

Plenary 7A: Sustainable Business Incubation Models

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The story of a Prosperator....

The basic ingredients.....luck, perseverance, a committed team who believe. Built the business on business drivers. First two businesses were cash positive and gave him immediate cash flow. Then took in pre-profitable businesses – went into the red. Took another 5 years to become cash positive again – required perseverance. Need a team who believe that they are part of something sustainable, world class and cutting edge.

Established in 2000 – have had no government funding. Key was that he has something to learn. The second Prosperator took 3,5 years. Have multiple sources of income. Look for any profit generating opps. Target market was post-revenue and pre-or post-profit. Now do pre-start-ups and focus on institutions.

1. Take equity
2. Take a fee.

Are planning 7 Propserators. Have 3000m2 and 200 clients. Have virtual, resident and distant. (Virtual – resident elsewhere but come in for the services), distant – they take services to the business.

Equity model

Not sector specific, focus on selection, take 33.3% equity, have a monthly 20% of net profit, they have a monthly commitment and consumption fee. Focus on post-revenue SME. Guarantee that after 18 months they will be more successful.

Fee-based

Charge a fee per programme, upside lock-in – want to share in their success. They pay a monthly commitment fee.

Are looking to attract more equity opportunities.

No exit strategy – the mature ones become and economy for the new ones.

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1. Choose the best (have a serious selection process – 5% make it through the process)
2. Give them the best (guiding, training, sense of community, etc)

3. Ensure Efficacy (companies have to graduate to next level (i.t.o. financial progress, entrepreneurial progress, entrepreneurial progress))

Their resource needs decrease with time as they start generating resources.

Structural impediments to sustainability: jealousy gene, head over heart, bums on seats.

Psychological support is very important as entrepreneurs want to give up. They are given an executive coach to support and push them. They pay approx \$500/month for non-resident, and \$600/month for resident.

Rina Pridor, Founder and Director Israeli Program of Technological Incubators, Israel

10 years ago there was mass emigration from the Soviet Union and popn of Israel increased between 10 – 15%. Israel had to respond. The Ministry of Industry and Trade looked at US model of incubation. Wanted to give every idea a chance to prove itself. Objective was to develop innovative technological ideas to start-up and to qualify for first round funding. This was forced by a need to survive. Their secondary objectives were to encourage and strengthen new immigrants, peripheral regions and minorities; expose young students to entrepreneurship; support preferred technological areas; create a creative entrepreneurial culture.

Measure of success was that after the incubation period (2years) the company can raise the first round of funding.

Entrepreneurs get everything they want, but must accept the discipline imposed by the incubator. This is necessary to secure the \$500k from the government per company. Government supports 85% of the budget, and the entrepreneur provides the balance. Government provides \$35M per year to support this annually. At first round funding the entrepreneur usually provides 50% of the funding. The projects must demonstrate a high level of innovation; must be at a very early stage; must be R&D projects, etc.

Have graduated 342 companies, of which 65% have succeeded in raising their first round of finance. BUT government funding was necessary to invest in the first two years in the “vague” ideas, whereafter private money could follow.

Carlos Alberto Schneider, President CERTI Foundation, Brazil

What is meant by sustainability? An incubator should have proper conditions to ensure its survival. It must be economically sustainability, and must have economic impact on the region. It must also bring social sustainability – youth and job creation. Also environmental sustainability should be considered. Also need to consider the most advanced technologies and innovation.

Raw material: There should be sources of entrepreneurship talent. Sinapse for innovation – a system supported by the web. It is linked to 42 incubators in the state of Santa Catarina. It links into many different support organizations. The system generated 1632 ideas from which 200 ideas were extracted. In a participatory selective process 60 were selected, and each received \$25 000 each to

develop their ideas into businesses. The system encourages academics and the private sector to engage via the portal.

They have 40 companies in 10 000m2 in the incubator in Florianopolis. www.certi.org.br

Dr Tuan Pham, Director CRC-TOPIC of Business Incubator Hanoi University Tech, Vietnam

Started with a grant from infoDev in 2004. Incubated 9 start-ups, of which 4 graduated. Have also rolled out 64 learning centers in 64 provinces – these are sustainable. Space limitations restricted rental income opportunities. Income from service fees and equity problematic as the companies were not cash positive. Microsoft provided a grant for setting up training centres. But these centres did not add sufficient value to develop sustainability. Now offer bachelor degree programs in Business, Accounting and ICT and share the revenues with the univ.

Lessons learned: find good ways to create value for clients; multiple donors are great; grow a good team.