

# Industry Growth Program Consultation Paper

Australian Investment Council Submission – 31 July 2023

## Questions

### Eligibility of innovative SMEs

**What objective criteria should determine eligible innovative SMEs? For example, annual turnover of \$20 million or less, employee cap and/or net asset cap?**

To reflect the SME market and to support innovation, the Australian Investment Council (**the Council**) considers it is important for the eligibility criteria to cover the whole spectrum of SMEs from early-stage incubators to more established businesses that are seeking to grow through developing new products or technologies.

The Council recommends that eligible criteria for SMEs is defined by the number of employees as 200 or less. This approach is consistent with the Small Business Innovation Research (**SBIR**) and Small Business Technology Transfer (**STTR**) programs in the United States (**US**) which apply a threshold of 500 employees or less (including affiliates) to their eligibility criteria.

The Council has reflected on annual turnover and net asset caps and has concluded these would not be appropriate as they would exclude a considerable proportion of SMEs from participating in the program. Therefore, the potential to achieve the policy intent of the program would be sub-optimal.

**What level of grant matching is appropriate? Should there be a variation for earlier stage Technology Readiness Levels (TRLs) programs and the size of the grant?**

Companies already backed by private capital will not automatically receive funding in subsequent funding rounds. Therefore, it is important that companies with existing funding from established private equity (**PE**) and venture capital (**VC**) firms are not excluded from the grant process.

The advantage of investing in companies that have already been received capital from professional PE and VC investors is a higher level of assurance that those companies have gone through the due diligence process, are being professionally managed and are investible.

The Council's members have also noted that not all sectors within the priority areas outlined in the National Reconstruction Fund have the same institutional investment depth, for example, there are very few investment funds for Medtech and Defence. Further, there are fewer VC firms operating in segments that are pre-revenue and have a high research and development (**R&D**) burden but are rich in IP – for example super conductors and life sciences. Therefore, matched funding may not be relevant in these areas as the funds simply may not exist. Further, the mandates of private investment funds may prohibit investment in a business that is competing with an existing portfolio company. In this context, the company may be a viable investment with leading technologies, but without investment in Australia, will look to other markets for funding such as the United States or without funding, may not be able to grow.

Grant matching should be sufficiently attractive to complement other programs such as the R&D Tax Incentive or allow for matched funding to be eligible for R&D tax claims. Dollar for dollar matching for grants may not reach the desired policy response if it is seen to be less attractive than an R&D Tax claim.



## Eligibility of projects

### **Are there barriers beyond pre-profit stage that the program should consider supporting?**

The challenges include the high level of technical and market risk where, for example, the company may have the expertise and technology, but may not yet have found an optimal product or market fit. This presents a barrier to further growth and without funding, the company is at risk of failure.

Consideration could be given to supporting any area where there is a demonstrable requirement for working capital to fund growth. This could include criteria such as establishing the technical merit and commercial potential of the product, upgrading the product, or the need to find new markets for expansion.

The program should consider the nature of innovation from the perspective that to generate new projects and establish new markets, almost all high growth companies consume cash at a rapid rate both for working capital and R&D. It is the norm rather than the exception for these companies to take a number of years to generate positive cashflows.

However, the Council notes that driving innovation should not mean that the rules encourage companies to avoid making profits in order to get grants.

### **Should Technology Readiness Levels (TRLs) be used to determine eligibility of a project? If so, what are appropriate TRLs for commercialisation and/or early-stage growth phases?**

The industry's experience is that TRLs vary across sectors and are not a reliable measurement of the potential to commercialise a product or technology.

This is because TRLs imply that the researcher understands what product they need to build with that technology, however they do not indicate that the researcher has the knowledge to build a technology or product.

### **How should we determine which projects have the most potential for future growth and market impact?**

People are a key factor in the future growth and market impact of projects and technologies. A strong founding team with the technical ability and knowledge, industry experience, passion, teamwork, and entrepreneurial experience are key qualities that drive innovation.

There is demonstrated strong market demand for the product – it has an excellent market fit, is globally competitive and likely to maintain its competitive profile. The product, service or technology should already or have the ability, or show the ability, to generate a strong competitive advantage buffer.

As a minimum, the company should have at least developed a proof of concept with a Minimal Viable Product.

The request for capital matches the market opportunity for the company which needs to demonstrate an understanding of the Total Addressable Market, Serviceable Addressable Market and Serviceable Obtainable Market.

A company should have the potential to solve a problem that affects a large number of global customers. The project should aim to solve very difficult problems with large potential beneficiaries where the condition being solved is of a critical nature. The greater the potential impact, the greater the market and growth opportunity.



**Should it be necessary that the applicant has the legal ownership, or effective ownership, of the know-how intellectual property or other similar results arising from the project?**

The sectors of focus for the National Reconstruction Fund have different market characteristics and markets. For example, key markets for medical companies are often international. For example, the US represents 50 per cent of the pharmaceutical markets, whereas Australia represents three per cent ([Global Pharmaceutical Industry](#), Mikulic, M., 2020, Statistica.)

In this respect, Australian companies may therefore be structured so key IP is held in the territory that is commercialising the technology noting that this may not be the Australian company applying for the grant.

Taking this into consideration, the Council recommends the criteria focus on the company describing the IP processes in place to ensure they maintain competitive barriers of entry for others to compete and IP arrangements are one of those characteristics.

**Is 'need for funding' (i.e. why applicants are unable to access sufficient funding for the project from other sources) a useful merit criterion for assessing grant applications? If so, how should this be measured?**

The Council considers this is a useful merit criterion and recommends that it should also consider the likelihood of funding for the next stage of commercialisation. For example, it would be beneficial to the program if the grant could leverage investor funding to take the commercialisation to the next stage rather than only fund applications that are without any investor funding.

For very early TRLs, a letter from investors expressing interest should also be considered as a merit criterion. For example, the company may have some accelerator/incubator/venture type funding but requires non-dilutive support to reach the next stage of growth.

Funding is also important to de-risk a business so it can reach its next stage of growth. In the growth stage there is still a huge amount in the business that needs to be de-risked. For example, newer businesses are looking for longer term investments and by de-risking early, there will be more likelihood that more funding will continue.

The program should also consider funding additional programs in companies that have secured PE or VC investment. For example, an additional product or expansion of a product into a new market or in the case of a medical company, another pipeline product. These aspects can be of great benefit to the company by either de-risking a new product line or providing another product in the situation where the first product may fail due to a technical failure.

The Council also notes that many businesses funded by PE are SMEs and these should also be eligible for the Industry Growth Program. For example, there are instances where a PE partner has come on board to enhance innovation and to deploy capability at the upper end of the fund. With many PE funds working on time horizons of as low as three years, co-funding could make a significant difference in assisting the company to reach its full innovation potential and also to attract further funding.

## **Diversity and inclusion**

**What are the potential barriers to accessing the Industry Growth Program?**

We defer to other stakeholders on this question.



**How can we help overcome these barriers to expand the reach of the program?**

Bias training for assessors. Additional incentives for underrepresented groups for commercialisation of innovations.

**Should the program consider more specific merit criteria for traditionally underrepresented groups?**

Different criteria may risk setting-up underrepresented teams for failure. As an alternative approach, the program could provide underrepresented groups with more incentives to engage with the program.

## **Industry partner organisations**

**What core capabilities and resources would be most useful from industry partner organisations to improve commercialisation and early-stage growth performance for participants of this program?**

The key capability is to understand the success factors for small business growth and success. The Council notes the significant growth in the support for new companies through new accelerators, incubators and other startup resources over the past ten years. We recommend the Industry Growth Program plays a role in connecting companies to existing programs to avoid duplication of effort.

The Council believes the Industry Growth Program can play an important and effective role by only funding adviser support where there is a gap in the market. Our members found the local adviser approach from the previous program worked effectively in providing a connecting service and it would be prudent to continue to use this same approach rather than recreate a new network of advisers.

**What services and support should industry partner organisations provide to participants?**

Industry partner organisations could potentially provide access to, or connections with, businesses that can test products (where relevant), provide customer feedback, program governance and grant assessment.

**Are there other skills and expertise that should be represented on the committee?**

Experience in running both successful and unsuccessful startup/SME companies would be an advantage along with experience in funding companies. People with experience in producing new products, technologies and companies would bring value to the committee.

## **Program design to meet intended outcomes**

**What other design elements could be considered to ensure a quality, positive business experience and outcomes?**

We defer to other stakeholders on this question.

**Are the proposed project periods (up to 24 months) reasonable?**

We defer to other stakeholders on this question.

**How should we measure the success of the Industry Growth Program, for the economy and for participating businesses?**

The level of investment in the company post the Industry Growth Program (for low TRL) and revenue growth (for high TRL) as well as the jobs created, both direct and indirect. Measuring the impact on the ecosystem by supporting indirect jobs is often not recorded but is a huge part of R&D – for example, in Medtech where indirect jobs are created in hospitals, universities and in various support services such as bioanalytical labs and manufacturing facilities.



## **Post-grant period reporting obligations**

### **What information would be important to seek during the follow-up (post-grant or post-advice) period?**

We defer to other stakeholders on this question.

### **Over what timeframe should the program follow up with grantees and advise recipients to collect data on their business?**

The Council recommends this is done in 12-month cycles.

### **How can the reporting burden be kept to the minimum required to best support a future evaluation of the program?**

Standardise the collection format across different grant systems.

### **What other opportunities (including those beyond data) could be explored as part of the post-grant period?**

We defer to other stakeholders on this question.

## **Alignment with other initiatives**

### **How can the program complement other university, industry and government initiatives?**

The program would benefit from liaison with growth centres aligned with the National Reconstruction Fund priorities along with Australia's Economic Accelerator program which is supporting university research with a commercialisation focus and may be able to support companies emerging from that program in a coordinated way.

### **How could the program support better connections from industry to universities and entrepreneurial students?**

Make the process of discovering and engaging graduates and researchers with needed skills and expertise easier for SMEs. Potentially a platform like Ribit could be used to provide an easy method to discover and engage students and researchers who want to work with startups and industry. Any funding mechanisms that support this could be applied via that platform.