

Summary of the High Growth Session

The objective of this session was to present the advances of the infoDev's supported international working group on incubation of high growth ICT companies, and to discuss these in light of relevant success cases taken from the experience of Jeff Milanette (Innovative Partners) and the specific experience of SmartXchange, an ICT hub in South Africa.

Sebastian Melin (Octantis Business Accelerator, Chile) and Bagrat Yengibaryan (Enterprise Incubator Foundation, Armenia) are the leaders of the high growth incubation working team. Sebastian gave an introduction to the working team, highlighted core challenges to ICT business incubation, identified lessons learned, and concluded with methodologies and tools that should help with the incubation of high growth ICT-based companies.

The high growth group is comprised by organizations in about 15 countries. The main activities carried out by the group include: (i) the exchange of company portfolios across working group members; (ii) the elaboration of a toolkit for incubator managers; (iii) interviews with world class references; (iv) use of LinkedIn as an on-line networking tool; and (v) a networking event in Miami. This event was recently held (week of October 19, 2009) and counted the participation of 5 entrepreneurs and 6 incubator managers from working group member organizations, getting exposure to the American market.

Core challenges to incubation of high growth ICT business include: (i) attracting quality deal flow, which implies having the right marketing for the incubator, to make sure to attract entrepreneurs with adequate potential; (ii) relatively short windows of opportunity or time to reach the markets; (iii) availability of early stage financing; (iv) maintaining the entrepreneur focused, continuously working on future developments and behind new opportunities pertaining to their core business; (v) early connection of the entrepreneur with the market, by way of solving a real need in the market and reflected in early sales; (vi) building of effective presentations skills in entrepreneurs, as a key to attracting investors; and (vii) building teams (as opposed to the "lonely" entrepreneur), incorporating talent and forming effective management teams.

Lessons learned so far include: (i) the importance of the incubation ecosystem ("networked" incubation, the network is the incubator); (ii) the value of peer to peer learning; (iii) access to capital is good, but smart money is even better; (iv) innovation is not about technology, but about creating new value to clients and to gather some of that value for the company; (v) the team is critical: no good opportunity can be fully seized by a weak team, the team can grow and changed if needed.

Several methodologies and tools were identified to help foster the creation and growth of ICT enterprises: (i) matching of people and co-entrepreneurs as a means to strengthen teams; (ii) solid tutoring and mentoring programs, where mentors may evolve into investors, partners or directors in the incubated company; (iii) co-incubation; (iv)

building of entrepreneurs' sales skills (e.g., peer to peer sales training session); and (v) use of Web 2.0 tools (e.g., Twitter, Face book, Blogs) for the marketing of the incubator. Finally, Bagrat Yengibaryan explained his work elaborating the toolkit for incubator managers, which should be available shortly.

Jeffrey Milanette, CEO, Innovative Partners, focused his presentation on the importance of sustainability of the ICT incubator to produce in turn high growth companies. The objectives of a sustainable ICT incubator include the following: (i) provide a safe, stable and secure place to start and grow ICT companies; (ii) create employment in both ICT and other markets; (iii) promote development through training and education; (iv) provide strong management and leadership; (v) provide access to equipment required by the client companies; (vi) be a focal point of entrepreneurial activity and networking, providing access to the business community and potential partners; and (vii) provide referrals to sources of capital.

ICT incubator managers know that the following elements are essential for achieving sustainability: (i) scalable incubator model; (ii) real estate is major cost driver; (iii) sustainability is achieved by rents, fees, equity and other innovative programs; (iv) companies need both working capital and expansion financing; (v) corporate sponsors are important; (vi) incubator brand identity is key for efficient market reach; (vii) both, public and private sectors must be engaged; and (viii) graduate support is required in a number of areas such as marketing, sales, accounting, legal and networking.

According to Jeffrey's experience, a typical ICT incubator can be described as having a management staff of 3 to 6 people for a group of 20-30 clients residing in a 2,000 square meters facility for a period of about 3-5 years. The incubator is financed by the public sector and various partners, and it may take 7-10 years until full development. In addition, a "post graduate" facility integral to the program is very important.

Finally, measuring the economic impact of the incubator is important, and this should reflect: (i) employment created / value; (ii) year-on-year growth of companies; (iii) aggregate client company annual turnover; (iv) aggregate financing raised by clients; and (v) post graduation data, such as year-on-year annual turnover growth.

Robynne Erwin, CEO, SmartXchange, explained the experience of her organization in fostering the growth of small, micro and medium size (SMME) ICT enterprises in the region of KwaZulu-Natal (KZN), South Africa. More than an incubator, SmartXchange is an "ICT hub", whose strategic objectives are to: (i) identify and assist in developing a quality ICT SMME base in KZN; (ii) be a vehicle for public and private organizations to work through to realize the vision of KwaZulu-Natal becoming Africa's ICT Hub; (iii) build a pool of skilled ICT workers that will enable KwaZulu-Natal ICT businesses to flourish; and (iv) support initiatives that work to bridge the digital divide.

Robynne explained SmartXchange's formal 3-year incubation program and efforts made to improve the "starting point" or building the pipeline through a 6-12 month pre-incubation program, as well as to foster high growth through a 1-year accelerator

program following formal incubation. Currently, SmartXchange has 10 companies in pre-incubation, 38 in incubation and 6 in the accelerator program. 19 companies will be graduating from the incubator in 2009. The accelerator program concentrates on innovative companies and aims to expand their market reach outside of the province and outside of the country by partnering with government supported internationalization programs such as SAIBL (in-depth business analysis and capacity building program), SAEC (preparation on working in different countries), and DTI/TIKZN (government assisted trade missions and international linkages).

Challenges to SmartXchange work include: (i) lack of advocacy for SME products/services; (ii) dealing with “vulture” capital; (iii) financing company development; and (iv) capacity to quickly upscale when markets open. Finally, strategies to face these challenges are to (i) use bread/butter products to fund innovation; (ii) build local success first; (iii) understand venture capital options and pursue legal advice; and (iv) elaborate capacity plans.

Summary for the Inauguration

The Global Forum was inaugurated by the different partners that made the Forum possible, through an innovative format, in which a journalist asked questions to the different partners seating in comfortable chairs. Brazilian partners included authorities from all government levels: municipal (Florianopolis), provincial (State of Santa Catarina), and national (SEBRAE and Ministry of Science and Technology).

Guilherme Ary Plonsky, President, Brazilian Association of Science Parks and Business Incubators (ANPROTEC) explained how the partnership between Brazil and infoDev in organizing the Forum evolved. From the original idea of having two events (the Global Forum and ANPROTEC’s national conference) with some articulation, one common event was organized, through a mutually enriching learning experience. The Governor of Santa Catarina, *Luiz Enrique da Silveira*, highlighted key strategies for the development of the State of Santa Catarina: decentralization, internationalization and innovation. Regarding innovation, the Governor pointed out to the new innovation law enacted by the State, and where technology parks and incubators have a prominent role. *Paulo Okamoto*, President, Brazilian Service of Support for Micro and Small Enterprises (SEBRAE), explained SEBRAE’s newest programs: Local Innovation Agents and Businessmen Innovation Movement. At least 30 local innovation agents are being trained in each Brazilian state, with the objective of assisting companies to become innovative, and reaching the goal of 30,000 new innovative companies in Brazil by 2012. The representative from the Ministry of Science and Technology explained the new program known as PRIME (first innovative company) which provides seed funding to incubated companies. He also acknowledged that Brazilian participation in scientific production increased from 0.4% of worldwide production in 1985 to 2.2% at present; however, this increased scientific production did not necessarily got translated or transferred to the productive sector, and more linkages across sectors need to be built. *Mohsen Khalil*, Director, Information and Communication Technologies (ICT), IFC/ World Bank explained the mission of GICT, the Global Information and Communication

Technologies Group, to which infoDev belongs. The mission consists in promoting the use of ICT to connect, transform and innovate. “Connect” is related to access, while “transform” is related to enabling or providing opportunities to people through the use of ICT. Mohsen emphasized the importance of ICT as an enabler of governments and business to “innovate”, to unleash the power of human capital. *Valerie D’Costa*, infoDev Program Manager, explained that infoDev’s supported global network of incubators now comprises about 300 incubators in 90 countries. D’Costa also highlighted the case of PV inova, a successful company incubated by network member Genesis, based in Rio de Janeiro, Brazil. PV inova’s products include an on-line management system for public transportation fleet and an inexpensive public phone for use in buses. PV inova was a winner of the 2009 infoDev’s Global Innovator Award.