

Appendix E

The Business Networks Program

The Business Networks Program (BNP) was one of a number of initiatives announced in the federal government's *Working Nation* statement in 1994. It is a four year program and will assist groups of at least three businesses to undertake joint business activities in order to increase their competitiveness or capabilities.

The program is funded by the federal government through AusIndustry, and is being implemented in conjunction with a range of industry associations, federal and state government agencies, local government, regional development authorities and private consultants.

The federal government has allocated \$38 million to support the creation of networks, and the bulk of this has been allocated to the Business Networks program. The broad aim is to create over a thousand networks in the four years the program is to be run.

E1 Overview of the program

The basis of the Business Networks Program is a three-stage network formation process, in which network brokers facilitate co-operation among the participants.

In Stage 1, the Facilitation and Feasibility Report Stage, the broker assists in establishing the feasibility of the network's business idea. This is followed by Stage 2, the Business Planning Stage in which a business plan is prepared and an agreement between the participants is finalised. The broker may also have a role in Stage 3, the Implementation of the Business Plan. Each of these stages are explained in greater detail in Section E2.

Broadly, the Business Networks Program pays most costs associated with Stage 1 and half the costs associated with Stages 2 and 3, within approved limits.

To be eligible for the program participants must:

- be in a sound financial position;
- be independent and unable to exert substantial control over each other;
- not be receiving financial support for the networking proposal from other government agencies; and
- appoint senior staff to the networking project that have authority to commit the participants they represent.

In addition, the networking proposal must:

- involve at least three participants, two of which must be SMEs;
- produce an internationally traded good or service; and

- involve cooperation in an area of strategic business activity to improve participants' competitiveness, including areas such as production, product development, marketing and sales, after sales service, distribution or purchasing.

One of the key features of the program is the role of the broker, indeed, support for Stages 1 and 2 is not available unless an accredited broker is used. As a part of the program, 23 full time brokers have been appointed to 'host organisations' through out Australia. Firms may either use these facilitators or other private sector consultants, provided that they have been accredited by the program¹.

E2 Program details

E2.1 Stage 1 Facilitation and preparation of a feasibility report

Stage 1 involves the participants working with a network broker to assess the basic feasibility of the network idea.

This Feasibility Stage involves the preparation of a Feasibility Report together with some preliminary consideration of the legal issues regarding the operation of the network, an initial outline of an agreement between the participants, and proposed arrangements for proceeding to Stage 2.

The Feasibility Stage must be completed and the Feasibility Report produced within six months of the participants accepting an offer to enter the program.

E2.1.1 The network broker's role in the feasibility stage

The Network Broker's role in Stage 1 is to facilitate the participants' discussions regarding the objectives of the network proposal and how the network might function. The Network Broker will be able to assist in preparing participants for meetings, taking minutes, and facilitating meetings. The Broker will also be able to undertake desk research to obtain basic market data and may provide technical input in preparing the Feasibility Report.

E2.1.2 Assessment leading to admission to Stage 1

If the basic eligibility criteria are met, admission to Stage 1 of the Program is based on the following considerations:

- The business logic of the proposal: the application should make good business sense and it should be evident that it will improve the competitiveness and ultimately the profitability of the network participants.
- The number of participants: experience has shown that networks with a smaller number of members are more likely to succeed and are easier to operate.

¹ The program is structured so that participants receive the same package of support regardless of which type of broker is used. The main difference is that if a private consultant is used, their fees are fully or partly reimbursed, whereas if broker attached to a 'Host Organisation' is used an equivalent amount has already been funded directly via the program. These differences will become apparent in the discussion of the funding arrangements for each stage of the program.

- The size of the individual businesses in the network: the primary target group is businesses with at least 15 employees. However factors such as the sector the businesses are in and their length of establishment will also be considered.
- The commitment of the participants to the proposal.
- The level of support the participants have already received from Commonwealth and/or state agencies.
- The potential demonstration effect of the network including geographic, sectoral and functional spread.
- A proposal from the accredited network broker nominated by the participants outlining the process to complete the facilitation process and produce the Feasibility Report. This must include an estimate of expenditure on eligible travel and, in the case where the network employs a consultant broker, the budget which is sought to complete Stage 1.

E2.1.3 Contents of the feasibility report

The Feasibility Report must contain:

- (1) an assessment and analysis of:
 - the network's business objectives;
 - market demand for the network's proposed product or service;
 - financial capacity of the participants to be involved in the network; and
 - the decision making structures available to the network.
- (2) statements dealing with:
 - the form and scope of the intended co-operation between the participants, including what each participant will contribute to and receive from the network. This is to be in the form of an initial and non-binding draft agreement.
 - whether the participants wish to proceed to Stage 2. If they do, information about how it is intended to proceed should be provided, including an outline of the intended process. This would include a proposed budget including estimates of costs associated with legal advice and any other specialist input or other necessary inputs.

E2.1.4 Stage 1 support using a consultant network broker

Where a consultant network broker is nominated and the application is approved, the participants will be notified by the State Manager of the maximum level of reimbursement available. In Stage 1 reimbursement is only available for expenditure on the service provided by the broker. The participants contract with the network broker and reimbursement is available once the Feasibility Report is completed and expenditure records are received by the State Manager.

Reimbursement of up to \$15,000 may be made for the broker's services in Stage 1. Typically the approved level of reimbursement will be less than this maximum.

If there are additional services, such as market research required to complete the Feasibility Report, it is the participants' responsibility to obtain these directly at their own expense.

E2.1.5 Stage 1 support using a host organisation's network broker

The State Manager will notify the broker whether their application has been successful. The participants and the Host Organisation will agree on a timeline for the completion of the Feasibility Report.

Again, if there are additional services, such as market research required to complete the Feasibility Report, it is the participants' responsibility to obtain these directly at their own expense.

E2.2 Stage 2 The business planning stage

The Business Planning Stage involves the preparation of a formal Business Plan to which the participants are committed and against which progress can be measured in implementing the objectives of the network. There should also be a resolution of legal issues and the conclusion of an agreement on how the network will operate.

The Business Planning Stage must be completed and the Business Plan produced within six months of the participants accepting an offer to join the program.

E2.2.1 The network broker's role in the business planning stage

The broker's role in the Business Planning Stage is to facilitate meetings and provide technical input in order to prepare a Business Plan and to assist the participants to arrive at a formal agreement on how the network will function.

Unless the broker is a qualified legal practitioner, the network will need to obtain legal advice during this stage of the program.

E2.2.2 Assessment leading to admission to Stage 2

If the Feasibility Report is positive and the participants wish to proceed further, approval to proceed to Stage 2 is sought through the State Manager.

For admission to Stage 2 of the Program, the following will be taken into account:

- the level of funding sought (this applies to the consultant broker);
- the content of the Feasibility Report; and
- the level of participant support and enthusiasm to proceed to Stage 2.

E2.2.3 Required outputs of the business planning stage

At the conclusion of Stage 2, a Business Plan must be produced. For the purposes of this program the Business Plan must include all the information specified in this section.

The Business Plan will contain:

- a detailed assessment and analysis of the network's business objectives;
- detailed financial projections for the network activity;
- a situation and market analysis for the business idea;
- a time line setting out milestones for the implementation of the Business Plan;

- at minimum, a statement indicating the anticipated type of formal legal business structure for the network, together with a statement of each participant's role in the initial and on-going financing, operation, ownership and management of that structure;
- the potential application of the *Trade Practices Act 1974* to the activities of the network; and
- a statement indicating whether the participants wish to proceed to Stage 3, and, if so, a proposed budget for the initial year of operation if this is not contained in the financial projections for the network activity.

E2.2.4 Stage 2 support using a consultant network broker

The State Manager will notify the participants whether their application to proceed to Stage 2 has been successful, and, if so, the 'approved budget' for this stage. The approved budget will set out the available levels of reimbursement for expenditure on the broker's fee, the cost of legal advice and any other specialist consultant input. Reimbursement of up to one-half of actual expenditure on these items may be made on satisfactory completion of the Business Plan and receipt of the expenditure records.

Reimbursement of up to \$30,000 may be made for Stage 2. Typically, the approved level of reimbursement will be less than this maximum.

E2.2.5 Stage 2 support using a host organisation's network broker

The State Manager will notify the broker whether their application has been successful. If the participants are admitted to Stage 2, the Host Organisation and the participants agree a timeline for the completion of a Business Plan.

There is no charge for the broker's service at this stage, but the participants must meet the cost of legal advice and any other additional services such as market research required to complete the Business Plan. It is the participants' responsibility to obtain these directly at their own expense.

E2.2.6 Direct admission to Stage 2

Networks may be accepted directly into Stage 2 of the Business Networks Program without being accepted into Stage 1 if they meet the basic eligibility criteria and produce a Feasibility Report equivalent to that outlined above. An application will be required, and this will be assessed as outlined above. The participants will be required to use a broker accredited to the program for Stage 2.

Costs associated with the completion of the Feasibility Report in these cases will not be reimbursed.

E.2.3 Stage 3 Implementing the business plan

Once the Business Planning Stage is completed, participants can apply to proceed to Stage 3. This stage involves the implementation of the Business Plan. This may involve a range of activities such as employing a network manager, undertaking joint purchasing or rationalising production.

E2.3.1 Assessment leading to admission to Stage 3

Once the Business Planning Stage is complete, the participants may apply for admission to Stage 3 of the Program. The following criteria will be taken into account:

- the network's financial requirements during its first year of operation;

- the amount of support already provided by the Program and the level of financial input the participants have made in Stages 1 and 2;
- potential availability of assistance from other agencies; and
- the demonstration effect that the network will provide.

E2.3.2 Stage 3 support

Stage 3 support is in the form of reimbursement of operational costs incurred during the network's first year. These costs are reimbursed up to the limit in the approved budget, in two payments. The first reimbursement is payable on receipt of expenditure records six months after the participants receive approval to proceed to Stage 3. The second reimbursement is payable on receipt of expenditure records twelve months after the participants receive approval to proceed to Stage 3.

Reimbursement of up to \$60,000 may be made for Stage 3. Typically reimbursements will be for less than the maximum amount and the State Manager will notify the participants of the actual amount to be offered.

E2.3.3 The network broker's role in Stage 3

The network broker's task is to assist in a smooth transition to the operation of the network's permanent management and operational structure without the continuing involvement of the network broker.

If a consultant broker has been used, the approved budget may make available a limited reimbursement for the broker's fees in performing this task.

Where the services of a Host Organisation's broker have been used, the cost of the broker's time in Stage 3, if any, will be deducted from the level of reimbursement available in the approved budget in order to ensure equity between private consultant and Host Organisation brokers.

In their application for admission to Stage 3, the participants may propose engaging a consultant broker to provide network management services. Expenditure on these services may be included in the approved budget. However participants should be aware that this arrangement may present a conflict of interest to the broker.

E2.3.4 Direct admission to Stage 3

Networks may be accepted directly into Stage 3 of the Business Networks Program without being accepted into Stages 1 and/or 2 if they meet the basic eligibility and produce a Business Plan equivalent to that outlined above. An application will be required and this will be assessed as outlined

Costs associated with the completion of the Business Plan in these cases will not be reimbursed.

In summary, the Business Networks Program is the Federal Government's major networking program. The aim of the program is to improve the capabilities and competitiveness of Australian firms, particularly SMEs. It is open to all industries, provided the networking projects are geared towards internationally traded goods and services.

