

**MARKETING EXPERIENCE FOR SMEs
IN A GOVERNMENTAL SPONSOR INCUBATOR
IN IRAN**

**Mehdi Keshmiri¹, Reza Moradi², Mostafa K. Eghbal³,
and E. Roustazadeh⁴**

Isfahan Science & Technology Town, Iran

ABSTRACT

Most incubators provide marketing services to their tenant companies. Newly-established companies, however, depend on more support for marketing as they are usually inexperienced and their products and/or services are not known widely enough. The statistics indicate that these services are provided by more than 85% of the incubators worldwide (NBIA Webpage, 2002) but the type and form of the services depend on the socio-economic structure of the environment in which the incubators operate. This paper investigates the measures applied in marketing for the services and products of tenant companies at Qadir Incubator, Isfahan Science & Technology Town, which is the first technology-based and research incubator in Iran. Preliminary assessments indicate positive effects of the measures adopted by Qadir Incubator on lifting the problems facing the newly-established companies in the face of the socio-economic structure of their working environment. As an example of this positive effect, the financial performance of the companies after the adoption of these measures is presented. Finally, the support service scheme designed is assessed for its weaknesses and strengths.

¹ Vice-President for Research, Isfahan Science & Technology Town
(Mkeshmiri@istt.org)

² Manager, Qadir Incubator, Isfahan Science & Technology Town
(RMoradi@istt.org)

³ President, Isfahan Science & Technology Town (MKEghbal@istt.org)

⁴ Advisor to International Office, Isfahan Science & Technology Town
(Eroustazadeh@istt.org)

Introduction

The idea of developing and expanding science parks in Iran has gained momentum over the past two years so that it is now rapidly changing into a national priority. Isfahan Science & Technology Town (ISTT) played a great role in this process by starting up its first incubator, Qadir Incubator. It was established and commissioned in the year 2000, in a building with over 1,000 m² of space. During the first 6 months of its operation, Qadir Incubator was able to attract 25 companies involved in a variety of technology-based business activities. The success story soon spread nationwide and presently over five provinces in Iran are embarking on the business of establishing their own science parks using the model developed at ISTT.

The companies admitted to the incubator have innovative ideas for new products and services. Although the companies are still in the embryonic stage of translating their ideas into production, marketing for their future products has already been placed on Qadir Incubator's priority list. Establishing relations with major industries and provisioning access to financial resources are among the effective measures taken by Qadir Incubator along these lines. Regardless of their advantages and/or disadvantages to be discussed below, these measures have created strong attractions for more new business ideas to form tenant companies at Qadir Incubator. A noticeable aspect of these marketing support services, along with other financial supports offered, is the alleviation of risks and reduction of initial costs during the first stages of establishing new companies.

Acquaintance with the socio-economic situation in Iran and the problems facing new companies in establishing themselves on the market is a prerequisite to understanding the significance of the measures in question and appreciating the results so far obtained. The paper will, therefore, start with a brief review of the economic conditions and then will continue to introduce the support services and policies adopted by Qadir Incubator. Finally, the scheme will be assessed in terms of its weaknesses and strengths.

The economic environment

Iran has a governmental economic structure in which the private sector plays a minor role, essentially restricted to trade activities. Former policies of development based on the expansion of the public

sector has caused over 80% of the state economic infrastructures to belong to the public sector. The unsuccessful global experience of the public sector economy as well as the technological gap existing between Iran and the developed and most developing countries have necessitated fundamental revisions and changes in the state economic structure. The existing structure is based on large industries relying on governmental support and management as well as on dependence on the export of natural resources, with little role given to production, technology, and the private sector.

The new economic trend aims at downsizing the public sector, strengthening the role and functions of the private sector, developing and expanding technology, and taking advantage of SMEs in all these processes. This new orientation in the state economy has created a new and positive atmosphere favorable to establishing technology-based parks and SMEs. The slow pace of the changes and the power of the existing structures, however, pose serious problems and challenges to the newly-established SMEs. On the one hand, the new orientation requires the executive bodies and large industries to delegate some of their functions to SMEs, while on the other, this process involves problems and takes place far more slowly than required, mainly because it lacks in appropriate provisions. Currently, the public sector and governmental organizations are in charge of meeting research and technological requirements by the executive bodies and large industries while the private sector plays only a small role. The public sector wins almost the whole of the research allocations in the budget. The existing governmental structures and the new attitude toward the necessity for changes in the economic structure have provided ISTT with the opportunity to provide support to SMEs in the field of technology. ISTT, which is itself part of the governmental structure, serves as the mediator between SMEs and the public sector opening up new ways and opportunities to them.

Qadir Incubator

The new approach to technological development and the SMEs' role in the process, the successful experience by incubators in local economic growth and entrepreneurship, and the myriad numbers of university graduates seeking employment provided a superb opportunity for ISTT to establish a successful incubator in 1999. The admission of the companies started early in 2000. Qadir Incubator

was assigned to offer logistics support to the newly-established companies and to supervise their growth and maturation. The objectives defined for Qadir Incubator are identical to those for similar institutions, including:

- Creating attractions for SMEs;
- Reducing risks in investments by the companies;
- Promoting local economic growth and employment for university graduates.

These objectives are achieved through providing different kinds of support services to the newly-established companies. Financial supports are provided from ISTT,s internal resources by offering seed fund for start-up activities. This support has led to the creation of a secure atmosphere for the companies to transform their novel ideas and innovative concepts into products. The financial service has been supplemented and augmented by providing public services, technical and professional services, and information services as well as legal, management, and marketing consultation. Besides, Qadir Incubator acts as the liason in streamlining the services and capacities in the private sector to the newly-established tenant companies.

Based on the existing structures and approaches, the support services have been classified into three classes, for each of which special financial policies have been adopted. The classification is presented in Table (1).

Table 1. Financial policies for offering support services to tenant companies

Service class	Financial policies	Type of services
(Class 1): Essential services	Not subsidized	Office/workshop space and administrative work
(Class 2): Services requested according to economic potential and resources	Shared costs between tenant and ISTT	Information/ Professional consultation
(Class 3): Services rarely requested	Total costs afforded by ISTT	Marketing, Legal consultation, and Training courses

Marketing is one of the services provided by ISTT free of charge. As only one year has elapsed since the establishment of tenant companies at Qadir Incubator and most of them have of yet not been able to manufacture any products, the type of marketing services offered is not of a conventional type. But, as mentioned before, it basically involves introducing the companies to the market and the economic establishments which are typically governmental and/or run with public budgets. This measure is hoped to provide better opportunities for the companies and SMEs in strengthening their footholds and business activities in near future when they supply their first products to the market.

Marketing services

In addition to services commonly offered by all incubators such as assistance in developing work plans and organizing workshops in the field of market indentification, two major services have been provisioned and offered by Qadir Incubator in the light of the present socio-economic structure. They are:

1. Acquisition of research grants from executive bodies and industries and passing them on to tenant companies; and
2. Providing access by tenant companies to national research and technology allocations.

As mentioned earlier, executive bodies and large industries do not place much trust in SMEs. They normally meet their needs for research through public organizations or international companies. Qadir Incubator has attempted to identify the capacities of the tenant companies and introduce them to industries. The needs and demands by the industry and executive bodies are also being constantly identified and introduced to the tenant companies. Other measures taken as parts of marketing activities include providing facilities for the tenants to participate in national professional exhibitions and/or trade fairs, and organizing regular meetings aimed at exchange of ideas and information between tenant companies and executive bodies and industries. Opportunities for signing business contracts have been achieved as a result of these activities. A major portion of these contracts are mediated by ISTT. However, the tenant companies have become increasing capable of winning new business contracts with major industries without ISTT's mediation in cases where they have secured satisfactory records in their past transactions with industry or

where they have been well recognized for their services. Diagram (1) shows the percentage of ISTT-mediated contracts signed between tenant companies and large industries.

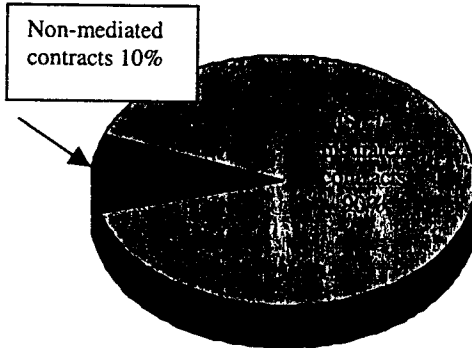


Diagram 1. Unmediated contracts between tenant SMEs and industries as compared to ISTT-mediated contracts in terms of the monetary value (in Rials)

Diagram (2) shows the percentage of one sample tenant SME's ISTT-mediated contracts during two years of operation at Qadir Incubator. The Diagram is indicative of the increased trust placed by major industries and executive bodies in SMEs at Qadir Incubator. This higher trust may be ascribed to the scientific credit of ISTT, application of appropriate control and surveillance measures by ISTT, perseverance in meeting employers' demands, and sustained efforts by tenant SMEs in providing high quality services and products. In terms of cash flow, the contracts signed during the year 2001 had a significant boost, which was a relative success. The one-year performance of Qadir Incubator has now prepared the grounds for obtaining large projects and distributing sub-projects among the tenant SMEs.

Qadir Incubator has also established a Partnership Networking System which aims to promote and strengthen the activities concerning introduction of SMEs to the market. The Networking System forms a satellite system around the axis of ISTT, consisting of SME tenant companies and other SMEs and/or institutions outside

ISTT. This naturally leads to increased and accumulated capacities among the Network members, stronger presence of SMEs in the market, and greater financial transactions and interactions with the market. The members share their potentials and capacities through predefined financial arrangements, which in cases, might even lead to the establishment of consortiums.

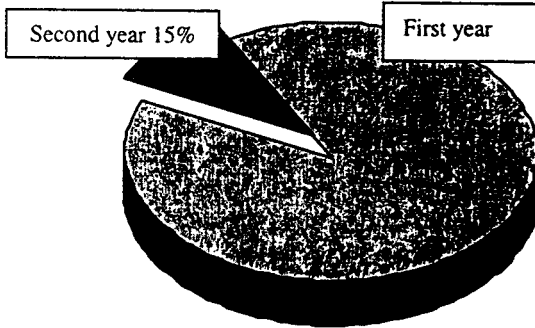


Diagram 2. Average volume of one sample tenant SME contracts mediated by ISTT during its first two years of operation

Another measure taken along these lines is providing facilities and the possibility for SMEs to win grants or research contracts from public allocations. Under the present conditions, almost all the public budget allocated to basic and applied research is totally used by the public sector, leaving almost no share for the private sector. ISTT, as a governmental body, provides the possibility for private SMEs to act under the umbrella of a governmental body as a competitor for the public sector. The performance of the Qadir Incubator and the tenant companies has also shown relative success in this regard.

The last two measures described above have provided effective attractions for more new SMEs to apply for admission to Qadir Incubator so that, at present, the tenant companies operative at Qadir Incubator have used up all the space available and the demand for new admissions is twice the present capacity.

In addition to marketing in the domestic markets, Qadir Incubator is also trying to seek international markets for its tenant companies. This responsibility has been left to the capacity of the Department of International Affairs of ISTT. One possibility for international marketing is finding partners and international cooperation with foreign companies in meeting research and technological demands of the domestic industries. Another potential for such cooperation schemes may be contracts for performing sub-projects by SMEs at Qadir Incubator within the framework of contracts with international companies. There are currently two SMEs active in IT and MIS fields taking part in international markets. The time is still ripe for any assessment of the results due to the rather short period since the establishment of these companies. However, it is hoped that SMEs at Qadir Incubator will gain more opportunities in international markets within the next year.

Assessment of the marketing activities

Although the above measures can be considered as a kind of preliminary marketing for SMEs at Qadir Incubator, the economic impacts and results obtained from them are positive. However, they may be subject to a variety of analyses. In short, the strengths can be outlined as below:

- Creation of better grounds for a faster trend in the development and growth of SMEs;
- Privatization of portions of the functions of the public sector;
- Strengthening the financial resources of the SMEs and reducing the risks during their early stages of growth.

In contrast to these strengths which are only favorable from the viewpoint of the SMEs, they have their own drawbacks from the standpoint of ISTT and Qadir Incubator management as a government entity, as outlined below:

- Increased dependence of SMEs on the governmental structure of ISTT;
- Increased roles and functions of the administrative staff of ISTT, which is in sharp contrast to the objectives of public sector downsizing;
- Reduced competitive power of tenant SMEs as compared to that of independent SMEs outside such institutions.

Conclusions

The measures adopted by Qadir Incubator can be regarded as transitional solutions to the problems of consolidating a strong, competitive private sector in economies where the sole agent is the government and its affiliated organizations. Innovative measures such as these can bridge the gap between economic structures in third world countries and economic structures based on the free market system. However, prolonged practice of such measures may lead to a series of business companies which heavily depend on the public sector and the subsidized services in the long run. It is, therefore, essential for situations where these measures are adopted as temporary solutions to include in management plans controlled support systems and revision procedures such that encouragements are provided for the more independent, self-sustained SMEs. Qadir Incubator is in the process of developing such controlled supervision aimed at reducing its mediational role and minimizing the pooling of resources and support to tenant SMEs.