



## **The Shell Store Business Plan. Version 2.**

**Updated June 2018 from the original Business Plan prepared in May 2016.**

**Business and owner details:**  
Herefordshire Council.

**Business name:**

“The Shell Store”. Hereford’s Technology Incubation and Development Application Centre

**Introduction.**

1. The original business plan for the Shell Store project was prepared in May 2016 by Andrew Russell-Wilks BSc FRICS MRTPI. This updated version has been prepared by Andrew R-W in June 2018.
2. Like all new projects and businesses in their infancy changes occur in how a business operates. Since 2016 the Shell Store project has evolved and external circumstances changed meaning that the business plan needs to change too. This updated business plan reflects all those changes in circumstance and design and specification improvements.

**Business summary:**

3. The business will be the building and running of a new centre that will promote entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms and employment. Unlike a private sector project its success will not be measured solely on its financial performance. Another measure of its success will be how many enterprises in the target markets are established, survive and grow and how much employment they create.

4. A major change to the business plan since 2016 is that the Development and Application Centre is now intended to be operated and run by the New University of Hereford which was established in 2017. Outline terms for this arrangement have are being agreed and the substance of these discussions are reflected in the updated Project Development Appraisal June 2018 at Appendix 2.

**Business aims:**

5. The project will create a new Incubation Centre that will be occupied by new start-up firms and growing SME's who will pay a market rate for the use of the facilities. They will be supported to succeed by providing on 'an easy in easy out / plug and play basis' accommodation that will remove all the day to day housekeeping issues of premise's management. Additionally the customers will be supported with business support services that will not only provide direct advice and help but also signpost existing services to avoid duplication.
6. The Development and Application Centre element of the project is now planned to be operated and run by NMiTE/the New University of Hereford who will pay a fee to occupy the Shell Store.

**Financial summary:**

7. The private sector has failed to provide this service as it is not profitable in its own right hence on the need for European Union Grant Funding.
8. However income that will be generated from the fees occupiers pay to occupy the new space and the occupation fees proposed to be paid by the New University of Hereford will be used to cover the running costs and repay the capital investment by the business owner Herefordshire Council.
9. The project will have three sources of capital funding:
  - An ERDF Grant of £2m
  - A Marches LEP loan of £2.49m
  - Herefordshire Council funding of £2.8m
10. The project will produce an annual surplus income of £ £266Kto repay its loans / equity.

**The service to be provided:**

11. The historic Shell Store building on the Hereford Enterprise Zone (EZ) will be converted and refurbished to provide both an Incubation Centre and a Development and Application Centre providing equipped laboratory and flexible research space. The project will focus on advanced manufacturing, engineering, defence & security, food and sustainable

technologies in order to fit with the target sectors of the Hereford EZ.

12. The facility consists of two linked components:

- An **Incubation Centre** providing high quality accommodation, incubation and support services to new or young enterprises. Since 2016 the design of the incubation centre has been revised and improved. The principle changes are:
  - The scheme now has a more efficient layout resulting in more lettable space (an extra 110 sqm metres) and more Innovation Pods –an increase from 25 to 31 meaning more businesses can be accommodated. The 2016 Hot-desking area included for 12 workstations; the latest scheme design has increased this to 24.
  - Advice has been taken from operators active in the market on the internal layout and arrangement of the space. The project team have also visited comparable schemes elsewhere in the country and the lessons learnt and best practice from those projects has been incorporated within the project design. This additional research carried out since 2016 has resulted in improvements in how the Innovation Centre is planned to be managed and operated.

The Incubation Centre will provide high specification lettable space for up to 31 enterprises in individual pods. It will also provide access to excellent telecommunications infrastructure and a broader range of business support services (including those delivered through the Growth Hub) and mentoring that would facilitate growth-orientated new and early stage enterprises in developing new revenue streams and sources of technology transfer. The Centre would also assist new and young growth-orientated enterprises in accessing professional advice in areas such as Intellectual Property protection, access to growth finance, recruitment and development of staff, and business planning. The Incubation Centre would also provide common spaces and meeting rooms where local technology businesses can network, collaborate, innovate and develop new products, processes and business ideas.

- A **Development and Application Centre** now planned to be operated by the New University of Herefordshire, which would provide central, shared project facilities and training/conferencing space that would foster and develop higher education and technology business collaborations, as well as being a source of HE and graduate enterprise in its own right. The product and technology development facilities provided would provide cost-effective access to tools and machines (such as CNC machining, 3D printing and vacuum casting technologies) to aid digital fabrication, prototyping and test development of new designs. As with the Incubation Centre, the Development Application and Centre will provide cost-effective access to professional,

technical, operational and research support to facilitate the development and commercialisation of new product ideas.

13. The target occupiers for the Incubation Centre are new start up's and SME's within the Marches area although it is to be expected that a majority of the beneficiaries will come from the wider Hereford area. As well as established smaller businesses with scale-up potential the Shell Store will accommodate new start-ups.

14. The main objective of the project is the promotion of entrepreneurship by facilitating the economic exploitation of new ideas and fostering the creation of new firms. Its success will be measured by how many enterprises in the target markets are established survive and grow and how much employment they create. Performance indicators will be:

- a. Number of enterprises receiving support
- b. Number of enterprises receiving non-financial support
- c. Number of new enterprises supported
- d. Employment increase in supported enterprises
- e. Number of researchers working in improved research facilities
- f. Number of enterprising cooperating with research institutions
- g. Number of enterprises supported to introduce new-to-the-market products
- h. Number of enterprises supported to introduce new-to-the-firm products

15. The building will be delivered by Herefordshire Council who have a track record of successfully delivering similar ERDF assisted schemes such as the Skylon Court small business space project within the Hereford EZ that was completed in 2016 and since completion has been 100% occupied to date since 2015.

16. The Activities to deliver this new project will include:

- By the design and procurement team, the delivery of the refurbished and converted Shell Store that is fit for purpose.
- The operation of the completed scheme.

**Customers:**

17. The Incubation Centre's customers will be individuals and small firms who want to establish a business or grow an existing business. Typically they will comprise between 1 and 10 employees and be operating in target fields of advanced manufacturing, engineering, defence & security, food and sustainable technologies in order to fit with the target sectors of the Hereford EZ.

18. It is proposed that the New University of Hereford will run the Development and Application Centre. They will pay the Shell Store business a fee to cover their occupation costs.

### **Customers' location**

19. Business owners and employees will currently be based within commuting distance of Hereford although as there are no competing facilities within the locality some may relocate from the wider Marches LEP area or further afield.

### **Market research.**

20. As a key part of the market research for the project, a demand study has been prepared by Turner and Co, property agents active in the Hereford Area. They identified a need for the services provided but no existing supply. This lack of provision is due to market failure, as the private sector as they cannot realise a satisfactory investment return on the capital investment costs.

21. Key findings of the Market Report are summarised below:

- There will be a demand for the facilities as none exist or are known to be planned.
- In 2016 the market rates for the space were estimated to be around £150 per person per month occupying. Over the past two years no competing space has come forward and there has been a gentle upward movement in property costs within the enterprise zone. Current budgeted monthly occupation costs per person have risen to £185 per person per month. (C. £42 per week fully inclusive)

### **Marketing Strategy**

22. The marketing strategy will include the following initiatives to make the target customers aware of the new facility:

- i. Public relations to get wide exposure of the availability of the project in the local news media.
- j. Direct advertising and site signage.
- k. Exposure on the websites of stakeholders active in the field such as The Marches Growth Hub, the Marches LEP, Hereford Council, , Hereford Enterprise Zone, Innovate UK and many other partners.
- l. Direct contact with banks, property agents and accountants who will have contact with the target occupiers.

23. The costs of marketing are included in the Project Development Appraisal

### **Competitor analysis**

24. There are no competitor projects in the locality as confirmed in the Market report

**SWOT analysis:**

25. SWOT Table below:

<b>Strengths</b> No competitors Identified demand Good location with opportunities for grow on space nearby.	<b>Weaknesses</b> Project covers its revenue costs but not its original capital costs and thus relies on a European Grant and the business owner accepting a low rate of return on its original capital investment.
<b>Opportunities</b> Unsatisfied demand from target customers.	<b>Threats</b> Competing projects establish themselves.

**Unique Selling Point (USP):**

26. The USP for this project is that it is tailor made for new businesses and SME's. It will solve their premises and business support requirements in one simple 'easy in easy out /plug and play package'.

**Payment methods and terms:**

27. Customers of the Incubation Centre will pay a single all-inclusive occupation fee for monthly occupation.

28. Negotiations are ongoing with the New University of Herefordshire for them to pay an annual fee of £225,000 to occupy the Design and Application Centre.

**Suppliers and Equipment:**

29. Following the completion of the construction phase the scheme will be operated and run by an experienced operator who will be selected by an EU compliant tender process. The experienced operator costs of operating the centre are included in the Project Development Appraisal as Salaries Premises Management and Salaries Business Support for an annual cost of £110,000 per annum. These costs have been benchmarked against

other similar schemes. It is an option for the council to elect to run the scheme itself if it desired to do so.

30. The operator will then tender the subcontracts for the building services such as cleaning, maintenance etc. No problems are envisaged in securing suitable contractors at competitive rates.

#### **Management and staff:**

31. Herefordshire council will retain ownership and control of the project. Council officers will report to councillors on performance in the normal way.
32. On site staff will all be employed by the independent operator, the business plan has outlined some of the cost modelling for a typical operator but the council could also operate the centre itself and this has been demonstrated by other successful centres visited.

#### **Costs and pricing strategy.**

33. Pricing is based on the advice from the Market Report and updated to reflect two years of market movements from 2016
34. Pricing for the Innovation Pods will be at market rates equating to £185 per month per person occupying. An occupancy rate for the work spaces has been taken to be a conservative 85%. If occupancy rates turn out to be better than this then net income will increase.
35. Terms are under discussion with the New University of Herefordshire for them to pay an annual fee of £225,000 to occupy the Design and Application Centre.
36. The project will generate other ancillary income streams:
- The project includes for the construction of an equipped café. A conservative annual market rent of £7.00 per sqm ft. / £7,080 per annum has been used.
  - The project includes a hot desking area with 24 workstations. Income from this area has been assumed to be just £20,400 per annum.
  - The scheme includes a 140 seat conference and events room. Occupation fees of £300 per month have been assumed. Just five events at £60 per event per month.
37. The Project Development Appraisal provides details of the projects annual running costs and income streams.

#### **Financial Summary**

38. The Project Development Appraisal sets out the financial forecast for the project. The

table below compares for easy reference the 2016 figures with the current updated 2018 data.

<b>Item.</b>	<b>2016 Assumptions</b>	<b>2018 Assumptions</b>
Monthly rental per workstation	£150 per person per month	£185 per person per month
Occupancy Rate	100%	85%
Income from the D and A centre.	£94,400 per annum	£225,000 per annum fee to be paid by the New University of Herefordshire.
Income from Café and fees for the use of the conference and events space	No income assumed in 2016.	£10,680 per annum. Café:£7,080 per annum Conference and Events: £3,600 per annum
<b>Total annual income</b>	<b>£325,250</b>	<b>£ 493,838</b>
Annual centre operating costs	£211,900	£227,590 Reviewed and updated.
Surplus of income over running costs available to support capital repayments.	£113,350	£266,248
Total capital costs. Construction and fees.	£6,732,327	£7,316,000. Increased construction costs as advised by the project manager and QS MACE.
ERDF Grant	£2,000,000	£2,000,000
Net capital costs of the project.	£4,732,327	£5,316,000.
Marches LEP Loan.	Not known in 2016.	£2,493,801 Repayable at £100,000 per annum
Net costs after ERDF Grant and LEP Loan.	Ditto	£2,822,199 PWLB Annual Repayment (Annuity 25 years) £154,180



Annual surplus after operating costs/capital repayments	Ditto	£12,068
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39. Since 2016 total project construction costs have increased by some £500,000 or 7.4%. However net annual income has increased by some £146,000 - 129%. The principle reasons for this are that:

- By redesigning the project a more efficient layout has evolved and more lettable space has been found.
- The basic occupation charge per person per month has increased from £150 to £185.
- Additional income sources have identifies and are now included: the café and the conference and events space.
- Terms are being discussed with the New University of Herefordshire to occupy the Design and Application centre for an annual fee of £225,000.

40. As can be seen the project can cover its revenue and running costs out of the income received by customers and can make an annual contribution of around £159,000 to debt repayment.

41. The project therefore relies upon an EU grant and the business owner Herefordshire Council accepting a return on its original capital investment in the building below normal market returns.

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**Appendices:**

1. Original business plan May 2016.
2. Updated Project Development Appraisal June 2018.
3. Latest Scheme Layout.