Small voices ask for big changes...

Improving the innovation funding ecosystem

THE **RAIL INNOVATION** GROUP

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A Snapshot

Innovation is all about considering new ideas and ways of working, and at the Rail Innovation Group we strive to make sure that our work streams reflect this. Our members are micro and SME businesses, who enter the rail supply chain—or try to enter it—by bringing approaches and products to market through the support provided by various (mostly public) funding streams.

This snapshot report is the result of conversations we've had with our members, its purpose is to start a discussion between industry and government/funders.

We strongly believe that future tech can also come from new suppliers to this sector, including start-ups even where they have no track record yet.

Interim Consult looked at publicly available data from Companies House and innovation grant funding over a period of four years for a selection of 45 SMEs and start-ups that received funding in 2018/19. Their research showed that only a handful of the companies showed any real success 4 years later in terms of company value, job creation and securing future investment. The results show an overall negative return on what is a portfolio investment of circa £40 million across the 45 companies. Taking into account the matched funding from the SMEs (not available for this analysis) the total investment could be as high as £60–80 million. This does not include any measure for lost opportunity cost, and overall suggests a systemic issue with the current approach.

The Challenge

Digital innovation is the fast-paced environment where fields such as data science, sensing, digital comms and AI are driving rapid changes in many market sectors. This shift has the potential to have a big impact in rail; however, our insight suggests that innovators struggle to successfully engage with the industry or even fail to realise adoption of market ready products due to technological, organisational, and commercial complexity.

In rail, tech development typically comes from new services or upgraded services, often delivered by a small company that has a track record of supplying to the industry.

Taking a view

The Rail Innovation Group set out to consider some of these issues, speaking to a cohort of our community to explore:

• Why, when funding is welcome and provides the resource necessary to develop and grow a business, many micro and small businesses have not found the 'funding ecosystem' easy to navigate?

• Why funding doesn't necessarily result in new products and processes being brought into the market as expected?

Based on community insight, we believe that the long term success of the funding ecosystem in the UK would be strengthened by:

1. **Government support:** The government could improve the funding ecosystem by overhauling the funding process, as well as providing tax incentives and other measures that encourage investment in and longer term support for startups and innovation.

"It felt like we were at a disadvantage through the application process as the feedback was pretty inconsistent and left us unsure how to improve our engagement with rail funding without committing significant resources—that we don't have—just to prepare a bid."

"It feels like the assessors are scoring the quality of the bid writing rather than the quality of the innovation, perhaps because they don't always understand the product?"

"The way to craft a successful submission almost limits the potential innovation we could offer."

"Once we had our funding it would have been useful to have support to manipulate the (successfully funded product) to be 'market ready', which it wasn't...."

"Despite having been successful with our funding application we didn't have a plan around our route/s to market and/or next steps, and to be honest the project support around that felt completely inadequate."

"There appears to be no clear route for industry purchasing items that have been funded... and I think a complete revamp of the (funding) application process is needed to help address this."

"In our experience funding calls don't align to what the target industry would be willing or able to buy if our outcome is successful...."

2. **Strong entrepreneurial culture**: A strong entrepreneurial culture that encourages risk-taking and innovation is essential for the success of the funding ecosystem.

"The application process doesn't allow for you to learn or work with a customer on the product. It encourages waterfall building that doesn't include market feedback or the opportunity to scale and change the approach... in fact the current system penalises (us) if we modify during delivery to meet the opportunity."

"What would have really helped is some early support to explore possible wider applications of our product."

"The (application) process felt like a tick the box exercise: 1) Fund 2) Follow the reporting process 3) Publicise once 4) Move on...."

3. **Access to talent**: Access to a pool of highly skilled and motivated talent is essential for the success of startups and the funding ecosystem.

"We found out much later that another start-up had been funded to explore a similar product. It would have been great if we could have been considered collaboratively...."

4. **Access to capital**: Access to capital is critical for start-ups to grow and scale.

"In terms of the way funding is calculated and what is included - 70% of base costs led to the project creating a significant loss to us...."

5. **Industry collaboration**: Collaboration between startups, established companies and universities can help to create an ecosystem that encourages innovation, knowledge-sharing and talent development.

"What would have helped is if we could have accessed some mentoring or ad hoc support from relatable organisations."

"There is no real commercial guidance to an SME around how they could approach the next steps."

"There was no discussion with the funding body about exploring possible wider applications of our product, which would have been extremely helpful."

6. **Diversity and inclusion**: A diverse and inclusive funding ecosystem can lead to better decision-making, increased innovation, and improved economic outcomes.

"The questions on EDI are not tailored to SME's – the bar feels unfairly high for a small business, it would be more helpful if we were offered support on our EDI policies going forward...."

7. **Education and training**: Education and training programs that teach entrepreneurship and business skills can help to create a pipeline of talent and support the success of the funding ecosystem.

"There should be true peer review process, which actually provides support from bodies that are used to exploiting/marketing/developing routes to market...."

8. **International outlook**: An international outlook that encourages collaboration with other countries and regions can help to attract global investment, talent and customers.

"Most funding calls seem to encourage a reinvention of the wheel, very few look to develop ideas already explored, including through international collaborations, which I think potentially leads to high failure rates...."

Conclusions and Next Steps

The funding ecosystem plays a critical role in the growth and success of startups and small businesses, and therefore in the overall economic health of the country. However, there are still significant challenges that need to be addressed to ensure equitable and successful funding for entrepreneurs, start ups and micro-businesses, as well as SME's.

We call on funders/the government to take action to support the development of a more inclusive and sustainable funding ecosystems in the following way:

1. To consider whether the current assessment methodology supports commercially responsive innovation

2. To consider the consistency of scoring and transparency of the scoring approach

3. To consider a register of interests or prior product knowledge

4. To engage with industry to reassess how public money is allocated to support wider policy goals.

5. To improve the speed to market and wider adoption

6. To re-evaluate how success is measured, aligning much more to commercial outcomes.

By doing so, we can foster innovation and entrepreneurship, and drive economic growth and social progress for all.

With thanks to all our members for their contributions.
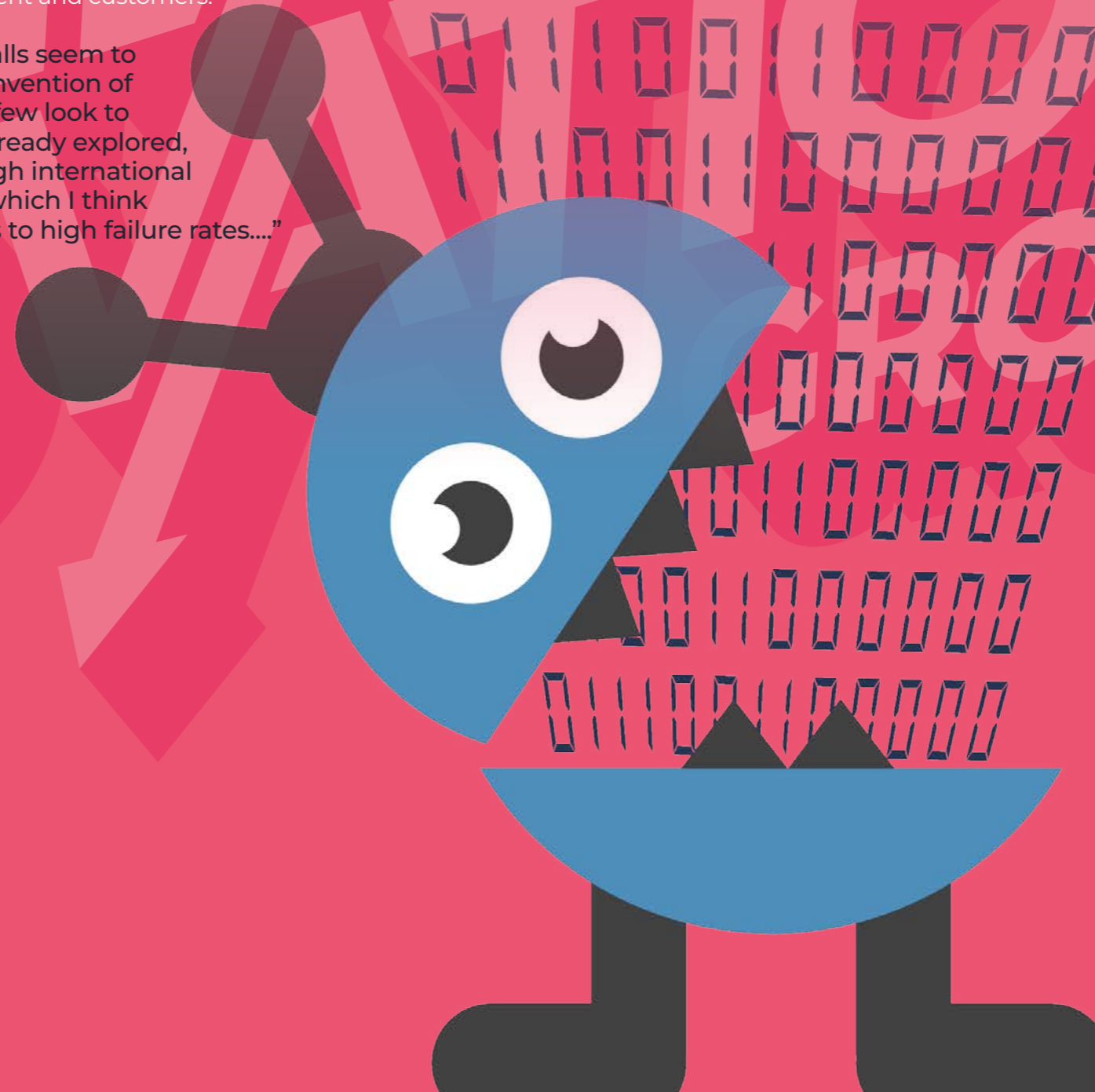
Membership

We invite all those who are committed to our mission to become a Member of the Group. As our profile has grown and we have nurtured our links with stakeholders around the sector, membership is an excellent way to benefit from our network.

Membership benefits includes

Access to our Advisors

We have experts on hand to give advice on:

- building your pitch to an operator.
- rail and station operations.
- equality and diversity requirements.
- building key relationships.
- customer engagement (CRM).

Meet Ups

Priority access to our events and option to host and share what your company has to offer.

Member-only Calls

Join our bimonthly, exclusive call for members to share insight and gain knowledge from your peers.

Promoting our Members

We are often contacted by event organisers and industry stakeholders, keen to hear first-hand from those companies innovating rail. Our Members benefit from these speaking opportunities and conference opportunities.

Mentoring

We can support Members with online guidance or in-person counsel (where geographically appropriate).

Podcasts

We invite Members to join us as guests on our podcast – What Moves Us – to discuss how their business is helping to change how we move.

Publication of Articles

Members are entitled to write original thought pieces to contribute to the Group's aims, we'll publish them on our channels.

Social Media

We'll help to spread positive news of innovation in rail.

Website Listing

Members are featured on our website and appear in our online Innovation.