

# Financing of Clusters

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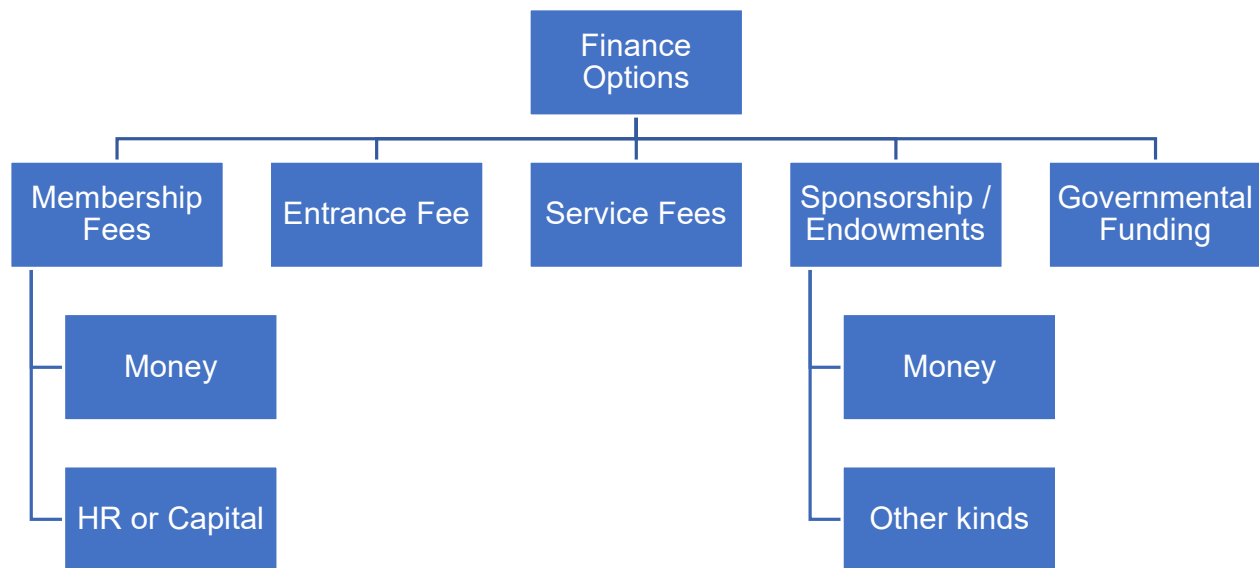
# Agenda

1. Introduction to financing problems
2. Different financial sources
3. Pros and Cons of various financial sources
4. Cost to be considered by cluster managements
5. Introduction to a financial planning tool

# 1. Introduction to financing problems

- Clusters require resources for
  - ↪ HR-cost
  - ↪ Non-personnel cost
- The financial resources shall
  - ↪ not limit the strategic directions of the cluster
  - ↪ show some continuity
  - ↪ not prevent potential cluster members from entering the cluster
  - ↪ provide incentives to cluster management and employees to act in an entrepreneurial spirit

## 2. Different financial sources



**Main Question: How to optimise the income of the cluster activities?**

## 2. Different financial sources: Membership Fees

- Questions to be considered:
  1. How much money is needed in what sequence?
  2. Shall all cluster members pay the same?
  3. How shall contributions be made (liquidity vs other resources)?
  4. What is the legal structure of the cluster? Who receives the contributions (in-kind vs. fees)?
  5. Regulatory requirements to cluster contributions (tax, social security etc.)?

## Pros and Cons of Membership fee financing

### ➤ Pros:

1. Constant income flow
2. Commitment of members
3. Solid financial base to establish longer term employments
4. Share of income can be used for actions beside HR Cost

### ➤ Cons:

1. Fee might keep potential members from joining
2. Instrument that enhances influence of larger actors
3. Frequent debates on the fee amount
4. Generates overhead cost (taxes, accounting etc.)

## 2. Different financial sources: Entrance Fees

- Questions to be considered:
  1. What is the impact of an entrance fee on various actors?
  2. Shall all cluster members pay the same entrance fee?
  3. What is the legal structure of the cluster? Who receives the contributions (in-kind vs. fees)?
  4. Regulatory requirements to cluster contributions (tax, social security etc.)?

## Pros and Cons of Entrance fee financing

### ➤ Pros:

1. Strong initial payment (used in clubs)
2. Actors do not have future obligations

### ➤ Cons:

1. Fee might keep potential members from joining
2. Instrument that enhances influence of larger actors
3. Generates overhead cost (taxes, accounting etc.)
4. No longer term planability



## 2. Different financial sources: Service Fees

- Questions to be considered:
  1. What are members to be willing to pay for?
  2. How to calculate the price of a service and what services are included in the membership fee?
  3. What is the legal structure of the cluster? Who receives the contributions (in-kind vs. fees)?
  4. Regulatory requirements to cluster contributions (tax, establishment of a legal entity etc.)?

## Pros and Cons of Service fee financing

### ➤ Pros:

1. Members just buy what they need
2. Actions by the cluster are under constant evaluation
3. Members commitment increases when they participate
4. Fair price for all members independently of their size

### ➤ Cons:

1. Not all cluster activities are service based
2. No long-term stability for cluster management
3. Competition with single service providers
4. Conflict with other financial resources

## 2. Different financial sources: Sponsors. / Endowm.

- Questions to be considered:
  1. What is the legal structure of the cluster? Who receives the contributions (in-kind vs. fees)?
  2. Regulatory requirements to cluster contributions (tax, social security etc.)?

## Pros and Cons of Endowment financing

### ➤ Pros:

1. Financial stability
2. Clear plannability of HR resources

### ➤ Cons:

1. Potential dependency on provider of endowment
2. Depending on the format of endowment overhead cost
3. Loss of independency of the cluster

## 2. Different financial sources: Governm. Funding

- Questions to be considered:
  1. Subsidy or contract?
  2. Requirements on subsidies (settlement, use of money)?
  3. What is the legal structure of the cluster? Who receives the contributions (in-kind vs. fees)?
  4. Cost of gaining subsidies?

## Pros and Cons of Governmental financing

### ➤ Pros:

1. Financial stability for funding period
2. Clear plannability of HR resources
3. Increase in reputation of cluster (cluster of excellence)

### ➤ Cons:

1. Lower incentive to gain partners into the cluster
2. High overhead cost
3. Influence by government on objectives
4. Creates conflicts with other financial resources

### **3. Pros and Cons of the various financial sources**

- There is no one best way in financing a cluster!!!
- The composition of various sources shall be linked to the strategy of a cluster and the financial requirements resulting from the strategy
- A major focus has to be laid on the composition of liquidity vs other resources

## Calculating the financial requirements of a cluster

- Use the excel file in the material folder. Agree to using macros the tool is verified by a virus scanner
- Planning basics:
  - ↗ Situation: Planning of a cluster in the wine-producing sector. Currently about 100 vineyards in the region, 1 university, some service sector companies (Marketing etc.) and 1 research lab
  - ↗ Cluster objective: Enhance innovativeness of the sector by introduction of natural wine.
  - ↗ Regional government is thrilled by the idea and might provide governmental funding



# Introduction the the excel sheet

- Explanation on how to use the excel

## Start the following actions

- What do you think a cluster could look like in the region
- Go to **Step 3** in excel to start your consideration on cost
  - ↗ Use HR planning sheet to calculate HR cost
  - ↗ Calculate non-personnel cost for the first 3 years
- Move to **step 2** to think about you potential income
- Move to **step 1** to add the cost to establish the cluster