

Understanding the Market and Mechanics of Attracting Good Clients

Presentation for ABN 2003
Conference
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Presentation Topics

1. Understanding and analysing the market
2. Finding and attracting tenants

Knowing your market

Some key questions to answer:

- What is the target market?
 - ◆ E.g. R&D organisations and researchers
 - ◆ Products at or past proof of concept stage, but prior to institutional funding
- What segments or niches are being targeted?
 - ◆ Is it all high tech or industry segments
 - ◆ Characteristics, needs and where are they?
- Responding to market demand or creating a new market?

How Large is the Market?

- The question needs to be answered
 - ◆ Often in a feasibility study
 - ◆ To give a good picture of the deal flow for an incubator
 - ◆ And the requirements of the market
- Critical mass?
- What size incubator is justified by the market?
- How many tenants does the incubator need?
 - ◆ % market share
- Is there a disconnect between supply and demand?

How to assess the market size?

- Survey methodologies
 - ◆ Surveying the new start market
 - ◆ Phone, email, snail mail
 - ◆ Surveying researchers in institutions and making judgments about what can be spun out
 - ◆ Cascading consultations
 - ◆ Only ever as good as the questions asked and the resultant analysis
 - ◆ Finds potential tenants

How to assess the market size?

- Analysis of regional economic data
 - ◆ Growth industries
 - ◆ Analysis of business fertility/birth and death/exit rates by industry

How to assess the market size?

- R&D Commercialisation (Spin Out) Benchmarks
 - ◆ Quick, dirty and a good reality check
- General Benchmarks
 - ◆ Australia: approx 10% of new start businesses in suitable industries
 - ◆ Or 30 tenants per 80,000 to 100,000 population
 - ◆ Australia: 20% of home based businesses want to grow and employ and 4% want to move from home

Sobering facts – Commercialisation of University Research

- USA – 1 spin off company per A\$130-177 million (best performers A\$40 million)
- Australia - 1 spin off company per A\$113 million for research intensive universities, A\$303 million for medium and small research universities) and A\$15 million for CRCs

Best Practice Process for University Research Commercialisation, Australian Department of Education Science and Training, 2002

Sobering facts – Conversion rates

Expression of Interest Conversion rate

- General incubators in Australia – 20%
- BITS incubators in Australia – 4.4%
- Venture Capital Backed – 1 to 2%
- What is your conversion rate?

Other Realities

- University associated incubators do **not** get the majority of their tenants from Universities
 - ◆ 11.2% of European incubator tenants from universities & R&D
(CSES Benchmarking in Europe)

Attracting Tenants

- Networking
- Intermediaries
 - ◆ As with other service businesses
- Direct approach
 - ◆ Especially for technology incubation
- Manager is the key

Attracting Tenants

- Ongoing activity
 - ◆ Incubators always need to attract new clients and don't have the luxury of repeat business
 - ◆ Always in start up phase
- Evaluate
 - ◆ Where enquiries come from
 - ◆ Client satisfaction surveys
 - ◆ To tailor services and marketing
 - ◆ Market surveys

Why do tenants locate in an incubator?

Reason	1=important & 4 = least important
Favorable location and image	2.6
Quality, price and flexibility of incubator units	2.6
Availability of professional business services	2.8
Clustering and networking opportunities	4.2
<i>Benchmarking of Business Incubators, CSES 2002</i>	

What makes an incubator an attractive location?

Reason	1=important & 4 = least important
Quality, price and flexibility of incubator units	2.0
Availability of professional business services	2.3
Favorable location and image	2.3
Clustering and networking opportunities	2.6
<i>Benchmarking of Business Incubators, CSES 2002</i>	

What makes an incubator an attractive location?

Reason (Rating is 1=low and 5=high)	Rating at entry	Rating with hindsight
Easy in easy out	3.82	3.5
Common facilities	3.83	3.65
Low cost	3.77	3.35
Potential for expansion	3.75	3.85
Speed and simplicity of leasing	3.64	3.35
Build Quality	2.8	2.8
<i>UKBI, Identifying Best Practices, 2001</i>		

Why do tenants locate in an incubator?

Note:

- Importance of real estate and shared services
 - ◆ Easy in easy out
 - ◆ Flexibility
 - ◆ Potential for expansion on site
 - ◆ Shared services
- **Not** the wonderful business development program
- Changes over time once they are tenants

Are the incubator services right?

- Right building and location
- Easy in easy out
 - ◆ Monthly terms
- Flexible leasing and ease of tenant expansion
- Shared services
- Professional business development program
- Seed &/or loan funds for clients

Promotion

- Time intensive not cost intensive
- Word of Mouth
 - ◆ As with any service business
- Networking
 - ◆ Intermediaries
- Public speaking
- Referral by current tenants and related agencies

Promotion Used - Europe

Method	Quite Important	Very important	Not important
Advertising & Media	46%	23%	31%
Business events	33%	44%	23%
Referrals	27%	48%	26%
Direct approach to clients	23%	51%	26%
Other	3%	17%	81%
<i>Benchmarking of Business Incubators, CSES 2002</i>			

Promotional Techniques USA

Technique	Rating: 1=least effective, 5=most effective
Networks/contacts	4.6
Public Speaking	3.7
Mass Media	3.4
Brochures	3.0
Radio Ads	1.9
TV Ads	1.9
<i>Business Incubator Industry 1987, David Allen, NBIA</i>	

How Tenants Discovered an Incubator USA

Technique	1=least effective, 5=most effective
Networks/contacts	4.2
Agency Referral	3.7
Tenant Referral	3.6
Public Speaking	3.5
Mass Media	3.2
Brochures	2.9
Newspaper Ads	2.3
Radio Ads	1.7
TV Ads	1.6
	<i>Business Incubator Industry 1987, David Allen, NBIA</i>

Marketing Strategy examples

- News coverage
 - ◆ Easy and free
 - ◆ Tenants and graduates at centre stage rather than the incubator
- Newsletters
- Public speaking
- Open house
- Lead tenants
- Regional trade shows/events
- Brochures
- Direct marketing
 - ◆ Mail phone face to face
- Seminars and workshops
- Networking

Selling - USP

- Incubators need to sell their services!
- What is your USP?
 - ◆ Stress relief?
 - ◆ Easy in easy out?
 - ◆ Empathy?
 - ◆ The prestige of the address?
 - ◆ Business development Program?
 - ◆ Access to funds for the client?
 - ◆ Business success?
 - ◆ The Manager?