Small Business Incubator

Post-Graduate Employment Program

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Left Brained Geeks is actively pursuing the formation of Small Business Incubation as a component of its partnership with the Gyumri Information Technologies Center. This partnership, now in its fourth year, provides academic and business services to the GITC at no charge.

This presentation discusses the idea of forming an in-country business incubator at the GITC. This incubator could serve other Information and Communication Technology (ICT) service firms or other small businesses operating in Armenia. This idea was originated after holding discussions with existing Yerevan-based businesses.

Outline

- **Problem Statement**
- **Mission Statement**
- **Solution Approach**
- **Turnkey Services**
- **Cost Models**
- **Funding Requirements**
- **Conclusion**

This is the presentation outline. We focus on defining the problem, finding a solution, providing some possible example outcomes, and performing a cost estimation for launching the incubator.

Problem Statement

- ## We are in a global recession:
  - ### Armenia is not exempt
  - ### Traditional job sources are dry for now

- ## Graduates need work experience:
  - ### Many have never worked before
  - ### Almost all have no ICT work experience

- ## Cart before horse:
  - ### Some will hire proven workers
  - ### But graduates do not have track record

ICT = Information and Communication Technology

While the GITC produces graduates capable of working at the entry level for US equivalent AA or AS graduates in chip design, web design, and so on, the in-country experience does not provide sufficient extra-curricular employment or practice opportunities. Most families do not own a home computer, and many GITC graduates have never worked before.

Compare this to the EU or US where a graduate fresh out of a junior or trade tech college has a high degree of comfort working with computers for personal and social use. And the majority of such graduates do have some work experience.

An apprentice program is a possible solution to the dichotomy between education and experience. This is discussed later in the presentation.

Mission Statement

- **Provide high-demand, turn-key ICT services to in-country businesses by employing graduates while paying a living wage and maintaining the standard of professional quality**

This approach, unlike many others, focuses on in-country work. Today about 95-98% of all ICT work performed in Armenia is for export. Consequently there is unmet demand for consulting services, especially for businesses funded by the international community. But meeting this demand requires services of sufficiently high quality at sufficiently low prices.

Solution Approach

- **Form an ICT consulting service**
  - **Few if any exist in Gyumri**
  - **Lack of quality an issue**

- **Sell services wanted locally**
  - **No attempt at outsourcing**
  - **Customers need ICT, but not "tech savvy"**

- **Hire graduates to perform services**

- **Manage independent of academics**

- **Offer high quality at market price**

Many of the points on this chart follow from the rest of the presentation. But note the business incubator must be independent of the academic program: the GITC cannot be burdened with the responsibility of managing students that are graduates. This is instead well within the purview of the incubation program.

Turn-Key Service Defined

- **Specific set of work tasks**
- **Well understood by customer**
- **Statement of work fully defined**
- **Fixed fee regardless of time consumed**
- **Process driven:**
  - **Entry criteria for starting job**
  - **Documented inputs, activities, outputs**
  - **Exit criteria to verify quality work performed**

Turn-key services are well-defined. They are simple to catalog on a web site. There is a published fee schedule. And it is easier to train graduates to perform turn-key services: 80-90% of the technical aspects from one job will overlap with the next.

- **Install new computers:**
  - **Install operating system, drivers, applications**
  - **Physical equipment set-up**
  - **Add email, other server accounts (optional)**

- **Decommission computers:**
  - **Back up all data, then "zero out" hard drive**
  - **Reinstall base operating system**
  - **Assist sale or donation**

These three pages of example turn-key services were obtained from discussions with potential customers.

- **Internet presence:**
  - **Activate "self install" Internet service, e.g. DSL**
  - **Set up domain, email, and web hosting**
  - **Configure router for secure wireless access**

- **Web site testing:**
  - **Use multiple browsers and operating systems**
  - **Visit every page and follow every link**
  - **Report issues found to customer**

- **Ibid. for software applications**

A second page of example turn-key services.

- **Backup service:**
  - **Design simple data backup plan**
  - **Write script and schedule nightly run**
  - **Monitor frequently to verify data updated**

- **Canned consulting:**
  - **Sell morning or afternoon block of time**
  - **Employee trained for specific problem set**
  - **One-on-one or group "hand holding"**
  - **Examples: mobile broadband, office software**

The third and last page of example turn-key services.

- **Salaries:**
  - **Probation at 80,000 AMD for three months**
  - **Regular employment at 120,000 AMD first year**
  - **Living wage of 200,000 AMD second year**

- **Overhead:**
  - **Office space, computer, Internet access**
  - **50,000 AMD per month per employee**

- **Billing:**
  - **No billing during probation**
  - **25-35% billable hours first year**
  - **45-55% billable hours second year**

These cost models were obtained from surveying a few Yerevan-based ICT firms in 2009. The figures quoted are the median for this particular market.

One should note that three months probation for graduates is quite common in Armenia. Since many educational institutions still have bribery and corruption issues, it is impossible to tell if a degree from an Armenian educational institution has any merit or not. Consequently most employers bring new staff on board for a few months in a trial mode. The usual hire to retain ratio is 2:1, meaning an employer looking to fill two positions will hire four graduates, have all four work the same project, and then retain the two that perform the best.

- **Current Yerevan bill rate up to 300% more then contract salary**

- **International NGO bid example:**
  - **80 hours of work per month requested**
  - **Two vendors quoted 750,000 AMD**
  - **Direct hire would have been 250,000 AMD**

- **Bottom line:**
  - **50-100% gross profit margin possible**
  - **Most difficult part is maintaining quality via competent supervision**

Since most consulting service firms charge an hourly rate that is a 300% mark-up, it is possible for the GITC to mark-up only 200% and benefit both directions: incubator customers benefit from a lower price. And there is still sufficient margin for the GITC to make this program self-sustaining.

Funding Requirements – 1 of 2

- **Gyumri is not Yerevan:**
  - **Currently inadequate customer base**
  - **Service of Yerevan possible with relatively minor transportation expense**

- **Business model not fully developed:**
  - **Ideas from limited talks with market experts**
  - **More businesses must be consulted**

- **Competent supervision expensive:**
  - **About 4-5x living wage**
  - **Cost amortized over ten employees**

These are the obstacles for obtaining funding. Of these, the last point is the most restrictive. While it is possible to hire competent supervision out of Yerevan, even a "Gyumriatsi" who has family connections in Northern Armenia, most employers "balk" at the salary requirements.

Even though food and lodging costs the same in Gyumri as anywhere else in Armenia, there is still a propensity to not pay a living wage. For some reason, prevailing salaries are less in Gyumri then in Yerevan, even though there is no economic justification for this.

There are two problems with not paying sufficiently high salaries for supervisory positions: first, there is more work in Yerevan, so those already living there will want to stay put. But also if salaries are too low, working is not competitive with living in a village. Many families have relatives with self-sustaining farms, so there is a cultural imperative against working for someone else at low wages.

- **Two year funding commitment with three month cancellation windows:**
  - **Start with funds for two years operation**
  - **Review monthly to determine if sufficient progress made to warrant continuing program**
  - **One quarter notice prior to cancellation**
- **No retail, storefront requirements**
- **Cost fraction of similar US based business**

Just as with any other new venture, sufficient funding must be provided at project start to carry forward until the operation is running normally. Earlier we stated there is zero ability to bill for a graduate's time during the probationary period. Since this is an apprenticeship program, participants must build experience and become productive.

Simultaneously this cannot be an open-ended program. Regular reviews with participants, management, and investors must be held to measure the program's effectiveness. Armenian law also requires three months notice to terminate an employee without cause.

Although the project is not free, it is economical. There is no requirement to rent a store: graduates will work in space already rented by the GITC. And the cost of the project will be substantially less then a similar project started and funded in the US.

Conclusion

- **No one is hiring graduates right now**
- **Quality ICT services are scarce locally**
- **Provide services via employing graduates**
- **There is adequate profit margin to insure operations are sustainable**
- **Competent supervision necessary to guarantee quality**
- **Investment reasonable compared to pursuing US outsourcing**

Armenia is a developing country. The disasters of an earthquake and a failed government are in the past. There is no longer the need for hand-outs and direct gifts. And the youth of today want a job more then anything else.

It is time for committed business investments. These are not risk-free, but they have the potential for equity and profit growth.

Many people complain that the Armenian economy is corrupt. But is the American economy any less corrupt? Bank lobbyists convinced our Congress to repeal the restrictions of mixing commercial and investment banking imposed by Glass-Steagall in 1999. Less then ten years later, millions of people lost fortunes in equity markets.

The US stock market had zero return on investment from 2000-2009. During this same period, the Armenian economy has experienced substantial growth. While past results are not an indication of future performance, it does seem direct business investments in Armenia are as safe as similar investments in America.