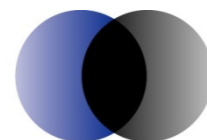


Evaluation of the Commercialising Emerging Technologies (COMET) Program

Executive summary, Findings and
Recommendations

Prepared for the Department of Innovation, Industry,
Science and Research (formerly the Department of
Industry, Tourism and Resources)

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ACIL Tasman

Economics Policy Strategy

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Executive summary

Launched in 1999 and enhanced in 2004, the Commercialising Emerging Technologies (COMET) program is a competitive grants program that assists micro and small businesses to commercialise their innovative goods or services. The program's objectives are to:

- increase Australia's sustainable economic growth through stimulating the successful commercialisation of Australian innovation
- build sustainable and high growth firms by increasing prospects for successful commercialisation of innovations through the attraction of capital and partners.

Tailored support is provided to customers through a network of Business Advisers and third party Service Providers who assist with activities including:

- management development
- engagement of mentors
- strategic and business planning
- market research
- market validity
- intellectual property strategy
- proven technology
- capital raising
- finding partnerships.

The purpose of this evaluation by ACIL Tasman is to assess the appropriateness, efficiency and effectiveness of the program. In the course of the evaluation ACIL Tasman has had extensive consultations with COMET customers, the delivery network (the National Manager and Business Advisers) and other stakeholders, as well as key personnel in the Department of Innovation, Industry, Science and Research, in particular AusIndustry. We have greatly appreciated the input from these officials and the advice provided to ACIL Tasman by the Innovation Australia Board. ACIL Tasman's quantitative analysis has benefited from the data collected and held on the COMET program by AusIndustry.

The following provides a brief summary of the evaluation's assessment of the program.

Appropriateness

- *The objectives of the program continue to be appropriate as they encompass the benefits to the firm and the nation as a whole. Further, they are a response to a verified need that remains today, to improve the small and early stage firms' capacity to commercialise their innovation.*
- *The objectives of the COMET program remain relevant and in ACIL Tasman's view their substance cannot be improved by amendments. Overall it is clear that stakeholders are strongly supportive of the program. In particular it is recognised that the focus in the objectives on attracting capital and partners are seen as integral to the success of the program in achieving a wide range of commercialisation outcomes.*
- *There may be overlap in the delivery of the COMET program's Tier 2 assistance and Commercial Ready Plus assistance because some COMET companies may decide that Tier 1 funding and Business Adviser assistance has brought them to a stage of being investment ready and consequently apply for Commercial Ready Plus rather than accessing Tier 2 COMET funding (where there are higher administrative and compliance costs relative to the available grant). Once Commercial Ready Plus becomes fully operational an assessment should be made of whether potential Tier 2 grant recipients have instead elected to apply for Commercial Ready Plus.*

The COMET program is unique in the combination of its objectives, delivery model and its target customer base.

The COMET program is an appropriate program for achieving the objectives of increasing Australia's sustainable economic growth and building sustainable high growth firms. The program aims to address market failures in the capital market (particularly as investors over-estimate the risks associated with early stage companies) and information asymmetry (very early stage growth companies don't know what they don't know).

The majority of stakeholders consulted in the course of this evaluation were very supportive of the COMET program, with the Innovation Australia Board and members of the COMET Committee all pointing to the program's success in achieving a wide range of commercial outcomes for COMET customers. Consultation with COMET customers also indicated support for the program.

In ACIL Tasman's view the building of sustainable high growth firms is the more important program objective, as it will in turn lead to increased economic growth so long as the program leads to additional firms becoming sustainable. As discussed below, the lack of baseline data makes it difficult to assess if additionality is being achieved.

On the basis of ACIL Tasman's extensive stakeholder consultation and analysis we consider that there is no need to change the substance of either objective.

Notwithstanding the concentration of innovation in metropolitan areas, the COMET program should remain focussed on improving the nation's eligible businesses' ability to commercialise their innovations. This is the COMET programs' point of difference when compared with general business assistance and development programs.

Efficiency

- *Success fees have the potential to distort Business Adviser's behaviour. They should be removed from the COMET program and thus from the program's eligibility requirements. Success fees should be replaced with a different incentive structure for Business Adviser activities. This incentive structure would include a focus on a range of outcomes rather than a single outcome i.e. capital raising.*
 - *If success fees remain, the eligibility requirements should continue to include the success fee requirement. In this situation, the policy on entities related to the COMET customer company (which are established for the purpose of raising capital) that are not liable to pay success fees to Business Advisers under the current arrangements should be addressed.*
- *COMET's outsourced delivery model is working well and key stakeholders (i.e. the Board and most COMET Committee members) consider that COMET should be maintained as an outsourced model.*

The administration of the COMET program has a number of strengths while there are areas requiring improvement. The model for outsourced program delivery is widely applauded, with strong support for its maintenance. Several key stakeholders, including the Innovation Australia Board and members of the COMET Committee considered that the model should remain outsourced. For example, the Innovation Australia Board's advice to the evaluation noted that the outsourced delivery model was fundamental to the program's success. Further, most members of the COMET Committee supported the outsourced model, with many explaining that the outsourced model was successful because of the National Manager's and the Business Advisers' hands-on experience with commercialisation. It was argued that this experience brings considerable value to the program. This value is evident from COMET customers' satisfaction with the overall quality of Business Adviser assistance and Business Advisers' development of their commercialisation skills. However, there is evidence to suggest that COMET customers were less positive about the Business Advisers input to the delivery of commercialisation outcomes which involves third parties—such as raising capital from business angels or venture capital funds, borrowing money, licensing, and joint ventures and strategic alliances. Overall, it is ACIL Tasman's view that the outsourced model is working well.

To be eligible to apply for a COMET grant, potential applicants must meet certain criteria. These criteria were reviewed as part of the evaluation and, with

the exception of the requirement that the applicant must be prepared to enter into a success fee agreement with the COMET Business Adviser and the minimum company age criterion, no changes were suggested. In regards to the age criterion, ACIL Tasman considers that age may not be a relevant or necessary criterion when it is considered that firms that meet the turnover criterion may also be more than five years old or have traded for more than five years (including through related entities). Such would be the case where an existing company may have a number of innovations under development, each at different stages of commercialisation potential or generating revenue. It may also be the case that the innovation process is a relatively new activity, for a long established business. For these reasons the consultant sees merit in relaxing the age eligibility criterion as it does not appear to be a good predictor of firm eligibility.

The administration of the COMET program, while effective, appears intensive when compared with other programs administered by AusIndustry, in particular with the recently introduced Commercial Ready Plus. It is the consultant's view that the less intensive expenditure controls and lower reporting requirements in Commercial Ready Plus are more reflective of best practice. If similar practices could be introduced into the COMET program's administration it could relieve the burden on AusIndustry, COMET customers and Business Advisers alike.

AusIndustry has recently completed an efficiency review focussed on improving efficiencies without materially increasing risk. Importantly, the aim was to reduce administration on customers, the Business Adviser network, the National Manager and AusIndustry. The efficiency review made a number of recommendations to refine the process aligning grants, plans and acquittals.

ACIL Tasman has also suggested changes to the approval and application processes which have the potential to address a number of issues and concerns raised throughout the evaluation, namely:

- the lack of baseline data to assess the extent of any unmet demand for the program and the level of additionality
- a role for the COMET Committee in providing technical assistance and advice
- duplication of tasks that can reduce the efficiency of the process and may inhibit the responsiveness of the program to stakeholders
- better management of the pipeline of applications
- matching customers and Business Advisers, based on Business Adviser workload and expertise.

Further improvements to the program could be achieved by allowing for more flexibility in certain areas, including allowing for some variation in the time limit for program participation in the event of extenuating circumstances.

Business Advisers and some survey respondents have identified certain early stage commercialisation activities that they feel are necessary to commercialising an innovation, but which are not currently included as eligible activities for COMET funding. ACIL Tasman sees merit in increasing the opportunity for in-house grant expenditure for prototype development and attendance at trade shows and the like, as these activities could potentially improve commercialisation outcomes.

The success fee element of the COMET program has come under scrutiny in the course of this evaluation for a number of reasons. In particular:

- Potential COMET applicants who wish to raise capital must be prepared to enter into a success fee agreement with their COMET Business Adviser to be eligible to apply for a COMET grant.
- While success fees align Business Advisers and customers' interests in raising capital, there is the potential for a bias in the activities undertaken by the Business Advisers towards only those capital raising outcomes which pay a success fee.
- Survey respondents, when asked about the payment of success fees, were generally supportive of the payment of a success fee provided there was a strong link between the Business Adviser's input and the capital raising.
- Some business angels and fund managers that are investing in pre-seed, seed and start-up companies contacted during the course of the evaluation were concerned that it is inappropriate for the success fee to be paid from the capital raised to finance the future development or growth of the company.
- In recent years other innovation programs (for example, Australian Industry Productivity Centres) have adopted different outsourced delivery models which do not use a success fee incentive arrangement.

As an incentive mechanism for the COMET program, success fees have been successful in many respects. Business Advisers are strongly of the view that success fee payments are an integral part of the compensation they receive for working in the COMET program, confirming that success fees are instrumental in attracting and retaining high calibre private sector consultants. Overwhelmingly the majority of successful applicant companies (70 per cent) interviewed by ACIL Tasman wanted to raise capital while in the program. For these companies and for this single outcome, the success fee arrangement certainly assists in aligning the Business Adviser endeavours with a major interest of the company. The high proportion of COMET customers wishing to raise capital many reflect the fact (argued by many stakeholders) that capital

raising is an integral part of early stage seed or pre-seed business (i.e. those that make up the COMET population). Alternatively, it may indicate that a bias exists in the selection of applicants, given the possibility for Business Advisers to earn success fees from capital raising commercialisation outcomes. ACIL Tasman has been unable to substantiate whether there is such a bias in the COMET program, as the necessary baseline data is not available. ACIL Tasman does, however, consider that an alternative incentive structure which would focus on a range of commercialisation outcomes for the program rather than a single outcome (capital raising) would be more appropriate.

ACIL Tasman sees considerable merit in replacing the success fee paid to Business Advisers with a new remuneration package consisting of a higher consultancy fee plus incentive payments that are linked to agreed Business Advisers KPIs contained in new Business Adviser contracts with the Commonwealth. The Business Adviser KPIs could cover all or any of the commercialisation outcome targets identified under the program's outcome monitoring, including capital raising, partnerships and alliances.

ACIL Tasman also considers that the value of the National Manager's and Business Advisers' consultancy fees should be maintained in real terms.

Effectiveness

- *The COMET program is effective in improving the ability of the majority of its customers to commercialise their innovation as evidenced by the number of commercialisation outcomes reported to AusIndustry and by the dramatic change in survey respondents' assessment of their ability to commercialise their innovation after participating in COMET.*
- *It is difficult to determine how COMET is improving the amount of commercialisation activities undertaken as there is insufficient data on the commercialisation activities of companies not participating in COMET. However, it appears that the program is improving the quality of commercialisation activities undertaken by many COMET customers. This finding is based on:*
 - *the commercialisation knowledge and skills of companies applying for COMET*
 - *the number and type of commercialisation activities undertaken*
 - *the proportion of companies achieving outcomes.*
- *There is evidence to suggest that the COMET program, by ensuring COMET customers are developing the skills necessary to manage the commercialisation process (and hence their business), has improved COMET customers' potential to be sustainable and high growth businesses.*
- *Since the program commenced in 1999, the level of the COMET grant has declined in real terms.*

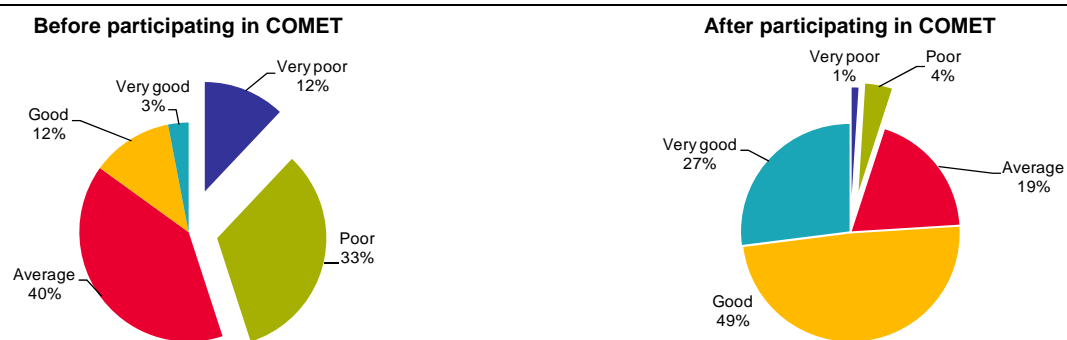
Over the life of the COMET program (up to 30 June 2007) 1,351 participants have achieved, or are achieving, a wide range of commercialisation outcomes

— including capital raising and partnerships. Significantly, AusIndustry reports the following:

- 603 capital raisings
- 1,138 partnership arrangements, where COMET customers entered into some form of agreement which could be considered as a partnership, including
 - 415 alliances
 - 143 licenses
 - 580 other partnership agreements
- 417 innovations taken through to the production stage.

In ACIL Tasman’s survey of COMET program participants most respondents reported that their ability to commercialise their innovation had improved as a result of participating in the program (see Figure ES 1.)

Figure ES 1 **Ability to commercialise innovation**



Data source: Successful applicant survey.

Further, COMET is improving the quality of commercialisation for many customers. At a higher level, COMET has improved some customers’ potential to become sustainable, high growth companies when employment and annual sales are considered.

To date over \$400 million in capital has been raised by the companies who have participated in the COMET program. As observed by the Innovation Australia Board the program has excellent leverage of 6:1 in relation to investment funds to companies compared to Commonwealth funding. It appears that no other innovation program has achieved such high leverage.

Because of a lack of baseline data there is insufficient evidence to conclusively say that the COMET program has contributed to an increase in Australia’s sustainable economic growth.

As noted previously, the outsourced model is generally considered to be highly effective among stakeholders, and integral to the COMET program’s success.

Business Advisers were viewed very highly by customers, however more so in the activities where the outcome was not affected by a third party decision. Similarly, Service Providers were well regarded by COMET customers.

ACIL Tasman considers that there are benefits to be gained from the greater use of the expertise of the COMET Committee within the program. Further, as the National Manager position plays a pivotal role in the COMET program, and has technical and innovation experience in common with the Committee, ACIL Tasman sees merit in actively strengthening this relationship to the benefit of the program. For instance greater alignment between program delivery and program governance could be encouraged by giving Committee members a role in the assessment of applications. It could also assist the National Manager to better understand aspects of the Committee's deliberations.

The Innovation Australia Board, through its various Committees, plays an important role in the federal government's innovation programs. Program KPIs for COMET are set by the Board's COMET Committee and are reported against in annual Strategic Plans. ACIL Tasman has made a number of suggestions for change to the KPI targets. These suggestions aim to ensure that the KPI targets reflect the nature of the program correctly. For example, it is not logical for certain KPI targets to necessarily increase over time as the number and nature of outcomes obtained by the population in COMET at any point in time will depend on the commercialisation needs of that particular population.

Building COMET customer's ability to commercialise their innovation is a fundamental component of the program. ACIL Tasman therefore also recommends that consideration be given to the introduction of a new KPI (and accompanying target) to assist in assessing changes in COMET customers' ability to commercialise their innovations as a result of their participation in the program.

During the evaluation it was drawn to ACIL Tasman's attention that the real value of the grant has declined over time. This is undesirable in view of the significance of Service Providers to the program and the rise in their fees over time. ACIL Tasman sees merit in increasing the grant to a level that would maintain its value in 2004 terms and indexing the grant annually (by either the consumer price index or preferably by growth in average weekly earnings of professional managerial adults).

Summary of Key Findings

Key Finding 1

The objectives of the program continue to be appropriate as they encompass the benefits to the firm and the nation as a whole. Further, they are a response to a verified need that remains today, to improve small and early stage firms' capacity to commercialise innovation.

Key Finding 2

The objectives of the COMET program remain relevant and in ACIL Tasman's view their substance cannot be improved by amendments. Overall it is clear that stakeholders are strongly supportive of the program. In particular it is recognised that the focus in the objectives on attracting capital and partners are seen as integral to the success of the program in achieving a wide range of commercialisation outcomes.

Key Finding 3

There may be overlap in the delivery of the COMET program's Tier 2 assistance and Commercial Ready Plus assistance because some COMET companies may decide that Tier 1 funding and Business Adviser assistance has brought them to a stage of being investment ready and consequently apply for Commercial Ready Plus rather than accessing Tier 2 COMET funding (where there are higher administrative and compliance costs relative to the available grant). Once Commercial Ready Plus becomes fully operational an assessment should be made of whether potential Tier 2 grant recipients have instead elected to apply for Commercial Ready Plus.

Key Finding 4

Success fees have the potential to distort Business Adviser's behaviour. They should be removed from the COMET program and thus from the eligibility requirements. Success fees should be replaced with a different incentive structure for Business Adviser activities. This incentive structure would include a focus on a range of outcomes rather than a single outcome i.e. capital raising.

If success fees remain, the eligibility requirements should continue to include the success fee requirement. In this situation the policy on entities related to the COMET customer company (which are established for the purpose of raising capital) that are not liable to pay success fees to Business Advisers under the current arrangements should be addressed.

Key Finding 5

COMET's outsourced delivery model is working well and key stakeholders (i.e. the Board and most COMET Committee members) consider that COMET should be maintained as an outsourced model.

Key Finding 6

The COMET program is effective in improving the ability of the majority of its customers to commercialise their innovation as evidenced by the number of commercialisation outcomes reported to AusIndustry and by the dramatic change in survey respondents' assessment of their ability to commercialise their innovation after participating in COMET.

Key Finding 7

It is difficult to determine how COMET is improving the amount of commercialisation activities undertaken as there is insufficient data on the commercialisation activities of companies not participating in COMET. However, it appears that the program is improving the quality of commercialisation activities undertaken by many COMET customers. This finding is based on:

- the commercialisation knowledge and skills of companies applying for COMET
- the number and type of commercialisation activities undertaken
- the proportion of companies achieving outcomes.

Key Finding 8

There is evidence to suggest that the COMET program, by ensuring COMET customers are developing the skills necessary to manage the commercialisation process (and hence their business), has improved COMET customers' potential to be sustainable and high growth businesses.

Key Finding 9

Since the program commenced in 1999, the level of the COMET grant has declined in real terms.

Recommendations

Recommendation 1

The COMET program's contract management and reporting requirements should be reduced in line with those of Commercial Ready Plus.

Recommendation 2

Relaxing the eligibility criterion regarding a company's age should be considered because it does not appear to be a good predictor of firm eligibility.

Recommendation 3

Consideration should be given to increasing flexibility in terms of the eligible activities funded by the COMET grant.

Recommendation 4

In any extension of the program, consideration should be given to reviewing the Business Adviser consultancy fee to reflect the growth of income of equivalent professionals since 2004.

Recommendation 5

In any extension of the program, consideration should be given to replacing Business Adviser success fees with another incentive mechanism to link the interests of the Business Advisers to those of COMET customers. A possible approach could be as follows: introduce a two tier consultancy fee, with the first tier based on the current consultancy fee (but indexed to maintain it in real terms). The second tier would be an additional sum, which is paid on a bi-annual basis based on performance against agreed Business Adviser KPIs contained in new contracts with the Commonwealth.

Recommendation 6

The COMET Committee should consider reviewing the current KPI targets in the next financial year to ensure that KPI targets are better aligned with the principles of the program.

Recommendation 7

The COMET Committee should consider the addition of a new KPI that measures the customer's ability to commercialise before and after participating in COMET.

Recommendation 8

In any extension of the program, consideration should be given to increasing Tier 1 and Tier 2 grants, by at least the CPI but preferably by the change in Average Weekly Earnings (AWE) of professional managerial adults, and adjusted annually.

Recommendation 9

Consideration should be given to introducing a new application and approval process to:

- address the current lack of baseline data
- increase the engagement of the COMET Committee, in particular for their skills and knowledge
- minimise duplication of tasks
- better manage the pipeline of applications
- assist in matching customers and Business Advisers.