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Department of Industry Tourism and Resources (DITR) Incubator Program

Points for Consideration in the integration with AusIndustry Programs

Submission From

Australia New Zealand Association of Business Incubators (ANZABI)

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1 Introduction

This short paper raises a number of points and issues that ANZABI believes should be taken into account in future development of the current DITR Incubator funding program.

The existing incubator-funding program has been changed over the years and in response to various reviews and is seen by the incubation industry as having most of the settings about right.

Integration of the program with AusIndustry can be expected to result in additional changes. This is an exciting opportunity for the industry to better integrate the incubator program with other relevant business assistance programs. Traditionally many DITR programs have focussed on larger SMEs, export and venture capital for high tech commercialisation. The incubator program has developed expertise and services around Australia that focus on helping new start and very small businesses, many of which will grow and become large SMEs. Working with new start and small micro businesses is very different to working with larger businesses that have more formal management systems in place and requires deep understanding and empathy of this type of businesses and this stage in the development cycle of a business.

2 Strategic Approach

In the past it has been hard to be strategic in considering development of new incubators. In many ways this revolved around the role of ACCs and the fact that applications had to be approved by a particular ACC. This has made strategic consideration of regional or national initiatives that span one or more ACC boundaries difficult. Involvement of ACCs would no longer appear relevant given AusIndustry can provide comparable local advice.

A Strategic approach is especially called for where markets are limited. This could be in regional areas where a regional incubator, across a number of local government areas, may be more appropriate than parochial iniatives. In the high technology area where markets are often specialised and limited (e.g. bio-technology) and where a critical mass of local successful industry is an important consideration also, it may at times be more important to have one good service for Australia rather than numbers of less effective services scattered across the country. We support initiatives that facilitate a more strategic approach from a national perspective.

3 Backing Up the Existing Investment

There is already a good stock of business incubation infrastructure throughout most of Australia. Admittedly there are gaps but these are becoming fewer. As well as continuing to fund new incubators, the program should have an increased focus upon improving the performance of the existing stock of incubators.

This could entail allocating funding for an incubator to engage a specialist to review its performance and help develop strategies for increased performance. The current enhancement funding could then be used to help realise the increased performance. Any funding targeted at increasing performance would need to address improved incubator infrastructure and business development services to tenants. Unfortunately there are incubators that will or should not survive. Most of these were funded in the early days of the program and would not be supported now.

Recommendation

Provision of funding to incubators to engage specialists to review the incubator and develop enhancement strategies.

Incubators provide a useful tool for other government programs and for leveraging finance and other private support for businesses being assisted. In considering future evolution of the program it may be important to address how incubators can leverage additional resources. One example that is likely to become more important in the future is leverage of finance. Incubators offer a good value adding and risk minimisation tool for investors, whether the financial investment is by way of debt or equity. Incubators achieve up to an 80% survival rate and have services that can add value to an investment, minimise the risk and are in a position to cut the transaction costs associated with an investment.

Recommendation

Consideration should be given to dedicated incubator services that are targeted at leveraging additional finance, support and resources for clients.

The Australia New Zealand Association of Business Incubators (ANZABI) was supported in its early years with government funding. For the past 4 years it has survived on its own and very meagre membership funds. The industry is only small in Australia and ANZABI will never be able to fund the full suite of services that its members want. This has meant that services to members have been limited to what ANZABI can afford. A key service is the annual conference held in conjunction with BEC and NEIS providers around Australia. This has traditionally been supported out of the incubator program and without this funding the conference would be less viable and effective as a tool to inform, educate and stimulate incubator managers and their boards. While funding has been approved for the 2002 conference in Sydney ANZABI has been advised that this will be the last time the conference is funded. Rather than a funding based approach sponsorship for the conference may be a more appropriate strategy.

Recommendation

That DITR consider a 3 year sponsorship of the annual ANZABI/Business Enterprise Centre (BEC) and NEIS conference which brings together Australia's leading small and micro business support services and offers good exposure to sponsors.

The Commonwealth has funded the inaugural and then annual incubator awards for 3 years. This has been an exciting development in the industry that rewards performance for incubators, their tenants and graduates.

Recommendation

That funding for the annual awards is continued.

4 Manager Training

One of the weaknesses identified by the industry is the capability of managers and the need for far better incubator manager training. In all the literature the manager is seen as the most critical factor for incubator success. Introductory incubator training is available but this is insufficient for managers where more detailed training is required. Better training will help reinforce the investment made to date and improve performance and outcomes.

This sort of training does exist internationally. One leading example is the intensive incubator manager training developed by Indev in Finland. It is based on a 12-month program of consultancy, diagnosis, intensive training and work experience. The National Business Incubator Association (NBIA) in the USA has intensive training also.

Rather than bring in the training required from overseas it would be possible to develop what is required in Australia.

Recommendation

The incubator program should consider supporting intensive training for incubator mangers

5 Specialisation

On initial consideration industry specialization of incubators appears attractive. However, most successful incubators, whether high tech or general, are not specialised. Specialisation limits the market being served and increases the risk, at the same time as reducing the potential economies of scale. However, incubators may develop on site themes or clusters with groups of tenants (driven by market needs, i.e. natural groupings of tenants) or have industry segmentation within the incubator (a more focussed and proactive approach to a particular industry). Narrowly specialised incubators have proven to be far riskier than more generalised services and are common in the lists of failed incubators.

Where exclusively specialised and focussed incubators operate successfully they are underpinned by a critical mass of demand for incubator services in that industry, or R&D and a critical mass of local industry in that sector. One example is the Biomedical incubator in Chicago, which is surrounded by 56 acres of hospitals and bio-medical research. Nowhere in Australia has anything like this critical mass.

More commonly specialisation is not exclusive and is achieved by themes or clusters within the one incubator. For example, an incubator may have a range of different clients and mini-incubators within the overall structure, thus achieving the benefits of specialisation and non-specialisation without limiting the market being served.

In a small and limited market any specialisation is best achieved using existing incubator organisations and infrastructure rather than establishing new organisations and infrastructure. There are many examples. One of these is the San Jose Environment and Software incubators (called Environment and Software Clusters), which are badged separately but a part of the one incubator body and using the same building. An Australian Example is the ATP incubator, which has numerous separately badged infrastructures within the one incubator.

Recommendation

Specialisation should be considered in terms of the size of any market segments and in a way that capitalises upon existing incubation infrastructure wherever possible.

6 High Tech or General Incubators?

This is a question being asked more often since innovation and high tech commercialisation has come into vogue. The question is often confused by general incubators trying to badge themselves as high tech and technology parks calling themselves incubators to capitalise on the international interest in incubators, not to mention the non-incubator initiatives calling themselves incubators for a variety of spurious reasons (often an attempt to obtain government funding).

The current program has evolved and been designed as a general incubator funding program, which has been used for both types of incubator. The Building IT Strengths (BITS) program

is an example of a highly specialised commercialisation incubator program.

High tech and general-purpose incubators have very different objectives and modes of operation. High Tech incubation is properly rooted in commercialisation of R&D, with 1 or 2 out of 100 applicants being accepted into the incubator and an expectation that only 10% to 20% of those will go on to global success. High Tech incubation is not a numbers game and is about picking the cream of the crop. High Tech incubation must address the difficulty spin out companies have in securing appropriate seed funding. If this is not addressed then the incubation will suffer. This is one of the key features of the BITS program, which provided up to $450,000 of seed funding per client company being incubated.

High Technology incubation can be far more expensive than general incubation. The BITS program for example funded 10 high tech IT incubators throughout Australia with a cost over 4 years of $78 million, which is far more than the current DITR incubator program has spent to establish around 80 incubators, with a cost of around $45 million over more than 10 years.

General-purpose incubation is rooted in community and local economic development responding to business development needs in a local community. Also, general incubators, in helping a wide variety of companies, often do get involved with high technology commercialisation and good general incubators will have around 15% to 20% of high tech clients. The Softlaw Corporation, a R&D based company in the IT industry, which floated late last year and has a market capitalisation of around $50 million, is a good example of a successful high technology graduate from a general-purpose incubator (CREEDA incubators in Canberra).

It is not a question of either/or but both. The scale of each should be determined by an assessment of the demand for each type of incubation.

Specialisation can occur with both types of incubation.

Recommendation

Ideally there would be 2 programs, one for general incubation and the other for high tech commercialisation incubation. High tech incubation needs to address the difficulty spin out companies have in securing appropriate seed funding. If this is not possible then the current program should continue to be used without changing its general incubator character and with regard to State Government activity, which is mostly at the high tech end of the spectrum.

7 Incubation in Regional Areas

The interest in incubation from Regional Australia is complicated by the fact that in these areas demand is most limited and economies of scale and critical mass harder to achieve. Some of the small regional incubators that have been established have not performed as well as would have been liked and this often relates back to the small scale and limited market. On the other hand Australia has 2 successful regional incubator networks that are showing that by having incubators in a region run together economies of scale and critical mass can be achieved. It is clear from the international literature that regional networks of incubators are a good way to proceed and improve financial viability, critical mass, economies of scale and services to clients. Ideally a regional incubator network will have at is hub a large urban centre and constituent incubators within reasonable driving distance (return trip in one day) or have in place electronic communication systems to link the individual incubators.

In the USA rural incubation programs have been studied to identify models and factors that

underlie success. This research identified networks as one successful strategy, but not the only one. Broader consideration of models and success factors with regional incubation in Australia may be worthwhile to help determine the best ways to deliver incubation services to regional Australia.

Recommendation

Models for Regional Australia should be considered carefully in terms of the experience to date with stand alone regional incubators, the better potential offered by regional networks and the opportunity to take a strategic and regional approach.

8 Evaluation and Monitoring

Evaluation has been compromised in the past by a lack of good data from incubators. Incubators need to be encouraged to keep records on their tenants and graduates in terms of the survival rates for the businesses concerned, their employment outcomes and indicators of wealth creation and accelerated growth. As the major impact of incubation comes with the graduates it is critical that their performance be tracked over time.

Evaluation should from time to time consider the broader impact of the program in terms of the assistance provided to clients and the economic and social impact on the communities concerned. It is a debatable topic as to whether incubated firms can be contrasted to a control group of non-incubated firms as a way of analysing the impact of incubation. Some commentators argue that it would be impossible to identify a comparable control group as too many factors are involved, not the least of which are the psychological factors that mean some businesses choose to start in an incubator whereas others do not. However, qualitative data can be relevant and the impact of incaution is clear if a case study approach is taken with incubated firms.

Incubators can be encouraged to keep good data through contractual arrangements with DITR (this has been improved in recent years) and with pro-active tools. One idea that is being developed in Europe is to have a web based system that incubators can use to compare (benchmark) their performance to that of other incubators, best practices and the industry nationally and internationally. Such a system could gather relevant data while at the same time providing benefit to the incubator.

Some commentators argue that the major impact of an incubator in a community is not what happens within the walls but is the catalytic and entrepreneurial impact on the local community. This way of thinking is reinforced by OECD and other analyses that argue that one important impact of incubators is the development of social capital in a community. These catalytic impacts are very hard to measure and analyse.

Recommendation

The impact of the program should be evaluated from time to time taking account of available statistical data on the performance of incubators and their clients and addressing the local social and economic impact.

Consideration should be given to development of tools that provide benefit to the incubator while at the same time gathering data on performance and outcomes.

9 Promotion of the Results

Many incubators are working very well in Australia although this is barely known outside the locality concerned. There is a need to promote the results of incubators and their tenants and graduates with case studies to complement statistical data on outcomes.

Recommendation

DITR fund development of a publication using case studies on incubators, graduates and tenants to illustrate best practices and showcase the performance of the program over the past 10 years. As an alternative or in addition to a dedicated publication case studies could be published in other AusIndustry publications.