Business Incubation Models and Approaches in the Framework of Innovation Policy

“Advancing Innovation in ECA 2007”
Regional Conference of ECAbit

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September 2007
Thanks to Julian Webb for providing materials for this presentation
Overview

- Business Incubator Definition
- Incubator Structures
- Revenue Paths
- What’s next?
- Challenges
5,000 Business Incubators world wide and three decades of experience

Most in Asia, Europe, and North America
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”)

However, this diversity leads to difficulties with
- transferring “the message”
- generating understanding
- creating a “brand”
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<th>Incubator Evolution</th>
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<td><strong>History</strong></td>
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<td>Past generation</td>
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<td><strong>Presence</strong></td>
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<td>Living generation</td>
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<td><strong>Future</strong></td>
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Incubator Structures

Depending on partners

- University / Research

- Public Sector
  (Policy / Government / Economic Development Agencies)

- Private Sector
  (Industry, finance, real estate)
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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

Shallow and Broad:
Less intensive services
More clients
Pre-incubation
General entrepreneurship

Deep and narrow:
Intensive services
Limited number of clients
Technology focus
“100 million $ company”

Thanks to Julian Webb
Incubator Structures

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- Job creation
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- 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
• 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

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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<tr>
<td>• Mission alignment</td>
<td>• High calibre management needed (diaspora?)</td>
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<td>• Not restricted to clients ‘within the walls’</td>
<td>• Local capital markets needed</td>
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<tr>
<td>• Can incubate existing SMEs</td>
<td>• Takes up to 10 years to be self sufficient</td>
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<td>• Suits high growth and technology incubation</td>
<td>• Some cultures see a conflict of interest</td>
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<td>• Width of impact possibly limited</td>
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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

• 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
Remark **Business plan competitions**

Are an excellent tool for raising awareness

But…do they achieve increased flow of new businesses as incubator clients?

- Follow up support is more important than the competition
- Most dynamic start ups are by people with some experience and in their 30’s not fresh graduates
- Winners of business plan competitions are not always the best prospects
New thinking

Supporting *Innovation + Entrepreneurship* – i.e. creation of wealth and growth
“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** *(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


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
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
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.
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.
Incubator --- redefined

- I: Innovation & Entrepreneurship
- N: Networks and collaboration
- C: Competitiveness
- U: Understanding the Roles: Public-Private
- B: Buy-In
- A: Access to resources
- T: Technologies
- O: Outreach
- R: Review: Monitoring and Evaluation

Thanks to Vivek Chaudhry