

Financing and support for startup companies

Introductory materials on Incubation Models
BSR InnoReg Transnational Training Module 3
15–17 September 2010, Riga, Latvia

Heinz Fiedler
President, SPICE Group

Overview

- m **Business Incubator Definition**
- m Incubator Structures
- m Revenue Paths
- m What's next?
- m Challenges

General goal of the TTM

- To introduce to different models of business incubation
Some general global models to start and run business incubation.
- To generate discussion about different kind of good practice

Most important is discussion between the participants to gain insight into practical experiences

7,000 Business Incubators world wide and three decades of experience

Most in Europe, North America, and Asia
Latin America / Africa catching up

- Definition of "business incubation" differently adopted
- No consistent data / statistics available

Definition of “business incubation”

adopted differently

Good reasons:

Different aims, environments, and problems require different tools

- “high-tech / low-tech / no-tech”
- sector / entrepreneurship focus

However, this diversity leads to difficulties with

- transferring “the message”
- generating understanding
- creating a “brand”

Incubator Evolution

History Past generation	Real estate and shared services Ad hoc business advice
Presence Living generation	+ business development program and coaching Proactive business help
Future New Generation	+ Partnering with the business + Finance for clients: channels to external providers or in house equity/ debt + International business activities + ?????

Incubator Structures

Depending on partners

- University / Research
- Public Sector
(Policy / Government / Economic Development Agencies)
- Private Sector
(Industry, finance, real estate)

Incubator Structures

Depending on partners

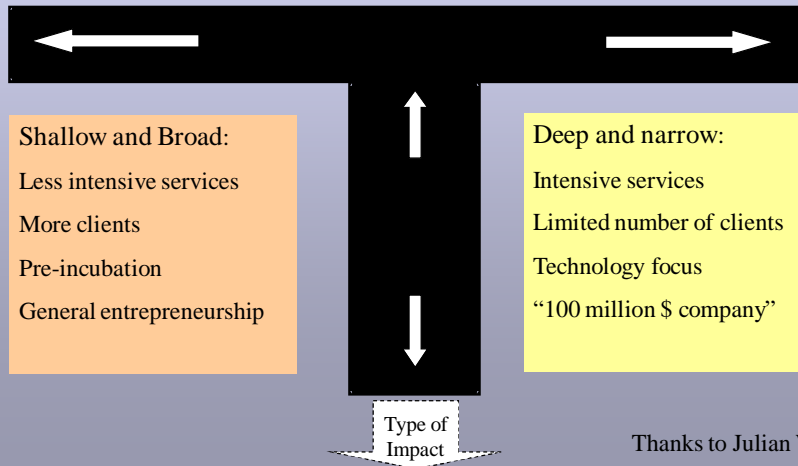
- University / Research
- Public Sector
(Policy / Government / Economic Development Agencies)
- Private Sector
(Industry, finance, real estate)

Depending on interests and aims

- Job creation
- Technology Transfer
- Technology Focus
- For profit / not-for-profit
- Create entrepreneurial climate
- Generate role models

Intensity of incubation activities

Deep and Narrow **or** Shallow and Broad incubation



Incubator Structures

Depending on partners

- University / Research
- Public Sector
(Policy / Government / Economic Development Agencies)
- Private Sector
(Industry, finance, real estate)

Depending on interests and aims

- Job creation
- Technology Transfer
- Technology Focus
- For profit / not-for-profit
- Create entrepreneurial climate
- Generate role models

Or (even) more specific examples

- Generate income from technology commercialization
- Generate export revenues

Revenue Paths

Real life does not follow models

Concrete situation defines needs and potential

Aims and potentials define revenue paths

Revenue Paths

Rental models

- Rent 40-60% of revenue (Europe) and up to 90%
 - Still the most common globally
- Sustainability:
 - size of building
 - USA & Europe 3-4000m²
 - China 6-10,000m²++
 - Australia 1,500m²
 - free building or favourable terms
- Scale: development towards technoparks and clusters
- Lean staffing
 - 2-5 typical depending on scale and economy
 - Strong networking for business support
- 20-30 resident clients +
- Manager client ration of 1 manager : 20-30 clients
- Network for other resources:
 - Mentors, business training, finance, building maintenance etc

Revenue Paths

Rental models

Pros and Cons

Pros

- Relatively simple
- Proven
- Majority of incubators
- Suits different incubator types
 - Self sufficient examples
 - Self sufficiency in 2-5 years

Cons

- Rent alone not enough to cover intensive support
- Danger of ‘within walls’ focus
- Danger of becoming purely real estate

Revenue Paths

Success sharing with clients

- Sharing in the success of clients by:
 - Small equity stake as a condition of incubation (up to 5%)
 - &/or own funds invested
 - Royalty arrangements on gross sales for a period – 2% to 5%
 - Brokerage fees for capital raised
- High calibre management with Venture Capital knowledge
- Very intensive support
- Critical mass of around 20 clients
- Management staff to client ratio of 1:5 or 6 (ideal)
- ‘Leading edge’
- Examples: New Zealand, Australia, USA, Israel, India

Revenue Paths

Success sharing with clients

Pros and Cons

Pros

- Mission alignment
- Not restricted to clients 'within the walls'
- Can incubate existing SMEs
- Suits high growth and technology incubation

Cons

- High calibre management needed (diaspora?)
- Local capital markets needed
- Takes up to 10 years to be self sufficient
- Some cultures see a conflict of interest
- Width of impact possibly limited

Revenue Paths

Ongoing Government or Donor Funding

- Integrated with government policies
- Long term reliable funding
- Self sufficiency with government as the market (paying for the services)

Examples

- Israel
- Iran
- Mauritius
- Europe

Revenue Paths

Ongoing Government or Donor Funding

Pros and Cons

Pros

- Allows management to focus on helping clients rather than chasing \$
- Allows business incubation where
 - market is not developed or small
 - entrepreneurship is not developed

Cons

- May dilute business approach and not be run as a business
- Government and donor \$ are not always reliable long term sources of revenue, with exceptions (e.g. Israel)

Revenue options

Consulting

Training

Outreach services

Sponsorship

Project Funding

Advisory

+++???

But....

these options can be a distraction, leaving no time for incubation (unless strictly related to the core business of incubation)

The best approach?

There is not one “best model”

Real Life: Between the Models

because need to

- adapt to local potential and business environment (not simply “copied” from elsewhere)
- have diversified revenue sources

What's next?

Integrative Approach

Possible opportunities and developments

Technology *and* business incubation

e.g. to address environmental challenges, integrate technology transfer

Business *and* social development

e.g. to address social needs (minorities, regional)

Internationalization

“softlandings”, co-incubation, international technology transfer

What's next?

Outreach and Impact

beyond “the walls”, ICT use, virtual incubation,, targeted incubation (women entrepreneurship)

Finance for client firms

equity , debt, seed & venture finance

Incubation System

awareness (business plan competitions), pre-incubation, incubation, post incubation (“alumni”)

Innovation and entrepreneurship

Technology / science parks , clusters



Develop the Enterprise Eco System

“Concept Business Incubation”

Main components

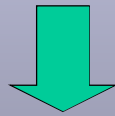
- **Entrepreneurship**
potential is determined by many factors, e.g. attitudes and habits, laws & regulations, local / regional potential
- **Innovation**
technological innovation as well as social innovation
- **Market**
local, national or international markets - depending on type of business / incubator
- **Networks**
functioning local / regional networks are key to success

Beyond Incubation

Creation of Environments for Innovation and Entrepreneurship

Place – incubator → park → cluster

Process – incubation, cluster /park management



Business environment

Challenges

Business environments: varied, changing, and often challenging

Innovation required, especially for rural development and minority or women focus

Knowledge Transfer from large industrialised and developed economies to smaller and less developed economies / between regions of different culture

Making incubation relevant and effective

Scepticism of Donors and Shareholders (multilateral, bilateral and national)

Often based on concrete experience but related to out dated forms of incubation

Challenges

for Business Incubation (Programs)

Secure quality of business incubation services

Improve quality of business incubation services

Develop and offer new services

Foresee the future - prepare for coming demands

Meeting the Challenges

Monitoring, Evaluating, Benchmarking

For better understanding what happens and why – and what needs to be done for improving incubator performance

Some tools available:

infoDev: MEIA (Monitoring, Evaluation and Impact Assessment) program. Tool supporting BI management with monitoring and evaluating performance. Basis for international comparison.

Private sector developments, for example system developed by QLBS (New Zealand). Initially was designed for monitoring development of individual businesses / adapted to the needs of BIs

EU Benchmarking Study resulted in first set of benchmarks (in 2002 / updated 2005) and concluded that differentiation is needed

SPICA Directory Online a tool developed for self-learning and further development by users

Meeting the Challenges

Certification

ADT: since 2001 certified 27 BIs in four main areas: Start-up support, technology transfer, economic development promotion, and sustainability

SSTP: since 1998 certifies all member parks

Training

Different approaches e.g. infoDev, ADT, VTOE, NBIA

Networking

Exchange information, experience, know-how, views

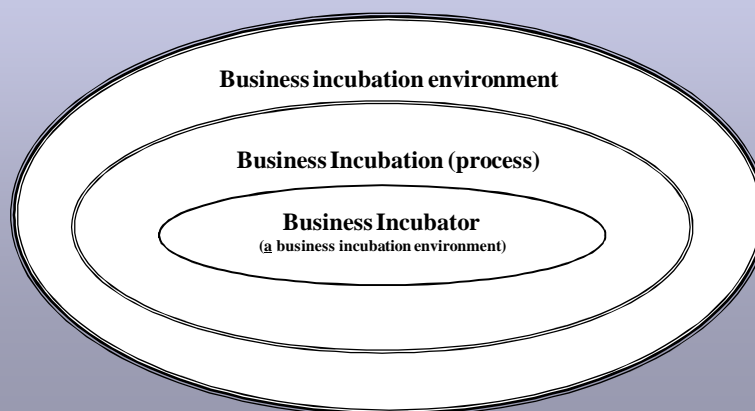
Meeting the Challenges

... is taking advantage of the opportunities

Attachments

What is a Business Incubator ? The “simple definition”, part I

adopted by the International Summit in New Delhi, October 2004



www.spice-group.net/summit

The “simple definition”, part II

The (wider) **Business Incubation Environment** is the wider context which should be conducive to the sustainable nurturing of growth potential and the development of enterprises.

Business incubation (process) is a public and/or private, entrepreneurial, economic and social development process designed to nurture business ideas and start-up companies and, through a comprehensive business support program, help them establish and accelerate their growth and success.

The **Business Incubator** is a physical space or facility that accommodates a business incubation process.

www.spice-group.net/summit

The comprehensive definition

adopted by the International Summit in Richmond, USA, May 2003

A **Business Incubation Program** is an economic and social development process designed to advise potential start-up companies and, through a comprehensive business assistance program, help them establish and accelerate their growth and success. The main goal is to produce successful businesses that will leave the program, in a timely manner, financially viable and freestanding. These graduates create jobs, revitalize communities, commercialize new technologies and create wealth for local and national economies.

Critical to the success of a Business Incubation Program is:

- Management that develops and orchestrates business, marketing and management resources and relationships tailored to the needs of the business clients
- Shared services, training, technology support and equipment
- Selection of clients and an acceleration process by which businesses become more independent and progress to graduation
- Assistance in obtaining the financing necessary for business growth

Business Incubation Programs gain added value by providing access to appropriate rental space and flexible leases in an incubator facility.

Note: In this definition the term “Business Incubation Program” may be replaced by the words “Business Incubator”. Furthermore the Summit acknowledged that depending on the specific situation in a country the provision of appropriate rental space may be added to the critical success factors.