (i.e., capital raised) of firms in this financial year may not be seen until the following financial year. This is because the time taken to finalise a deal often overruns into the following financial year. Thus, deals for which capital was raised (and therefore reported) in a particular financial year may have initiated in the previous financial year.

5.1.2 2004/05

- Current Position Analysis – Target: 300 firms to complete this process
- Business Needs Assessment – Target: 150 firms to complete this process
- Brokered deals – Target: 50 firms mandated to broker a deal
- Capital raised – Target: $25m

The allocated percentage of targets for each of the providers was:

- Deloitte: 33.5%
- I Grow: 33.5%
- Ignition: 13.0%
- Realize: 20.0%

The programme met the targets for the current position analysis and mandated brokering stages. The target was not met for the business needs assessment stage (it was just under, i.e., 97.3%). The number of deals completed by the programme was 27, which included 3 strategic alliances and the capital raised was $18.775m. The amount of government funding for the 2004/05 financial year was $2.395m[11] (Foundation Services - $0.586m and Growth Services - $1.809m).

- Programme applications from SMEs have increased since Escalator began in November 2003. The average monthly application rates are shown below:
- 2003/04[12]: 29.1/month
- 2004/05: 32.3/month
- 2005/06[13]: 35.8/month

Figure 2 shows the size of the firms matched with the size of the deals made for the Escalator programme in 2004/05. When there was only one firm of a particular size, the

[11] GST inclusive

[12] For 8 months – November 2003 to June 2004.

[13] As at February 28th, 2006.

deal size was for the total amount of capital raised by that firm. For example, there was one firm with zero employees at the time of application (to Escalator) which raised $300,000. In all other cases, the amount of capital raised is averaged across the total number of firms of a particular size. For example, there were seven firms that each had one employee at the time of application. Thus, the average amount of capital raised across these seven firms was $811,000. There were three firms that had four employees at the time of application. One of these firms secured a strategic partnership. The remaining two firms raised capital and the deal size ($500,000) is averaged across these two firms. There were four firms that had five employees at the time of application. Of these four firms, two secured strategic partnerships, one of which also raised $30,000. Therefore, the deal size ($45,000) is averaged across three firms.

It can be seen from Figure 2 that there was a range of companies on the programme that differed in size and which raised differing amounts of capital.

5.1.3 Workshops and capability building

The programme also delivers workshops to clients, at two complexity levels to enhance client's investment readiness. Capability building seminars are also delivered by EDAs, where investors and companies are brought together to foster further business development with each other.

The targets for the 2003/04 financial year for both of these services are listed in Table 2. The targets were met for the workshops (both levels) but the target for the capability building workshops was not met (i.e., only 70% of the target was met).

The targets for the 2004/05 financial year for both of these services are listed in Table 3. The targets were met for the workshops (both levels) and for the capability building workshops.

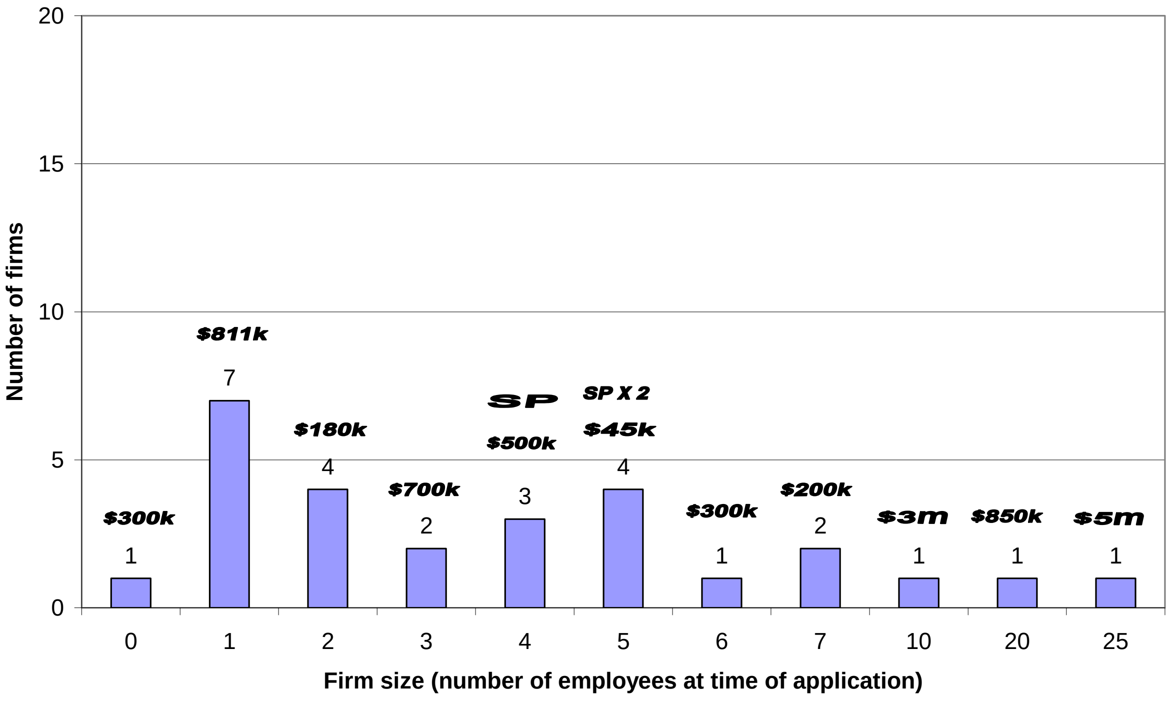


Figure 2: Escalator firm size matched with deal size

Table 2: Workshop attendance target: 2003/04

Type of workshop	Numbers of workshops	Attendance targets (per workshop)
Level 2	15	10
Level 3	5	8
Capability building	4	20
Totals	24	38

Table 3: Workshop attendance target: 2004/05

Type of workshop	Numbers of workshops	Attendance targets (per workshop)
Level 2	25	10
Level 3	10	8
Capability building	9	5
Totals	44	23

5.1.4 2005/2006

Table 4 shows the costs of administering the programme for the 2005/06 financial year.

Table 4: Escalator administration costs: 2005/06

Services	Cost (GST exclusive)	Payment Type	Annual Targets	Total Funding (GST exclusive)
Escalator Service Website / Helpdesk / Capital Website	$11,208.33 per month	Set amount per month	2000 Helpdesk Enquiries	$134,500.00
High-level Training Programmes	$4,500.00 per workshop	Paid after delivery	20 workshops averaging 15 attendees	$90,000.00
Current Position Analysis	$720.00 per appraisal	Paid after delivery	300	$216,000.00
Business Needs Analysis	$2,500.00 per appraisal	Paid after delivery	154	$385,000.00
Deal Preparation	Up to a maximum $22,000 of services per client (average $20,000 per client)	Paid in arrears of delivery	47	Up to $940,000.00
Investment to be raised			$15m	
Marketing – Brand Development Marketing - Roadshow	$20,000.00 $15,556.00	Paid after delivery Paid after delivery		$20,000.00 $15,556.00
EDA Capability Building Workshops	$4,938.00	Paid after delivery	12	$59,258.00
Administration Costs Administration Costs – Deal Broking	$14,166.67 per month $5,541.67 per month	Set amount per month Set amount per month		$170,000.00 $66,500.00
TOTAL (GST Exclusive)				Up to $2,096,815.00

5.1.4.1 Online survey: perceptions of workshops

Table 5 shows how participants (who had completed the current position analysis and business needs assessment stages of the programme and who had attended a workshop) assessed the relevance of the workshops. There was agreement among participants that the workshops complemented the specific advice received from their broker (i.e., 57%) and that the workshop content was relevant to their business needs (i.e., 38%). Participants also agreed about the value of networking in a workshop (i.e., 41%) and about the value of the expert advice given by the broker (i.e., 38%).

Table 5: Workshop assessments

Response	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
The workshop complemented the specific advice my firm received from our Escalator broker	14%	43%	38%	0%	5%
The workshop content was relevant to my business's needs	14%	57%	19%	10%	0%
Networking within the workshops and learning from other firms' experiences was more valuable than the content presented in the workshop	14%	27%	45%	9%	5%
The specific expert advice received from the Escalator broker was more valuable than the content presented in the workshop	10%	38%	38%	10%	5%

Figure 2 shows how participant's (who had completed the current position analysis and business needs assessment stages of the programme) understanding of the capital raising process has improved as a result of participating in the Escalator programme. It can be seen that 69.1% of respondents improved their understanding of what investors require from them. 32.7% of participants improved their understanding of the risks involved with raising both equity and non-equity capital, whereas 30.9% of participants improved their understanding of the non-equity capital raising process. 29.1% of participants improved their understanding about other issues (listed below):

- General business planning skills.
- The difficulties involved in attracting investors.
- Gaining a general understanding of the entire capital raising process at the workshops and through EDAs.
- Understanding what is required to progress a business forward.
- An improved understanding of alternative business structures and the different forms of equity available.

- The programme did not overtly address the three options above but provided an external review of our business plan and provided a focus and impetus to document plans better.

- Finding out who is in the market in New Zealand.

- Improved idea of deal making.

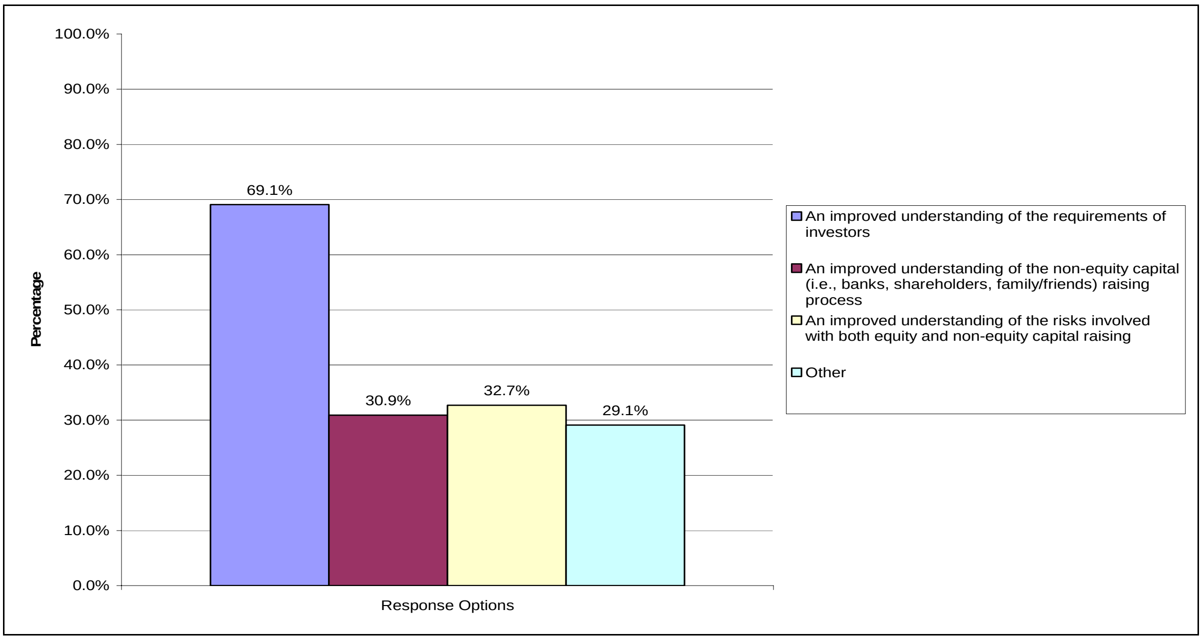


Figure 2: Understanding of capital raising process as a function of Escalator participation

5.1.5 Regional representation

The regions/cities from which the companies that participated in the programme in 2003/2004 and 2004/05, and those companies that have raised capital in 2004/05 are listed in Table 6.

Table 6: Regional representation: Participation and capital raising: 2003/04, 2004/05

Region	Participation 2003/04 (regional distribution as a %)	Participation 2004/05 (regional distribution as a %)	Regional distribution (%) of companies that raised capital in the programme in 2004/05
Northland	2.5%	1.3%	
Auckland	40.5%	40.6%	48.2%
Waikato	13.5%	5.6%	14.8%
Bay of Plenty	4.5%	6.3%	3.7%
Hawke's Bay	2.5%	2.3%	3.7%
Gisborne		0.7%	
Manawatu/Wanganui	1.5%	4.3%	3.7%
Taranaki		1.3%	
Wellington	16%	17.5%	11.1%
Tasman	1.0%	0.3%	
Nelson	1.0%	4.3%	
Marlborough		0.7%	
Canterbury	12.5%	7.6%	11.1%
West Coast		1.0%	
Otago	3.5%	5.9%	3.7%
Southland	1%		
Overseas		0.3%	

The regional distribution of SMEs in New Zealand is listed in Table 7.

Table 7: Location of SMEs in New Zealand: Percentage of Geographic Units[14] with 0-19 employees by Regional Council Area, at February 2004[15].

Regional Council	Geographical units (distribution as %)
Northland	3.5%
Auckland	36.1%
Waikato	9.0%
Bay of Plenty	6.3%
Hawke's Bay	3.3%
Gisborne	0.9%
Manawatu/Wanganui	4.6%
Taranaki	2.3%
Wellington	11.2%
Tasman	1.1%
Nelson	1.3%
Marlborough	1.2%
Canterbury	11.9%
West Coast	0.7%
Otago	4.6%
Southland	2.1%

The high percentage of programme representation from the Auckland region is understandable given the higher proportion of SMEs in this region. Similarly, there is a lower percentage of programme representation from smaller regions given the lower proportion of SMEs in those regions. Thus, it appears that there is a greater representation from the larger regions compared to the smaller regions of firms participating in the programme.

[14] An enterprise can consist of one or more geographic units, that is, a separate operating unit engaged in one, or predominantly one, kind of economic activity from a single physical location or base.

[15] SMEs in New Zealand: Structure and Dynamics. New Zealand Ministry of Economic Development (August 2005).

5.1.6 Sector representation

The sectors from which companies that participated in the programme are based are shown in Figure 3 (for the 2003/04 financial year) and in Figure 4 (for the 2004/05 financial year).

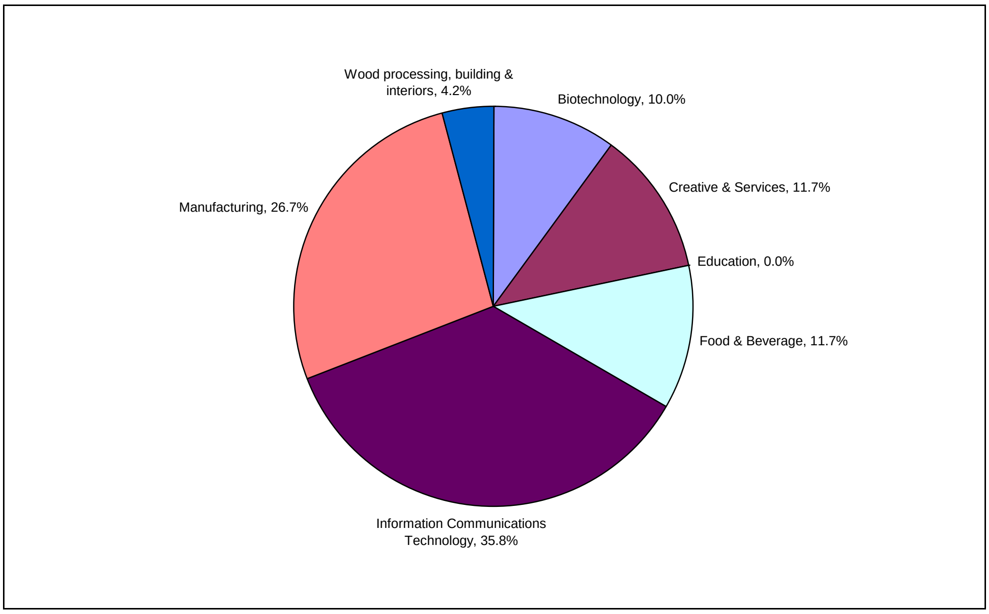


Figure 3: Sector representation for the 2003/04 financial year

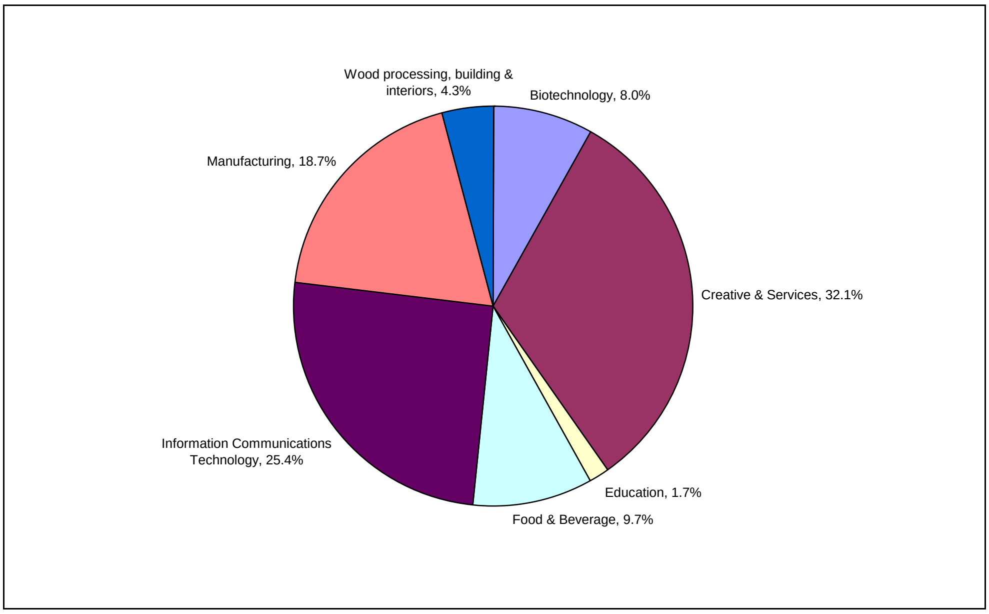


Figure 4: Sector representation for the 2004/05 financial year

It can be seen from Figures 3 and 4 that there has been a decrease in representation from the biotechnology, food and beverage, information, communications and technology (ICT), and manufacturing sectors in 2004/05 compared to 2003/04. There was an increase in the creative and services, and education sectors in 2004/2005 compared to 2003/04. There was very little change in representation from the wood processing building and interior sector in 2004/05 compared to 2003/04.

5.1.7 The contracted providers (brokers)

The core business of three of the four brokers fits with their Escalator roles. These three brokers are I Grow, Realize Technology and Ignition Partners. For Deloitte, Escalator is not its core business. However, Deloitte has a Growth Solutions Team which deals with the Escalator service and employs full time staff in Auckland and part-time staff in the regions.

The implementation of the programme across providers, in meeting their respective targets, does vary between providers (e.g., the number of interactions brokers have with clients and the content discussed). All firms monitor the progress of their clients whilst on the programme and this process is quite formal (e.g., brokers record the events which clients have completed at various stages of the programme). Brokers also have to meet the time dead lines, which are mutually agreed upon by EDANZ and Deloitte (e.g., 30 days for a CPA and 60 days for a BNA). During the brokering stage of the programme, clients learn a lot about what is required by them from investors to secure capital.

Additionally, once companies have left the programme, all brokers continue to monitor most of their client's progress informally, especially those who were quite successful. If the brokers could not assist their clients they refer them onto another NZTE service or recommended them to pursue other options (with an understanding by clients that they may be able to re-enter the programme once they are more investment ready).

5.1.8 Programme processes

The broker's perceptions of how the programme components worked together to improve a firms capability varied but there were some general themes as follows:

A common view was that the business needs analysis was the crux or the key component of the programme. During the business needs analysis, the mechanics of a company's business needs were ascertained to assess whether they were investment ready and hence, move forward to the brokering stage. Thus, companies appear to learn a lot here about becoming investment ready and the different perspectives involved in raising capital. There was a view that the time allotted for the business needs analysis stage be extended so as to allow more in-depth work to be done with clients to address their needs.

The current position analysis was perceived by the brokers to be a sorting phase, differentiating the 'wheat from the chafe' at the beginning of the programme. This assessment determined whether a company was able to formulate a sound business proposition and hence, have a good chance of raising capital.

The brokers thought that the workshops were beneficial for clients in that they created networks for companies with similar needs. However, there was a view that the workshops be delivered by specialist providers, as generally, this is not an area in which the brokers are good at delivering.

The helpdesk component of the programme was perceived by the brokers to be a big asset to the programme as it is the initial point of contact where companies can get a good idea of whether Escalator is right for them.

In general, the brokers thought that the programme was packaged appropriately and worked well. For example, the brokering stage works well for the limited number of companies that have the potential to become high growth firms. However, it was mentioned that there was a need for assistance in the early stages of the programme.

5.1.9 Identifying strategic investors

The four brokers matched up investors and companies based on the companies needs (e.g., growth structure) and the investors offer. A good working relationship needed to be established, which is what the brokers saw themselves as facilitating to ensure both the mutual needs of the company and investor were met. Brokers, generally identify investors through personal networks.

Discussion: How the programme has been implemented across providers

Capital raised

The use of targets can sometimes be helpful in establishing opportunities for programme improvement. Targets are a prominent feature of this programme and have been adjusted accordingly to help improve programme objectives.

The capital raising target was not met in the first eight months of the programme in 2003/04. However, this should not be interpreted as a failure of the programme for two reasons; firstly, the nature of deal brokering is that it takes time to negotiate and finalise deals; secondly, the programme had only just began, hence not having finalised any deals within the eight months the programme had been operating is not surprising, given that it takes time to finalise deals.

In the 2004/05 the capital raising target was also not met (i.e., only 75.1% of the target was met). Again, however, this should not be interpreted as a failure of the programme. The capital raising target increased from $15m in 2003/04 to $25m in 2004/05, hence this may have been too large an increase and therefore, not an achievable target (especially given the newness of the programme in the market place, i.e., there may be a lack of awareness in the market by investors about providing capital to firms going through this type of programme).

The fact that $18.775m in capital was raised in 2004/05, compared to 2003/04 (where no capital was raised) significantly indicates that the programme is starting to produce results. For example, the capital raising ratio for 2004/05 (capital raised: $18.775m divided by government expenditure: $2.395m) is 7.84. Thus, for every dollar spent by the government on Escalator, there is seven times more capital raised.

At the end of January 2006, $33.05m of capital in total had been raised (since the programme started in November 2003) and five non-equity deals finalised for a total of forty-five firms. Thus, $14.275m of capital has been raised in the first seven months of the 2005/06 financial year (of which the target is $15m). This equates to a capital raising ratio for 2005/06 (capital raised: $14.275m divided by government expenditure: $2.395m) of 5.96 (i.e., basically, six times more capital is raised relative to the amount invested).

The increases in the amount of capital raised since the programme began suggest that the programme is starting to pick up momentum as the ‘Escalator’ brand is becoming known in the market place. The target adjustments reflect awareness by EDANZ and the total consortium of brokers, of what capital is available in the market and the sophistication of firms coming through the programme that are likely to be able to raise capital. The programme is benefiting a number of different sized firms that have raised differing amounts of capital. The angel investors interviewed for this evaluation were aware of the programme and do consider investing in companies that have gone through the programme.

Investment readiness

The data from Figure 2 indicate that the programme does enhance participants understanding of the capital raising process and becoming investment ready. The data from Table 5 also showed that the workshops enhanced participants understanding of becoming investment ready, especially by the specific advice that the brokers provided. Further consideration must be given to striking a balance between generic investment training provided in workshops and at the current position analysis and business needs assessment stages of the programme, and the expert business advice provided by brokers.

Regions

Participation in the programme by companies from larger regions is greater than from smaller regions. This is understandable given that there are more SMEs located in the larger regions. These results suggest that more work could be done by the regional economic development agencies to encourage local investors and local companies to network (e.g., the frequency of capability building workshops could be increased, especially in the regions where representation was low: e.g., Southland and Otago).

Sectors

Sector representation varied between the 2003/04 and 2004/05 financial years. This variation, however, should not be surprising given that participation in the programme is, fundamentally, determined by the company being able to meet the criteria to initially participate and ultimately progress through to raising capital, rather than coming from a certain sector. However, it is recognised that certain sectors (e.g., ICT) may have a greater chance at raising capital than other sectors. This is because ICT companies are probably more likely to be fast growth companies than companies from other sectors (e.g., food and beverage).

Brokers and processes

The time spent by brokers with programme participants is an important factor in improving investment readiness. The business needs assessment stage is a crucial component of the programme, as it is here that more in-depth and expert advice is provided by the broker. Thus, consideration needs to be given to the amount of time that is able to be spent by the broker at the business needs assessment stage. Similarly, at the brokering stage of the programme further expert advice is given on capital raising, hence if more time is required here then this can only be beneficial to the programme participant.

The initial assessment stage of the programme and the current position analysis are contingent upon selection criteria (i.e., the EDANZ programme coordinator determining whether a firm has enough investment ready capability to participate in the programme). Hence, the amount of work required by brokers at the current position analysis stage is primarily determined by how investment ready a firm is. Therefore, a more stringent selection criteria might improve the quality of firms investment readiness, thereby affecting how the brokers work with clients at the current position analysis stage (e.g., time spent with clients).

5.2 Is implementation consistent with policy intention?

The Government has recognised that there are difficulties for innovative firms and individuals in raising capital at the early stage of development. Whilst there is generally adequate investment capital in the market[16], there is a problem associated with entrepreneurs lacking the skills to further develop their ideas (e.g., not knowing how to raise capital) and a lack of investment in early stage start-up companies by financiers. The Escalator programme was designed to address these needs of SMEs by providing a training and brokering service.

The implementation of the programme does appear to be consistent with policy intention. The training and brokering services delivered are addressing the needs of the companies participating in the programme (e.g., preparing business plans and doing financial forecasts). Targets during the current position analysis and business needs assessment stages are being met. The capital raised from the programme is greater than the funding provided by government, even though the mandated deal brokering targets are not yet being met (however, not meeting these targets is an issue of gaining an understanding of a new programme, relative to the supply of capital and the demand for it, and making adjustments for this, rather than any deficiency in the programme).

The programme is designed to deliver expert and objective commercial advice. It appears that this type of design is favoured by the private sector (i.e., Escalator is building a good reputation in the market as an objective tool for investment ready assessment). The companies interviewed and surveyed for this review agreed that the programme has improved their understanding of how to raise capital and business capability.

The programmes knowledge based and capital raising outcomes are relevant given the current market climate (i.e., the necessity for enhancing SME investment ready capability and facilitating private sector investment in SMEs). However, as this market failure problem diminishes over time, future policy formation will need to reflect these changes.

5.3 How have changes to programme delivery been implemented?

An evaluation of the BIZ Investment Ready Scheme was completed in March, 2003. The recommendations from the 2003 evaluation of the BIZ Investment Ready Scheme have been implemented. The key delivery changes are as follows:

- Workshop: One-day workshops are now being delivered, where local brokers and angel investors are also attending the workshops.

- Consortium: EDANZ reports that the four brokers are working well together, negotiating over deal allocation and deciding which deals go forward.

[16] For example, see: Business Finance Survey Report (2005); New Zealand's Angel Capital Market (2004)

- Scheme promotion: The website, which is self-service based, is working well and there appears to be awareness of the programme in the market place (e.g., through capability workshops delivered by EDAs and promotional investor seminars).

- Investment Ready Training: Under the Enterprise Training Programme, this training is being delivered through workshops and coaching sessions.

These changes have been perceived by programme participants as beneficial. For example, 71% of participants that completed the current position analysis and business needs assessment stages of Escalator agreed that the workshop content was relevant to their business needs. Thus, the recommendation from the BIZ Investment Ready Scheme evaluation about broadening the focus of the workshops (to cover both debt and capital raising) appears to be well received by programme participants.

The remainder of the changes (i.e., consortium, scheme promotion and investment ready training), as mentioned above, are operating well.

6. Findings: Programme effectiveness

6.1 How effectively has the programme achieved its policy objective?

The capital raising ratio for 2004/05 (7.84) suggests that the programme is effectively meeting its policy objective of assisting business growth by providing innovative firms and entrepreneurs who need capital to expand their business or to commercialise a new concept, with information, skills and assistance to pursue investment opportunities. Additionally, the capital raising ratio for the 2005/06 financial year (i.e., 5.96) also suggests that Escalator is continuing to meet its policy objectives (i.e., $14.275m has been raised in the first seven months of 2005/06).

Targets for putting clients through the programme at certain stages are being met (e.g., current position analysis and business needs assessment). Additionally, adjustments to the programme (e.g., targets for raising capital) are being made when deemed appropriate. For example, the average capital raising target for the current and last two financial years (i.e., 2003/04, 2004/05 and 2005/06) is $18.3m. Hence, as the programme progresses, targets can be adjusted to match more accurately, the relative supply of and the demand for, capital it in the market.

There are firms that do not complete all stages of the programme, hence exit before signing a mandate to raise capital. This can be seen as a lack of success of the programme, in that a firm exiting may not have improved their investment ready capability. However, exits do not necessarily mean failure, as firms may have enhanced their investment ready capability as a result of participating in the programme. For example, the two firms interviewed in this review that exited the programme were confident that they could go and pursue other opportunities for growing their business, independent of Escalator (which they successfully did).

The success of the delivery of the brokering component of the programme is relative to the investment ready understanding that programme participants have. The information and skills provided by brokers to participants varies contingent upon how investment ready participants are. If participants have a sound generic understanding of investment ready issues *prior* to joining Escalator, then the brokers job is made easier during the current position analysis and business needs assessment stages (i.e., brokers do not have to focus on improving a client's basic investment readiness understanding). Additionally, if a greater number of brokers were associated with the programme, then they would be able to better represent the firms from their respective and varied sectors. This would also ensure greater broker representation from the market.

6.2 To what extent has the programme improved awareness, knowledge and understanding of the capital raising process?

6.2.1 Case-study participants

Five companies (that successfully raised capital) were interviewed for the case study. The programme did increase four of these companies understanding of the capital raising process. The investment ready training received, 'hands-on' experience of raising capital (i.e., being involved in the entire process) and working with the brokers all contributed positively to these companies capital raising knowledge and awareness. The programme confirmed for another company that they were indeed investment ready, given that this company already had a good understanding of the capital raising process.

One company felt that the programme did not contribute to an improved understanding of the capital raising process. The company already had a good understanding of how to raise capital and the information received at the current position analysis and business needs assessment stages did not really assist them (although they did acknowledge that this information may be valuable in assisting other companies).

6.2.2 Non-mandated participants

Two companies that chose not to go onto the brokering stage of the programme (i.e., non-mandated clients) were interviewed. One of the non-mandated participants said the programme did assist them to streamline their business plan in terms of being able to re-pitch it to investors. The company was open-minded about the advice they received. However, the other company felt that Escalator did not address their major need when they applied to the programme, which was to add value to the company in the coming six months. The current position analysis and business needs assessment stages did not inform this company of anything that they already did not know.

6.2.3 Online survey participants

Participants who completed the current position analysis and business needs analysis stages of the programme improved their understanding of how to raise capital (i.e., 69.1%). This was primarily in the area of understanding the requirements of investors (69.1%), followed by an improved understanding of the risks involved with equity and non-equity capital raising (32.7%) and non-equity capital (30.9%).

6.2.4 Stakeholders

Contracted providers

The four brokers who deliver the Escalator service, all agreed that they have seen an improvement in their clients understanding (at all stages of the programme) of what it takes to become investment ready and use capital. Having an independent and objective assessment often gives companies a ‘reality check’ and thus, gives them a wider perspective to consider (especially in terms of management and governance issues).

Other benefits to companies have been the creation of referral networks, an increased awareness of their overall competitive advantage, and generally, an increased understanding of what options are available to them in moving their business forward.

The brokers have observed a difference in the skills and understanding of companies participating in the programme compared to the capabilities and performance of firms that they interact with who have not participated in the programme. Non-participant companies are more investment ready than the companies on the programme, and therefore are capable of raising capital themselves. However, Escalator participants do increase their business/investment ready capability as a result of participating on the programme.

EDANZ

From the perspective of EDANZ, companies coming through the programme have a better understanding of the capital raising environment and the options available to them, compared to companies EDANZ worked with five years ago. As businesses progress through the programme, their level of understanding of the investment ready process increases, facilitated by the workshops and augmented by working directly with the brokers. Working directly with brokers develops company's capabilities to raise capital.

There is also a greater understanding among companies (prior to participating in Escalator) in certain sectors (e.g., ICT) compared to companies in other sectors (e.g., hospitality). However, given this increase in understanding, there is still an issue around poor documentation (e.g., business plans) being provided by companies.

NZTE

The programme has been effective in preparing SMEs to become investment ready. For example, SMEs are now being seen as good prospects by banks for debt finance after attending Escalator, whereas prior to attending, banks and other lending institutions wouldn't consider their case at all. It may be possible that debt finance is more appropriate in certain cases for firms than equity finance.

Discussion: Improved awareness, knowledge and understanding of the capital raising process

The benefits from the programme are relative. From the participants interviewed for this review, the programme was beneficial in increasing their awareness of raising capital. This view was reiterated by the stakeholders. However, it is to be expected that not all firms will benefit, simply because there will be firms that are more investment ready than others utilising the Escalator service.

6.3 To what extent has the programme:

- Improved the supply of and accessibility to, information, skills and training and deal brokering services in the wider market?
- Encouraged contestability and capability building within the market for supply of similar services

The perception of the angel investors and organisations providing similar services in the market who were interviewed about the supply in the market place of services such as Escalator were mixed. Some thought that there was a gap in the market, whereas other did not think there was a gap in the market. These issues are addressed separately below.

6.3.1 Gap in the market

There was a perception that there was a gap in the market place for training and brokering services. This was because the private sector was unwilling to meet these training and brokering needs because they do not get paid for these services and SMEs were unable to afford their services. Additionally, market providers were not interested in becoming involved in a company for the long term.

There was also a perception that there was a demand in the market place for a service such as Escalator. However, the angel investors and market providers interviewed questioned how the service was delivered. For example, was a government subsidy for a service such as Escalator the best way of facilitating SME growth? It was suggested that the private sector or even the SME itself should receive the subsidy as this would stimulate the market to provide more of these types of services. Additionally, it was suggested by market providers that other subsidies (e.g., tax breaks) be given to investors to reduce their risk and hence, encourage investment in SMEs associated with the Escalator programme.

It was also mentioned that there was a lot of product 'clutter' in the market place (i.e., government programmes) for companies seeking these types of services and this needed to be addressed by the government (i.e., consolidate resources and expertise so investors and companies would have clarity about the programmes available to them that were specifically designed for developing New Zealand businesses).

The need for a programme such as Escalator was augmented by the view that it was rare to find companies that were investment ready. New Zealand companies generally were globally naïve, hence needed to be challenged and assisted to become globally competitive. This was because there was a lack of management expertise in top New Zealand companies.

Contracted providers

The four brokers who deliver the Escalator service, all agreed that there was a gap in the market place for the services that Escalator delivers. Escalator facilitates the matching of companies and investors (i.e., a type of mediation service) as there is a lot of mis-matching in the market place between companies and investors. The private sector usually would not engage in training and brokering services as there is very little return for them, relative to the time spent on deal brokering.

The subsidy provided by the government ensures that the contracted providers can continue to provide this service. However, long-term the market should be encouraged to provide this type of service.

EDANZ

EDANZ, which oversees the programme, also suggested that there was a gap in the market and hence, there was a need for the type of training and brokering services offered by Escalator. Escalator is the only full-time information, training and brokering service operating in the market. There is not same quality of service being offered in the market. In the market place brokering is available but in a lot of cases it is not done on a full-time basis. Rather, it is ad hoc, performed by lawyers or accountants when and where required. Mason and Harrison (2002) have found that equity deals have collapsed through the use of inappropriate advisors (e.g., legal advisors) because these advisors do not have experience in raising equity funding. If Escalator didn't utilize (i.e., pay for) the services of brokers in this space, then brokers wouldn't do this type of work, as it wouldn't be profitable for them. Thus, Escalator is filling a gap in the market for information, training and brokering services, as it is a combined service delivery.

However, time could be made available within the programme where individual assistance is given by brokers to companies. Such assistance would effectively meet companies' investment ready needs and depends upon the level of funding available in the programme for this to occur. For example, if clients were more investment ready, then less time could be spent by brokers at the current position analysis stage, hence more funding could be provided for latter stages of the programme. If clients leave the programme then they need to have a clear understanding of what their next step is in growing their business.

Angel investors

The development of a business angel network is seen as a means of bridging the gap between the supply of capital by investors and the demand for it by SMEs (Mason & Harrison, 2001; 1997). Angel investors see their role in the market as filling a gap in the seed-funding space in the New Zealand. According to angel investors, this space in New Zealand is immature. Angels provide investment and management expertise to improve a SMEs business capability, hence fill a vital role in providing investment for SMEs, investment that otherwise wouldn't come from venture capitalists in this space. Angel investors support government intervention in helping to facilitate the development of a national business angel network. For example, the Seed Co-Investment Fund (SCIF: see 7.3.4), which assists the development of the market for early-stage finance, is a specific government intervention that will facilitate the development of a national business angel network. SCIF is implemented by New Zealand Venture Investment Fund Ltd (NZ VIF Ltd), committing $40m of capital over five to six years. Thus, it is feasible that NZ VIF Ltd (through SCIF) could be responsible for overseeing the development of such a network in connection with other similar NZTE programmes (e.g., Escalator).

The angel investors interviewed suggested that the Securities Act, which regulates the offers of securities to the public for subscription by requiring the disclosure of information to potential investors, needed to be revised in terms of the criteria specifying who is an eligible investor. A lot of angel investors do not meet these criteria, hence the Securities Act makes it difficult for smaller investors to invest money into SMEs. Angel investors thought the government could work towards removing regulatory barriers to investment.

Angel investors do consider investing in companies that have gone through the Escalator programme. This is because the programme is building up its reputation in the market as a robust government scheme due to it being run by professionals who objectively critique companies. Thus, the services provided by the programme enable angel investors to make an assessment of a company's investment readiness and hence, decide whether to invest or not. However, angel investors do like to make their own assessments of a company rather than just rely on recommendations from the brokers who can at times be seen as slick marketers, and hence could, according to one angel investor, "sell lipstick on a pig".

6.3.2 No gap in the market

There was a perception, although not widespread among the angel investors and market providers interviewed that there was not a gap in the market for training and brokering services. There were companies, some of them niche companies, providing similar services in the market place. It was thought that these services might have taken up by companies that had been through the Escalator programme but who were dissatisfied with the programme. A comment was also made as to whether any of these market services were helping companies effectively and quickly enough to enable their businesses to grow.

Discussion: Improved supply of and accessibility to information, skills, training and deal brokering services in the wider market; encouraging contestability within the market for the supply of similar services.

The market will not provide a training and brokering service unless it is profitable. Thus, Escalator is addressing a market failure problem, as firms that need this type of service do not have the money to pay for it and lack capital raising skills, and investment ready awareness.

Escalator is providing a 'place to meet' for investors and entrepreneurs, hence investors are putting capital into firms coming through the programme as Escalator is reputable in investor's eyes. The development of a national business angel network, working side by side with Escalator could also be very beneficial in bringing together the supply of, and demand for, capital. By linking Escalator with such a network increases the likelihood of further bringing together investors and entrepreneurs. The government could assist with the development of such a network (e.g., infrastructure costs, such as administration and removing barriers to investment, such as regulatory issues).

Education of the suppliers of capital in the market about the benefits of investment in SMEs and entrepreneurs is only now starting to take place. Hence, it will require more time before a full understanding in the market occurs (which can be facilitated by strategic government intervention). When this understanding occurs within the market (specifically, the angel investors, who primarily invest in SMEs) an assessment will be able to be made by the government about whether the market is self sustaining in providing a brokering and training service, and therefore, whether government can withdraw from this space.

6.4 To what extent have participants raised capital upon completion of the programme?

The responses of the five companies interviewed varied when asked this question.

Two companies said they would be able to raise capital or have raised capital since completing Escalator. These companies attributed this ability to the capital raising skills learnt on the programme, which prepared them well for future business endeavours. However, one of these companies also attributed their ability to raise capital to the skills that their board of directors possessed.

One company had improved their capital raising ability through attending Escalator but had yet to engage in raising further capital, as technically, they were still on the programme, given that they were waiting for the second tranche of funding to be delivered.

One company already had a good understanding of how to raise capital and could have gone and raised it themselves. However, they choose to utilize the Escalator programme as they didn't have the time and resources spare to do it themselves. They have not needed to raise capital since completing Escalator because their current turnover is higher than expected.

The one non-equity company interviewed has tried to raise further capital since leaving the programme, but has been unsuccessful. The skills learnt on Escalator have not been of any use to them since leaving the programme.

6.5 To what extent would the observed outcomes have been achieved in the absence of the programme?

Companies participating in the programme would be challenged to be able to obtain the same type of service in the market, for two reasons. Firstly, these companies do not have the money to pay for these services and secondly, the private sector does not provide this type of equity-brokering service[17] as it is not profitable (e.g., constraints to market entry, such as due-diligence, legal and infrastructure costs).

Discussion: Participants raising capital upon completion of the programme; observed outcomes achieved in the absence of the programme.

Escalator enhances the possibility of SMEs to raise capital within the market to grow their businesses. Without the assistance provided by the programme (i.e., investment ready capability building and the assistance provided by the brokers to raise capital) the majority of participating SMEs would not have been able to successfully raise capital.

The assistance provided by Escalator highlights the issue of investment ready capability (i.e., the lack of it) of companies utilising the service. There is a need for up-skilling companies to be able to get them to a point of being able to confidently go to the market to raise capital. However, the form of how SMEs investment readiness can be further enhanced needs to be thought about so as to determine the level of intervention (if any) the government will provide.

[17] See Table 1 (Section 1.1)

7. Findings: Programme linkages

7.1 Motivations surrounding involvement in Escalator

7.1.1 Case-study participants

Of the five companies that are case studied, four participated in the programme primarily to raise capital. However, one of the four did not receive satisfactory service from their broker, hence went onto to secure a strategic partnership for themselves, without assistance from the programme.

One company joined the programme to learn about business processes and explore their options without being committed to the suppliers of that information.

7.1.2 Online survey participants

Fifty-five percent of these participants made general comments about the programme. Fifteen percent of these participants responded positively. Escalator provided a good opportunity to understand the capital raising process and it was enjoyable. It was thought that there should be more opportunities for companies to re-attend so as to get more guidance and understanding on how to run a business. Respondents also thought that other services run by NZTE were helpful and that there should be better screening of companies getting onto the programme, with more advice being provided in the workshops on investment readiness (e.g., the different options for negotiating equity, debt etc, as well as the use of preferential shares). It was also thought that the brokers could be financed more to enable them to give more assistance to companies (e.g., business mentoring, financial, IP and legal planning).

7.2 Barriers surrounding involvement in Escalator

7.2.1 Case-study participants

Barriers and frustrations encountered by the case study participants on the programme relate to issues of financial forecasting and the time spent with the broker. One company found it challenging to prepare a financial forecast and generate a good sales plan (i.e., converting a largely theoretical, internal document into a sales plan).

The broker working for one company was very busy, hence the company felt that there were times when they had a lot of input from the broker and there were times when contact was very limited. So managing this variable amount of contact was challenging, as there were times when it was not clear what the next steps were that should be taken by the company. Perceptions from another company seeking to raise capital were that their broker was unable to raise capital for them or set up a strategic partnership. This company, through their own resources set up a strategic partnership without assistance from the broker.

7.2.2 Non-mandated participants

Two companies were interviewed that passed the current position analysis and business needs assessment stages of the programme, but who choose not to go onto the brokering stage to mandate a deal.

One of the companies did not experience any major frustrations as they progressed through the programme. However, the other company experienced frustration with the conditions of the mandate letter (i.e., it restricted free negotiation with client under the Escalator programme). Upon obtaining legal advice the company decided not to progress onto the brokering stage of the programme.

7.2.3 Contracted providers

There were a number of reasons for why the four brokers thought clients disengaged from the programme. One of the most prevalent reasons was that companies did not complete the current position analysis or the business needs assessment stages of the programme. The brokers thought this was primarily due to a lack of understanding of business structure and what was required to facilitate growth. In some cases, companies exited the programme as they did not want to give up control to other parties (i.e., they were equity averse). However, there was also the view that companies who did complete the current position analysis and the business needs assessment stages, left the programme as they felt confident they could go and raise capital themselves or were going to pursue other options on their own (which may not necessarily involve capital raising). For example, the two companies interviewed for this review that choose not to broker a deal using Escalator did go on and successfully raise capital.

7.2.4 Online survey participants

Fifty-five percent of these participants made general comments about the programme. Eighty-five percent responded negatively. These comments referred to the lack of time that was able to be spent with the broker, which effected their motivation for continuing on with the programme. Participants also commented that they received no help (after being told to go away and prepare further information) on how to prepare that information. There was a general perception that the programme was a ‘gravy train’ for brokers, who should be paid on the results that they deliver (which, according to some companies, were not being delivered) rather than being guaranteed payment by the government. Participants also felt that the brokers did not understand their business and therefore, could not assist them with advice to further grow their business.

Discussion: Motivations and barriers surrounding involvement in Escalator.

Programme participants primarily joined Escalator to raise capital. Additionally, there were benefits of enhancing investment readiness capability, which in some cases, saw companies exiting from the programme to go and successfully raise capital privately. These types of exits should be seen as a success of the programme as it indicates investment readiness capability. Exits at earlier stages of the programme (e.g., current position analysis and business needs assessment) have not been perceived by participants as being beneficial. This may be due to a mis-match of expectation on behalf of the participant about what the broker is able to deliver at these stages of the programme. Whilst there was dissatisfaction from participants about the quality of the brokers service, comments from brokers suggested that a lot of time was spent up-skilling or enhancing basic investment readiness capability of participants during these early programme stages. Thus, it appears that there is a lack of understanding between participants and brokers about what each others role is. To alleviate this mis-understanding it is advisable that programme participants have some generic understanding of what it means to be investment ready prior to formally being accepted onto the programme (i.e., the initial assessment should ensure that companies do have this generic understanding before being accepted and conducting, in the first instance, a current position analysis).

The Investment Ready Guide on the Escalator website www.escalator.co.nz specifies a checklist of investment ready criteria that a firm wanting to attract investment should address. For example, a firm should have a clear strategic plan, growth potential, intellectual property secured and listed, and an exit strategy. The brokers interviewed for this review suggested that the ultimate criteria of whether a firm is investment ready, is whether capital is invested into the firm. In some cases, a firm may have completed all the requirements on the Investment Ready Guide checklist, except that there may be no compatibility between the investor and the entrepreneur. Hence, the investor will not invest. The brokers also suggested that it is extremely rare to find a firm that meets all the Investment Ready Guide criteria. Thus, whilst it is advisable that programme participants are investment ready, it is acknowledged that being 'investment ready' is entirely relative to the firm and the investor's perception of that firm's investment ready capability.

A generic understanding by participants of what it takes to be investment ready should reduce the tensions encountered between brokers and participants. Hence, the investment ready criteria in the Investment Ready Guide can be taught during the current position analysis and business needs assessment stages by the broker *without* the broker having to educate participants on generic investment ready issues.

7.3 What are the links between Escalator and other similar government programmes?

There are NZTE programmes that are delivering (as part of their syllabus) similar services as the Escalator programme. These are outlined below.

7.3.1 The Enterprise Training Programme

The programme delivers training services (both group and one-on-one) to SME owners and start-up entrepreneurs. The services are designed to improve management capability to enable businesses to more effectively and efficiently manage their business. Seminars, courses and workshops are delivered annually by NZTE on a contract basis. Training is delivered in six broad subject areas: business planning, marketing, finance, business systems, managing resources and exporting. An investment ready training component is also provided, through two workshops and a follow-up coaching session. Seven modules are taught: understanding the capital raising process; understanding what investors look for; preparing a business case; valuation; legal implications of raising funds; finding an investor, and understanding the deal-making process.

7.3.2 The Enterprise Development Grant (EDG)

This fund provides assistance to innovative firms and entrepreneurs to build business capability by enabling them to employ expertise and advice. Funding is given for 50% of the total costs up to a maximum of $20,000 per applicant per annum. Applicants are able to:

Engage the services of a business mentor for a period of time

Undertake more advanced management and technology based training

Employ specific external advice and expertise in a management area

Undertake international market development activities

7.3.3 Connect New Zealand

This programme is a collaboration between Connect Auckland, Connect Canterbury and NZTE to stimulate inter-regional collaboration and deliver national level events to enable the growth of technology based firms in international markets and enhance technology commercialization.

Connect Auckland

Connect Auckland helps technology businesses become investor and market-ready by providing expertise to evaluate a company's current position so as to develop strategies to help the business move forward.

Connect Canterbury

Connect Canterbury is a joint initiative of NZTE and the Canterbury Development Corporation. It connects researchers to developers, developers to industry, local companies to national and international companies, and local companies to the people, capital and channels they need to access global markets.

Connect Auckland and Connect Canterbury use the 'Springboard' approach to accelerate a companies potential growth. Springboard brings together seasoned investors and entrepreneurs to advise companies on specific business issues relevant to the company's growth. Figure 5 outlines the Springboard approach.

Application
Companies apply and are screened for suitability. A Springboard case manager is assigned.

Information Pack
The case manager and company prepare an information pack for the Expert Roundtable.

Expert Roundtable
The company presents to the Expert Roundtable with assesses the company's potential, identifies issues and opportunities. The Roundtable recommends ways to accelerate the company's growth.

Action Plan
The case manager and company work on the action plan. The case manager refers the company to additional resources using Connect's extensive local and international networks.

Presentation
The company produces a sharp, targeted presentation for prospective financial and channel partners.

The company accesses potential partners through Connect's networks and local and national Springboard events.

Figure 5: The Springboard approach

In addition, workshops are held on various business topics (e.g., making successful investor pitches); meetings with entrepreneurs occur where information on successful technology businesses is shared and technology presentations are given from experts in their respective technological fields.

Connect Auckland and Connect Canterbury are aware of the Escalator programme and do work in conjunction with it.

7.3.4 Seed Co-Investment Fund (SCIF)

The SCIF was established by Cabinet in May 2005[18]. The fund is implemented by New Zealand Venture Investment Fund Ltd (NZ VIF Ltd), a Crown entity company. The Crown

[18] See EDC Min (05) 11/1 and EDC (05) 103.

Company Monitoring Advisory Unit (CCMAU) is responsible for ownership monitoring. The fund is intended to support the development of early-stage capital investment markets. The programme will operate for a period of twelve years in total, with an expected investment period of five to six years.

The programme will commit up to $40m capital over five to six years with the potential over this period to support around 13 pre-qualified partners to leverage $100m total investment around 160 firms.

Discussion: Programme linkages

The Escalator programme operates independently from other NZTE programmes. However, there are linkages to other NZTE programmes that could be strengthened to enhance the effectiveness of Escalator. In building a stronger relationship between Escalator and other NZTE programmes, the following issues need to be addressed:

- The issue of participants having a greater understanding of what it takes to become investment ready is being addressed by the ETP. Not all firms that participate in Escalator have participated in the ETP. Thus, it may be prudent to refer firms (that want to participate in Escalator) onto the ETP *before* enrolling in Escalator, so as to increase their investment readiness, thereby alleviating the problem encountered by brokers of having to spend time on investment ready activities rather than solely focusing on capital raising activities. Other services or programmes could also be used by potential Escalator participants. For example, the EDG could enhance a company's investment readiness whilst participating in Escalator (as is the case with Connect New Zealand). Additionally, the SCIF could also be associated with the Escalator programme in bringing together angel investors and SMEs.

- Ensuring that companies that want to participate in the Escalator programme are investment ready is contingent upon more stringent selection criteria. Thus, the initial assessment component of the programme needs to be more robust (e.g., stricter entry guidelines and recording practices). As part of enhancing the robustness of the initial assessment component, more use could be made of EDAs. For example, EDAs could use entry guidelines to assess whether companies in their region are eligible to participate in Escalator or whether these companies need to attend other programmes to enhance their investment ready capability before re-applying to Escalator.

However, it must also be recognised that there are companies that may be investment ready (and therefore, do not need to attend preliminary programmes). Thus, these companies need only demonstrate (at the more robust initial assessment stage) that they are indeed investment ready.

8. Conclusions and Recommendations

The overall conclusion of this evaluation is that the programme is meeting its policy objective of assisting business growth by providing innovative firms and entrepreneurs with information, skills and assistance to become investment ready and to potentially raise capital. However, the way in which the programme is currently being implemented needs to be assessed to ensure policy objectives can continue to be met efficiently.

8.1 Conclusions

8.1.1 Effectiveness conclusions

This evaluation provided insights on the effectiveness of the programme at improving participant companies' investment readiness and their potentiality to raise capital.

- Companies, in some cases, are benefiting from the training and brokering service provided by Escalator. However, there are also companies who have not benefited from the service.

  i. Benefits have been in successfully raising capital and improving awareness and understanding of the capital raising/investment ready process.

- Escalator appears to be addressing a gap in the market for a combined training and brokering service. SMEs cannot afford to pay for these services, hence the market does not support this type of service as it is not profitable, even though there is an increasing awareness of the programme in the market. Future evaluations may be able to provide further evidence that this gap is being addressed and therefore, address the issue of when it would be feasible for the government to reduce subsidisation of this service.

8.1.2 Operational conclusions

- The programme is meeting its operational targets (i.e., client participation and workshops delivered). These targets should continue to be assessed annually to determine if they are appropriate, relative to the current trends of supply of and demand for, capital in the market. This especially applies to capital raising targets (e.g., in the first seven months of 2005/06, $14.275m has been raised, hence the target of $15m appears appropriate[19]).

- The development of a business angel network would enhance the effectiveness of Escalator as angel investors are an important link in the equity chain for providing finance to SMEs. Angel investors represent the market and by investing in companies that have participated in Escalator, signify a market acceptance of this type of service. When education in the market occurs as to the value of SME investment, government will be able to cease providing a training and brokering service. However, in the interim, a realistic and pragmatic approach to take is to have NZ VIF Ltd, which implements SCIF, engage in the process of developing this network.

[19] As of March 20th, 2006, $16.275m in capital had been raised.

- The efficiency of the delivery of the brokering services is contingent upon a mis-match between programme clients expectations and what the brokers deliver.

    i. Clients at the current position analysis and business needs assessment stages appear to have erroneous views about what services are delivered to them and the amount of work required by them to meet stage criteria.

    ii. Brokers reported that the time spent with clients at the current position analysis stage often exceeded contractual requirements (i.e., 3 hours). Thus, more time was spent by them up-skilling clients on generic investment ready issues.

8.2 Recommendations

The following recommendations suggest that a more integrated approach is required in implementing Escalator so as to maximise its efficiency and effectiveness.

1. The programme should be continued for a further three years, with some modifications to the scope of the scheme. The modifications are set out below for consideration and action by NZTE.

    i. A more stringent selection criteria to obtain entry into the Escalator programme. Companies entering the programme do not have the pre-requisite understanding of what is required in raising capital and the capability to do so. Thus, a more stringent selection criteria would ensure that this problem is alleviated.

    In determining whether companies have this pre-requisite understanding, an improved process of recording the criteria by which companies are accepted or rejected onto the programme by the contracted provider that administers the programme is required.

    ii. A more integrated approach with NZTE's Enterprise Training Programme and other NZTE programmes that enhance a company's investment readiness.

    The generic investment ready proficiency of companies entering the programme is variable. If this proficiency can be developed to a certain stage through other NZTE programmes, closely aligned with Escalator and its objectives, then this should reduce the disparity between client expectations and broker deliverables. As a consequence of this, brokers during the current position analysis and business needs assessment stages will be able to focus on preparing companies to ultimately raise capital, without having to educate them on generic investment ready issues.

    iii. Market the programme more extensively.

    Representation from smaller regions, if possible, could be increased. This could be done through making more effective use of local EDAs. EDAs can promote Escalator through bringing together local commerce chambers, investors and SMEs together (e.g., having regular capability building workshops) and act as a filter for making initial assessments of companies wanting to join Escalator. For example, NZTE could provide the EDA with a standard checklist of certain criteria that must be met if a company wants to participate in the programme. If these criteria are not met, the EDA can advise the company of other options available to them, both locally and nationally.

a. That NZTE continue to contract out brokering services.

   The market is not yet ready to support a training and brokering service. In continuing this service, NZTE should that brokers demonstrate their excellence in delivering brokering services through the programmes current monitoring processes that are delivered by the contracted provider.

b. Expand the number of brokers contracted, so as to ensure wider representation from the market. There has been confusion for clients about broker deliverables. This confusion needs to be reduced to ensure that both brokers and programme clients understand what is required from each of them by Escalator. This can be done by expanding the pool of contractors to provide a more varied regional and sector-experience spread. For example, the Approved Partners Scheme (APS) is a pilot programme designed to increase the number of contractors that are able to collaborate on deals in the Escalator programme. Thus, it is feasible for NZTE to assess whether this pilot could be useful in implementing this recommendation.

2. A broad policy review should be undertaken of the capital market for SME equity to ensure that the various policies that directly or indirectly seek to influence its development (such as SCIF, Enterprise Training and Escalator are well aligned) and that compliance costs (such as Securities act requirements) remain appropriate.

3. Escalator should be fully reviewed by June 2009 to measure impact and recommend on scheme refocusing in the light of current market conditions at that time.

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10. Appendices

10.1 Case study interview questions

1. Prior to participating in the Escalator programme, did you explore other options to finance your business?
    - If so, what options were these?
2. How did you find out about Escalator?
    - Did you have any preconceptions about what the programme delivered?
3. Why did you apply to the programme (i.e., what specifically were your needs)?
4. Why did you continue onto the brokering stage of the service?
    - What were the barriers you encountered (e.g., frustrations, etc) as you progressed through the programme?
5. In obtaining capital, what were the consequences resulting from this, in terms of business structure?
    - What were the benefits to your business that resulted from the capital raised?
6. Do you think that your business would have raised capital without the assistance of the programme? Why? Why not?
7. To what extent has your understanding of the equity capital raising processed improved since you participated in the Escalator programme?
    - To what extent do you attribute this improvement to the Escalator programme?
8. Since completing Escalator, have you needed to explore capital raising options and if so, what have you explored?
    - Have these been successful?
    - Did you use an Escalator broker?
9. What are the skills that you learnt in Escalator that you have applied/implemented since completing Escalator?
10. Do you have any comments on how the Escalator services and model could be enhanced?

10.2 Non-mandated client interview questions

1. Prior to participating in the Escalator programme, did you explore other avenues for raising finance?
2. How did you find out about Escalator?
3. Why did you apply to the programme (i.e., what specifically were your needs)?
4. Why didn't you continue onto the brokering stage of the service?
5. What were the barriers you encountered (e.g., frustrations etc) as you progressed through the programme?
6. Did the Escalator programme assist you in better understanding how to improve your business investment readiness?
7. Since leaving Escalator (where you were offered to mandate a deal) have you raised further capital?
    - Have these been successful (i.e., how did you do it – broker, skills learnt in Escalator etc)?
8. Can you suggest any improvement to the programme?

10.3 Online survey questions

1. How did you first found out about Escalator?

2. Why did you apply to the Escalator programme?

3. Prior to participating in the Escalator programme, did you explore other options to raise capital?

4. What were these options (please select all relevant options)

5. Please indicate which broker you dealt with?

6. How satisfied were you with the service provided by your broker?

   - Very satisfied
   - Satisfied
   - Neither satisfied or dissatisfied
   - Dissatisfied
   - Very dissatisfied

7. We understand that your firm received an assessment of your business needs through the Escalator programme, but did not progress further. Please indicate why this was the case (please select all relevant options).

   - We were not offered any further assistance under the programme
   - We decided to seek different forms of finance (e.g., debt)
   - We had the opportunity to raise capital outside of the programme (e.g., angel investors)
   - We achieved our objective of understanding capital raising and making our business investment ready
   - We needed to seek further information (e.g., business planning, marketing, financial forecasting etc.) after being advised by our broker and then to re-enter the programme at a later date
   - Other (please specify)

8. Has your understanding of raising capital improved as a result of your participation in the Escalator programme?

   - Yes
   - No

9. How has your understanding of the raising capital process improved through participating in Escalator? (please select all relevant options).

- An improved understanding of the requirement of investors
- An improved understanding of the non-equity (i.e., banks, shareholders, family/friends) capital raising process
- An improved understanding of the risks involved with both equity and non-equity capital raising
- Other (please specify)

10. Did your business participate in a group training workshop through the Escalator programme?
    - Yes
    - No

11. Please indicate the extent to which you agree with the following:
    - The workshop complemented the specific advice my firm received from our Escalator broker
    - The workshop content was relevant to my business's needs
    - Networking within the workshops and learning from other firms experiences was more valuable than the content presented in the workshop
    - The specific expert advice received from the Escalator broker was more valuable than the content presented in the workshop

12. Can you attribute any of the following to your participation in the Escalator programme? (please select all relevant options)
    - My business has successfully raised non-equity capital (i.e., banks, shareholders, family/friends)
    - My business has successfully raised business capital
    - Use of business mentors
    - Establishment of new networking relationships
    - Expansion of company (i.e., increase in turnover, exports, marketing distribution etc)
    - Strategic partnership
    - IP agreement
    - Other (please specify)

13. Do you have any comments relating to how Escalator services could be improved?

10.4 Market provider interview questions

1. What are the key services your company provides and to whom?
2. What are the typical needs of your client base?
3. Profile: demographics; anything else about them
4. Have the needs of your clients changed over time (e.g. brokering vs. training)?
5. Do you think that there is a gap in the market for training and brokering services required by SMEs and entrepreneurs?
    - If so, what?
    - Why is it not being filled?
6. Are you aware of the Escalator programme?
    - If YES, can you tell me what you know of its strengths and weaknesses?
7. What do you consider the point of difference (if any) between your company and activities and the Escalator programme?
    - Client profile (do they possess a high degree of business expertise or do they require training?)
8. Do you think there is a need for a programme such as Escalator?
9. What is the impact (if any) of Escalator upon the market?
10. If Escalator didn't exist, do you think the market would be able and willing to meet the needs of SMEs and entrepreneurs which Escalator provides for?

10.5 Angel investor interview questions

1. What are the factors that influence your decision to invest in any particular company?

2. What do you know about the Escalator programme – its strengths and weaknesses; what can be improved?

3. What do you think the role of Escalator is in the market?

4. What is the role of angel investors in the market?

5. Is there a role for government in the facilitation of a business angel network in association with Escalator?

6. What would be the key indicators of success of an investment brokering programme?

7. Is there a need for a programme like Escalator that targets training and brokering services?

8. When seeking investment opportunities, would you take into consideration the Escalator programme (i.e., potential investment in the companies involved in the programme)?

9. Is there a niche for the Escalator service?

10.6 EDANZ interview questions

1. What is your role in the Escalator programme?

2. Can you outline your involvement with companies as they go through the programme?

3. How do companies find out about Escalator and how do they enter the programme?

   - What are the criteria you use for deciding which companies are suitable for Escalator?

4. How well does Escalator fit with Investment Ready Training? (i.e., is there a smooth transition from Investment Ready to Escalator?)

5. Is there a need for a programme such as Escalator for getting firms investment ready?

   - If so, do you think that firms individual needs are able to be effectively met by an investment ready programme?

6. What impact does the programme have on investment readiness (e.g., skills, awareness etc…)?

   - What impact does the programme have on management capability?

7. What do you consider to be the key indicators of success of Escalator?

8. In the time that you have been involved with Escalator, what are the changes (if any) that you have noticed about the capability of firms in becoming investment ready?

9. What observations can you make about the supply (both quality and quantity) and accessibility to, information, skills, training and deal brokering services in the wider market?

10. Is there a gap in the market for the above mentioned services? (if so, what does it look like, e.g., where is the gap in the market; how big is it etc…)?

    - Is Escalator responding to this gap?

11. Which brokers are better performers and why?

    - How does the Escalator role fit with the core business of the four broker companies?

12. What are the strengths and weaknesses of the Escalator programme?

13. What are the opportunities for improving the programme, either in design or delivery?

14. Do you feel that MED and NZTE provide the support and understanding that is required for Escalator to be effective?

    - If not, where is more support needed?

15. Have I asked you everything you want to say about Escalator (i.e., are there any other areas that you want to comment on)?

10.7 NZTE interview questions

1. Have recommendations from the 2003 evaluation been implemented?

2. What key delivery changes have been made to the programme since December 2003?

   - What effect have these changes had?

3. What are the criteria for selecting Lead Providers?

   - Why did I Grow continue to stay on and not the other providers?

4. How has the content or focus of the programme changed since December 2003?

   - Is the programme responsive to changes in demand from participants?

   - What changes in demand of participants participating in the programme have you seen?

5. Is the programme targeting the right participants and using the right delivery tools (i.e., *content:* e.g., Assessments - Initial, CPA & BNA; Workshops and Brokering)?

6. How does the Escalator programme "fit" with other NZTE programmes (both business development and wider)?

7. How is the programme monitored in terms of:

   - Providers (e.g., capability assessment, course and coaching quality)?

   - Participants (e.g., satisfaction with services received from providers)?

8. Does NZTE offer opportunities for providers to share information on programme delivery, impact, and opportunities for improvement? And if so, what are they?

9. How effective do you consider the current delivery structure to be (for participants)?

10. How effective has the programme been in preparing/improving the investment readiness of SMEs and entrepreneurs (e.g., so that they can go out into the market and raise further capital etc autonomously)?

11. What are the strengths and weaknesses of the Escalator Programme?

12. What are the opportunities for improving the programme, either design or delivery?

10.8 Broker questions

Background

1. What are the differences in capabilities and performance (if any) between firms that participate in the Escalator programme and those that don't?

2. Is the criteria for getting firms investment ready different for those that you see in Escalator compared to those not in Escalator?

Client management process

3. How do you monitor a firm's progress within Escalator?

4. Do you monitor a firm's progress after they have left Escalator?

   - If so, how?

5. As clients progress through the programme, have you noticed an improvement in their investment readiness?

6. In addition to raising capital, what are the other benefits you have seen for companies?

7. What are the reasons why clients disengage from the programme?

Programme processes

8. How effective is each of the assessment, workshop and brokering components of the programme at improving a firm's ability to raise capital?

8a. How effectively do the components work together to improve a firms capability to access capital or to otherwise grow your business?

9. How do you identify the right investor/strategic partner for the particular company concerned?

10. Is there a need for the Escalator programme relative to what else is available in the market?

10a. What gap does it fill?

11. What are the strengths and weaknesses of the programme (e.g., design and delivery)?

12. Is Escalator the right solution to the needs in the market?

12a. If not, what would be your solution?