

Octantis

Overview

Owned by the Universidad Adolfo Ibáñez (UAI) and supported by the Chilean Economic Development Agency, CORFO, the Octantis supports 26 businesses in varying stages of development. Its many attributes make it an outstanding example of programs that can be adapted as an incubation and investment model for Sub-Saharan Africa. Approximately twenty people were interviewed to include entrepreneurs, investors, incubator staff, university and government representatives (see Appendix A).

Octantis has an extensive network of supporting organizations and individual contacts mostly in Chile, but also across the American continents and in Europe.



Octantis, Chile

Strategic Environment Summary

Chile is a democratic republic with universal suffrage at 18 ranking 32nd out of 167 countries in The Economist's 2008 democracy index. Politically and financially stable, it is widely regarded as the pre-eminent South American economy.

According to the "Doing Business Project",¹⁸ Chile is the easiest place in South America in which to start and operate a business.¹⁹ Within the greater Latin American context it leads in terms of competitiveness, quality of life, political stability, globalization, economic freedom, low perception of corruption and comparatively low poverty rates.²⁰ It also ranks high regionally in terms of freedom of the press, human development and democratic development. It is the region's richest country in terms of gross domestic product per capita (at market prices), slightly higher than Mexico.²¹ Real estate pricing, often a good indicator, has shown steady growth over the last five years.

¹⁸ <http://www.doingbusiness.org>

¹⁹ United Nations Development Program <http://hdrstats.undp.org/indicators/25.html>

²⁰ <http://www.doingbusiness.org/economyrankings/?direction=Ascandsort=8>

²¹ Commercial Intelligence Services, <http://www.businessmonitor.com/yb/chile.html>

Part of the economic success is due to the continued high price of metals, especially copper, in which Chile abounds, but much of it is due to sound economic policy and practice. The Doing Business survey ranks Chilean tax policy as the least restrictive in the South American continent,²² a situation reflected in much of Chile's business law. Investment systems are broadly comparable with developed countries and the development of free and fair markets is represented in social and political attitudes and visible in Chile's attitude to trade. Chile is strongly committed to free trade and has signed free trade agreements (FTAs) with a whole network of countries, including an FTA with the United States, which was signed in 2003 and implemented in January 2004.

A consequence of Chile's trade policy commitment has been the large amount of foreign investment. In recent years, due to the strong growth and stability of the Chilean economy, many multinational companies have chosen Santiago as the place for their regional headquarters. Companies such as HP, Reuters, Procter and Gamble, Intel, Coca-Cola, Unilever, Nestlé, Kodak, BHP Billiton, IBM, Motorola, Microsoft, Ford, Yahoo!, and others have located there. Foreign investment in Chile from January to August 2008 amounted to \$2.35 billion U.S. dollars, according to the Chilean government.²³ The research company, "Commercial Intelligence Services" (part of Business Monitor International) believes that there are now 730 foreign company subsidiaries, across 34 industry sectors in Chile. The list includes American, British, French, German, Japanese, Australian, Italian, Swiss, Belgian, Indian, Spanish, Swedish, Finnish, Norwegian, Danish and Dutch companies.²⁴

Sustainable economic development is invariably built on skills and knowledge. Higher Education in Chile was extensively reformed in the 1980s and is still the subject of political debate. Traditional establishments consist of 25 fully autonomous universities coordinated by the Council of Chancellors of Chilean Universities and employing a single admission process. There are a further 38 independent universities. The higher education system as a whole is currently formed by a total of 229 institutions: 63 universities, 48 professional learning institutes and 117 technical training centers.

Overall, the higher education system, based on enrollment rates for 2004, served a population of 594,247 undergraduate students and 15,181 graduate students. Total undergraduate enrollment can be broken down as follows:

- Traditional universities: 246,286
- Private universities: 177,271
- Professional learning institutes 101,674 (2003)
- Technical training centers: 63,932²⁵
- Together with the above, there is also official recognition for higher education establishments run by the Armed Forces which are linked to the state through the Ministry of Defense. In all, around 4% of the population was in higher education in 2004 providing a significant talent pool of skilled employees and future leaders.

²² Central Intelligence Agency, USA, <https://www.cia.gov/library/publications/the-world-factbook/geos/ci.html>

²³ Xinhua News Agency, http://news.xinhuanet.com/english/2008-11/19/content_10379486.htm

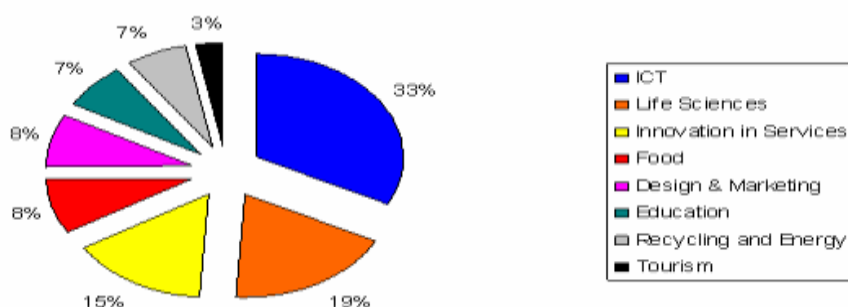
²⁴ Commercial Intelligence Services, <http://www.businessmonitor.com/yb/chile.html>

²⁵ Chilean Education Portal, http://mt.educarchile.cl/mt/jjbrunner/archives/HE_Aiming.pdf

Chile also benefits from a modern telecommunications infrastructure regarded as the most advanced system in South America.²⁶ The system is based on extensive microwave radio relay facilities and links; a domestic satellite system with three earth stations; submarine cables providing links to the US, Central and South America; and two Intelsat satellite earth stations. Fixed-line connections have dropped in recent years as mobile-cellular usage continues to increase, reaching a 2007 level of 85 telephones per 100 persons.²⁷

Project

The Octantis incubator is a program specifically targeted at high-growth companies with the potential for more than 50 employees. The participants are primarily technology companies, (especially IT and bioscience) although there are other less prominent sectors covered such as tourism and food. The sectors currently participating are represented in the diagram below.



Octantis' primary objective is increasing "Sales", the aim being that by 2011 the sum of all portfolio companies' turnover will exceed US\$100Million annually. Other impacts, such as projected jobs created, are inferred from this target but are not hard targets. In 2007, Octantis had achieved 30% of its goal. The figures for 2008 are not yet available, but the current projection for the end of 2011 is US\$85Million against US\$100Million target with an expectation that the US\$100Million target will be met in 2012.

Incubation Program

Location of the Incubator

The incubator operates primarily as a virtual program where incubator tenants do not have access to office space. The program does, however, provide meeting rooms at two university locations:

1. Adolfo Ibáñez University (UAI) offices on Avda. Presidente Errázuriz, Las Condes, Santiago;
2. The university's postgraduate center in Peñalolén.

²⁶ Central Intelligence Agency, USA, <https://www.cia.gov/library/publications/the-world-factbook/geos/ci.html>

²⁷ Central Intelligence Agency, USA, <https://www.cia.gov/library/publications/the-world-factbook/geos/ci.html>

Partner companies supporting the incubation program may also provide access to facilities.

The Octantis program also has access to a shared research laboratory, “Venture Lab”, a platform for internal firms to perform studies and tests enabling foreign companies and agencies to hire them for project work. Venture Lab is located at the Peñalolén campus.

Physical Properties of Incubator

Octantis is a virtual incubation program and has use of meeting rooms, staff offices and laboratory space on an as-needed basis at the UAI campuses.

Facilities and Services

As a virtual incubator Octantis’ main thrust is the provision of high-quality business support services to its clients. This includes high-level strategy, networking, marketing and preparation for investor assistance. Its links with the Adolfo Ibáñez University and wide-ranging network across Chile and beyond have enabled numerous innovative services to be provided to their clients.

Physical Facilities

Physical facilities are quite limited, and are composed of access to the University’s business library, entrepreneurial laboratory, meeting rooms and parking. Additional meeting rooms and other minor services (e.g., faxing or copying services) are available at some sponsoring company sites.

Specialist University Services

The close relationship with the Adolfo Ibáñez University (Universidad Adolfo Ibáñez, “UAI”) has enabled significant opportunities for high-level education and international networking. Entrepreneurs in the Octantis program can, for example, work towards a U.S. degree or a Masters in Public Policy and Finance through the University’s Miami campus. In March 2009 a similar facility with similar opportunities is to be launched in the Basque region of Spain. UAI MBA’s run a consultancy operation in collaboration with the Wharton University in the USA which allows opportunity to study entry into US markets.

External Support through Partners

Accountancy is provided for more established companies through a partnership with PricewaterhouseCoopers. Legal services are provided at a discount through sponsoring legal firms.

Services Provided by Octantis

Business consulting is the main element of Octantis’ program. Octantis staff or associated experts will work with a company to identify needs, aspirations and gaps and help them to develop core strategies for business growth. One interviewed client, WiseConn, found the strategy development services particularly useful while another client, LUF, directly credits the consultancy service with enabling them to get from the idea stage to being a trading business.

An important element of the business consultancy program is the Octantis Mentoring program whereby Octantis uses experienced entrepreneurs to help support companies through key stages of their development.

Early stage Business Planning is also a key feature of Octantis’ services. The management of File TV, a client of Octantis for about 18 months, emphasized that business planning and the early stage training were key elements in their success. Business planning services are comprised both of classes and one-on-one consultations, to ensure companies get the best possible start.

Advice on raising finance, including grants, loans and investment is another strong part of the Octantis services. WiseConn, for example, has received extensive support for finance and development, advice on grants, and introductions to the Angel Network and other investors. Soft loans issued by banks such as Banco Credito Inversiones and guaranteed by CORFO, the Chilean economic development agency, are another specialization of the Octantis team.

Networking is another of Octantis' key strengths. Octantis helped WiseConn with a number of introductions to potential customers. They introduced LUF, a publishing company, to a printing company who met with them in the Octantis offices. WiseConn was also introduced to other suppliers, representatives of the entertainment industry, and potential foreign customers in Argentina, Mexico and elsewhere. As well as the core services listed above, Octantis provides customized training, which clients described as, "forcing you to take business apart, study difficult situations" and as helpful to new companies confronting the reality of commercial management. Octantis can also provide outside Directors, and even whole Advisory Boards.

A testament to how well the program is integrated into its environment however came from the management of LUF, who believed Octantis' door-opening ability was a key attribute: "the most important element was the way the Octantis name opened doors...we're taken seriously by being part of Octantis".

Tenants

Octantis' current clients are listed below:

File TV specializes in distribution of high resolution video files using an access controlled service that enables companies such as Warner Bros, 20th Century fox, etc to upload and share large multimedia files with high download speed.

Superficies Iluminadas provides LED solutions in lighting and energy efficiency.

Label Chile (LC) manufactures self-stick labels and tags through a flexographic system to big Chilean brands in Spirits, Wine and water industries. LC designed the machine used in their processes and have sold over US\$280,000 in their first year.

Pensado para Radio is an Internet platform to interconnect local radio stations (in the whole country) and connect them with the demand for advertising from large corporate customers. In this way, Pensado para Radio builds a large virtual radio network composed of many small radio stations.

CODAL manufactures and distributes soda and fruit juice beverages.

Alta Dental is a network of dentists that permits low income families to have access to quality dental service, thanks to innovations in the service delivery.

Biomec offers a mobile service for monitoring biometric variables in order to improve the sport performance of human body to new limits.

Rethink developed and owns a device to extend the life of high quality grapes for exportation (Chile accounts for 18% of world grapes production, with 100 million grape boxes exported at a value of US\$1 billion in value).

VPT has developed an informational system that integrates with voice recognition applications in call centers to improve service quality.

Masas de Chile manufactures dessert products to be served with ice cream, fruits or alone.

Visuali has produced products using 3D imaging applied to marketing and sales in tourism, and real state markets.

Chilean Sky seeks to provide remote astronomic observation of southern skies for amateurs and students from the northern hemisphere.

Bleu Organique manufactures and commercializes organic beauty products made of sea algae, without chemical and artificial ingredients.

Recycla is an electronic and metal recycling company which incorporates clean production technologies. Founded and supported by Octantis since 2003, the company's 2007 sales were US\$3 million.

Surikat is a design company focused on high impact and innovative medical devices.

WiseConn designs and integrates robust wireless sensor solutions to enhance productivity in agriculture processes as well mining (preventive maintenance) and forestry (fire warning).

Aquafood specializes in the development of Krill products.

Media Control provides a system for distribution of multiple audio signals using data transmission networks, and replacing dozens of analog cables. Their market is comprised of TV and music studios.

Defensas Judiciales provides legal assistance through a call center.

Emporio Nacional distributes gourmet beverages and high quality food from all Chilean provinces.

Mallas de Acero is a company dedicated to the design, manufacture and marketing of specialized collapse protection solutions for tunnels and mining galleries.

Bluemax is dedicated to creating the first large extended network of marketing and public outreach, which allows the delivery of free content to mobile PCs equipped with Bluetooth.

FMF is an online library of incidental music selling into the audiovisual productions industry.

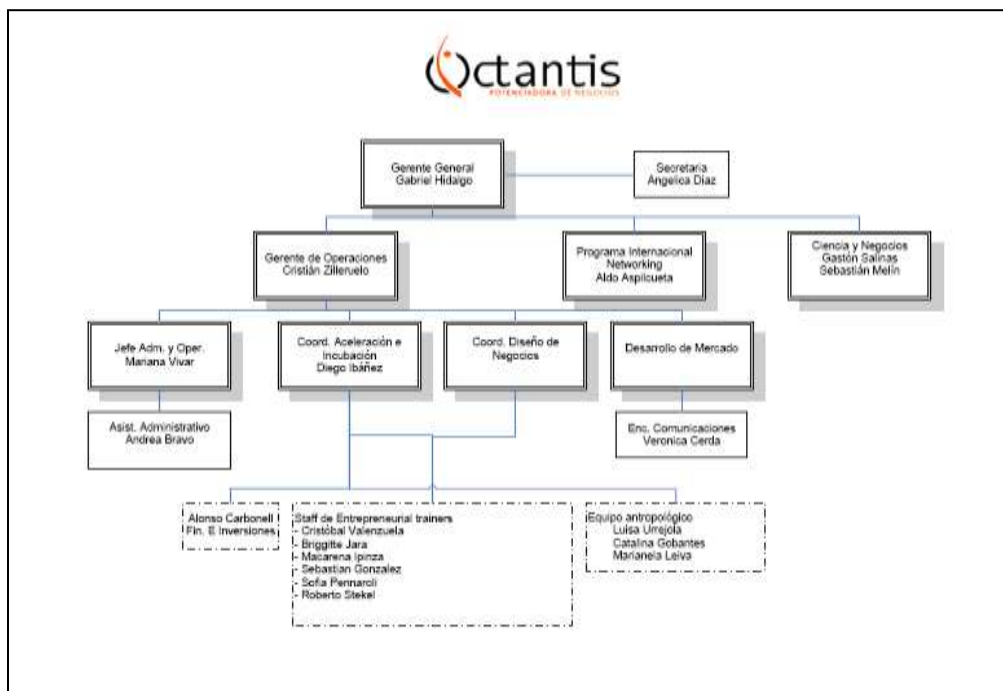
Galyleo offers knowledge management in learning and academic entities, such as schools, colleges and universities, through a digital platform.

MTW produces audio-visual entertainment content for children's education programs, focusing on the production of animated films and series for Spanish-speaking audiences.

LUF is a publishing company launching comic books into the Spanish speaking market.

Organizational Structure: Management

The management structure is illustrated in the diagram below.



Board Members

The Octantis Board is formed by an experienced team comprising of:

- Ramón Molina – Executive Director of the School of Businesses and Director of MBA programs for UAI. A Director of “Southern Angels” Angel investment network.
- Jorge Arancibia – Vice President of risk capital company Latin Valley Securities
- Alfonso Gómez – Dean of the School of Business of the University Adolpho Ibáñez
- Germán Echecopar – Professor of pre-degree and postgraduate studies at the UAI and a previous Director of the Center of Entrepreneurship
- Gastón Galleguillos – A Civil Engineer by training with extensive experience in business planning.
- Emilio De Giacomo – Qualified Public accountant and Company Administration Lawyer

Budget and Funding

Octantis is funded through receipt of tenant service fees and by the university. Longer term sustainability is through the liquidation of equity held in client companies. Income is roughly broken down as one-third Seed Fund, one-third membership fees, and one-third “special projects” such as the internationalization program.

The last three years operating expenses (including seed capital fund) have been: 2006 – US\$600,000; 2007 – US\$700,000; and 2008 – US\$1 Million. Octantis is currently running a deficit. The company made US\$250,000 in 2007, and projects a US\$150,000 deficit in 2008. Management expects to break even by the first quarter of 2010.

In achieving longer term sustainability the management of “special projects” will be key, particularly the development of international contracts in the USA and elsewhere including Colombia and Peru. Other special projects include various economic development agency initiatives such as encouraging entrepreneurship for women, training workers re-entering the workforce, etc. The ability to sell shareholdings in incubator tenant companies is, however, the overwhelming key factor in the longer term and requires the development of a corporate presence in external capital markets. A critical task is to internationalize the companies sufficiently that options can be sold in foreign markets.

Graduation Policy

Companies do not “graduate” as such, but remain in the program until Octantis is able to realize their investment. Thus, the relationship is long-term. Clients can be dismissed from the program, and any such decision would be made by the staff members acting in committee.

Conclusion

Additional Information

Octantis is closely associated with the program “Disruption Coming from The South” which is also run by UAI. The “Disruption Coming from The South” (DTS) program is based in Miami and aims to assist the introduction of Chilean companies into North American markets for both trading and investment. This provides a “soft landing” for companies and is seen as a major support mechanism for those expanding into new markets. This “Latin Diaspora” functions as a support network for companies entering the US market, for example in making sales referrals and introductions.

Southern Angels is the angel investor network in Chile and is a competitive funding alternative to debt financing such as bank loans, and CORFO-guaranteed loans. Octantis and other incubators regularly

prepare companies to make venture presentations to Southern Angels which can provide financing in the range of \$25-250,000 USD in risk capital.

Octantis is also closely associated with the program “Engine Up” which aims to fast-track Web 2.0 ideas into small companies with intensive tutoring and mentoring over a period of two weeks. Successful companies may graduate into Octantis.

Implications for the ICT Africa Sustainable, Replicable, Business Incubation Model

The virtual model of business incubation has always been a debate. Almost all programs operate from fixed premises and while the virtual has always been a compelling theoretical model few examples of successful virtual incubators exist. Viability of virtual models is usually seen as challenging due to the dispersion of the clients. To state it differently, conventional incubator operations wisdom is that keeping clients within easy reach enables better oversight. Be that as it may, the Octantis model is working well and is an excellent model for other virtual incubation projects.

In many ways Octantis is also an incubator of other support programs. There is a symbiotic relationship with Disruption Coming from The South, and a close working relationship with Engine Up. Enabling smaller economic development projects within the supervision of a larger operation is an interesting idea for replication elsewhere.

Octantis is very focused on sustainable company success. Success is measured by turnover and their only target is to have their portfolio of companies exceed US\$100Million in turnover by the end of 2011. However, economic development agencies often measure success in jobs created, somewhat in opposition to Duncan Bannatyne’s famous dictum that, “A good entrepreneur employs as few people as possible.” If one is to focus on producing sustainable companies, then profitability is the key output, and Octantis’ single minded pursuit of that particular goal is also interesting as a replicable concept.

The stakeholders, academia and government are important. UAI provides Octantis a parent relationship, in-kind free space, and conference rooms. Access to laboratory, student interns, professors and training programs are all hugely beneficial and would be in Africa as well. As is the case with CORFO, the economic development arm of the government is vital for loan guarantees, branding, and access to other programs.