



## COMPLETION REPORT

### Island Coastal Economic Trust Economic Infrastructure Program

SquareOne Incubator Project  
*July 4, 2014 – December 31, 2015*

### SUMMARY OF PROJECT OBJECTIVES

The goal of the SquareOne Incubator Project was to increase the number of tech companies that start and grow in the Central Vancouver Island region. The objectives identified in our proposal and successfully achieved for the 18-month project included:

- Developing **four incubator programs** to assist startup growth and development;
- Engaging **six entrepreneurs** through the virtual incubator model;
- Attracting **five mentors** to share their knowledge and expertise with SquareOne companies;
- Preparing **five companies to present, pitch and secure investment**;
- Supporting **one University student to spin-off a startup** into SquareOne; and
- Providing **three companies** with the assistance needed to **hire eight new tech employees**.





## SUMMARY OF WORK AND METHODOLOGY IN RELATION TO PROJECT OBJECTIVES

For the purposes of this report, tech entrepreneurs that Innovation Island works with in the context of the SquareOne Project and our other program offerings are entrepreneurs that are “building” technology (tech startups) versus “working with” technology (tech-based SMB’s).

Some key differences between **tech-based SMB’s** and **tech startups** are as follows:

	<b>Tech-based SMB’s</b>	<b>Tech Startups</b>
<b>Location</b>	Primarily local or regional only	Local or international pending growth
<b>Ownership</b>	Typically single owner/operator	Co-founder(s) with founding team under ESOP and investors when/if fitting
<b>Employment</b>	Often 1-2 FTE’s or contractor based engagement(s)	2-5+ teams pending stage and growth, wages often offset by sweat-equity
<b>Talent</b>	Limited, often mid-caliber	Limited initially, demanding of higher-caliber, growth imperative
<b>Funding Instruments</b>	Owner or revenue financed, secured (limited) small business loans; typically not investable	Founder(s) and/or Angel Investors (EBC Tax credits), Venture Capital, SR&ED, IRAP, Mitacs, NSERC when/if fitting
<b>Funding Requirements</b>	Typical startup capital (\$10-30K) growth capital (\$30-100K)	Typical startup capital (\$10-30K) seed and early-stage capital (\$300K-\$1M+) growth (\$2M-10M+)
<b>Market</b>	Primarily local or regional only	National or international at minimum
<b>Growth</b>	Limited	Moderate to unlimited (TBD)
<b>Performance</b>	Mostly under \$1M annual gross revenue (typically profitable)	Typically \$0 at startup but must have \$100M+ potential to attract funding and talent (often unprofitable near-term)
<b>Risk</b>	Low to Moderate	Moderate to High/Extreme
<b>Lifestyle</b>	Normal (compared to most SMB’s)	Abnormal (often frenetic/manic) 24/7

**Objective 1: Develop Four Incubator Programs to Assist Startup Growth and Development**

Innovation Island developed four incubator programs for technology entrepreneurs looking to start, accelerate and grow.

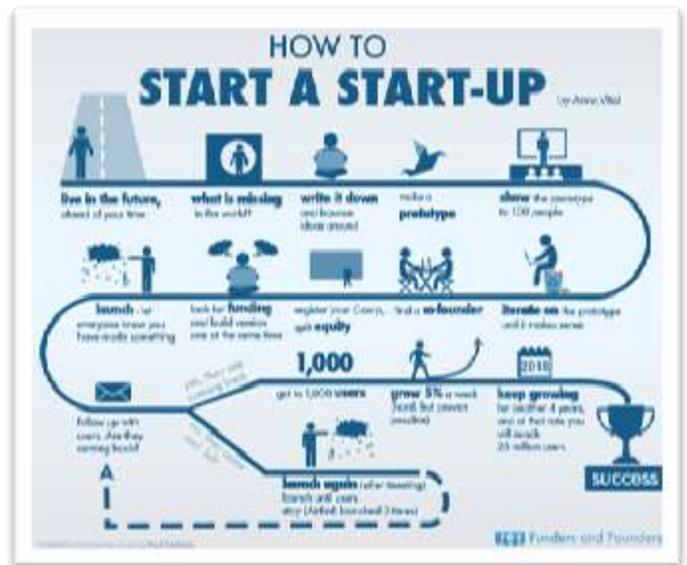
**1. Business Advisory Service**

Through support by NRC-IRAP, Innovation Island delivered a Business Advisory Service as one of the onsite and virtual incubator programs offerings at SquareOne, which supported tech entrepreneurs at SquareOne as well as outside the Nanaimo region.

For the period of this project, Innovation Island has assisted **54 entrepreneurs** in pursuit of their business goals, challenges and/or redirections. Innovation Island has found that over 70% of clients have previous business experience; 50% of the entrepreneurs could be considered as “products”; 24% of them as “services”; and 71% as “technology”.

Other findings included:

- **41** companies comprised **1-2 Founders**
- **5** companies had **3-5 FTE's**
- **8** companies had **more than 5 FTE's**
- **47%** of the ventures are at **Revenue**
- **62%** have **scalable Business Models**
- **41%** of the ventures need **funding to achieve Revenue**
- **94%** need **funding to Scale**
- **59%** of the ventures have an “anticipated” **Survivability (runway) of 6-12 months**
- **74%** of the products/technologies have **International Market Opportunity**
- **44%** have **Defensible or Proprietary IP**
- **55%** of the ventures need to **hire staff within 12-24 months**
- **53%** are **Financeable (investor ready)**



With respect to product/service **stage and venture progression** all companies can be categorized into three basic groupings.





**34% of the entrepreneurs should be considered at concept.**

- Typical engagements with these clients involved phone or meeting Q&A on the “idea” – leading to requests for written materials to further review. Basic assignments and assessments to competitive and market/product analysis lead to a project redirection and/or reconsideration(s). Approximately 1/3 of these clients “may” pursue market/product validation.

**32% of the entrepreneurs are pursuing product, market and/or customer validation.**

- Almost half of this group have realized initial sales within their market validation periods and/or they have reoccurring revenues from pre-existing businesses. Typical engagements have surrounded reviews of customer discovery initiatives, go-to-market plans, Q&A on core value propositions and requests/assignments on business presentation materials. Venture funding is vital to about 2/3 of this group as sales/revenues may not fulfill market/growth requirements.

**34% of the entrepreneurs have achieved modest product/service/technology commercialization.**

- Approximately one half of this group have encouraging sales/revenue, and/or have secured modest project funding, toward “expected” growth or sustainability. Engagements have covered Q&A on issues of corporate structuring, investor presentation materials, requests/assignments to business modeling and sales & marketing strategy

***2. Entrepreneurial Development Events***

During the term of the project, Innovation Island hosted **13 events that engaged 287 entrepreneurs** throughout the region. Topics included Business Model Canvas, Mentor Panel, Corporate Structure, Customer Development Methodology; Crowdfunding 101; and Startup 101: What it REALLY Takes, to name a few.

These events focused on addressing many of the issues facing tech startups as a means of increasing their chances for success, such as:

Unscalable Idea

Startup founders that focus their energies on creating technology and not enough on building the business, limit their potential for scalability. When looking at the attributes of successful startups, it is typically those with two founders – one with a technical background and the other with a business background – that will increase their odds for success.



### Market Positioning

Often times entrepreneurs launch businesses they think are good ideas, but they did not take the time to research the market. Entrepreneurs need to ensure they clearly differentiate themselves from the competition and that their plan is defensible. To be competitive, startups and early-stage companies need to uniquely solve a problem that is in the market. Too often, innovators create concepts then try to find the problem their innovation may solve instead of vice versa. Without a strong market position, it will limit interest and opportunity to secure angel investment and other funding.

### Go-To-Market Strategy

Entrepreneurs that focused on building their product tend to overlook the importance of an effective go-to-market strategy. Getting your product/innovation in the hands of the target customer not only validates the proof-of-concept, but also confirms the sales funnel. Customer acquisition and sales is critical to the success of a startup.

### Pivot

Understanding when to pivot or change directions when there is still enough time to implement changes is critical in the life cycle of a startup. Entrepreneurs need to constantly test and iterate until they identify a direction with market potential and customer engagement.

### Resources and Connections

Tech entrepreneurs tend to work in isolation while attempting to establish a startup on their own without the appropriate expertise, support or guidance. Innovation Island has seen companies grow considerably once they tap into the appropriate mentorship from experienced entrepreneurs that have “been there and done that” as opposed to a business consultant.

### Business Model

Developing a repeatable, scalable business model is often overlooked by startups yet is a critical component of an effective market strategy. Using tools such as the Business Model Canvas can accelerate the process of defining a proven business model for sustained profitability.

### ***3. Embedded Advisor Program***

The Embedded Advisor Program (EAP), supported by NRC-IRAP, is both an onsite and virtual incubator program created and delivered by Innovation Island that targeted for companies that were more established yet had limited scalability and traction proportionate to their company development. The companies supported under this initiative were in the Commercialization stage with some sales and were exploring funding and growth potential.



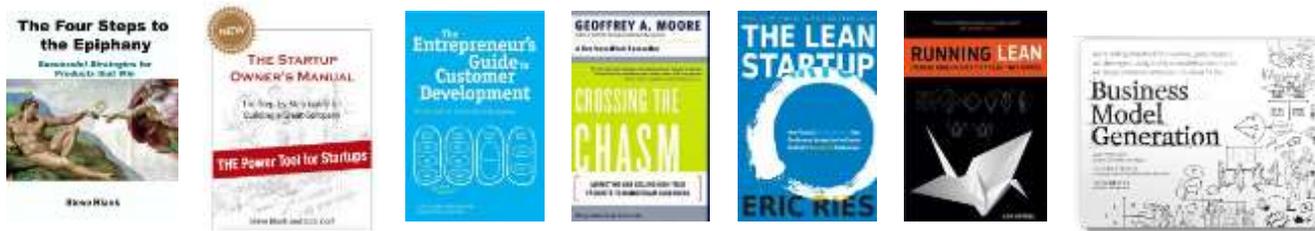
As a result of this offering, the **four companies** secured a **combined \$2.2M in project financing and investment** and **added 10 new tech jobs** to the regional economy.



#### 4. Market Validation Training

In June 2015, Innovation Island, in partnership with BCIC, launched an **online version of the Market Validation Training** to regional entrepreneurs, students and innovators. This on-line, self-guided “virtual” education experience is a Venture Learning Platform that provides a proven tool set and language to help an entrepreneur assess and development their business venture.

It is based on best practices and methodology from leading accelerator programs. This training material is for early-stage entrepreneurs who need a proven startup approach and guidance on building their business. The content draws on the expertise from the leading start-up thinkers, such as Steve Blank, Geoffrey Moore and Alexander Osterwalder.



A total of **eighteen entrepreneurs** and **six students** have signed up for and completed the training since the project began.



### **Objective 2: Engage Six Entrepreneurs through the Virtual Incubator Model**

Through the delivery of its Business Advisory Service and Embedded Advisor Program, Innovation Island has engaged with **59 entrepreneurs** through this programming.

### **Objective 3: Attract Five Mentors to Share their Knowledge and Expertise**

Mentor engagement is all about timing to ensure the match with the company is meaningful for the mentor and appropriate for the company and its stage of development. Innovation Island connected six entrepreneurs with five influential mentors from the tech sector including The lead mentor for the panel was Mike Volker, one of the most sought after and respected Angel Investors in BC. To further encourage tech entrepreneurship, Mike runs the Vancouver Angel Network, **VANTEC** and is active with **New Ventures BC** - an annual business competition.

On March 19 – 20, 2015, more than 60 mentors and advisors of BC’s diverse technology community descended on downtown Nanaimo to share best practices, exchange business insights and stimulate each other’s thinking at BCIC’s **Executive in Residence (EIR) Summit**.

The two-day summit was hosted by Innovation Island and welcomed **BC Acceleration Network** partners who administer BCIC’s Venture Acceleration Program (VAP), as well key regional and provincial technology-focused partners. Innovation Island was pleased to welcome Minister Virk to the Summit as he participated in hearing the pitches from **12 regional tech companies** of which three were from SquareOne.

On March 18, 2015, Innovation Island hosted a pre-summit social with **over 40 mentors** at SquareOne where one of our Venture Acceleration Program companies provided a demo of their VR room-scale technology.



### **Objective 4: Prepare Five Companies to Present, Pitch and Secure Investment**

Through the delivery of the Embedded Advisor Program, Venture Acceleration Program and Business Advisory Service, Innovation Island has assisted four companies to **secure \$2.2M in capital investment** and **\$400,000 in government grants**. Innovation Island has a network of Angel and VC connections that were matched with the companies at the right time and the right stage.



Lack of investment capital is still the biggest barrier facing growing tech companies locally, regionally and provincially. Without the funds to grow, companies will stagnate. The venture capital community in Canada is small, and the pool of local funds in BC is even smaller. There are a number of supports in place for early stage startups, but as soon as a company needs to make significant capital investments, yet is not turning a profit and able to access traditional loans, it hits roadblocks.

On December 8, 2015, [Premier Clark](#) announced that the Province of British Columbia is creating a \$100 million venture capital fund-of-funds as part of the foundation for a comprehensive technology strategy aimed at stimulating growth in this fast-moving sector, creating jobs and strengthening a diverse economy.

Innovation Island's Executive Director was honored to represent the [BCIC Venture Acceleration Program](#), which has been the backbone of Innovation Island's activities for over three years.

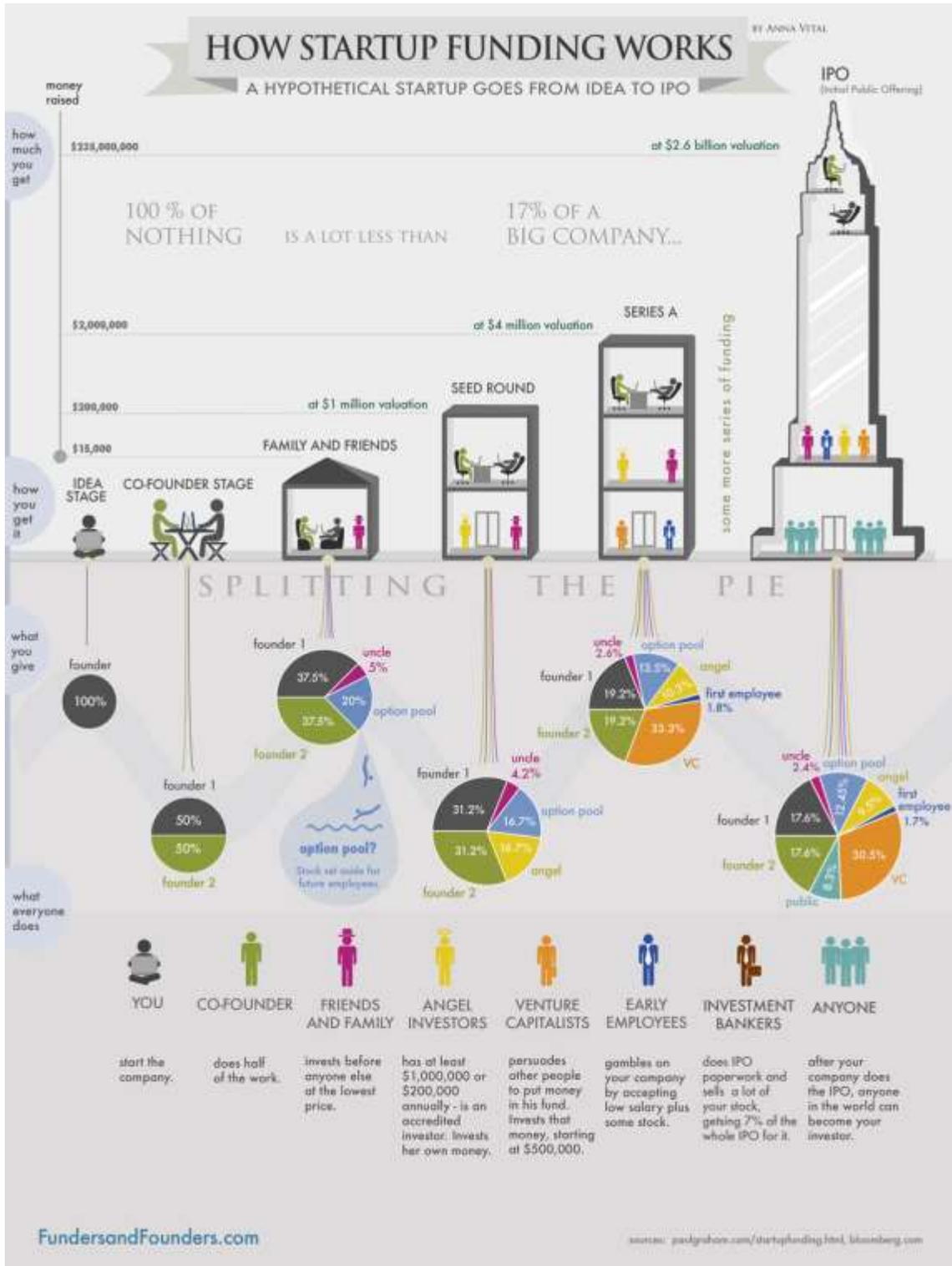
For those companies raising money, new capital into the system is good news. As you will note in the above reference links this particular fund will operate as a true [venture capital entity](#) in addition to the Eligible Business Corporation ([EBC](#)) direct investment Tax Credit program. Almost all venture financing, in whatever form, is leveraged or matched by other sources; any new contribution, to a fund or individual Company, creates ripple effects to helping encourage more of the same.

Companies in the "Startup" or "Development" stages, that may fit the criteria of these types of funds, typically require funding from \$1M to \$10M. In most cases this is "after" they have accomplished numerous project milestones; the minimum viable product has been validated by customers, they are at or near revenue, the founding team (3+ people) is fully committed/established and significant market opportunities/growth can be illustrated, etc. Typically, at this stage, the Company has also previously raised initial capital from Family & Friends and/or Angel investors, over \$200K.

The aim of the BC Tech Fund is to fill a gap in venture capital requirements for Companies in the later "Startup" stage and "Development" or commercialization phase(s). *For more information about what is required and how funding for tech startups works, please see the following infographic by [FundersandFounders.com](#).*

# INNOVATION ISLAND

Technology happens here





### **Objective 5: Supporting One University Student to Spin-off a Startup**

Innovation Island worked with two research scientists at Vancouver Island University with innovations with global market potential. As the Intellectual Property remains with the professor, the spin-off opportunities were not achieved. Conversations have taken place to connect the Business department with research as a means of exploring the interest in creating a startup.

### **Objective 6: Providing Three Companies with the Assistance to Hire Eight New Tech Employees**

#### ***Innovator Skills Initiative***

In addition to the Embedded Advisory Program, which resulted in **10 new tech jobs** being added to the economy, Innovation Island implemented the BC Innovator Skills Initiative, a partner project with the BC Innovation Council. This funding project provided students the opportunity to build desired skills while being exposed to future career possibilities, simultaneously connecting companies to knowledgeable and passionate students who can be trained to meet their needs.

Through the delivery of the BC Innovator Skills Initiative funded by the Ministry of Technology and Innovation and the Ministry of Advanced Education, Innovation Island has placed 10 Vancouver Island University students with 10 regional tech companies and contributed \$60,500 in funding to support those students. Five of these student placements were with four SquareOne tech companies. This engagement has resulted in **three students being hired**.

## **STATEMENT OF COMPLETION OF PROJECT OBJECTIVES**

All project objectives have been **completed** as outlined in Innovation Island's Economic Infrastructure Program proposal submission.

## **ECONOMIC IMPACT OF THE PROJECT**

As a result of this project and Innovation Island's programming, the project resulted in 10 new tech jobs being added to the regional economy. Each time a tech company works with a local supplier, shipper, consultant or customer, it's helping to spread wealth throughout the economy, resulting in the multiplier effect. According to recent research, technology actually has a long-term multiplier effect where one tech job can account for as many as five adjacent jobs in that given area.

This is not the only good news - the average annual salary of tech workers is at a new high of \$75,000, which is far above the BC average of \$45,000.



### EXPLANATION OF DELAYS OR CHANGE IN METHODOLOGY, SCOPE OR PROJECT STAFF

During this reporting period, there was no change in methodology or scope. In November, the Community Manager became a contractor with Nanaimo Economic Development Corporation and Innovation Island continued to deliver its programming.

### NOTIFICATION OF ANY CHANGES TO BUDGETS OR SOURCES OF FUNDING

Budget and sources of funding for the project did change further to what was identified in the proposal submission.

In November 2015, Nanaimo Economic Development Corporation terminated its 3-year Service Agreement with Innovation Island, which resulted in the leveraged funding for the project ending. In addition, the projected funding from Western Economic Diversification did not come through. The funding secured by NRC-IRAP covered 100% of the costs and was not included in this project. As a result of these funding changes, the total ICET project allocation for the SquareOne was not used.

The revised Funding and Budget Excel workbook with actuals versus projected is included as an attachment to this completion report.

**Signature:** 

**Print Name:** Paris Gaudet

**Title:** Executive Director

**Date:** February 29, 2016

## One Step Program - Funding and Budget

Sources of Funding	ACTUAL Cash	In Kind	Confirmed Yes/No	Percent of Total
Applicant's Equity (if applicant is a local government use row below)	\$ 13,436	\$ -	Yes	4%
Local Government (specify below):				
Nanaimo Economic Development Corporation	\$ 68,861	\$ -	Yes	20%
	\$ -	\$ -		0%
Federal Funding Sources (specify below):				
National Research Council	\$ 68,240	\$ -	Yes	19%
	\$ -	\$ -		0%
Provincial Government Funding Sources (specify below):				
BC Innovation Council	\$ 181,648	\$ -		52%
	\$ -	\$ -		0%
Private Sector Contributions (specify below):				
	\$ -	\$ -		0%
	\$ -	\$ -		0%
Other sources of funding (specify below):				
	\$ -	\$ -		0%
	\$ -	\$ -		0%
Request from Island Coastal Economic Trust	\$ 18,694	\$ -		5%
<b>Subtotal</b>	<b>\$ 350,878</b>	<b>\$ -</b>		<b>100%</b>
<b>TOTAL \$</b>		<b>350,878</b>		

Project Budget (define categories)	\$ Amount
Contractor Fees	\$ 271,480
Marketing and Promotions	\$ 2,773
Entrepreneurial Development	\$ 49,668
Office Infrastructure and equipment	\$ 26,957
<b>TOTAL PROJECT BUDGET</b>	<b>\$ 350,878</b>

Authorized Signatory



Paris Gaudet, Executive Director

Date: February 29, 2016