



Fintech Scotland Business Plan

Business Plan

June 2017



Fintech Scotland Business Plan Summary

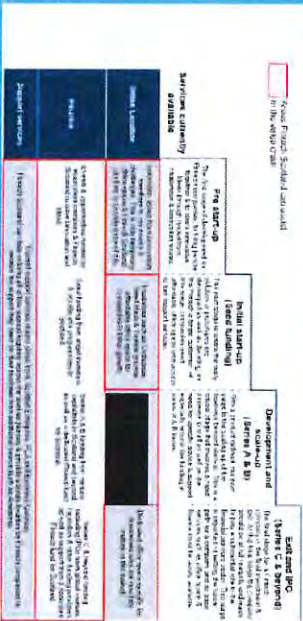
The aspiration and mission

To become a global top 10 Fintech hub location that serves all aspects of the Fintech ecosystem & aspires to showcase Scotland's Fintech expertise on a global scale through international conferences & events. Talent must be at Fintech Scotland's core with innovation events, dedicated Fintech courses & challenges that will help future Fintech innovation to thrive in Scotland.

The overall proposition on

Currently, there is a time-bound opportunity to create a high-profile and internationally-competitive hub at [redacted] in Edinburgh for Fintech companies. This is a unique proposition that would bring together an integrated Fintech programme with global reach and aspiration in an excellent city centre location that provides a location for Scotland's Fintech ecosystem to collaborate, learn from structured programmes and support and run events. The business plan sets [redacted] up as place that can provide community desks for ecosystem members and a permanent office location for Fintech companies.

Value chain for Fintech companies in Scotland



The membership structure



The user journeys – what's in it for different parts of the ecosystem

A Fintech Company

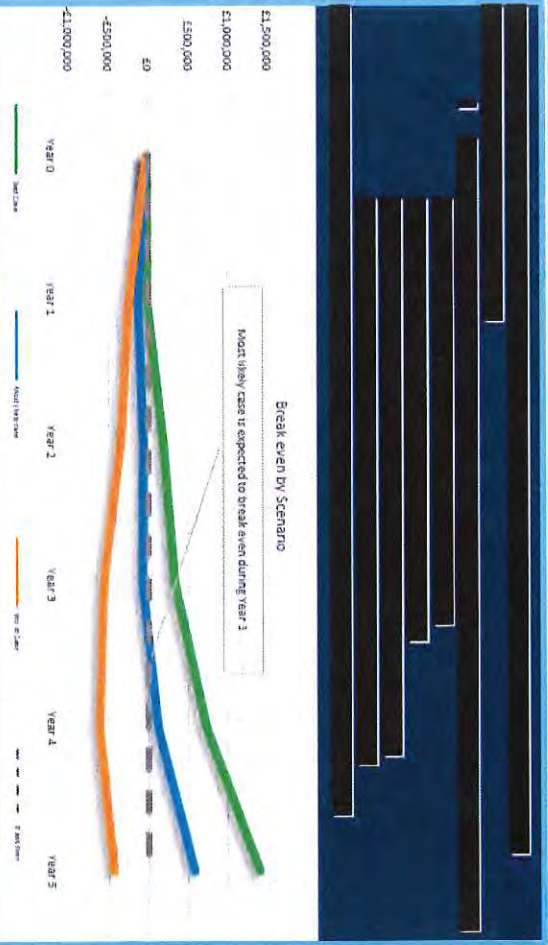
- Physical Hub membership provides:
 - Resident in [redacted].
 - Link to other Fintech companies.
 - Direct access to residents such as the FCA & other public sector members.
 - Attend & Host events in the Hub.
 - Other member benefits such as the virtual Hub.
- Financial Institution not requiring space
 - Enhanced or Founder / Investor membership provides:
 - Build brand through sponsorship & branding.
 - Leader in the market in Scotland.
 - Scouting opportunities with Fintech Companies.
 - Collaboration opportunities with the Fintech Ecosystem in Scotland.
 - Access to a network covering all areas of the Fintech ecosystem.

A University

- Enhanced or Founder/ Investor membership provides:
 - Use of community desks in the physical hub.
 - Access to meeting rooms for staff & students working on projects.
 - Consulting & joint research opportunities.
 - Work alongside Fintech companies.
 - Access to event space.
- Financial Institution requiring space
 - Enhanced or Founder / Investor membership provides:
 - Use of community desks in the physical hub to house staff.
 - Use [redacted] as innovation space without the cost of their own location.
 - Kit out the space as required (founder / investor only).
 - Promotion of their business products & solutions
 - Work closely with Fintech ecosystem to solve industry specific problems.

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Summary financials



- It is forecast that income (revenue) could grow from £0.81m in Year 1 to £2,076m in Year 5
- Running costs (expenses) are forecast to be £0.92m in Year 1, and flatten at £1.62m per annum by Year 5
- Fintech Scotland could become profitable by Year 4 & break even during Year 3

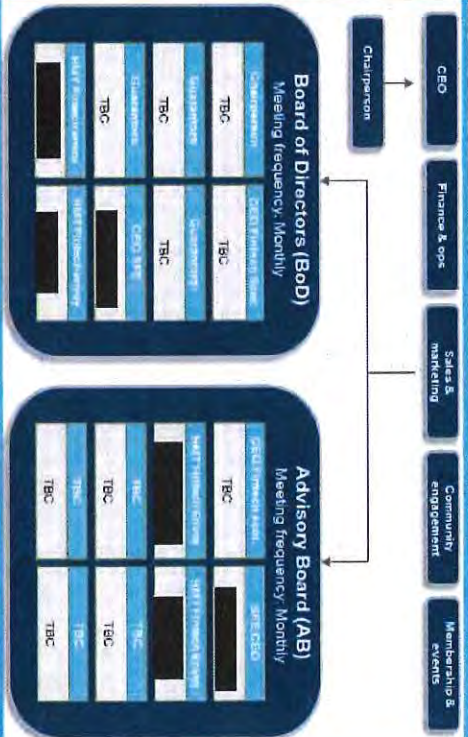
Global benchmarking

Throughout this work, Fintech Scotland has been benchmarked against 12 other global Fintech hubs, some publicly funded, some privately funded and others are jointly funded. The majority of these have some form of membership structure rather than space rental in a physical hub.

- Three of the hubs are similar in terms of the proposed approach for Fintech Scotland:
- Innovate Finance in London has a similar membership structure with different rates for public & private sector as well as also being a not-for-profit company limited by guarantee.
- Copenhagen Fintech is a model very similar to Fintech Scotland with strong Financial Support (£600,000 annually) from the Danish Government.
- Barclays Rise in London provide tiered physical space to the Fintech ecosystem as well as free mailing list membership.



The management team and governance (Entry pack – page 12)



- Fintech Scotland management team**
 - Chairperson (part-time)
 - CEO / Managing Director
 - Finance & Operations Director
 - Community management & support executive
 - Membership and event executive
 - Pro-bono support (as necessary)
- In the interim stage before a full Board of Directors & Advisory Board are available – the CEO of Fintech Scotland should utilise the expertise & help from the SFE Fintech Steering Committee who could act as interim boards for the initial weeks & months of Fintech Scotland.

Next steps (Action plan pack – page 6)

In terms of the management team for Fintech Scotland, the setting up of the entity & the recruitment of a CEO for Fintech Scotland are critical next steps which will put someone in place to bring in the drive, commercial focus, engagement and constant business development and build that is required for Fintech Scotland to succeed.

Other next steps include the development of the virtual hub, preparation for the DIGIT conference in September and bringing together the brand & marketing for Fintech Scotland.

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Executive summary

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Underpinning the strategy and activities of Fintech Scotland with a comprehensive and robust business plan is fundamental to secure financial and operational support from the ecosystem and across broader stakeholder groups. What remains clear is that the overall vision to become a global leader on the Fintech stage is still very much the aspiration for those operating within the ecosystem - the emphasis now should be on executing against the business plan and holding Fintech Scotland accountable for its delivery.

This pack constitutes a business plan for Fintech Scotland, and whilst it represents a 'point-in-time' analysis, the components, their structure, and the appetite to progress the initiative have been qualified with members of the ecosystem as part of this work. The subsequent study also sets the business plan in context with other hubs across the world, and makes appropriate comparison and reference to benchmark thinking and create a 'best of breed' model that can work for Scotland.

The ambition and hallmarks of the business plan

At the highest level the ambition is to propel Scotland into the top 10 Fintech hubs globally and build a supporting ecosystem that serves all stakeholders. Over the last 9 months it has become clear that the components to be successful in this space are there, and the timing is right. Scotland benefits from some distinct and unique features through its deep talent networks, its legacy and concentration in FS experience, and its proven strength in the established technology sector that will fuel this initiative and give the greatest opportunity for success. Scotland's size is also plays as an advantage, and will allow Fintech Scotland to network efficiently, and take action quickly. The 'size of the prize' here is also significant – with job creation of an estimated 15k FTE and a further 14k jobs estimated to be 'protected' it is easy to see why supporting and encouraging the emerging Fintech industry is important at a national level.

This business plan has been carefully crafted to not only identify and propel the core components of the strategy, but also consider how Fintech Scotland interacts with existing support models and infrastructure already in place in Scotland. At its heart the business plan incorporates not only a desire to create a physical hub but also an online collaboration platform, a series of marketing events and showcases, dedicated programmes of support from universities and regulators and the development of a member-based network to enable better connection, stronger and faster innovation, better funding mechanisms, and smoother routes to market. The Fintech Scotland business and its revenue is based on a membership model not dissimilar to other success models used around the world, this has been carefully constructed and qualified with the industry to challenge and check its viability – this is outlined on Pages 29 - 35. Support documents to this business plan include a clear articulation of how the Fintech Scotland entity can be established and a view of the actions that should now be taken to move forward. These 3 documents form a solid foundation to establish and build the business and deliver immediate components of the strategy.

The financial undertaking

As with any new venture it is recognised that funding and support is required to establish Fintech Scotland and accelerate the strategy, a summary of these financials is as follows;

- [REDACTED] is required to establish the entity and initiate activities set out in the business plan as well as to cover all expenses for Fintech Scotland in Year 1. There are options on how this could be funded, including through a mixture of loans & investments.
- It is forecast that by year 4 Fintech Scotland could become profitable and be in a position to re-invest into developing activities beyond those set out here.
- Annual run rate (expenses) is forecasted to be [REDACTED]
- The income revenue is predicted to grow [REDACTED]
- To support the creation of a physical hub as well as the creation of Fintech Scotland, guarantors are also required to meet the requirements set out by the landlord, equating to [REDACTED] on available floor space. Based on the projected income model the likelihood of guarantors ever being called to underwrite any shortfall in occupancy is low. Further detail can be seen on pages 17 – 21.

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Introduction

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The Fintech community in Scotland is at a critical stage in its development. Following the Fintech consultations and to help implement the key actions identified, an independent entity known as Fintech Scotland needs to be established.

- To address this, we have developed a business plan for Fintech Scotland. This has been structured over three key components:
1. A business plan to understand the customers and financial forecasts for Fintech Scotland;
 2. A guide to establishing Fintech Scotland with information on the governance structure;
 3. An action plan which details some of the key actions Fintech Scotland will need to take in the future including the development of a physical hub at [REDACTED]

This component consists of a business plan:

Core deliverable	The primary elements that will be considered	Components of the deliverable
<p>A detailed business plan supporting each component of the Fintech Scotland business (‘the business plan’).</p> <p>This document will act as the blueprint & underpinning detail to support the delivery of a Fintech strategy for Scotland over the next 3 years. It is anticipated that Fintech Scotland will become accountable for delivery and further development of the business plan.</p> <p>It is recognised that additional activity will come into this plan as the Fintech strategy for Scotland evolves.</p>	<ol style="list-style-type: none"> 1. The identification, definition, agreement and alignment of all components that form part of the Fintech Scotland business plan over the next 3 years. It is anticipated that the business plan, and associated delivery plan, will be owned by Fintech Scotland. 2. The identification of customer groups and areas of the ecosystem that will benefit (‘the customers’) from delivery of the business plan and the accepted value it will create. 3. The identification of any dependencies on network partners to deliver or support components of the business plan. Including agreement from those partners to support. 4. The development of revenue forecasts & targets we anticipate being created, from both ‘in-flight’ activity (e.g. [REDACTED] Fintech hub / virtual platform) and planned initiatives (event programmes / sponsorship / hub-bridge and development with other centres etc.). 5. The creation of a detailed business case to support activity and decision-making already underway. The business case will outline the operational cost and investment asks and link directly to revenue projections and targets to enable clear decision-making. 6. The business case will also include a forecast on when the Fintech Scotland entity could be funded through revenue streams generated (i.e. Become self-sustaining). 7. Development of a format and structure that can be used going forward to understand and communicate the business case of new or evolving initiatives. 8. Development of a set of appropriate metrics, targets and mechanisms to track actual performance against forecasts set out in the business plan to monitor success. 9. Development of a risk reporting framework to ensure ongoing risks to the delivery of the business plan are managed accordingly (direct link to Fintech Scotland governance framework). 10. Development of a future roadmap of initiatives and activities that will drive revenue targets set out in the business plan to achieve the aspirations of Fintech Scotland. 	<p>A document describing each component of the business plan and its importance / relevance to driving the aspiration of Fintech Scotland. This will include reference back to underpinning detail and data to ensure our output is fact-based.</p> <p>A spreadsheet outlining the projected revenue from each stream of activity or initiative planned to drive Fintech Scotland. This will also outline associated indicative costs for each initiative and a business case will be produced to support funding discussions. This piece will form the core component of our deliverable.</p> <p>A forward revenue projection for Fintech Scotland over the next 5 years. This will be subject to change over the coming weeks, months and years but will give a solid basis to support Fintech Scotland in achieving its objectives. The projection will also outline an indicative target on when the Fintech Scotland management team could become self-funded.</p> <p>A supporting document outlining the revenue targets and success metrics that that business plan will be tracked against in order to demonstrate success. This will also outline the key threats and risks to success and outline steps that can be taken to mitigate the risk.</p> <p>A stakeholder map, identifying who is critical to the success of the business plan, their agreement to support, and the likely commitment required over the short to medium-term.</p>

Fintech Scotland Business Plan

The core objectives and features of the business plan

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Establishing a clear business plan for Fintech Scotland is fundamental to the creation and onward success of the Fintech ecosystem in Scotland.

Over the last few months the potential for the industry to thrive in Scotland has continued to grow – more Fintechs are emerging and establishing themselves in Scotland, interest from FS sector is growing, academia and talent centres are engaged, and for the first time Scotland has been recognised in the top 20 Fintech Hubs Globally in the recent Global Fintech Hub Federations report. It appears that the 'time is now' to realise the potential for Scotland to emerge more fully on the Fintech stage.

In order to formally progress the delivery of a detailed strategy for Fintech Scotland and stand up an entity to run the business (as detailed in 'Establishing Fintech Scotland' paper) a business plan is required to both define the components of Fintech Scotland, and forecast financial viability.

The following document seeks to articulate the business plan for Fintech Scotland. Supporting information has been drawn from a number of sources and many components have been developed independently. The intention of this business plan is to join them together and understand the full potential of Fintech Scotland, and the steps that need to be taken to achieve it.

The overall objectives of this business plan are as follows;

1. To define the core components of the Fintech Scotland business plan and articulate their relevance to the community it serves.
2. To identify the customers of Fintech Scotland and ensure the aspirations of the business plan meets their needs.
3. To articulate a revenue and cost model that highlights how Fintech Scotland could run and generate revenue, and related financial forecasts that determine whether it is financially viable.
4. To determine overall appetite from across the ecosystem (as currently known) to engage in Fintech Scotland's proposed business plan components and activities and help bring it to life.
5. To compare the proposed business plan with other regional, national, and international Fintech hubs to understand viability and commerciality and understand good practice.
6. To highlight the risks to success and how they can be overcome.
7. To propose metrics and indicators that can be used to track performance and monitor the success of Fintech Scotland.

Whilst this business plan gives a latest perspective, it should be noted that the landscape is very fluid and dynamic. Beyond approval of this plan Fintech Scotland must move swiftly to execute the proposed plan, whilst checking reference points highlight in this pack on a regular basis.

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Vision, mission & strategic goals

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A vision & mission for Fintech Scotland was created during the Fintech consultations by the ecosystem and are based on the future aspirations of all ecosystem sectors:

Fintech Scotland			
Vision		To become a global leader in Fintech innovation and development.	
Mission		To create an integrated Fintech ecosystem in Scotland through provision of funding, support, infrastructure and talent that recognises and responds to the needs of each stakeholder, and connects Scotland to other global Fintech centres.	
Strategic Goals		Profile	<ul style="list-style-type: none">• Raise international awareness of the Scottish Fintech industry by championing Scotland's differentiators as a Fintech hub.• Raise awareness of Fintech as an opportunity for business creation and growth.• Raise awareness of Fintech as an excellent career opportunity.
		Infrastructure	<ul style="list-style-type: none">• Promote collaborative innovation across the Fintech ecosystem.• Development and implementation of a physical hub.
		Talent	<ul style="list-style-type: none">• Attraction of high value, skilled workers into Fintech and from abroad.• Promotion of technology as a career throughout the school system.• Retention of existing Financial Services talent via ongoing training.
		Finance & Support	<ul style="list-style-type: none">• Improve availability of equity funding to Scottish based Fintech firms.• Finance readiness and business support to Fintech firms.

Fintech Scotland business plan

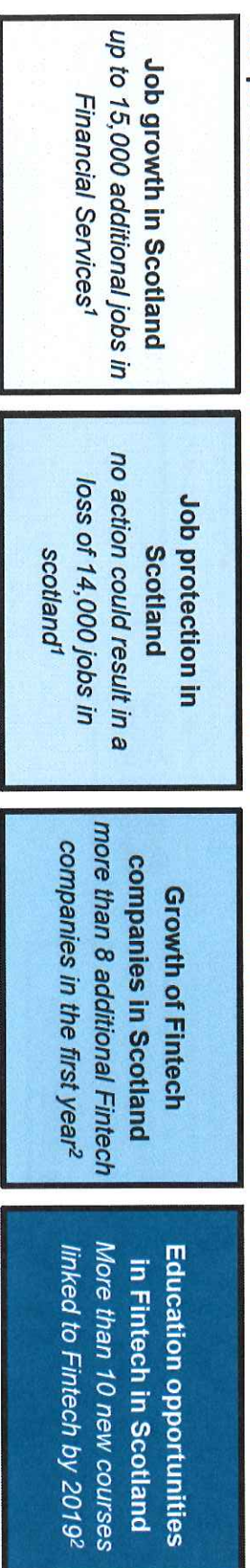
Why now? the economic case for Fintech Scotland

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Why now?

- There is a strong pipeline of talent coming from over 15 world class universities in Scotland with a good number of strong and varied university & college courses including the launch of an MSc in Fintech at Strathclyde university
- There is a strong, concentrated FS industry in Scotland with over 86,000 people working in the sector with the same again indirectly employed in sectors including banking, funding management, insurance, pensions and professional services.
- Entrepreneurship in Scotland has improved in the last 20 years and continues to improve, evidenced by Edinburgh being named British entrepreneurial city of the year 2016.
- Fintech global hubs are appearing all over the world including in London, New York, Silicon Valley and Tel Aviv. Scotland has many USPs over these locations around our talent, industry expertise, concentration and ambition in the ecosystem.
- Through the Fintech strategy group, Scotland has strong support across the board from both public and private sectors to take advantage of Scotland's Fintech position before its too late.

The potential economic contribution Fintech Scotland could make with its creation:



The future aspiration of Fintech Scotland

To become a global top 10 Fintech hub location that serves all aspects of the Fintech ecosystem & aspires to showcase Scotland's Fintech expertise on a global scale through international conferences & events. Talent must be at Fintech Scotland's core with innovation events, dedicated Fintech courses & challenges that will help future Fintech innovation to thrive in Scotland.

¹ Academics at Strathclyde University's Centre for Financial Regulation have estimated that Fintech has the potential to create nearly 15,000 jobs in Scotland over 10 years, while failing to adopt leading-edge technologies would have the opposite effect, with a loss of just over 14,000 jobs.

<https://www.strath.ac.uk/whystrathclyde/mediacentre/thefutureofFintechunderthemicroscope/>

² - As defined by the Fintech Steering Committee

Fintech Scotland business plan

Start-up journey for Fintech companies in Scotland

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It is important to recognise where Fintech Scotland's business activities will focus and the broader context of start-up and scale support in Scotland. The following slides summarises a typical start-up journey and highlights the role Fintech Scotland plays in helping support and scale new ventures. It will be important for Fintech Scotland to work alongside the broader support network and focus on adding value where there are gaps.

Value chain for Fintech companies in Scotland

☐ Areas Fintech Scotland can assist in the value chain

Services currently available				
Office Location	Pre start-up	Initial start-up (Seed funding)	Development and scale-up (Series A & B)	Exit and IPO (Series C & beyond)
Finance	Innovation space from ecosystem members to run events & challenges. This is only temporary office space & Fintech Scotland can help to provide more of this.	Incubators such as Codebase, Seed Haus & Torntine provide affordable office space for companies in initial growth.	No dedicated space currently exists for scale-up companies – <input type="checkbox"/> can help to tackle this.	Dedicated office space specific for businesses who are now fully mature in the market.
Support services	Events & opportunities funded by ecosystem members & Fintech Scotland to drive innovation and ideas.	Seed funding from angel investors & accelerator programmes in Scotland.	Series A & B funding from venture capitalists in Scotland and beyond as well as a dedicated Fintech fund for Scotland.	Series C & beyond funding including IPOs from global venture capitalists & other funding providers as well as support from a dedicated Fintech fund for Scotland.
Current support services mainly come from: Scottish Enterprise, FCA and Business Gateway. Fintech Scotland can help to bring all of this support together across the start-up journey & provide a single location for Fintech companies to receive the support they need for their business from additional source such as Academia.				