

Open Disruptive Innovation (ODI) & the SME instrument: Frequently Asked Questions

1. The concept in a nutshell

The SME instrument is targeted at all types of innovative SMEs showing a strong ambition to develop, grow and internationalise. It provides staged support covering the whole innovation cycle in three phases complemented by a mentoring and coaching service. Transition from one phase to the next will be seamless provided the SME project proves to be worth further support in a further evaluation. Each phase is open to new entrants.

Phase 1: Concept and feasibility assessment

Objective: SMEs will receive funding to explore and assess the technical and technological feasibility and the commercial potential/economic viability of a breakthrough idea (proof of concept) with considerable novelty to the industry sector in which it is presented (new products, processes, services and technologies or new market applications of existing technologies). The activities could, for example, comprise risk assessment, market study, user involvement, Intellectual Property management, innovation strategy development, partner search, feasibility of concept and the like to establish a solid high-potential innovation project aligned to the enterprise strategy and with a European dimension Bottlenecks in the ability to increase profitability of the enterprise through innovation shall be detected and analysed during phase 1 and addressed during phase 2 to increase the return in investment in innovation activities.

Result: The outcome of this part will be a report ('business innovation plan' II). The results of this feasibility assessment could be that solutions already exist on the market (no further funding request), or that buying existing know-how or IPR could solve the problem (no further funding request) or that additional innovation activities are recommended (which could lead to application for funding in Phase 2). A possible outcome could also be that private finance for the development of the project is sought (see Phase 3 recurring to the financial facilities supported under the specific objective "Access to risk finance").

Funding/ Duration: Funding will be provided in the form of a **lump sum of EUR 50,000** ¹ for a project of **6 months**, but it could be longer if desired and justified by the SME. Time-to-grant should be about three months.

Phase 2: Innovation Activities

Objective: SMEs will receive funding for innovation projects that address a specific challenge and demonstrate high potential in terms of company competitiveness and growth underpinned by a strategic business plan and feasibility assessment either developed through phase 1 or another means. Activities should focus on innovation activities such as demonstration, testing, prototyping, piloting, scaling-up, miniaturisation, design, market replication and the like aiming to bring an innovation idea (product, process, service etc) to industrial readiness and maturity for market introduction, but may also include some research.

In exceptional circumstances, duly justified by the character of an area, a topic may provide for actions where the research component is strongly present, as an alternative to the innovation actions described above.

Result: At the end of Phase 2 participating companies should have developed a new idea (product, process, service) that can be deployed and launched on the market. The business innovation plan III to be developed by the end of Phase 2 will contain a detailed commercialisation strategy, including a financing plan describing how private investment will be attracted and used.

Funding/Duration: The EU contribution in the form of a grant is expected to be in the order of **500,000 to 2.5 million €**, but could also be higher in well justified cases. The funding rate is **70 %** (exceptionally, 100% where the research component is strongly present). The single applicable rate is specified under the relevant topic.

Average project duration should be **1 to 2 years**, but it could be longer if desired and justified by the SME. The time-to-grant is expected to be six months

Phase 3: Commercialisation

Objective: This part aims to promote the implementation and successful commercialisation of innovative solutions by facilitating access to private capital and first customers as well as offering support services.

The SME instrument with business-oriented evaluation and selection at stages 1 and 2 will provide for a competition at EU level allowing only projects of the highest quality and with the highest commercialisation potential to be funded. Successful completion of Phases 1 and 2 should therefore constitute in itself a "quality label" being conducive to market uptake and private investment.

¹ Commission Decision C(2013)8198 authorizing the reimbursement of cost under the form of a lump sum for SME instrument phase 1 actions under Framework Programme Horizon 2020 states that the total eligible cost for a phase 1 project is EUR 71.249. Applying the co-financing rate of 70%, the amount of the grant is established at EUR 50.000.

Result: In this stage the companies should successfully place an innovation (product, process, service etc.) on the market, which strengthens their competitiveness and boosts their growth

Funding / Implementation: This stage will not provide for direct funding, but SMEs can benefit from indirect support measures as well as access to the financial facilities supported under Horizon 2020.

Coaching

Objective: As foreseen in the Specific Programme a coaching and mentoring scheme for the beneficiary SMEs will be established relying on existing SME support networks. It aims to enhance the innovation capacity of participants, to help them align the project to their strategic business needs and to improve their business and management capabilities, thereby ensuring maximum economic impact from the support provided and long-term commercial sustainability of the project. Bottlenecks in the ability to increase profitability of the enterprise through innovation shall be detected and analysed during phase 1 and addressed during phase 2 to increase the return in investment from innovation activities.

Result: The participating SMEs develop an innovation strategy covering all business aspects that can still be adapted during the innovation project with the final goal to achieve substantial economic benefits.

Funding / Implementation: Each beneficiary of the SME instrument will be offered business coaching support during Phase 1 (up to 3 coaching days) and Phase 2 (up to 12 coaching days) in addition to the grant provided in these phases. The support will be provided through the Enterprise Europe Network (EEN) and delivered by qualified and experienced business coaches. Phase 3 does not include individual business coaching, but SME instrument participants will be able to rely on continued EEN support in linking to relevant support services within the Network, regionally and nationally.

Q.A.s

The following preliminary FAQs have been developed in the context of Open Disruptive Innovation (ODI). Please note that the SME instrument is a completely new scheme that will be implemented in H2020 for the first time in 2014. The following list of questions and the related answers are subject to evolve, in particular in early 2014 (as the first implementing period). It is recommended to check for any update of the FAQs in the Participant Portal: <http://ec.europa.eu/research/participants/portal/desktop/en/home.html>

- 1. Where, when to find additional information and guidelines? (which web pages?)**
→ *On the Participant Portal there will be a specific section dedicated to the SME instrument containing guidance documentation and templates at: <http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/>*
- 2. Any info-day or training is foreseen?**
→ *The first of a series of Info-days is on the 24/01/2014 in Brussels. Additional dates*

will be published on the Participant Portal under the dedicated SMEs Instrument section.

3. How to check if I am an SME?

→ EU definition at: <http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/>

Checking through a central web-based verification tool (supported “self-declaration”) to be available in the specific section dedicated to the SME instrument on the Participant Portal. This tool should be available on first opening of submissions to the scheme in March 2014.

4. Can I apply as single entity?

→ If you are an SME, yes

5. Can other legal entities other than SMEs participate in the SMEs instrument?

→ Only a single for-profit SME² or a consortium of for-profit SMEs can apply for funding under the SME instrument. Other partners like research providers or larger companies can be involved as third parties, for example in a subcontracting relationship.

6. The eligibility conditions require no concurrent submission or implementation with another phase 1 or phase 2 project. Does this concern only the coordinator or all partners? For example: can a SME who is partner of a SME Instrument project proposal phase 2 submit a proposal as coordinator of another project in phase 1 ?

→ No, the eligibility condition applies to the SME project coordinator as well as all SMEs participating in a project. Maximum one application or project per SME under the SME instrument at a time.

7. Can a SME submit a proposal to the SME instrument and at the same time to another topic of the work programme?

→ Yes

8. Can SMEs from third countries participate?

→ Only applications from SMEs established in EU Member States or countries associated to Horizon 2020 are eligible for funding. In principle, SMEs established in third countries could be involved as third parties, for example in a subcontracting relationship.

9. Lump sum funding in phase 1 (EUR 50,000)

- Does the lump sum entails own costs by applicants?
- How does this relate to the 70% co-financing rule?

² For-profit SMEs’ means micro-, small- and medium-sized enterprises, as defined in Commission Recommendation 2003/361/EC, that are not 'non-profit legal entities' as defined in Article 2 of the Rules for Participation and Dissemination ('legal entity which by its legal form is non-profit-making or which has a legal or statutory obligation not to distribute profits to its shareholders or individual members').

- Is a standard budget breakdown needed with the proposal submission?
- To what extent is subcontracting allowed for the completion of aspects of a feasibility study?

→ *The lump sum for phase 1 has been established by the Commission on the basis of objective statistical means. Commission decision C(2013)8198 authorizing the reimbursement of cost under the form of a lump sum for the SME instrument phase 1 actions states that the total eligible cost for a phase 1 project is EUR 71,249. Applying the co-financing rate of 70%, the amount of the grant is established at EUR 50,000.*

→ *No detailed cost declarations by applicants are necessary. There is a standard budget table provided in the specific template for the technical annex for Phase 1 proposals, which needs to be used. The description of work (feasibility study) in the application must demonstrate that it corresponds to the total eligible costs.*

→ *Sub-contracting is possible, but needs to be justified.*

10. Is direct funding possible for all 3 phases of the instrument?

→ *Direct funding for SME is proposed only under Phase 1 and Phase 2.*

For phase 1, it is a lump sum of 50 K€;

For phase 2 the funding cover part (i.e. 70%) of the direct eligible costs linked to the project.

For phase 3, no direct funding for SME is proposed.

11. For SME instrument Phase 1: If it is a shared project with two companies is the feasibility award grant limited to 50k or is it 100k?

→ *50K lump sum will be granted to the proposal therefore for the whole consortium*

12. For SME instrument Phase 2: Are different funding models possible for different partners or tasks?

→ *The same funding model will apply for phase 2 of the SME instrument, whatever the tasks and partners are. It is 70% (of the direct eligible costs).*

Exceptionally this can be different for some specific topics/area addressed through the SME instrument. In that case, this is specified in the call text.

Therefore no combination of different funding models (eg 100% or 70%) is possible for one project supported through the SME instrument.

13. What are eligible direct costs in the SME instrument?

→ *Direct costs related to the implementation of the projects, such as personnel costs, travel, equipment, infrastructure, goods and services. Please refer to the financial guidelines and related documentation published on the Participant Portal for more details.*

14. Is there a limitation to participation of beneficiaries to a maximum number of applications/projects at any time regarding the SME instrument?

→ *Only one application from the same company (ies) is allowed per cut-off date. So one cannot apply for phase 1 and phase 2 at the same time, nor can apply for two or more different projects in phase1 or in phase2 at the same time.*

15. Are there guidelines describing or illustrating what is expected in the application for the three phases of the SME Instrument?

→ For Phase 1 and 2, these are described in the Standard Proposal Template included in the call (e.g. see Participant Portal; SME instrument, see topics and documents for phase 1

<http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/topics/2557-ict-37-2015-1.html#tab2>

and for phase 2

<http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/topics/2589-ict-37-2014.html#tab2>

There is no direct funding for SME proposed under phase 3, therefore no template is foreseen for that.

16. Are there guidelines describing the readiness of the prototype?

→ There is a Technology Readiness Level sequencer in the General Annexe G of the work programme

(http://ec.europa.eu/research/participants/data/ref/h2020/wp/2014_2015/annexes/h2020-wp1415-annex-g-trl_en.pdf).

This allows you to situate your proposal and proposed solution.

17. How developed should my business model be at submission stage? Do you have examples I can refer to?

→ It depends on the Phase you are applying to.

For Phase 1 an initial business plan and underlying business model should be outlined. The aim is to come to and an elaborated one as one of the main outputs from the project.

For Phase 2 at submission stage the proposal will have to contain clear references to a well elaborated "business plan".

Please refer to the guidance documents, the submission templates, and contact your regional Enterprise Europe Network (EEN

<http://ec.europa.eu/research/participants/portal/desktop/en/support/enn.html>) member National Contact Points (NCP:

http://ec.europa.eu/research/participants/portal/desktop/en/support/national_contact_points.html) in case of doubts.

18. What is intended by "market replication"? (how many countries should be covered by the replication)

→ That depends on your proposal (not an eligibility criteria), knowing that the higher number of countries the higher your business opportunity to reach wider deployment for commercialisation will be.

19. To which extend R&D can be supported?

→ The core of the work to be supported by this scheme concerns close to market

activities with TRL 6 and higher. However, some parts of the works might be related to lower TRLs.

20. What is EEN and what will it do for me? How should I approach the EEN and other support networks?

*→ EEN stands for Enterprise Europe Network: <http://een.ec.europa.eu/>
All EEN members are listed on the web. Those members are tasked to provide information on EU programmes and actions, such as the H2020 and notably on the SME instrument. Contact your closest regional EEN from EEN site <http://een.ec.europa.eu/>*

21. What are the relations to or differences from Eurostars (in terms of scope and in terms of type of projects if relevant). Can the funding be combined?

→ Eurostars projects are transnational low(er) TRL activities of research-intensive SMEs. The SME instrument will support (all) innovative SMEs with growth potential and activities TRL 6 and higher.

22. What about matching fund (for covering the 30%)?

→ It has to come from the applicants. It can be from different sources, eg own resources, private investment etc, but no double EC funding for the same project is allowed.

23. Which financial validation is required to be funded in phase1 and phase2?

→ Single SMEs applying for the instrument will be verified according to the normal rules, but the results will not be taken into account for granting the lump sum. This method speaks for a preference to enter the scheme in Phase 1 (rather than directly in Phase 2). In that case, a company with a weak financial viability will be given a smaller grant (lump sum) and a relation will be established which makes it easier to provide a Phase 2 grant.

→ For a company entering directly Phase 2 with weak financial viability, more stringent measures might be applied (smaller/no pre-financing, shorter reporting periods, etc.). For consortia of SMEs the normal H2020 requirements apply.

24. Is it possible for a start-up (without balance sheet) to apply? For phase1 and for phase 2?

→ Start-ups are not excluded but the SME instrument is not meant as a company creation vehicle/instrument but rather as supporting instrument to the growth of the companies with interesting, innovative ideas bearing European or global potential.

25. Which guarantee to provide for phase1 going to phase2?

→ None. The results from Phase 1 will be scrutinised as all other proposals applying to Phase 2

26. Are Phase 3 activities implemented in parallel or as follow-up of phase2?

→ Coaching and mentoring will be available for Phase 1 & 2.
Additional activities related to Phase 3 can include: Promotion of the instrument and successful projects through quality label, facilitation for access to private finance, support via networking, training and information, addressing i.a. IP management, knowledge sharing, dissemination. Part of these, e.g. the connection with investors, should start already in Phase 1 in order to be effective.

27. How should I know which topic my proposal fits best in? (Centre of gravity...)

→ Reading the scope description of the topics in the work programmes (eg ICT37: ODI in LEIT ICT WP2014-15), or in the participant portal, and/or discuss with your EEN or NCP (see also next question).

28. Can I submit a pre-proposal for a check?

→ Concerning the SME instrument, there is no pre-proposal checking facility foreseen in 2014. It might come at later stage. Support activities can be provided by EEN and NCPs.

29. Can I have non SME-company in the consortium? What to do if I need a non SME partner in the project?

→ Only SMEs can apply to this instrument, however when specific part of the work need to be carried out by non-SMEs entities, these will have to be included as subcontractors.

30. Which level of subcontracting is allowed (>%) ? Which conditions apply?

→ Today, there is no formal limit set to subcontracting.

However a too important part of the work being subcontracted may raise questions on the motivation or capacity of the SME to implement the project. Experience would tend to set a limit of subcontracted activities around 50% of the total work needed for the project.

→ To be noted that subcontractors should be chosen based on the “best value for money” principle, i.e. the SME explains why this entity has been chosen (e.g. especially known for its expertise, long standing relations, but also best price is a possible criterion). Details on the implementation of this principle are included in the submission template (Phase 2).

31. If I succeed Phase 1, will I have more chances to successfully access Phase 2?

→ Not necessarily. However support in Phase 1, including coaching, should help maturing the project and provide an advantage if well exploited.

→ Phase 1 supports SMEs to explore and assess the technical and technological feasibility and the commercial potential/economic viability of an innovative breakthrough idea (proof of concept). Bottlenecks in the ability to increase profitability of the enterprise through innovation shall be detected and analysed during phase 1 and addressed during phase 2.

→ Proposals for Phase 2 shall be based on a feasibility assessment and contain an elaborated business plan, either developed through SME phase 1 support or other

sources. SMEs will receive funding for innovation projects that address a specific challenge and demonstrate high potential in terms of company competitiveness and growth underpinned by the phase 1 report or equivalent means.

- 32. What if the result from Phase 1 is that the solution is not technically feasible or business viable? Will I nevertheless get the whole EC contribution (for phase1)?**
→ *Yes, this would be a completely acceptable outcome of the feasibility assessment to stop the project after phase 1 if the technical/technological and/or commercial viability of the innovation idea could not be demonstrated. If the reporting obligations are fulfilled, the lump sum will be paid for a completed feasibility study, also if it is not planned to continue with an application for phase 2.*
- 33. Do I know the result of my application earlier if I submit earlier?**
→ *We aim at evaluating every proposal upon its arrival, mostly depending on last minute legal checks. Those proposals failing thresholds should receive information right after their evaluation. Those above thresholds should be informed that they are kept for a selection round to be launched at the corresponding cut-off period.*
- 34. Is there a template for the application in phase 1 and in phase 2?**
→ *The templates for different proposal phases are to be published in the SME specific section on the Participant Portal.*
- 35. Is there a minimal budget for phase 2?**
→ *As a general recommendation, this will depend on project intended work and consortium size. The Commission considers that proposals requesting a contribution from the EU of between EUR 0.5 and 2.5 million would allow phase 2 to be addressed appropriately (in ODI the EU contribution represents 70% of the budget of the project).*
- 36. How do I declare the costs of a phase 2 projects and what are eligible costs?**
→ *By applying the general rules established for H2020. Allowable costs are all direct costs related to the implementation of the projects, such as personnel costs, travel, equipment, infrastructure, goods and services. Please refer to the financial guidelines and related documentation published on the Participant Portal for more details.*
- 37. Is there an advance payment? (phase 1 and phase 2)**
→ *Yes. For Phase 1, it is foreseen an amount of 20.000 €. For Phase 2, this might depend on the financial viability checks.*
- 38. Are there reviews for the project?**
→ *Yes, one at the end of phase 1. Periodic reviews for Phase 2 projects.*
- 39. Are there limitations for multi-applications ?**
→ *Only one proposal or running project, in either Phase at the time per SME (legal entity), is allowed at a time.*
- 40. What are the evaluation and selection criteria – including sub criteria - for an application?**
→ *Templates, including evaluation criteria and guidance are published on the*

Participant Portal. Please refer to the specificity of the SME instruments when consulting the set of evaluation criteria. (see topics & documents e.g. <http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/topics/2589-ict-37-2014.html#tab2>).

- 41. Which type /number of coaching/days is offered? Phase 1? Phase 2?**
→ *Business/management coaching, up to 3 days in Phase 1, and up to 12 days in Phase 2.*
- 42. Any other services offered by the scheme?**
→ *The full range of EEN service (please refer to the respective information on the EEN website) as well as services to be developed under Phase 3 (see above).*
- 43. Our concept would be of great interest to our market competitors. What are the measures to ensure confidentiality in both evaluation phase and in phase 1, development of business plan**
→ *Experts evaluators are bind by confidentiality agreement and conflict of interest will be detected and neutralised in advance to proposal allocation to experts. Project outputs will be qualified by different confidentiality levels up to publishable results, according to the business plan requirements. Commission staff as, well as independent experts, are bind to strict confidentiality rules.*
- 44. What will be the benefits of entering phase1? I see the risk that our competitors will hear about our concept in the frame of action meetings or dissemination measures, and we may lose some time advantage.**
→ *Phase 1 projects should be quick and produce restricted deliverables therefore dissemination activities are limited to looking for potential future clients and or partners.
Phase 1 is not mandatory but rather recommended in case you need to mature your idea/project.
If you are convinced that you have successfully carried the work corresponding to phase 1 (eg have a sound business plan, etc).and are ready for the activities of phase 2, then it make sense to apply directly to phase 2.*

Experts for evaluation/coaching

- 45. Is it possible to apply as evaluator though we plan to submit a proposal?**
→ *Yes, provided the evaluation tasks are not carried out in the framework of the own submitted proposal.*
- 46. Where/when to apply if I want to be an evaluators / a coach**
→ *For evaluation: The call for expression of interest to act as an expert/evaluator is published on H2020 Portal since 11th December 2013.
<http://ec.europa.eu/research/participants/portal/desktop/en/experts/index.html>
For SME coaches, further information should to be provided.*
- 47. Which type of contract?**
→ *Service Contract for a given amount of days.*

For ODI (Open Disruptive Innovation)

48. Is it possible to elaborate on the term disruptive?

→ *"Disruptive innovation encompasses any innovative concept, product and service that create new markets by applying new sets of rules, values and models which ultimately disrupt and/or overtake existing markets by displacing earlier technologies and alliances". This initial definition is complemented by the Blue Ocean Strategy that suggests that "an organization should create new demand in an uncontested market space, or a Blue Ocean, rather than compete head-to-head with other suppliers in an existing industry". By Clayton M. Christensen*

49. How will I know if my idea/solution is disruptive enough? Is there any example, reference guide, quantitative measure to assess disruptiveness, self-assessment tool I can refer to?

→ *There is no specific/systematic way to assess the extent of disruptiveness of a solution. The assessment needs to be built on the innovative and competitive positioning of concept itself with respect to the existing solutions, market dynamics and receptivity.*

50. A few examples of Disruptive products:

→ *As historical examples: The pocket calculator, digital photography; the mobile phone, skype, the iPad ... the micro-finance model that created a fully-fledged parallel banking system...*

51. Is disruption limited to markets or also to models (supply chain, alliances/PPC, production, distribution, etc.)?

→ *Disruption encompasses alternative ways to deliver services and doing business through innovative alliances and business models.*

52. Do I understand correctly that ODI will use the same rules and means as the SME instrument – so that in fact ODI can be regarded as a particular case of the SME instrument with a specific focus?

→ *This is indeed the case. The specific focus is on "ICT related disruptive innovation"*

53. Will there be "open" calls targeting innovative SMEs, or only calls using the SME instrument covering broad themes within LEIT and SC?

→ *There will be open calls in broad themes to be implemented through the SME instrument (see the list of SME instrument related calls for 2014 and 2015:*

http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/ftags/sme_instrument.html#c,topics=flags/s/SME/1/1)

Within ODI as one of those broad themes, there is no prescription in terms of areas to be covered.

→ As a general rule, *single SMEs or SME consortia can submit their proposal at any time for support through the SME instrument.*

54. We have a new, innovative and high risk concept in our area. But at this stage, it is difficult for us to quantify if it leads to “ultimate disruptiveness”. Would it still be admitted as potentially disruptive solution?

→ *This will be assessed by the evaluators based on the elements provided in the proposals*

To be continued...