
Attempting to Establish a Business Incubator in Hawke's Bay

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Abstract

All but one of the business incubators in New Zealand are located in a metropolitan areas and all of them are closely associated with one of the New Zealand's major universities. This paper describes an attempt to establish a business incubator, with a focus on using IT, in a regional centre which does not have a University presence.

The paper describes how a group of Hawke's Bay business leaders working alongside Eastern Institute of Technology (EIT) set about trying to establish a business incubator in the Hawke's Bay region. The decision to consider developing a business incubator with an Information Technology (IT) focus arose from an offer by FX Networks, New Zealand to provide

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accommodation, and IT and networking support to local entrepreneurs who might need assistance in establishing a new business venture.

The paper briefly describes the processes adopted by a steering group consisting of educational and business leaders as they went about attempting to establish an incubator. The paper also describes how local businesses were surveyed in an attempt to establish the level of support that existed. The findings from the survey, which showed mixed level of business support, are also presented. The paper concludes with a summary of progress to date.

The paper will be of interest to educational institutes and businesses in regional centers of New Zealand who are thinking of establishing a business incubator and are looking for advice on the processes to follow.

Keywords

IT incubator, business collaboration, regional focus, Industry, fiber optic networks.

Introduction

Currently there are no business incubators in New Zealand that are associated with an institute of technology or polytechnic. The only non-metropolitan business incubator is in Palmerston North and that has a close association with Massey University. At the current time there are no business incubators that have

been established with the primary purpose of making use of IT infrastructure to enable businesses to develop and grow.

The installation of a fiber optic networking service by FX Networks in Hawke's Bay in 2008 provided an opportunity for local businesses to investigate how access to very high speed data and voice services could provide opportunities to expand their operations.

This paper explores what happened when FX Networks offered to host a business incubator to enable local entrepreneurs and businesses to establish start up business ventures in a supportive environment. The FX Networks offer was aimed at business ventures that would leverage the newly introduced high speed data and voice services to create new business opportunities.

The paper commences by defining what is meant by the term "business incubator" and looks at examples of business incubators that have already been established in New Zealand. The paper then describes how a working group was established to investigate the potential for a regional business incubator and reports on the activities of the group as it set about identifying the level of regional support for the concept and structures necessary to establish and support an operating incubator.

The paper then describes the development of a questionnaire that was distributed to local businesses in an attempt to identify attitudes towards the establishment of business incubator with a focus on the use of IT within the Hawke's Bay region. The responses to the survey are summarized and the consequential

actions that occurred after the survey was analysed are detailed.

The paper concludes describing how the working group failed to maintain momentum with the project and FX Networks support was withdrawn. Resulting in a situation where an incubator is still likely to be established but based on a special relationship between FX Networks and the Eastern Institute of Technology (EIT) and only available to highly performing EIT graduates.

The methodology adopted for this study combines both qualitative and quantitative methods. The paper describes a case study based on the steps taken to establish the need for an incubator in Hawke's Bay and uses a survey instrument to establish industry reaction to the establishment of a regional incubator. The survey provides qualitative data relating the attitudes of local industries and business organisations towards the establishment of a locally based incubator.

Business Incubators

The concept of developing a business incubator is not new, there are several successful incubators operating in New Zealand. With the exception of the Bio Commerce Centre, an incubator based in Palmerston North, all the New Zealand incubators are based in major metropolitan centers. The Bio Commerce Centre, which focuses on biotechnology is located in the Fitzherbert Science Centre, amongst New Zealand's largest cluster of researchers in the fields of food, environmental technologies, and human and animal health. Establishing an incubator in Hawke's Bay would be the first instance of an incubator in a regional center which does not have a very specialized focus. The aim

of establishing a business incubator with a focus on the use of leveraging IT to nurture business growth would also make the incubator unique within New Zealand.

The Business Dictionary (2010) defines a business incubator as

"Facility established to nurture young (startup) firms during their early months or years. It usually provides affordable space, shared offices and services, hand-on management training, marketing support and, often, access to some form of financing."

This definition is similar to the description given on the New Zealand Trade and Enterprise (2010) website that describes a business incubator as a facility designed to assist businesses to become established and sustainable during their start-up phase. The New Zealand Trade and Enterprise (NZTE) website suggests that typically this is achieved by providing potential start-up businesses with access to:

- shared premises,
- business advice,
- business services,
- access to investor, market and international networks,
- mentoring, and
- a full-time, hands-on management team.

They also suggest that the incubation period for an individual business is normally two to three years.

NZTE is a major funder of the New Zealand business incubators and supports incubators in Auckland, Palmerston North, Wellington, Christchurch and Dunedin. In support of the funding provided through NZTE, Trevor Mallard (2006) stated that "incubators had graduated 107 companies since the Incubator Support Programme run by New Zealand Trade and Enterprise's began five years ago."

There are a number of incubators not funded by NZTE and they include Soda Inc and WaikatoLink Incorporated, both of which are located in Hamilton. Like most of the existing incubators in New Zealand, both Soda Inc and WaikatoLink Incorporated have strong links with universities.

Incubator New Zealand, formed in 2003 as the incubation industry's national association, indicates that there are 16 incubators in New Zealand. The Incubator New Zealand Newsletter (2006) reported that "Performance data from 68 of the 107 companies graduating from incubators since 2001 show they generated \$50.3 million in revenue in the past financial year, of which 23 percent was from exports. The 68 firms also raised \$19.6 million of capital to fund future growth and directly employed 544 people."

FX Networks

Towards the end of 2008 FX Networks New Zealand, a company that provides long haul very high speed data and voice communications established an office in Napier. At the same time that the office was established, FX Networks installed a high speed fiber optic data and voice service linking Hawke's Bay with the rest of the country and the world. The installation of fiber optic cabling provided an opportunity for

Hawke's Bay businesses and educational institutes to make use of the Gigabyte data services and grow their existing business and look for opportunities to explore new business ventures.

Early in 2009, FX Networks announced that it intended to offer some of its Napier office space to establish an incubator aimed at encouraging local entrepreneurs and business interests to make use of the newly installed high speed data communications infrastructure to grow new business ventures. At the time FX Networks indicated that they had a vision which would see Hawke's Bay emerge as a region recognized for its innovative use of digital technologies. The offer was publicised through several business networks including the Hawke's Bay Chamber of Commerce, Te Puni Kokiri, Venture Hawke's Bay and a selected number of local IT and general businesses.

Incubator Working Party

A working party with representatives from FX Networks, the Hawke's Bay Chamber of Commerce, Te Puni Kokiri, Venture Hawke's Bay, EIT, a software development company, a human resource management company, and a local business consultant was established to investigate the possibility of establishing a Hawke's Bay based business incubator.

The working party arranged a number of meetings and there was general agreement between participants on what was seen as the role of the business incubator and time was spent looking at how the existing New Zealand incubators operated. The working party identified a need to survey local industry to see if there was support for the incubator concept. As a way of ensuring that local business understood the concepts of

business incubators a number of meetings were arranged to share ideas and representatives from some of the existing New Zealand incubators were invited to speak about their experiences.

While the original offer from FX Networks was aimed at business opportunities that would leverage the new high speed fiber networking infrastructure and establishing the Hawke's Bay as region recognized for its innovative use of digital technologies, the emphasis on IT and digital technologies gave way to a more general business incubator approach.

The Survey Instrument

Using information shared by a group of Australian consultants tasked at looking at establishing a business incubator in Australia, a survey was developed to attempt to judge local industry support. The survey was based on a similar survey used in Australia and was distributed by email to more than 100 local businesses. While the sample cannot be said to be a random sample it did reflect the organisations that are likely to be using or supporting an incubator should it be established.

The EIT representative agreed to collate the responses and report back the findings to the working party.

The survey instrument provided some background information about the incubator concept and the types of activities which an incubator might support. The survey instrument was designed with four sections, with businesses being asked to supply information related to:

1. The existing business, including, the type of business, the size of business, the location and type of premises from which the business operates.
2. Plans to develop new business ventures that could be supported by an incubator.
3. The level of support and the type of support that the existing business would be prepared to offer.
4. The services that one would expect from an incubator should it be established.

Survey Results

The survey instrument was distributed to around 100 businesses and the response rate was 36%. While this may appear low, it should be noted that several of the businesses that received the survey suggested that it did not really cater for businesses that wanted to use the incubation services to grow an existing business or an aspect of an existing business. Several businesses did not complete the survey but indicated by email, conversation or phone message that they were supportive of the incubator concept.

The responses were received from a wide variety of businesses, representing most of the business activities being conducted in Hawke's Bay, as shown in Table 1.

It should be noted that 4 of the respondents (22%) indicated that their business activity spanned several of the listed categories, perhaps an indication of the less specialised nature of Hawke's Bay business. When a business indicated multiple areas, their responses were not included in each of the individual categories.

Table 1: Types of Business

Type of business activity	Number of respondents
Accommodation Cafes & Restaurants	2
Agriculture	2
Communication Services	2
Construction	2
Cultural & Recreational Services	2
Education	2
Electricity Gas & Water	0
Finance & Insurance	0
Government Admin	0
Health & Community Services	2
Manufacturing	2
Personal & Other Services	2
Property & Business Services	2
Retail	0
Transport & Storage	1
Wholesale Trade	0
Software Development	4
Multiple Areas	8
Unclassified	2

The respondents to the survey reflect the wide range of business activities and dearth of Government focused businesses within the region. The sample does not

reflect all of the local economy because some sectors are not suited to incubation, and the focus of the incubator is on innovation and commercialisation rather than generic small business support.

Of the 36 respondents, 36 indicated that they were existing businesses, suggesting that the sample failed to include intended or planned businesses. The result clearly indicated a need to develop a mechanism that provides a way of contacting individuals or groups who have an idea or concept that has the development potential. Discussion with business leaders would suggest that Hawke’s Bay has been a good breeding ground for entrepreneurs who have ideas the merit support.

The average age of the business tended to fall into three broad categories (Table 2). 22% had been in business 2 years of less, 39% had been in business between 2 and 10 years and 39% had been in business more than 10 years. The average length of time that a business had existed was slightly more than 26 years. The age ranges tend to support the findings relating to stages of commercialization.

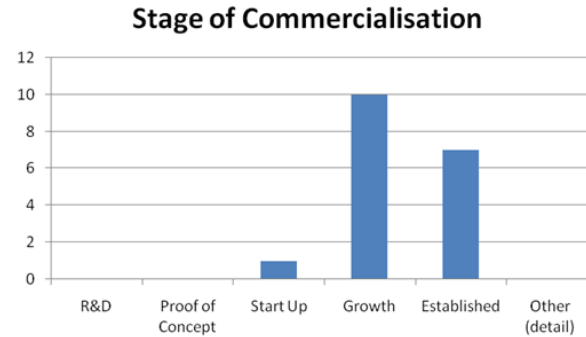
Table 2: Age of Business

Percentage of sample	Age of business enterprise
22%	2 years of less
39%	great than 2 but less than or equal to 10
39%	greater than 10

Prospects were at different stages of commercialisation with 5% of respondents at the start-up stage, 55% at

the growth stage and 39% indicating that they were an established business. This is shown in Figure 1.

Figure 1: Stages of Commercialisation

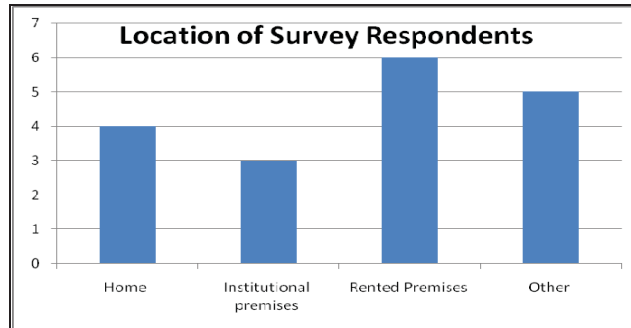


This tends to reinforce the previous statement that the survey sample did not include prospects who have a concept worthy of development or those business who are in research and development phase.

Respondents had varied business locations, as shown in Figure 2 based on the 18 responses for this question.

For all respondents who indicated other, the respondent indicated that the business were located in premises owned by the business.

Figure 2: Location of Survey respondents



The number of employees involved in the business (Table 3) varied with almost 60% of respondents indicating that they were small to medium sized businesses with less than 20 employees. The average number of employees was approximately 51, indicating that the sample included a small number of larger businesses that employed more than 100 employees.

Table 3: Number of Employees

Percentage of sample	Number of employees
27%	1 or 2 employees
5%	between 2 and 10 employees
27%	between 11 and 20 employees
16 %	between 21 and 100 employees
16%	more than 100 employees

39 of the 38 respondents indicated that they had at various stages sought business advice. The majority had sought both market research advice and coaching and mentoring support (see Table 4).

Table 4: Number of Employees

Advice Sought	Number of respondents
Assistance in preparing a business plan	8
Market research, to identify potential markets	20
Coaching and mentoring	16
Developing the firm's financial and managerial competencies	14
Assistance developing the firm's management team	14
Intellectual property advice	8
Provision of physical facilities and office services; and accommodation	10
Help securing private finance: Venture Capital, Angel Investment etc	8
Professional advice	
Accounting & Finance	18
Legal	18
Marketing	14
HR	12
Insurance	14
Assistance obtaining government funding	10
Export and Developing links to global markets	14
Developing links to national markets	6

Respondents were asked a number of questions relating to their interest in making use of an incubator and these were used to estimate the likely deal flow. The survey sought indications as to how many prospects would enquire about making use of an incubator's services, so this could be compared and analysed with actual incubator data on the number of enquiries that convert to being incubatees.

Out of 36 respondents, 20 (55%) said they would consider making use of an incubator. Six out of 20 (30%) who expressed interest in making use of an incubator said they would consider locating on site and 14 (70%) out of the 20 said they would consider using the services without locating in the incubator's premises. While the figures do not appear high it should be noted that the sample consisted mainly of business that were established or in a growth phase and no businesses were described as being in the research and development or proof of concept stage.

When asked if they were currently undertaking projects that have the potential to be commercialised through spin-off from a new small business 24 (67%) indicated that they did not have any projects. Fourteen respondents indicated that they had projects that they could identify and of the 14, eight identified specific projects. Considering that most of those surveyed identified as being businesses that were established or in growth phase this result is very encouraging.

All of the 36 respondents indicated that they would support the concept of developing an incubator (Table 5), this is perhaps the most encouraging result obtained from the survey. When asked to rate their level of support for the concept of developing an

incubator no one indicated very low or low level support.

Table 5: Level of Interest in Incubator

Level of interest	Number of respondents	%
Medium	12	33%
High	12	33%
Very High	12	33%

Compared to other similar studies this is a very high rating of interest, reflecting the positive attitude of Hawke's Bay businesses towards developing an incubation service in the region. The response would seem to indicate that businesses within the region are looking for ways to help others to grow local business opportunities.

When asked about the type of support that they would be prepared to offer, 6 (17%) indicated that they would be prepared to offer financial support, 14 (39%) indicated that they would be prepared to offer moral support and 22 (61%) indicated that they would be prepared to offer mentoring services. Other services such as process improvement, operational performance and general advice were identified by 12 (33%) of respondents.

In terms of an ideal location for an incubator should it be established, 6 specifically identified EIT as the preferred location, 12 suggested Napier, 6 suggested Hastings and 4 suggested somewhere between Napier and Hastings. When asked if a location close to EIT would be beneficial, 22 suggested that it would be and no one that it would not.

When asked about the services required (Table 6) only eight respondents indicated the need for office space and no one indicated a need for industrial or storage space. When asked about Internet bandwidth it was suggested that the bandwidth should be as high as possible.

Table 6: Services Expected in Incubator

Fax	6	Typing/Word-processing	6
Photocopying	12	Book-keeping	4
Phone Answering	6	Secretarial support	2
Reception	4	Meeting Room	10
Conference Room	4	Water in unit(Not tea & coffee)	4
Showers	2	Access to a computers	6
Internet (see 20)	8	Web Page	4

Discussion

The survey results provide a picture of businesses in Hawke's Bay and indicate a wide variety of business activities with little government activity. 80% of businesses have been in existence for more than two years and only 5% describe themselves as start-up businesses. Almost 60% of businesses have less than 20 employees and more than 80% of the businesses that responded suggested that they had sought business advice and mentoring support.

When asked about the level of support for an incubator in Hawke's Bay all respondents indicated some level of support with a third indicating a high level of support.

The type of support offered ranged from financial support to the provision of mentoring services.

The survey results were shared at a meeting of the incubator steering committee and a summary of the results were sent to all participating businesses that had indicated an interest in receiving feedback. Since the survey indicated generally positive support for the incubator concept, the steering committee decided that a business case should be prepared and plans made to further the development of an incubator in Hawke's Bay.

While the steering committee expressed a desire to further the incubator concept the people who volunteered to build the business case failed to deliver and three months passed without any progress. Concerned about the delay and apparent lack of progress, FX Networks announced that they were withdrawing their offer support for the regional incubator concept. They also expressed a desire to work alongside the computing school at EIT to investigate opportunities for supporting high performing students once they graduate. As a result of the withdrawal of FX Networks support the incubator steering committee agreed to drop the plans for establishing a regional incubator in Hawke's Bay.

Conclusions

The enthusiasm of the steering committee and the positive response to the business survey would suggest that there was a good level of support for developing a business incubator in the region. However the Hawke's Bay experience would suggest that developing a regional incubator is not a straight forward task. When the steering group was unable to deliver the business

case document in a reasonable timeframe the project lost momentum and the principal sponsor withdrew support. FX Networks also indicated that they were disappointed that the steering group had opted for a general business approach to the incubator concept in preference to the original concept that aimed to leverage the high speed fiber networking infrastructure to high speed fiber networking infrastructure and establishing the Hawke's Bay as region recognized for its innovative use of digital technologies.

While the attempt to establish a business incubator in Hawke's Bay was unsuccessful, the experience should provide some useful insights to anybody thinking of developing a regional incubator elsewhere. The two things that appear to have been instrumental in the Hawke's Bay case were the failure to maintain momentum when developing the business case and the early decision to drop the concept of attempting to use the incubator establish the region as a place recognized for its innovative use of digital technologies.

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