# Submission to Senate Inquiry in Australia's Innovation System

From: David Stonier-Gibson, Managing Director and CEO, SPLat Controls Pty Ltd. 15th July 2014

*Note: This submission reflects my personal views, not necessarily those of SPLat Controls Pty Ltd.*

**Executive summary:** Make a minuscule fraction of superannuation funds available to innovative start-ups.

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SPLat Controls designs and manufactures electronic controllers for a range of companies who make equipment that can benefit from smart controls (a "brain"). We have customers both in Australia and overseas, and we make their controls for products as diverse as air conditioners in Colorado, tread mills for camels (seriously!) in Qatar, salmon feeders in Tasmania, dentists' chairs in Holland and cow sheds in Pennsylvania. Our controllers also manage security turnstiles at *the* White House and New York Stock exchange. All this is to say that Innovation is what we are about.

Despite the intensely innovative nature of our company, and our broad geographic reach, we remain a small company. We are clever geeks, but we fail in matters of commerce. We can make clever stuff, but we have trouble selling it. We have never had any external finance beyond a modest overdraft secured against our homes, which is just about the only finance available to Australian SMEs.

In the USA the venture capital (VC) system has been a huge driver for innovation, especially in the Bay area and Silicon Valley. The VC system is characterised by investors who are prepared to invest in high risk start-ups, and who bring <u>not only money but management expertise to the table</u>. It is the combination of money and expertise that make it so powerful. Nevertheless, the VC investor expects 2 out of 10 ventures to fail, about 6 to be "so-so", and maybe one or two to be stellar performers.

A similar VC system has failed to emerge in Australia. Australians are simply too risk-averse, and the investment environment provides nice, safe, comfortable opportunities like, blue chip, mining and negatively geared real estate. Why would an Australian investor back a start-up with zero track record? There would certainly need to be some incentive.

**Australia has the 4th largest superannuation pot in the world – nearly $2 *trillion*. If 0.1% of that were made available to fund start-ups, that would be a pool of $20B. If each start-up "used" a generous $1M, that would be 20,000 well-funded start-ups. If the success rate were 10% (as is the expectation in the VC system), that would mean 2,000 brand new, highly successful, 21st century companies, in bio-tech, IT, computer games, mining technology, agriculture, food manufacturing and dozens of other fields. If "successful" means revenues of $10M (a totally modest number compared to the stellar performers in Silicon Valley!) and 100 employees, that would be adding $20B p.a. to the economy and 200,000 jobs. Which just happens to be a 100% annual return on investment.**

100% p.a. ROI? So why isn't it happening already? I think it's because fund managers need the comfort of safe "secure" investments, and the Australian psyche needs tax incentives. So why can't the government give those start-ups a 5 year tax holiday?

With tax relief as the carrot, there should also be a stick in the form of a mandated requirement that a percentage of the investment goes towards providing management and commercialisation support to the start-ups, much like the US VC system does. Geeks can innovate but they need solid business principles and experienced operators to guide them through the commerce.

Smarter business heads than me can flesh out the details. But the money is there to turn Australia into an innovation power house!