



Designing an Entrepreneurial Ecosystem From Within

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Introduction

In 2016 Lamarka did a study of the entrepreneurial and investor ecosystem in GCC countries, the study identified several challenges. We have been working close with all aspects of this ecosystem and have validated these findings. As a result, we have designed our framework, methodologies and approaches to address the challenges facing the entrepreneurial ecosystems in GCC region. Having worked in multiple projects in the GCC and around the world, we have combined lessons learned from local projects, world class entrepreneurship ecosystems, corporate best practices, lean methodologies and tailored them for the GCC region. Although the world class entrepreneurship ecosystems have been, and continue to be highly successful; their methodologies, approaches and mindset cannot simply be implemented or duplicated in GCC.

Before discussing the challenges facing the entrepreneurial ecosystem in GCC, let us begin with identifying what we mean by ecosystem and give some examples. Per Webster's dictionary an Ecosystem is; "a community, together with its environment, functioning as a unit." If you compare this with the Lean Startup definition; "A startup is a human institution designed to deliver a new product or service under conditions of extreme uncertainty." You will see a common reference around community and institution not company. In the following section, we will highlight some examples of leading entrepreneurial ecosystems and their differences.

Silicon Valley Shared Risk Ecosystem

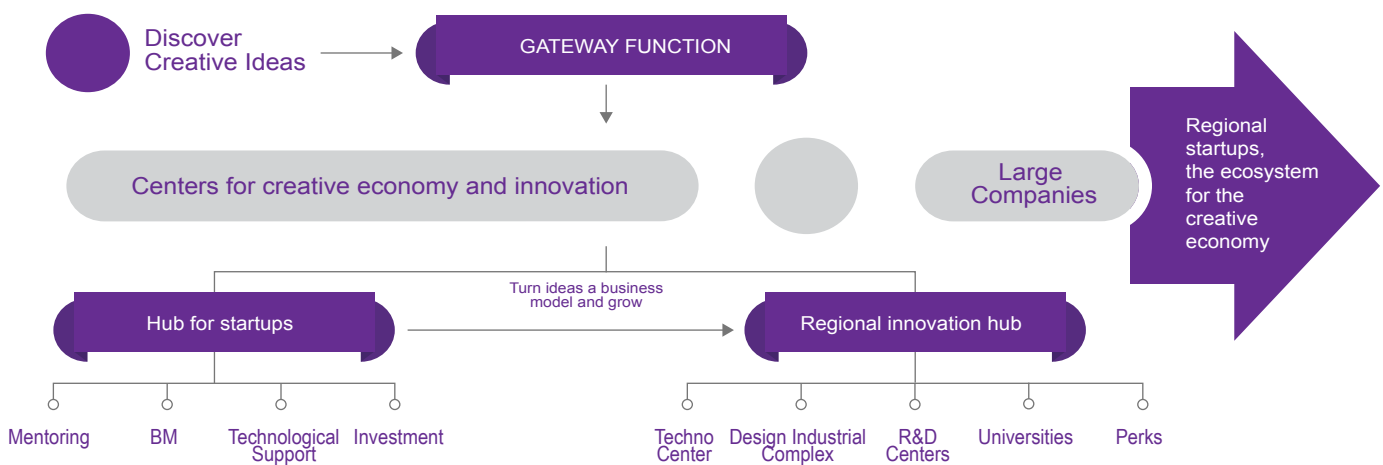
The Silicon Valley is the benchmark of what is called a “Shared Risk Ecosystem”. The Art below is a common poster found around the Valley and illustrates their vast Ecosystem; hundreds of organizations, incubators, accelerators; thousands of mentors, consultants, advisors, investors and companies. The result of 50 years of practice.

The Silicon Valley Ecosystem has always been built on “Tech”, as this was the breeding ground of technology at the time. Over the years, SV grew into an investor driven ecosystem and now seems to have a singular focus on the next Unicorn. Thus, viable companies are passed over because they are not investable, too small; “Lifestyle Business”. This model of Unicorn hunting only works in the SV because there are thousands of entrepreneurs to choose from and a vibrant ecosystem to manage the deal flow.



South Korea Creative Economy and Innovation Ecosystem

South Korea on the other hand has applied what is called “Creative Economy and Innovation Ecosystem” which depends on partnership between private and public sectors. Center for Creative Economy and Innovation has been rolled out across 17 cities and provinces to provide better access and engage the private sector. To boost the performance of the centers, each of them is matched with a leading company in a specific industry which that a city is specialized. The centers provide aspiring entrepreneurs with one stop service from ideation to commercialization stages, while employing rich resources and experience of major Korean companies to support SMEs and startups in R&D, marketing and global expansion.



There are also other examples for countries that have developed different models and entrepreneurial ecosystems like Ireland and Canada. Ireland designed a “Technological Economic Development Model” where the government initiated programs to attract US and European companies and offers them a range of services and tax benefits. Canada has created “High Tech Zones” where you can find plenty of tech talents in one area. Canada also created generous tax incentive programs for companies spending on research and developing new technologies. It is crucial to understand that every ecosystem is set up to serve different kind of objectives.

During the design of our framework we studied the entrepreneurial ecosystem in GCC and identified key challenges and recommendations that will be discussed in the following section. Our assessment findings showed that there are 7 challenges facing the entrepreneurial ecosystem. These challenges are:

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Government Contribution and Business Creation

Role of Innovation Centers (incubators, accelerators, etc.)

Universities and commercialization of ideas

Investment

Quality of startups

Mentorship

Culture

Idea Summary

The Situation:

As GCC countries face challenging time with the drop of oil prices and the increasing pressure to diversify the economy and create jobs, governments and semi government entities have established programs and initiatives to promote entrepreneurship and support Small and Medium businesses

The Issue:

These programs and initiatives act as a corporate social responsibility without focusing on creating value and sustainability. Active players in the entrepreneurial ecosystems face 7 challenges: Government Contribution & Business Creation, Role of Innovation Centers (incubators, accelerators, etc.), Universities & commercialization of ideas, Investment, Quality of startups, Mentorship and Culture.

The Approach:

Based on the assessment findings and the benchmark we have conducted, we have created a framework called “The Startup Model” addressing the challenges of the local ecosystems and combining lessons learned from world class entrepreneurship ecosystems, corporate best practices, and lean methodologies. We have also identified recommendations and quick wins to address each challenge.

Challenges, Observations and Recommendations

1. Government Contribution and Business Creation

The role of Government is critical to implementation and overall success. The GCC Governments have taken a very active and proactive role to implement strategies and programs to address the many challenges. There are numerous examples where we believe the implementation has been in a very positive direction; support to incubators; creation of “free trade zone” type cities for innovation. However, our observation also identified some early solutions and programs that are likely counterproductive for sustainable economic growth. For example; the creation of government businesses that compete directly with startups.

Recommendation

Government should focus on governance and implementing regulations that support and nurture the entrepreneurship ecosystem. The creation of competing businesses and programs by the government might negatively impact many existing startups. This action will likely stop innovation and job creation in the affected markets. We see the following key areas where government can deliver high value and result in compounding ROI:

- Invest in the infrastructure and ecosystem through training, providing office space and early incentives to enablers.

- Provide CSR funds for entrepreneurs to build their team, build their MVP and prepare for go-to-market. At this stage the risk is too high for most investors and most entrepreneurs do not have the financial strength to get through this phase. (see Innovation center below)
- Identify core verticals, encourage and incentivizes private sector to participate.
- Establish more friendly laws for international entrepreneurs to own equity because this increases the pool of talent especially in technical fields.
- Establish more friendly laws for Venture Capital firms and angel investment groups

2. Role of Innovation Centers (incubators, accelerators, etc.)

Our observations have identified several common trends among innovation centers; ineffective training, mentorship and follow-up, no demand or push for exceptional performance, and no timeframe or roadmap to the next stage. This creates an environment with no sense of urgency, no tracking for poor performance or identification of improvement programs. It was also observed that many accelerators and incubators are Corporate Social Responsibility initiatives that might fade away with any future change in the organization.

Recommendation

The primary purpose of an Innovation Centers is to deliver quality deal flow and provide ecosystem contributors

access to the startups. To take this further they should provide a framework that creates high performance startups, engages the ecosystem and provides a centralized hub that facilitates idea creation, funding and commercialization. We believe this is accomplished by demanding high performance, providing exceptional resources and constant community involvement. Simply providing training and a facility will not achieve the desired results and will ultimately result in failure. Innovation centers need to have an established framework, metrics and accountability mindset. Innovation Centers also need to understand the entrepreneurial DNA for each of the startup members and customize the program accordingly. Entrepreneurial DNA is a methodology that measures the entrepreneur fit in four Quadrants: Builder, Opportunist, Specialist and Innovator. Having this understanding of each entrepreneur capabilities and shortcomings will enable the innovation center to support them efficiently.

In addition, the innovation centers should offer the following:

- Resources and mentors with vertical knowledge like fintech, IT and digital marketing.
- A robust business development process where business developers work closely with startups to grow the business in the local market.
- Educate startups on how to build a proper legal structure for the startups including equity and shareholders in order to be ready for raising fund or merger & acquisition opportunities. (Recently Saudi Arabia has launched “Nomu” which is a parallel market for SMEs; startups should be educated about these kind of initiatives and its terms and conditions because they could potentially be an exit opportunity for some of them)

- Access and engagement with key players in the ecosystem, like investors, universities etc...
- Organized innovation networks for groups with similar interests

It is also crucial that innovation centers sustain themselves by generating sustainable revenue streams. We have done a benchmark study against leading incubators and accelerators and identified 12 revenue streams like equity, corporate memberships, academies and others. Depending on the vision and objectives, these centers can focus on a number of revenue streams that enable them to sustain and avoid any risks of being shut down.

3. Quality of Startups

Coming up with a great idea to solve a significant problem is the easy part. Building the solution, establishing the business case and successful execution is much more challenging.

Our observation working with many startups and programs is that the quality of most startups needs to be improved. Both the business (founders all part-time) and product (outsourced) are unprepared. There are several factors contributing to this; lack of experience, knowledge, resources, money and cultural challenges.

Recommendation

Entrepreneurs need to be educated, motivated and provided quality resources to succeed. Coming up with a

great idea with no tools, team or direction will generally result in failure. Programs can be made available to family and pre-University students to build an early desire, understanding and knowledge base. We believe quality innovation centers with the proper framework, focus and resources is the key to creating quality entrepreneurs, startups and sustainable businesses. We also believe that attracting talented human capital from all over the world, and enable them to have easy access and own equity will build strong and capable teams for the startups.

4. Investment

Our observation working with investors has identified two key challenges 1) immature and unorganized Angel networks and 2) a competitive investor mindset. The key problem we see is investors taking too much equity and fundamentally crippling the company from day one. Along with this is a lack of involvement, guidance, networking and support (“smart money”).

Investors and entrepreneurs need to understand how to use equity and dilution

Recommendation

Local Angel Investors traditionally come from real estate, retail business and contractors. In these markets success is measured on getting a great deal, aggressive negotiations and highly competitive business practices. When making an investment with startups, success is measured by successful exit and commercialization. Equity is the key financial principle here; it is all a startup has and is key to their success. Investors and entrepreneurs need to understand how to use equity and dilution. Investors should be aware that “Shared Risk” is an essential

component of the ecosystem. This means everyone shares risk and is rewarded through exit and commercialization. This is not a competitive environment but one based on working together for a common goal. An investor should not look at a startup as their opportunity not to be shared with others. It makes no sense for an investor to invest 300K in a single high risk startup. It is much smarter for 10 investors to work together and each invest 10K in 30 startups. The risk of loss is dramatically reduced and the diverse portfolio will likely provide higher returns. This simple example of working together also dramatically increases the number of successful startups and order of magnitude.

5. Universities and commercialization of ideas

When we went out and spoke with Universities we found a very common trend. Many professors measured success by how many patents they had and how many research papers they have published, not by the number of ideas that have been commercialized; which is understandable. In other cases, Universities did not have the tools or resources to effectively commercialize them.

Recommendation

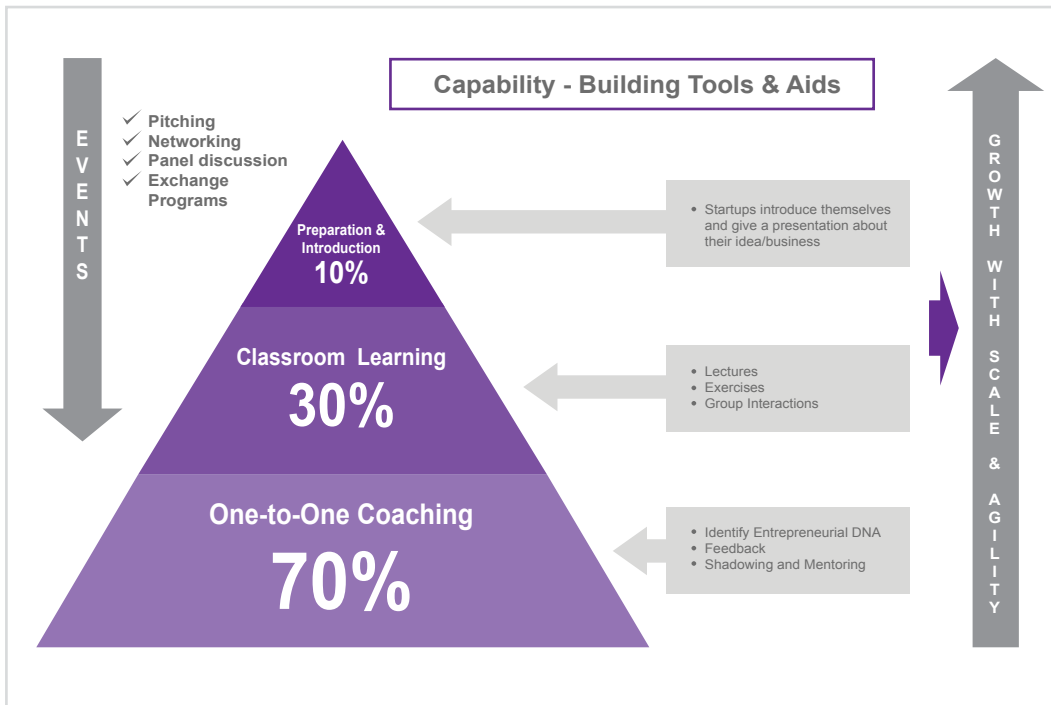
This challenge is not unique to GCC Universities. Universities by default are designed as academic institutions not innovation and commercialization centers. Universities need to better understand how to integrate into local innovation centers. Universities should also work closely with private sector and create bridges of collaboration and exchange of information by having

consistent dialogues, workshops, lectures and mutual projects. It is also advised that universities establish programs with private sector and innovation centers to commercialize ideas and patents they have.

6. Mentorship

Although Mentorship is a key element of the Innovation Center it also exists throughout the ecosystem and therefore we thought it is important enough to identify as a standalone challenge. During our assessment, we noticed startups were ill-prepared to move their companies forward even though they had been working with mentors, in some cases for years. Subsequent work with startups and innovation centers validated this problem. We identified two primary issues; 1) large number of mentors with no startup, investor or ecosystem experience and 2) no accountability for performance on both the mentor or startup side. In general, entrepreneurs tend to be young with limited professional and business experience and generally with no sense of urgency. Passion, motivation and youthful enthusiasm can only take you so far. Our experience working with hundreds of startups has proven that simply teaching a class or providing the information is not enough. Telling an entrepreneur, they need a financial model and even giving them the template generally results in frustration and failure. On the mentor side, we also noted a trend where mentors were more focused on creating attractive Pitch Decks rather than focusing on the operational stability and strategic direction of the startups.

Our experience working with hundreds of startups has proven that simply teaching a class, providing tools and templates are not enough.



Recommendation

In our view, hands-on 1-on1 mentorship, continuous engagement and accountability are key to improving startup performance and success rate. Successful mentors know how to ask the right questions, have the experience to see problems before they arise and can drive startups to implement effective strategies. Mentors should come from all aspects of the entrepreneurial ecosystem. They have either launched startups, had successful exits, are investors, or possess years of hands on ecosystem experience. This deep understanding and passion for what they do is critical to successful mentoring. The pyramid above illustrates our approach to mentorship and has been validated with well over 100 startups.

Preparation and Introduction establishes the starting point for each entrepreneur/startup. Classroom Learning communicates the core framework, principles and methodologies. The 1-on-1 Coaching or Mentoring adapts the Classroom Learning to each startup keeping in mind

their entrepreneurial DNA while providing guidance and direction.

Recently we launched the Lamarka Cloud which provides access, communications and collaboration with top mentors from the Silicon Valley and GCC countries. This platform provides a valuable tool to capture progress, measure performance and maintain exceptional engagement throughout the Startup lifecycle. The Lamarka Cloud is not strictly focused on the startup/mentor relationship but the entire ecosystem bringing together investors, enablers and companies that can provide the capabilities to sustain explosive growth. Lamarka Cloud is a closed environment with access partitioned and tailored to each client.

7. Cultural

Hofstede's cultural dimensions model describes the effects of a society's culture on the values of its members, and how these values relate to behavior, using a structure derived from factor analysis. The analysis reveals that in terms of "Uncertainty Avoidance", GCC cultures might resist innovation and new ideas; they also view security as important element in individual motivation. Our research also shows that there is a strong cultural around risk and fear of failure associated with entrepreneurship

We also have identified several cultural challenges for the GCC region:

- Long term ownership versus acquisition goal.
- No desire to share equity with potential partners that can add value to the business.

- Investors also seem to use strong negotiations skills to get more equity
- Different players in the ecosystem have a competitive mindset

Recommendation

The government has started a couple of initiatives to promote entrepreneurship in high schools and universities. That is not necessarily enough because sometimes the pressure comes from the family to study certain majors, join specific companies and government agencies to obtain job security. There should be other communication programs to target this audience and educate them about the opportunities arising from being an entrepreneur, and also educate the entire society to embrace failure and acknowledge it as a learning opportunity.

The Startup Model

Based on the assessment findings and the benchmark we have conducted, we have created a framework we simply call “The Startup Model” addressing the challenges of the local ecosystems and combining lessons learned from world class entrepreneurship ecosystems, corporate best practices, and lean methodologies. The strength of the “Startup Model” is that it can be applied to different styles of businesses in any vertical market. Our experience shows that it can be implemented successfully with Hi-Tech but, more importantly with other traditional businesses. The model is not designed to create unicorns, it is more focused on creating sustainable businesses that generate jobs, adequate ROI for investors and diversify the economy. One of the main attributes of this model is that it is structured to support startups at any stage by involving all the stakeholders of the ecosystem and making them play effective roles.

The government acts as the catalyst by establishing the infrastructure, building business-friendly legislation processes and facilitating access to human capital. The government can influence authorities, semi government companies, public investment fund, chamber of commerce and other government entities to support the ecosystem. The government also takes the lead in introducing “Ecosystem Engineers” to provide support to any other player. For example, creating funds for early stage startups, developing capability programs for angel investors and incentivizing corporates to engage and partner with startups.

At the center of the ecosystem are the Innovation Centers, physical locations or hubs where startups reside. It is surrounded by the critical elements necessary for success. Within the Innovation Centers, there are programs to engage with startups, investors, resources, enablers, corporates, schools & universities and the government. However, the

The Startup Model is designed to address the challenges of the entrepreneurial ecosystem. The model is developed to create sustainable businesses that generate jobs, diversify the economy and generate adequate ROI for investors

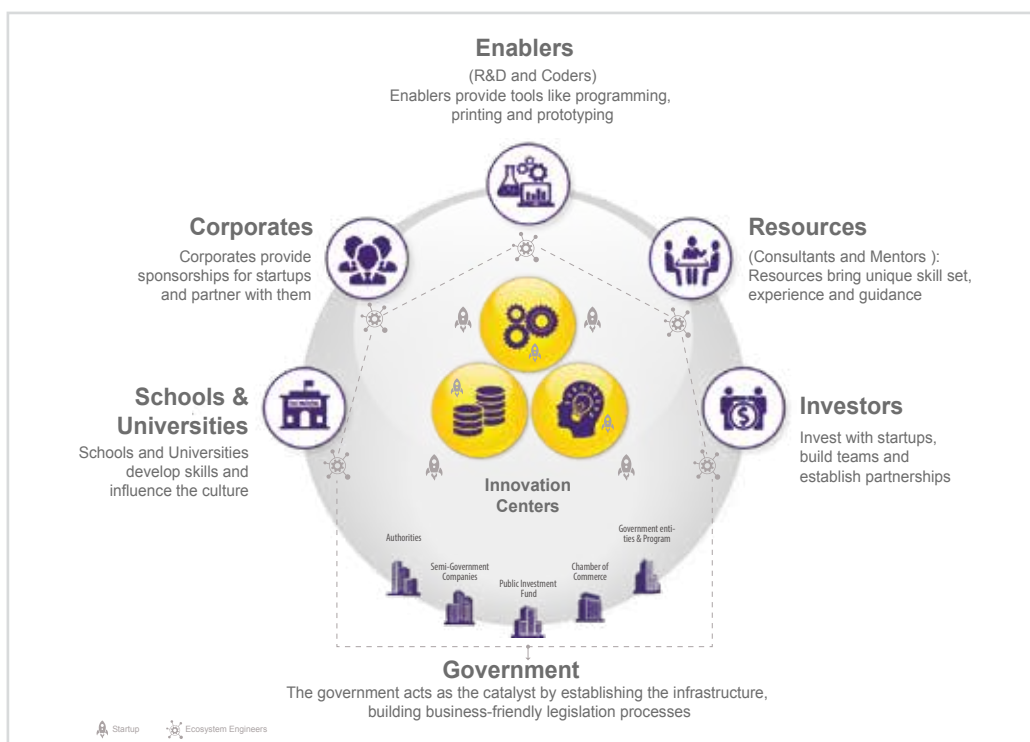
operational mode of the innovation center is the development and growth of startups. Hence, the strong governance and operations program with KPIs and growth targets. The innovation centers also support the startups with marketing, business development activities and link them to potential customers.

Investors play essential role and without them the system has no (fuel) and will fail quickly. They work closely with innovation centers to source deal flow for their angel investors and VC groups.

Resources like subject matter experts and mentors bring unique skillset, experience and guidance to the startups.

Enablers provide tools (programing, printing, prototyping) that will increase the likelihood of success.

Resources and Enablers are the natural entry point for local business to contribute, add value and generate new business.

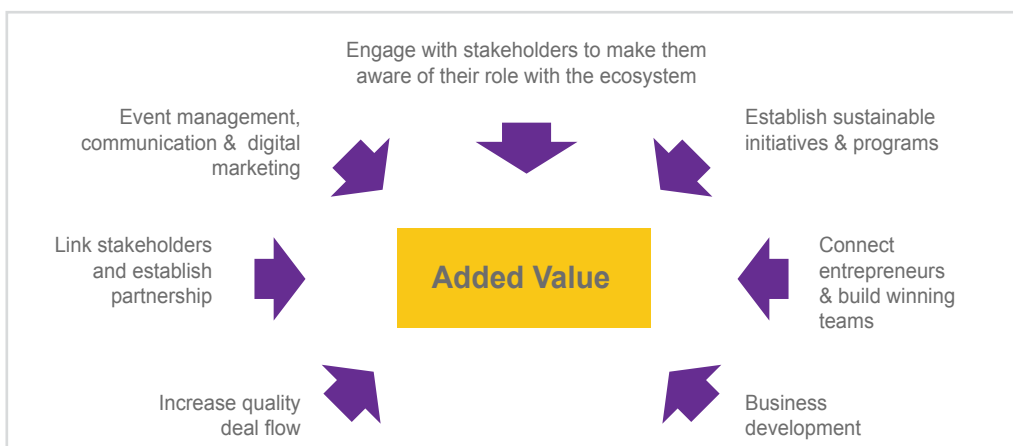


Corporates provide sponsorships for startups in certain verticals like communication, financial technologies, and chemicals with the objective of finding opportunities to partner with promising startups. Corporates benefit from this partnership by exploring new technologies, acquisitions or having these startups as service providers.

The schools and universities are primary resources for talent. They educate and train students about entrepreneurship and also help them to launch their businesses. Universities play essential roles in commercializing the patents and creating bridges with industries.

At Lamarka we believe that the startup model can create sustainable businesses that generate, jobs, adequate ROI for investors and diversify the economy in GCC countries. Within the framework, the government role is key because it establishes the infrastructure and acts as a catalyst for the entire ecosystem.

Even though the model is well designed to address the challenges in GCC, our experience shows that there are also other actions that need to be taken in order to make the model work with faster pace and efficiency. Hence, when we work with our clients we make sure that we add value by getting involved in multiple initiatives and action items throughout the projects. The chart below highlights these actions.



About Lamarka

Lamarka is a consulting firm that offers range of services for its clients starting from designing solutions all the way to implementation. We rely on our experienced team and local knowledge to deploy world class solutions and deliver exceptional results for our clients and partners. For our innovation practice, we help different players in the ecosystem by providing them with methodologies and frameworks and help them with implementation.

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