

“ParqueSoft” Centers

Overview

This report is designed to be an information resource about ParqueSoft centers in Colombia, suggesting the best attributes for use in the creation of a model of ICT incubation and investment for Africa. The study included meetings with 40 individuals (see Appendix A) including ParqueSoft founder, Orlando Rincon, and executive teams from several of the centers, prospective center managers, university representatives, and several incubated companies. Additionally, attendance to an “all-hands” executive director’s meeting for strategic planning, international outreach and education took place. All meetings were arranged by John Restrepo, ParqueSoft’s international liaison. Initially, the report will examine the strategic environment to better understand some of ParqueSoft’s external factors that either promote or diminish their business development efforts. Examples include government policies, available labor and the investment environment to name a few. The primary focus of the report is on the ParqueSoft Centers: organizational structure, statistical analyses, center budgets, business training programs, educational ties, funding sources, and projections for the future. A review of the facilities, and an understanding of their physical attributes, will also be included.

Founder

With a background of computer sciences and software engineering, Orlando Rincón started his own company, Open Systems, Ltd., in 1984. Open Systems became one of the leading examples of Colombia’s emerging Software industry. It was at Open Systems that Orlando developed the idea for ParqueSoft. From the outset, he wanted to build an innovation park that would, “draw young entrepreneurial minds from poor communities, with talent in software development and a commitment to their communities...Social responsibility is the first and foremost goal – then company development” (Source: Orlando Rincón)



ParqueSoft Cali, October 2008

Strategic Environment Summary

President Uribe's economic policy has been one of fiscal temperament, with a push to open markets for economic expansion. From this policy Colombia has experienced GDP growth at a rate of 8.2% in 2007, and has had substantial growth for the prior 4 years.²⁸ Additionally, Colombia's lawmakers are interested in fostering entrepreneurial development and have been looking to craft new laws accordingly. This is all of great benefit for ParqueSoft's growth opportunities.

The unemployment rate in Colombia was approximately 11.2% in August, 2008,²⁹ and when this is coupled with a substantial under-employment rate the availability of labor is high for the variety of skills needed in small business development. ParqueSoft has designed programs that provide business networking opportunities and be a hub for the software industry. In turn, labor collaborations, with the associated cost savings is the standard. Additionally, each of their 14 regional locations is chosen within educational centers (mainly universities) and an internship program ("Seed Bed of Research and Entrepreneurship") has been developed where students are paired with Program companies.

ParqueSoft tenants are under the same income tax policy as all Colombian businesses, with both corporate income tax, and long-term capital gains running at 35%. There are 11 free trade zones that exist in Colombia and provide tax relief to companies manufacturing for export. Value Added Tax is 16%; however modified rates can range from 7% for specific food products up to 25% for alcohol. Other taxes that can apply include: excise and import duties, transfer duty, stamp tax, municipal industry and commerce tax.³⁰

In November, 2008 Canada ratified its trade agreement with Colombia. However, as of December, 2008 the US free trade agreement with Colombia continues to receive intense scrutiny in the US Congress, and current indicators are that it will not successfully pass into law. Colombia is already part of free trade pacts that are associated with the US (such as SAFTA) and Colombian companies already have the ability to trade with modified restrictions. In wider scope, by deregulating its telecom industry there has been intense competition from international players to gain access to the Colombian market.

The Uribe Administration is interested in completing a unique Free Trade Agreement with the US, with the goal of expanding Colombian exports. However, Colombian social unrest towards the Bush Administration's unstated goals in Colombia is prevalent.

Colombia works under "written" law, as opposed to "judicial" law, as is the case in the US. It is the Colombian Commercial Code that is the defining documentation in the area of Business Law. The Code in its current form is seen as not enhancing entrepreneurial development. With the need for reform being evident, legal change is already underway within the government. It is with particular regard to entrepreneurial entities, similar to ParqueSoft, that this has an effect and future changes will be anticipated to positively develop this sector. It should be known that the US Dep. of State has concerns, 'over deficiencies in Colombia's licensing and copyright protection practices.'³¹

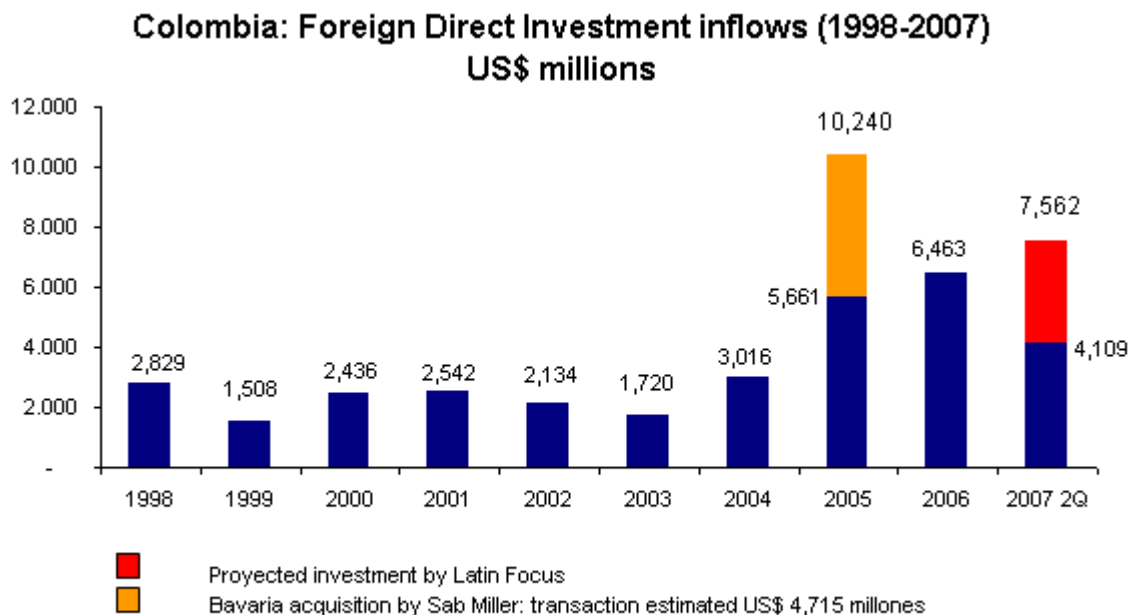
²⁸ Brookings Institution: Paul Blustein, Journalist in Residence, Global Economy
http://www.brookings.edu/opinions/2008/0409_free_trade_agreement_blustein.aspx

²⁹ Colombia Reports: Economy <http://colombiareports.com/colombian-news/economy/1493-colombian-unemployment-rises-slightly.html>

³⁰ Federation of International Trade Associations: Taxes - Accounting
http://fita.org/countries/colombia.html?ma_rubrique=fiscalite

³¹ US Department of State: Background Note- Colombia <http://www.state.gov/r/pa/ei/bgn/35754.htm>

Colombia's foreign investment has been in a growth pattern, and notably, in 2005 SABMiller made a substantial investment in Colombia's beer industry that almost doubled the economy! By providing businesses incentive programs (e.g., tax breaks) foreign direct investment (FDI) is actively promoted. Also, international agreements are designed to provide protection. With cocaine output being lower than anticipated in 2007 the opportunity for greater FDI is anticipated to be fourth coming.



Source: Central Bank of Colombia

As is the case in most developing countries, there is no culture of Angel or Venture Investment in Colombia, although there is clearly a desire to engage in it. For this reason, the ParqueSoft model provides funding for both product and company development. Orlando Rincon has worked to encourage the region's wealthy individuals to invest into ParqueSoft funds and in turn receive a tax advantage that is superior to a standard write-off.

In August 2007, Colombia's Ministry of Communications substantially relaxed its policy towards long distance telephony and internet use with the goal of bringing new investment into the market. ParqueSoft works with many telecom-related companies, and is poised to take advantage of this growth. With the government's stated goal of merging seven telecom service providers, Colombia is ready to create another major provider in the region (UNE). It should be known that the success of a merger on this scale has been viewed with some skepticism.

The poverty line has continued to remain steady since 2006, with 49.2% of the population being below that level. Life expectancy is 72.3 years of age and adult literacy runs at 92.8%.³² Welfare services have been in place since the 1930's. Social security compensation programs include health and maternity benefits, workers' compensation, and allowances for the disabled or those unable to work. Housing is generally in short supply, and results in noticeable amounts of "makeshift" housing. To mitigate the

³² United Nations Development Program: HDR Statistics
http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_COL.html

issue, the Housing Institute has been directing construction efforts to areas where low-income is most prevalent.

ParqueSoft has established close ties with the regional universities in order to support career paths that are in line with the needs of the Software industry. To date, ParqueSoft's "Preparatory for the Software Industry" program, in conjunction with the institutions of higher education, has enabled the development of student talent with the required competencies to build the Colombian ICT market.

Project

Statistics Published by ParqueSoft as of November, 2008 appear below:

- Entrepreneurs trained and hired by industry: 460
- Companies created: 270
- Software products developed: 877
- Companies and software packages certificates in quality (including ISO): 126
- Generated direct uses (average per year): 225
- Generated indirect uses (average per year): 80
- Total sales (USD): \$47,931,000
- Domestic Centers: 14

Note: ParqueSoft has business offices in Bogotá and an international business office in Panamá, Miami (Florida), San José (California) U.S.A.

Incubation Program - Program Overview

ParqueSoft is a non-profit organization established in December 1999, with the purpose of creating and developing new ventures that will provide goods/services to the Information and Communications Technology (ICT) market and has a focus on software development. The development of new business is in turn designed to create social uplift through training, education and financing. The program provides a shared network of education, incubation and acceleration services to all participants within the system. The ParqueSoft center in Cali was the first center whose organizational model has been replicated in 13 other locations, mainly in Colombia's southern region. The ParqueSoft program is designed to be one of Colombia's primary economic development tools for the ICT sector.

ParqueSoft, as a large entity, uses its leverage to provide "co-signing" authority for agreements and loans on behalf of incubated entrepreneurial ventures. Each ParqueSoft center owns their equipment and assets, which includes: computers, training equipment, phone systems, copiers, scanners, etc. All centers are located within a donated space provided by a University or educational institution; with the exception of ParqueSoft's center in Cali. The institution with which each ParqueSoft works usually provides desks and some equipment.

Location of the Incubator

The ParqueSoft center in Cali (organizational headquarters) is located in a building they own, although the 13 others are housed in buildings donated by a local university, or other educational institution. Educational locations are chosen to gain access to: student interns, research materials, labs, and opportunities for mentorship from professors. However, the primary reason is that an institution's sponsorship includes space that is rent-free. All centers are built with an open plan of cubicles (see photos) and a reception area at the entrance that directs phone calls and receives visitors. Office space is rented at different rates depending on the office size and the location. Further, centers vary in regard to the facility size, and are subject to university space allocations.

When the center in Cali was purchased the building had to be redesigned into an incubator and is currently owned outright by ParqueSoft. Management stated that they are, "facing financial difficulties due to the purchase and build-out costs, and are now looking for an infusion of cash." However, with excellent availability of adjacent real estate for development, the goal is to grow the Cali center into a business park. Tenant companies would expand into these buildings and remain in the system.



Cali ParqueSoft cubicles. Enterprises take space in an open floor plan of cubicles with desk space. The open space system allows for continuous informal exchanges within and across each enterprise.

Physical Properties of ParqueSoft Centers

- Building – Centers are generally a floor within a building at an educational institution, with full electrical/phone/data and utilities available
- IT Capability – All centers have high speed internet services
- Equipment Availability – Each incubated company owns their equipment. Some centers have AV equipment available for use
- Conference Rooms – Conference rooms are available in all locations. Some centers also have training rooms
- Tenant Space – All centers use cubicle style office space
- Reception – Available in all locations and provides phone answering, guest greeting and mail receiving and distribution services
- Copy – All centers have a central copy service

Business Training Programs

There are currently more than 20 workshop programs in a variety of business disciplines, with approximately 240 hours of training. This is achieved through the wide spectrum of knowledge and professional expertise available within ParqueSoft. The following are those programs: Infrastructure and Support for the Innovation, Productivity and Competitiveness:

List of Training Programs

- DIN- Start-up Infrastructure Development
- SJN- Legal Support for Business
- STI- IT Services and Support
- DCC- Corporate Communications Development
- ETH- Team Building
- SPI- Seedbeds for Industry
- PIC- Preparation for the Knowledge Industry
- ACF- Import and Export
- IA+D- Applied Research and Development
- CCA- Quality Assurance
- FCR- Risk Capital Fund
- FFE- Venture Formation Fund
- SEC- Corporate Finance Support

- DME- Market Development Strategy
- CDO- Opportunity Conceptualization
- DDN- Business Development
- SPN- Post Sales Services
- RTO- Total Social Responsibility
- SAC- Customer Service
- DRP- ParqueSoft Network Development

Youth Training

To foster an entrepreneurial social culture, ParqueSoft invites 900 youth each year, for an 8 week stay, to participate in the “Seedbed of Research and Entrepreneurship”. The program provides internship opportunities within ParqueSoft companies according to student interests. The program is designed to create an understanding of what it takes to develop a business and provide a seedbed of new entrepreneurs. With the connection to ParqueSoft in place the hope is that they will emerge as potential tenant companies.

Tenants

ParqueSoft tenants are organized as a community of entrepreneurial ventures that support one another’s business development needs. With a policy of “no bureaucracy” most administrative functions are subcontracted to other tenants. This brings costs for rent, electricity, communications and maintenance to a minimal annual cost of US\$300 per person. Tenant companies develop software products for different sectors of the economy in categories such as: health, environment, public utilities, industry, government, education, services, business management, business intelligence, banking, entertainment, tourism, telecommunications, bio-information technology, security, identification systems, digital media, transportation, and information technology support. These products are sold in 42 countries.

Strategic Support Model

ParqueSoft has created a strategic support model that encompasses five macro-objectives, and 16 strategies that support enterprise development. Tenants are provided hands on training as needed to obtain full understanding, although training programs are regularly scheduled.

The macro-objectives and their corresponding strategies are as follows:

1. Infrastructure for the development and support of businesses
 - a. Competitive infrastructure
 - b. Technological support (Telco, Networking, Videoconference, Data Center)
 - c. Effective Communications (Internet, Intranet and Media)
2. People provision for the ICT Industry
 - a. Empowerment of human talent
 - b. Preparation for the Software Industry
 - c. Seedbeds for research and entrepreneurship
3. Reliable and competitive products for the market
 - a. Quality (Products, Processes)
 - b. Applied investigation and development
4. Financing

- a. Funds for promotion
 - b. Risk capital
 - c. Savings accounts
5. Business development
- a. Market intelligence
 - b. Creative marketing
 - c. Industry and trade know-how
 - d. Businesses development
 - e. Business and personal (day to day) support

Selection Process

The selection of entrepreneurs is based on an interview between the candidate and a committee of 12 ParqueSoft entrepreneurs (the Management Group). The most important criteria for selection are the entrepreneurial characteristics of the entrepreneur and their colleagues, including a willingness to invest their talent, time and energy. The content of the product they propose to develop is important, but not as critical as the aforementioned criteria for acceptance. Notably, the least important criteria are the existence of a business plan and the resume of the entrepreneur. It is during the development process that ParqueSoft assists enterprises with the development of business plans.

Collaborations

Through its “Human Talent Empowerment” strategy, ParqueSoft is providing competences to its enterprises and staff members in essential areas of professional development. ParqueSoft has developed one of the most innovative work environments in the ICT Industry, conducive to attaining high levels of productivity and competitiveness.

Successes:

1. **Green SQA**, a ParqueSoft enterprise, is in charge of the implementation process of its quality assurance management system. Green SQA developed a strategy, adapting it to ParqueSoft practices, and those companies producing software, in order to guarantee stability for those products offered in the market.
2. **Manglar** is one of the more developed companies from ParqueSoft. The company invented and patented software that corrects distortion in a projected image that arises when a projector is poorly placed. According to iSuppli/Stanford, a consultancy, the worldwide market for projectors is growing at a substantial pace
3. **Immersion Software**, which from its start three years ago began to create applications for the construction and security industries. However, a little more than a year ago the company began to develop video games. “After much effort, Immersion closed a deal with a big US firm that, between royalties and production agreements, could mean \$2 million in revenue,” according to Ernesto Galvez, Immersion’s 28-year-old president. Mr. Galvez’ 11 employees come from academic backgrounds as varied as sociology and electrical engineering.

Comments

Having interviewed many of ParqueSoft’s entrepreneurs, central themes resonated from their comments. Examples appear below:

- “Becoming a member of ParqueSoft was the best thing I ever did. The environment allows for a strong image, great branding and economies of scale.”
- “Being part of the system gives the appearance of being larger than one actually is. Using the corporate brand (ParqueSoft) provides a great image and goodwill.”
- However, it was also clear that using the ParqueSoft brand to go to market minimizes individual company branding, which can be counter-productive over the long term.

Organizational Structure

The management team is made up of the Executive Director and/or Founder and a team of four Directors. Each of these Directors plus their subordinates provides an “Entrepreneur in Residence” activity. This consists of advice, introductions and mentoring. They are all entrepreneurs themselves with companies they have started within the ParqueSoft system. They attended all training programs and seminars, and participate within ParqueSoft, often for years, prior to being chosen for executive management. Further, there are now regularly scheduled executive level meetings designed to share information and provide support for each of the Center’s management team.

Staffing Model

The staffing model requires that all incubator managers and the executive team be entrepreneurs within the system prior to holding these positions. The management team defines the policies, strategies and programs.



Board Members Capacities and Authority

Each ParqueSoft creates relationships to build a Board of Advisors with its stakeholders, to include the local University, Chamber of Commerce, City, private industry and others. Board members only

provide advice to the Center and clients, and have no executive decision making power or financial responsibility. Board members are local successful businessmen, City, University, Chamber of Commerce, and private industry representatives to assist with legal and other issues.

Affiliations with Other Organizations

ParqueSoft has made strategic alliances in research and technology transfer with the leading global corporations in the software industry including Microsoft, IBM and Oracle. And, ParqueSoft is allied with the global production centers of Freeware and Open Source Software (*a list of alliances is attached*).

ParqueSoft has forged solid alliances with the regional and international universities, and research centers. This has made possible the existence of IT research laboratories in the areas of Computer Science and Information and Communications Technology.

In alliance with ICONTEC de Colombia (*Instituto Colombiano de Normas Técnicas y Certificación*), ParqueSoft and 15 of its main enterprises have received (or are in the process of achieving) ISO-9000 certification. The goal is to certify all ParqueSoft enterprises in the next four years.

ParqueSoft has signed several strategic alliance agreements with important governmental and private organizations, productive thinking centers, and strategic market players for Product Development, Process Complementation, and industry knowledge appropriation.

Budget and Funding

Most of the ParqueSoft centers report that they are operating at break-even, and are looking for ways to generate additional income. Lower overhead expense on a per-tenant basis is due to the fact that tenant service fees are shared. Full sustainability is the goal, and the management is interested in creating plans to achieve it. The centers are audited annually to ensure proper allocation of funds.

Some of ParqueSoft's revenue is brought in by projects in collaboration with local government and members of the business Chambers (website development, market research, software development). Many are socially-responsible projects.

ParqueSoft is currently receiving investment into their Risk Capital Funds enterprises (Venture Capital). These funds are being applied mainly to strengthening the marketing and sales areas, with the goal of ParqueSoft's enterprises becoming more commercially aggressive and gain a larger market share. ParqueSoft has a sales and marketing team that is used by tenants, and receives a commission of 20% of sales revenue. Also, there is an internal consulting group available to tenants comprised of more than 20 ICT industry professionals.

ParqueSoft has completed projects for national, international, and multilateral agencies such as:

1. World Bank,
2. Inter-American Development Bank (IDB),
3. United States Agency for International Development (USAID),
4. United Nations Development Program (UNDP), and the
5. European Union (EU),

Graduation Policy

Tenants are incubated indefinitely and therefore do not graduate from the program as with most incubator models. The idea is that as tenants grow within ParqueSoft, new buildings will be created to fulfill their needs. Ultimately, ParqueSoft centers would grow into a business park. ParqueSoft has no affiliation program for tenants that leave.

Conclusions

The strategic environment in Colombia is increasingly helpful to entrepreneurial ventures like ParqueSoft. The tax policy is manageable by small business and lawmakers have been deregulating industry to support economic development. Clearly, the scale of foreign direct investment has been increasing, and if the security situation can be controlled this is expected to escalate. Socially, education is considered to be very important, and the ParqueSoft program has been filling educational gaps with their programs associated with universities and other educational institutions. The model is admired and many governments study it and request assistance in duplicating it, as evidenced by the Venezuelan and Cuban delegates encountered there. The impact on the poor is evidenced by the creation of companies, both ICT and administrative, and large number of participants in the program.

As a business development model, ParqueSoft has been successful for the following reasons:

1. The revenue generation models are successful, and have generated US\$47,931,000 total sales, and developed 270 companies, as of November 2008.
2. The centers are able to manage their budgets effectively.
3. The staffing model is both functional and effective.
4. The majority of the available office space is being used.
5. Facility services to tenants meet their needs – reception, mail, data lines, etc.
6. The 240 hour training program available to tenants is exceptional.
7. Sales and financial support services are provided directly through ParqueSoft.
8. 14 centers have been developed and are fully functional.
9. ParqueSoft has effectively identified and collaborated with key institutions.
10. ParqueSoft has a history of successful projects with globally recognized organizations.

As a model of investment, ParqueSoft provides direct capital infusion into tenant companies through their Risk Capital Fund. Additionally, ParqueSoft will act as a guarantor for incubated businesses to achieve bank loans. The value of being able to achieve funding for small business in Colombia is realized to be a huge benefit. The program itself is able to achieve funding through their sales support mechanism, and achieves 20% of tenant sales revenue. Having this type of service support is of great value for technical entrepreneurs who may not have marketing and sales capacity in-house. Also, the program is able to achieve funding for social development projects from both domestic and international organizations/agencies.

Implications for the Sustainable, Replicable ICT Incubator Model

Below is an outline of strategic environments and business models through which ParqueSoft has developed a set of best practices used in their incubation program. These recommendations are implications for a sustainable incubator model in Africa.

1. Having both federal and local government partnerships and support with the will to develop an entrepreneurial market through deregulation of industry, direct investment and favorable tax laws (to name a few) is directly supportive of incubator development. This is more significant when it is coupled with the infusion of foreign direct investment (FDI). ParqueSoft has taken advantage of this environment by having an ICT market focus where both deregulation and FDI have occurred.
2. As a business development arm of the Colombian government the ParqueSoft centers are actively fulfilling that objective... It is imperative for sustainability to grow national as well as international markets. Further, the ability to combine both local and international resources to support development is an essential function of a successful management style.
3. The creation of social development through business development is an excellent model, based on the 270 newly created businesses, and the sales generated. The ParqueSoft model is growing ICT companies as well as marketing, sales and administrative firms all highly valuable skill sets for the community of ParqueSoft and the region.
4. As a model of investment, ParqueSoft provides funding to the entrepreneurs at the idea stage in order to create a project prototype, and later direct capital infusion into tenant companies through their Risk Capital Fund. Additionally, ParqueSoft will act as a guarantor for incubated businesses to achieve bank loans and by signing other agreements of importance. The value of being able to achieve funding for small business in a developing country is realized to be a huge benefit.
5. ParqueSoft center managers receive unique training by the fact that they are entrepreneurs themselves and attended all the training programs (240 hours) providing the understanding of business and ICT development. Individuals cannot become managers until they have been within the system; often times for years.
6. This system is specifically designed to create serial entrepreneurs all of whom remain within the system to support new business growth. The center is designed to build out new space to compensate for company growth. Regular and on-going mentorship to entrepreneurs and their companies by ParqueSoft executive team members is a major key to success.
7. Constant internal networking provides for strong relationships in support of each business in the system. The variety of on-going programs continues to provide opportunities to network, exchange ideas and become an even greater part of the ParqueSoft and regional community. The cubicle office set-up further aids networking.
8. ParqueSoft centers provide tenant support in the form of 240 hours of training marketing and sales support, advice, information and introductions. This support model is extensive, and allows incubated companies to have a greater opportunity to be successful in an environment where business education may be lacking.

9. The ParqueSoft program is financially sustained by the following: 1. 20% of tenant sales revenue supported by ParqueSoft; 2. government grants; 3. in-kind donations; 4. project work; 5. rent and service fees.
10. The ParqueSoft brand is a known entity globally. Companies usually are marketed under this brand as they are known to have strong capabilities and high standards. Firms have to be careful not to diminish or lose their own branding in this model.
11. The partnerships and alliances developed by ParqueSoft are extensive and have international reach. In turn, these alliances have enabled the center management to support tenant companies to achieve contracts mainly around social development projects. This achieves social development through business development. Alliances are very important to the development of incubators and their tenants, and should be explored to the fullest capacity when available.
12. Support networks, particularly those developed with local universities, have enabled ParqueSoft centers to achieve: in-kind free space for business use; access to labs; student interns; research materials, professors and more. Additionally, a university location has an entrepreneurial spirit by its very nature. This is considered to be an excellent structure with symbiotic tones, and is recommended highly for an African incubator model.
13. Access to professional services (legal, accounting) is available to all clients of ParqueSoft. Also, many host universities have trained staff that can provide mentorship, or fee-for-service, at this advanced level of business support. Easy access to professional services must be considered when choosing an incubator location, and managers can often negotiate preferred rates for volume service.
14. A founder such as Orlando Rincon with the following attributes is more likely to be successful in incubation development:
 - a. Industry expertise
 - b. Enthusiasm for small business
 - c. Connections in the business, government and academic communities
 - d. Links to investors
 - e. Business start-up to exit strategy experience
 - f. Personal in-kind donations of money and time
 - g. Vision for social development
15. Stakeholders in ParqueSoft centers include local and federal government, Chamber of Commerce, University or educational centers, and each and every participant in the system.

It should be considered that the opportunities for incubator development are tied to the strategic environment in which the incubator is located. Therefore, the ability to implement best practices will vary. Additionally, not all stakeholders will believe all best practices should be implemented.

ParqueSoft's Future Plans

ParqueSoft's objective for the year 2012 is to develop 1,100 Information Technology enterprises that will export their software goods and services to international markets. This is anticipated to create 6,500 permanent jobs, and to contribute more than US \$200 Million to the regional economy.