

THE MALTA BUSINESS WEEKLY

Thursday, August 31, 2006

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From a concept to market success

by David Kelleher

To be successful in business, you need more than just a good product or service. You need to know how to sell it. In this two-part article, David Kelleher takes a look at the role of business incubators and the work being carried out by the Kordin Business Incubation Centre (KBIC), Part of Malta Enterprise, to help aspiring Maltese entrepreneurs.

Business incubators endeared themselves to the media at the turn of the millennium, especially during the dotcom era, when hundreds of start-up companies sought venture capital and business expertise to launch innovative and, at times, quite risky projects.

The media had coined the term "business incubator" or "business accelerator" to describe those entities that provide business consultancy and financing to start-ups.

However, business incubation started well before the internet era and the dotcom bubble. The history of incubation can be traced back to the 1950s but really took off in the US in the 1980s. Today, the number of incubators has increased from 12 in 1980 to over 1,000 now in the US and more than 4,000 throughout Europe.

The concept is quite simple. Take an idea, nurture it, give it the necessary funding and guide it to the market place.

Thanks to these business incubators thousands of innovative and aspiring entrepreneurs have been successfully taken from product concept stage to the market. And there is a lot to gain by helping small businesses to get off the ground.

The secondary benefits of incubation programmes are the creation of jobs in a community, the enhancement of a community's entrepreneurial climate, the retention of businesses in a community, the building or acceleration of growth in a local industry, and the diversification of local economies.

Incubation also ensures that excellent business ideas are not lost because of a lack of either business acumen or proper financing.

"Business incubation is a

business support process that accelerates the successful development of start-up and fledgling companies by providing entrepreneurs with an array of targeted resources and services," Brian Grima, manager of the KBIC told The Malta Business Weekly.

"A business incubator's main goal is to produce successful firms that will leave the programme financially viable and freestanding. These incubator graduates have the potential to create jobs, revitalise neighbourhoods, commercialise new technologies, and strengthen local and national economies. That is why business incubation is such an important tool," Mr Grima said.

KBIC was set up in 1998 and welcomed its first client in 2001. Today, there are 25 clients and a number of companies have experienced positive growth and expansion over the past few months.

These companies have registered success even before their three-year "incubation" contract has expired.

Although the centre has had a slow start, clients have taken up today over 75 per cent of available space. The centre witnessed a surge in applications in 2003 and 2004 thanks to European Union membership and the opportunities for local entrepreneurs to move into European markets.

Mr Grima said that critical to the definition of an incubator is the provision of management guidance, technical assistance and consulting tailored to young growing companies.

Why do prospective entrepreneurs seek help from a business incubator?

"It is important to point out that not all entrepreneurs can make use of the services provided by KBIC. Apart from satisfying a range of criteria, we only accept industry groups or individuals that target the following categories: Information and communication technologies (ICT); mechanical and electrical engineering design of equipment systems, as well as product design; renewable energy resources; biotechnology; and other innovative projects, which are more advanced than those prevailing in the respective industry, in terms of technology, know-how and skills," Mr Grima explained.

Unless an individual or a group has an innovative idea or product they will not be considered.

"A carpenter will not qualify as one of our clients, unless he or she comes up with a truly innovative product that makes use of technology, for example."

The services offered at KBIC are based on three pillars: business consultancy, financing and infrastructure.

"We have realised over the past few years that most of our clients focused too much on operational aspects of the company but very little on selling their product. After all, the whole idea of setting up a company is to sell that product, to make a profit and to grow both vertically and horizontally."

Mr Grima said that KBIC helps new companies to focus on the commercialisation of the idea.

"Selling is the hardest point for new companies and they give it considerable thought beforehand, otherwise their whole project risks failure. Another problem that they encounter when they get to the market place is the lack of ability to convince people to buy from a start-up.

"These young entrepreneurs have no track record, no previous sales experience and no previous expertise in that particular market. Therefore, by forming part of KBIC, the risk for their prospective clients is reduced because they know that the company has been vetted by us or by Malta Enterprise. We serve as a bridge between the client and the marketplace," Mr Grima explained.

Financing is another problem that start-up companies have to overcome in the beginning. With little or no venture capital available locally and with banks unwilling to take unnecessary risks with a company that has no track record, these start-ups find themselves staring at a brick wall every time.

KBIC tackles this problem in two ways. First, in collaboration with Bank of Valletta, they provide financing consultancy to start-ups. The centre has three advisors as well as a part-time BOV advisor on site. Apart from that, KBIC has a list of business mentors and the staff at Malta Enterprise (ME) who cover the spectrum of skills that are required. Together, they help start-ups to assess their needs, financing requirements and to draw up a business plan.

"A key component in the KBIC programmes' portfolio of services is the access to finance. This is provided with a loan guarantee, which is targeted for post-business plan approval, where assisted loans will be granted to fund up to 75 per cent of the clients requirements up to a maximum of Lm50,000. Likewise, assisted loans may be repayable over a period of 10 years, where the loan account benefits from a preferential rate of interest," Mr Grima explained.

Since July, KBIC has also offered a grant of Lm5,000 for activities related to marketing, HR and quality to cover a

maximum of 50 per cent of expenses.

"We are also introducing a new tool, a royalty agreement, whereby our clients can avail themselves of a loan of up to Lm20,000. Two per cent of their turnover is then used to pay it back. We hope that this initiative will be fully functioning by next year," Mr Grima said.

The third pillar is the infrastructure and clients at KBIC are provided with office or factory space according to their needs. The premises at Kordin have been extensively done up over the past few year to cater for the different needs of the clients.

Mr Grima said that office space ranges from 25sq.m. up to 100sq.m. Each office comes with basic utilities – water and electricity, broadband and A/C.

Although ADSL is provided free of charge, all clients pay for water and electricity every two months and the air-conditioning unit, if required, is leased at 15 per cent of its cost per year. The rooms are sparsely furnished but adequate for companies to move in and start working from day one. A service charge is also paid by clients for the office space.

"We are basically providing companies with their basic operational needs. They pay bills like any other company, the only difference is that they are given the services from day one and they do not need to apply for anything thus saving them precious time.

"Clients only realise how much they are pampered at KBIC when they have to leave," Mr Grima said with a smile.

The success of the KBIC can be seen from the number of companies that have requested larger office space as their businesses thrive. To meet the growing demand, a new facility is being built next to the existing centre. The project will basically double the amount of space available, especially for the larger, manufacturing concerns. Mr Grima said the project is expected to be completed by the end of next year.

"This is an important development for KBIC. It shows that the concept of business incubation has been a success, and that properly nurtured companies can grow and thrive.

"In 2001, we had very little to go on, but today we have an advantage because we know what we want and what the clients needs," Mr Grima said.

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