SIB Net – the main goals and outputs of the project

What might help to incubate high growth knowledge companies?

Riga, June 17, 2010

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"Small Innovative Business Promotion Network" (EU31398)

Innovation is a new way of thinking ....

Role of SIB Net : regional platform to promote gazelles

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Swedish innovation

- cream separator, milking machine – Gustav de Laval (Alfa-Laval)

- adjustable wrench – J.P. Johansson

- zipper, zip-type fastener – G.Sundback

- Safety match - 1844, Gustaf Erik Pasch

- dynamite – A.Nobel

- tetra pak – 1944, E.Wallenberg, R.Rausing, firm Tetra Pack

- Telephone handset – Lars Ericsson integrated speaker and microphone, 1876 - Ericsson Company established, AXE system – B.Magnusson, NMT – O.Makitalo, pioneering GSM

- funkctional work clothes, M.Viio

- 3-point safety belt N.Bohlin; retractable seat belt – H.Karlsson

Competition of environments!

Would you have invested?

Microsoft Corporation, 1978

Gazelle company

Definition

- High growth…….
- Turnover growth 20 % a year for 4 years
- Some gazelles are acquisitive/or get eaten up

Why Gazelles are good for Estonia and Latvia

- Create new high value added jobs
- Promote restructuring of regional economy in balance with life-style firms
- Offer potential high returns for investors
- Can play significant role in local society in rural regions
- Keep skilled workers in region – stop brain drain
- Objects of national pride
- Nuclei for new clusters, spur competition and economic change

Invention vs. innovation

Invention	Innovation
Invention	**Innovation**
The process through which something new/original is created	The process of introducing Change with commercial return

If Gazelles are fast growing companies

And if these companies are growing fast because they can sell their products and services very well

And if the can sell well because their products and services are sufficiently different and better from the competition

And if that means that these companies can therefore introduce significant change in their markets

Then:

Gazelles are incorporated entities that deliver significant innovation

Conclusion: Framework to support innovation and gazelles is largely the same
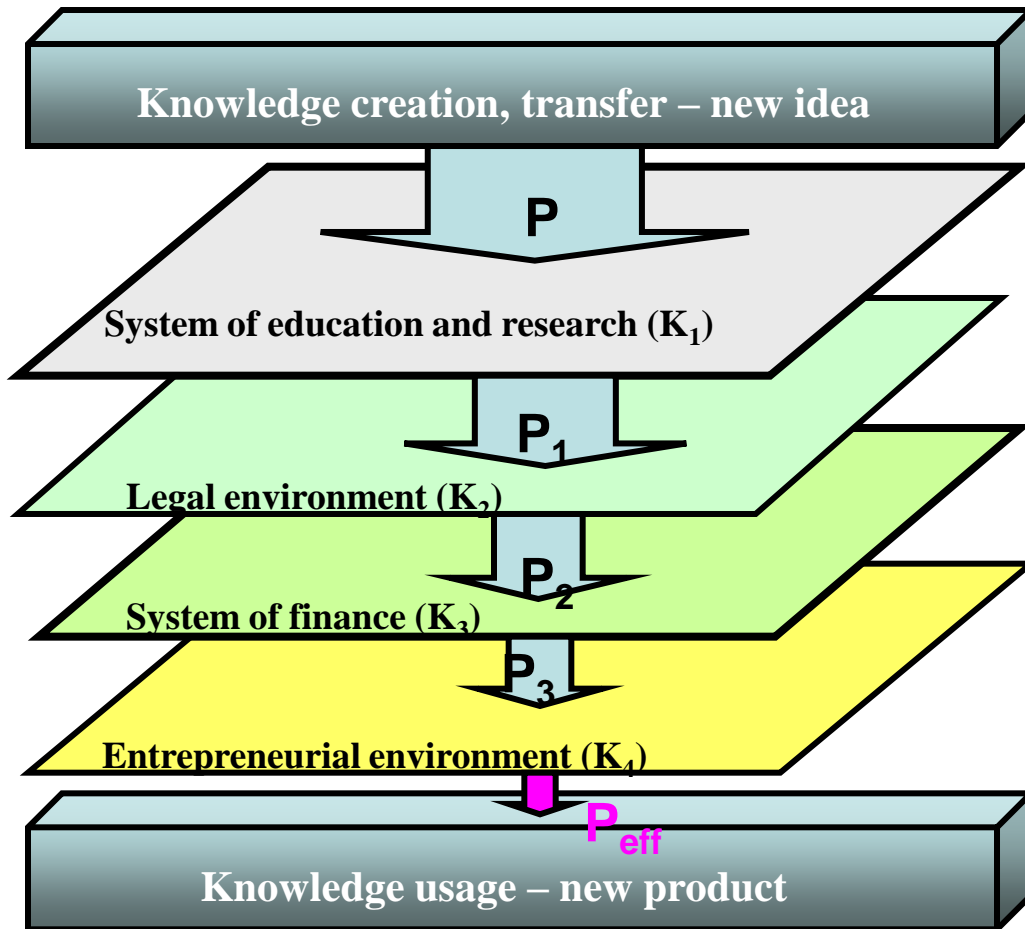
Innovation System

$$P_{eff} = Iinov \times P \times K1 \times K2 \times K3 \times K4$$

where Iinov – innovation index in range of 0 to 1;

P_{eff} - share of effectively used knowledge flow;

K1 ... K4 – effectiveness of implemented complex innovation policy measures within NIS / RIS (values from 0 to 1).

European Innovation Scoreboard

Latvia	0,22
Lithuania	0,27
Estonia	0,34
Sweden	0,73

Knowledge creation, transfer – new idea

P

System of education and research (K$_1$)

P_1

Legal environment (K$_2$)

P_2

System of finance (K$_3$)

P_3

Entrepreneurial environment (K$_4$)

P_{eff}

Knowledge usage – new product

Innovation support infrastructure – mentors, incubators etc.

Source: J.Stabulnieks

Entrepreneurship in education

Largely missing

Business Plan elaborated

Pre – Incubator (focus on entrepreneurship education)

Learn to understand entrepreneurship

- Training concerning entrepreneurship
- Increased level of entrepreneurship awareness
- Usually reaches all students

Focus to problem based learning

Learn to become entrepreneurial

Training with the help of entrepreneurship
Pedagogic process where Polytechnics use entrepreneurial situations:
- Practice enterprises
- Simulations
- Real companies in learning processes
- Temporary enterprises (cooperatives)
- Pre-Incubation (early)

Focus to business planning

Learn to become an entrepreneur

Training into entrepreneurship
Education and training aimed to start your own business while being student.

Focus to learning by doing: running business in early stage in practice

Incubator

Traditional/ Regional Incubator

"New Economy" Venture Type Incubator

Business Accelerator

Business Labs

Entrepreneurship programs / scholarships

Business plan contests

UP TO 6 MONTHS | 12-36 MONTHS

Only few entrepreneurs want to fly high: why they should be expansive?

A knowledge based start-up is its founder's baby and satisfies his ego. Hence, high profit perspectives are no proper incentives.

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ReaReality: The Valley of Death
Early-Stage Funding Gap

Capital to Develop Ideas

Nationally Funded Basic Research Creates New Ideas

No Capital

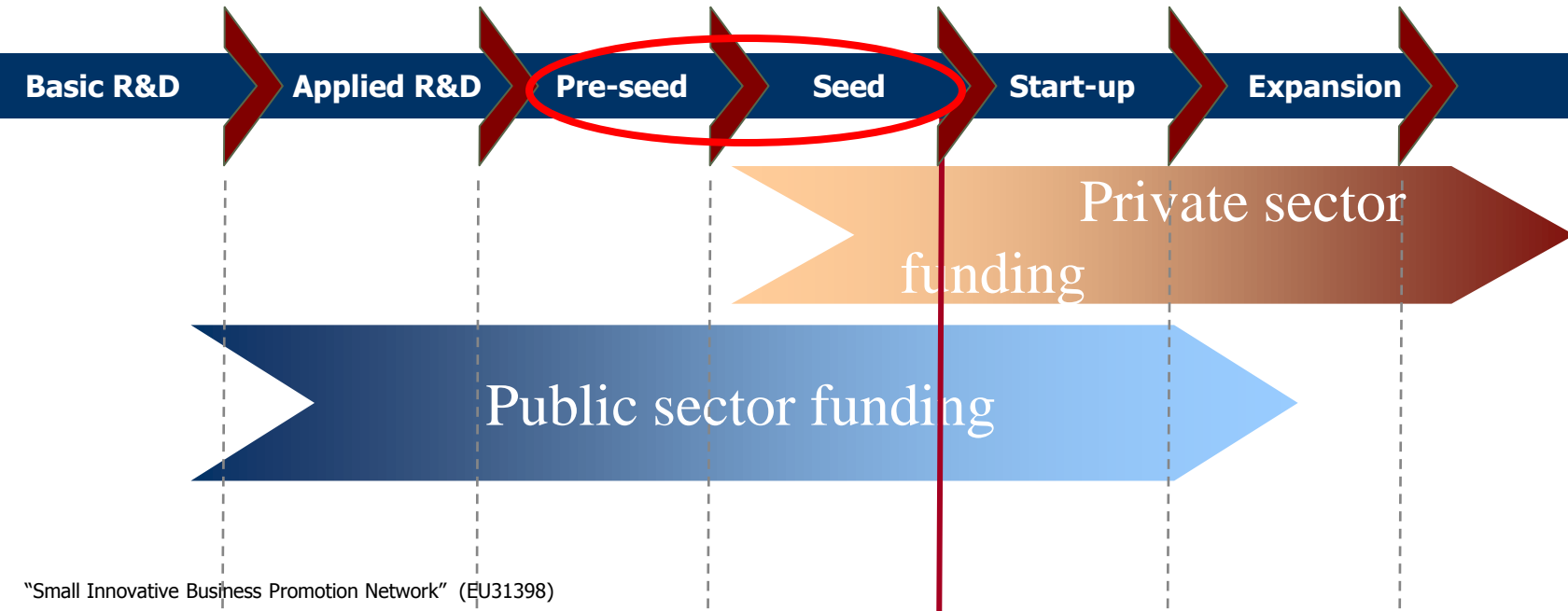**Applied Research & Innovation**

Charles W. Wessner, USA

SIB Net

Pre-seed scheme

- Existing equity gap between idea and investor ready business plan
- Private investors not interested
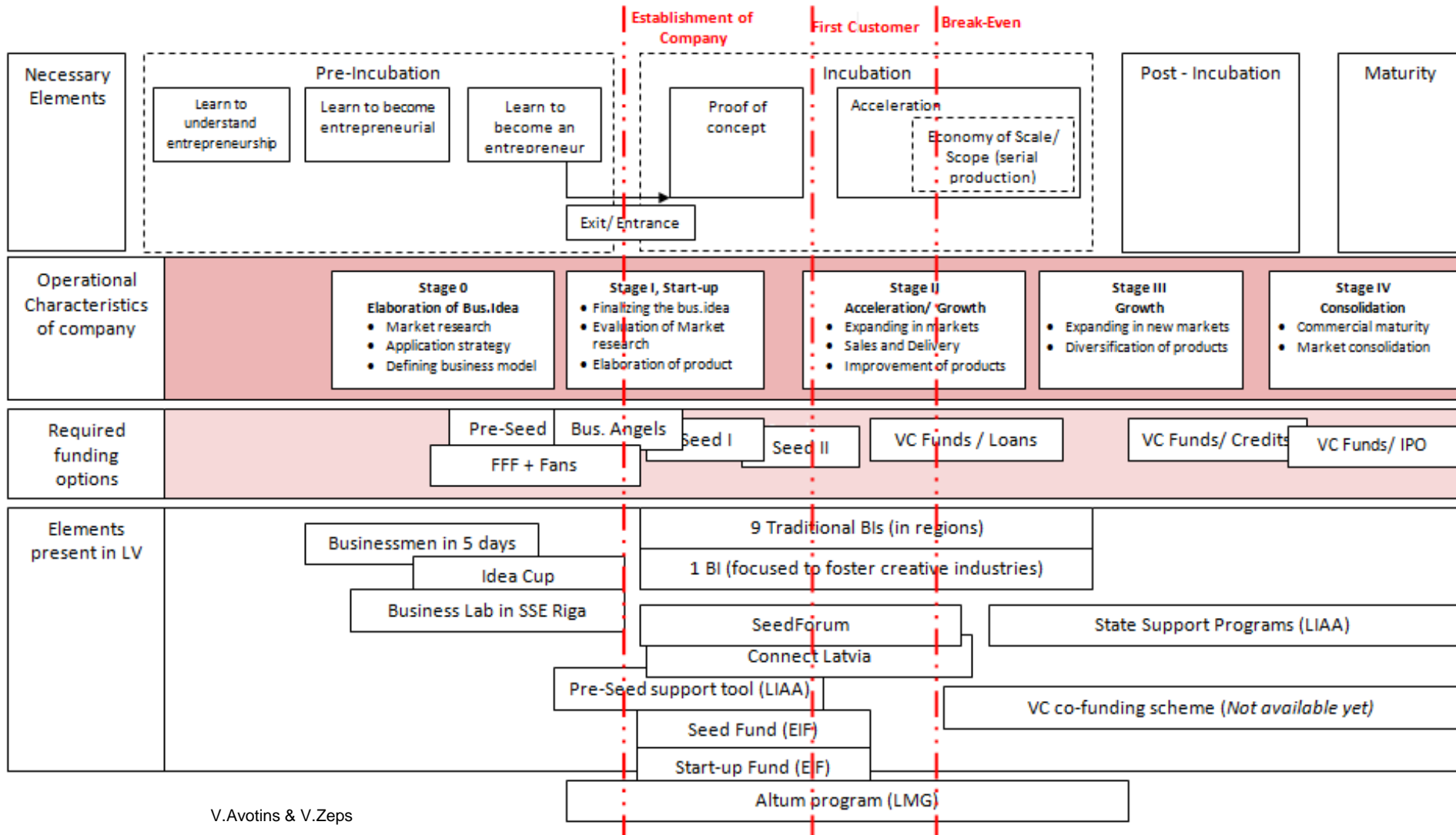 State need to interfere

Recommendation **No.8** of WB, A.Watkins, N.Agapitova, 2003, Creating a 21st Century National Innovation System for a 21st Century Latvian Economy

Basic R&D	Applied R&D	Pre-seed	Seed	Start-up	Expansion

Private sector funding

Public sector funding

BI-system in Latvia

Bottleneck identified

	Pre-Incubation				Incubation	Post - Incubation	Maturity
Necessary Elements	Learn to understand entrepreneurship	Learn to become entrepreneurial	Learn to become an entrepreneur	Proof of concept	Acceleration — Economy of Scale/ Scope (serial production)		

Establishment of Company · First Customer · Break-Even

Exit/ Entrance

Operational Characteristics of company	**Stage 0** Elaboration of Bus.Idea • Market research • Application strategy • Defining business model	**Stage I, Start-up** • Finalizing the bus.idea • Evaluation of Market research • Elaboration of product	**Stage II** Acceleration/ Growth • Expanding in markets • Sales and Delivery • Improvement of products	**Stage III** Growth • Expanding in new markets • Diversification of products	**Stage IV** Consolidation • Commercial maturity • Market consolidation

Required funding options	Pre-Seed / Bus. Angels / FFF + Fans	Seed I / Seed II	VC Funds / Loans	VC Funds/ Credits / VC Funds/ IPO

Elements present in LV

- Businessmen in 5 days
- Idea Cup
- Business Lab in SSE Riga
- 9 Traditional BIs (in regions)
- 1 BI (focused to foster creative industries)
- SeedForum
- Connect Latvia
- Pre-Seed support tool (LIAA)
- Seed Fund (EIF)
- Start-up Fund (EIF)
- Altum program (LMG)
- State Support Programs (LIAA)
- VC co-funding scheme (*Not available yet*)

V.Avotins & V.Zeps

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Aim of the project

- To promote new innovative high growth firms (e.g. "gazelles") by
  - encouraging entrepreneurial creativity,
  - evaluating needs for early stage risk finance,
  - providing needed support.
- to release innovative high growth spinouts from regional research centres and Higher Education Institutions fuelled by partnership, mutual learning and mobility activities, as well as required external competence (Kurzeme, Riga and South Estonia) market weaknesses and failures

Project's activities

SIB Net project ensure **complex activity package** to increase creativity, business readiness and develop financial schemes for the support of perspective business ideas:

1. need analysis of innovative new start-ups at the existing situation and needs in the region;

2. establishment of two pre-incubators, creativity forums, investor forums, matching events;

3. development and assessment of the different financial tool concepts to be applicable and most appropriate for the program territory;

4. training of project partners representatives responsible for SME's support activities and exchange of experience.

Planed outputs

1. Need analysis: gazelle needs & risk finance needs,
2. two pre-incubators in Ventspils and Tartu established,
3. two investor forums and two masterclasses,
4. several matching and creativity events,
5. Cross-border idea competition with fine-tuned support services,
6. EU best practices learned – 2 study visits,
7. 4 prefeasibility studies : Proof of Concept and Pre-seed funds, Pre-incubation, Technology incubation, BANs ,
8. Platform for joint pre-incubation and risk capitalists' cross border network
9. Two methodological guides designed – new ideas, pre-incubation
10. Knowledge transfer platform as knowledge and competence transfer mechanism – mobility activities,
11. Awareness creation and level of understanding of the early stage high risk entrepreneurship – workshops and network events.

Expected impact

- Awareness for investment readiness and creativity forums raised amongst the key stakeholders;

- Pre-incubation system created and linked with HEI;

- Raised region's export potential and competitiveness by promotion of 'Gazelle' breakthrough firms;

- Monitoring system created – as a part of innovation system.

- Early stage financing system for 'Gazelles' iniciated;

- Created platform and mechanism to set up BAN;

- HEI strategies interlinked with early entrepreneurial and pre-seed competences;

- Policy reccommendations designed;
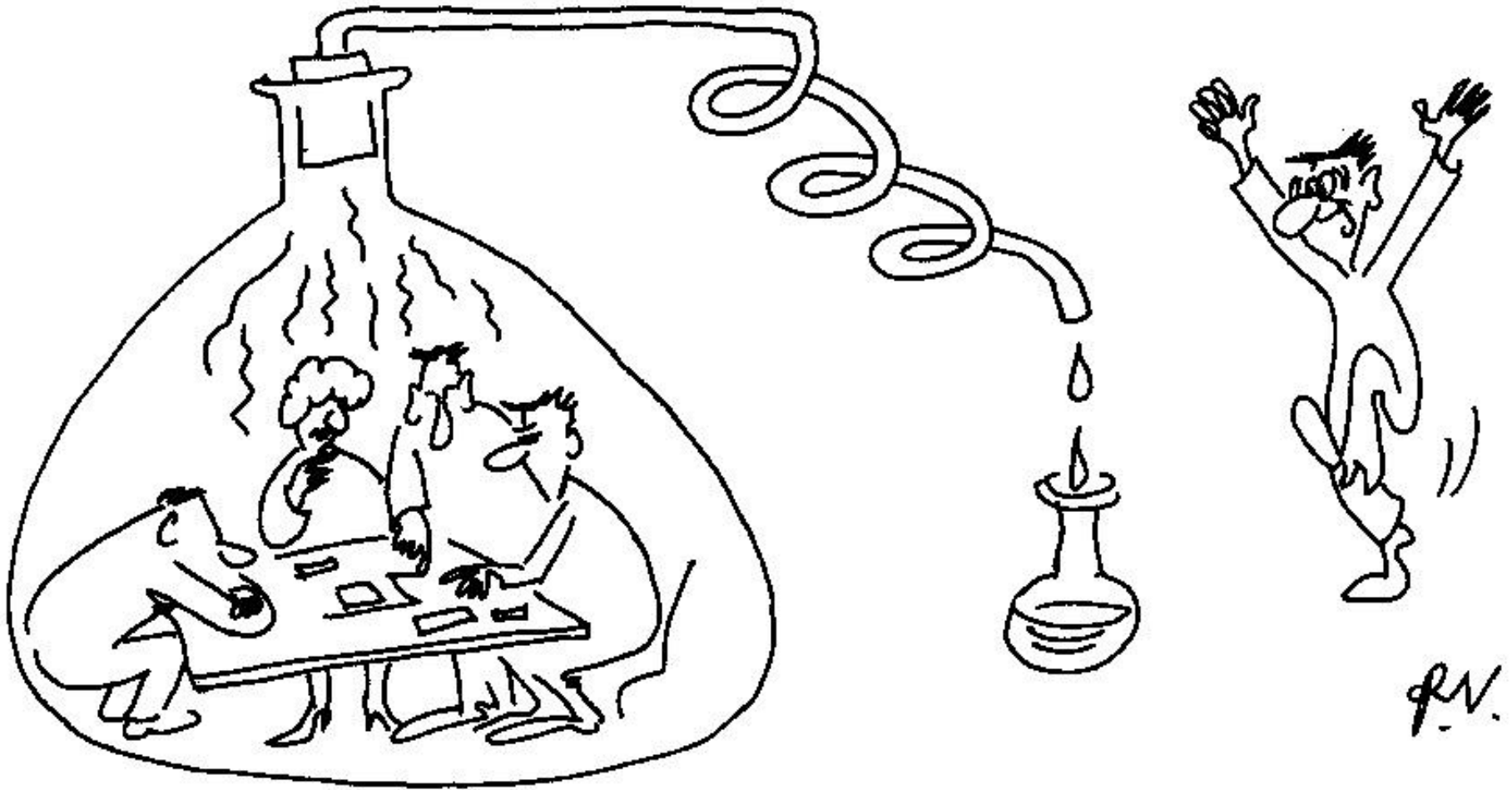
Take the risk. You need to be better only a bit, just 5%

Not all people should be idea generators

High growth innovation in a region is not a story, how to generate more technological innovation

Avots: Renē Tenisons, Tartu TP

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... but it is story about right attitudes and understanding how to maximise benefits in your's concrete situation

Thank you for your attention!