

Otago Upstart

Assessment of demand for incubation
services across Otago

February 2009

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Executive Summary

Business incubation is a common feature of most developed economies and New Zealand has a number of thriving incubators that operate around the country. These incubators contribute to local economies by providing much needed support to new and growing businesses and entrepreneurs.

Since its inception in 2004 Upstart has worked successfully in Dunedin and is now an identifiable feature of local business landscape. To date, Upstart has been successful in providing additional support for start-up businesses in Dunedin in the four years it has been operating. Numerous ICT companies established in Dunedin continue to add to the local economy, as well as assisting the retention of skilled graduates and professional staff. Companies such as Vouchermate and TracPlus have not only secured lucrative contracts but have also won industry-specific awards for their innovative approaches, brought to market through their respective associations with Upstart. Upstart is now looking at the viability of expanding its business model to the rest of the Otago region.

Deloitte was engaged to assess the demand (Phase One) and feasibility (Phase Two) of offering Upstart incubator services throughout Otago. For Phase One of this engagement Deloitte consulted with a range of stakeholders across Otago districts to survey the level of demand for Upstart services, as well as to gauge the level of support obtainable from local authorities. The findings from Phase One of this project are reported in this document.

Consultation with stakeholders showed that there was common support for incubation services to be provided throughout Otago. Those spoken to deemed there to be a definite gap in the market that could potentially be bridged by Upstart Otago. The level of perceived demand ranged from assistance with developing business concepts to growing existing businesses. It is envisaged that such assistance would be best provided in a cost-effective manner through the sharing of specialised resources across the region.

While local authorities were prepared to provide all necessary in-kind support and promote Upstart through their networks, financial support was not offered up-front by the majority of stakeholders. Funding contributions would be subject to a more comprehensive business case being put forward to local authorities for Council consideration. This is not surprising and is a prudent response (especially in the current financial environment) and should be viewed as such.

The outline of Upstart Otago incubation services will require further refinement and the majority of stakeholders were not prepared to comment on preferred models of operation. The level of demand predicted at this stage would justify a full-time Upstart agent working around the region spending part of their time in each district.

Overall, the model used by Upstart in Dunedin is viewed as the suitable mechanism to fill the perceived gap and to provide a vital boost to economic activity in the region. The purpose of Phase One of the project was to establish whether there is potential demand for Otago-wide Upstart services. Based on our consultation across the region, the clear answer to this question is “yes”.

The next key step in securing pan-Otago support for the broadening of incubation services will be the selling of a detailed plan and the associated investment to the local authorities. It is important to note that while there is demand, not all ideas or potential growing businesses will be successful nor will they be all suitable for incubation. Upstart is not the panacea for all economic development but rather it provides an additional toolset by which to further tune business development and wealth generation within Otago.

1. Background

1.1. Scope

Following on from the regional economic development strategy Otago Forward commenced a project to evaluate the demand for business incubation services being extended throughout Otago. This project, known as Upstart Otago, is proposed to be based on a modified form of the successful Upstart incubation process currently operating in Dunedin. This project supports entrepreneurship and innovation and has the potential to improve the economic outlook of businesses throughout the region.

Upstart Incubation Trust (Upstart) engaged Deloitte to assess the demand and feasibility of offering Upstart incubator services throughout Otago (see Appendix I: Engagement Letter). This report covers only the outcomes from the Phase One of the project (i.e. High Level Demand Assessment). Based on the report the Upstart Incubation Trust will make the decision whether to proceed further with wider consultation activity and detailed financial feasibility study (Phase Two).

1.2. Incubation

Business incubators run programs and facilities designed to nurture businesses and emerging technologies to become established and promote growth during their start-up phase. Incubators achieve this by utilising an array of business support resources and services offered either in the incubator itself and/or through its network of contacts. Incubators can vary in the way they deliver their services, in their organisational structure, and in the types of clients they serve.

Business incubation has gained increasing popularity globally, especially in the last 20 years. There are over 5,000 business incubators worldwide, with 15 regional incubators operating in New Zealand. These incubators provide entrepreneurs and start-up businesses with the expertise, networks and the tools needed to develop and grow in the New Zealand environment. New Zealand incubators typically focus on the high growth early stages predominantly with companies in the ICT, biotechnology and creative sectors.

New Zealand Incubator figures from 2007 underlines the role that incubation plays in assisting businesses. The 150 businesses in incubation attracted over \$25 million in capital and achieved total revenue of almost \$22 million. Of particular importance to the New Zealand economy is that 23% of revenues were derived from export related activity. Resident incubator companies recorded an average growth rate in revenue of 156% and in employee numbers of 140% while combined they have employed an additional 303 people.

1.3. Upstart Dunedin

1.3.1. History

Upstart is the trading name of the Dunedin Incubator Group (DIG) – an organisation formed in 2004 by three key Dunedin stakeholders (Dunedin City Council, University of Otago, and Otago Polytechnic) to coordinate and drive business incubation activities in Dunedin. Up until recently Upstart incorporated the Dunedin Fashion Incubator (DFI) as well as a technology incubation role (branded under Upstart). New Zealand Trade and Enterprise has also played a key advisory role.

As spelled out in its Strategic Plan (2004-2011), Upstart's Mission is "To increase the wealth of the city (and potentially the region) by assisting 'coach-able' entrepreneurs to turn their knowledge based business concepts into rapidly growing businesses."

To date Upstart's main geographic focus has been Dunedin mainly due to the Dunedin City Council being one of the key stakeholders of the company. In the past year the operations have been extended to Queenstown with one company being fully incubated and a further nine companies in the Upstart "Hatchery" programme.

Core market sectors where Upstart currently operates are:

- Creative and Design
- ICT
- Biotech (future focus)

These core market sectors have been defined by Upstart from the beginning and high growth industries were largely targeted due to the aim for Upstart to become self-funded in a reasonably short space of time. Nevertheless, Upstart defines its client profile as "any company/project with the potential for high growth to a significant size, and to which Upstart can add value". Therefore, Upstart is looking at supplementing its core industries with high growth opportunities in other sectors and geographic locations.

1.3.2. Structure and Processes

Individual incubation services with Upstart are provided to clients as and when required. This approach sees assistance tailored to the individual client requirements and follows several stages of assessment. Each assessment stage serves a number of purposes:

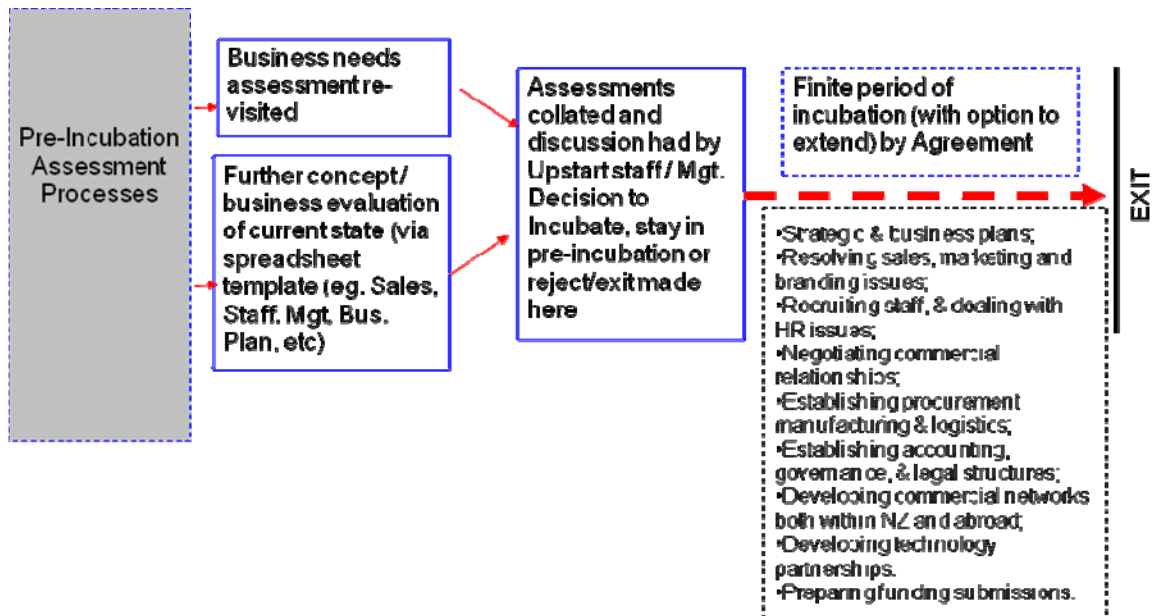
1. To assess the continued suitability of client "fit" with Upstart's mission and services provided;
2. To gain a picture of what the client requires at a precise point in time;
3. To enable planning for future stages of incubation and business growth;
4. To allocate Upstart staff resources by area of expertise to clients for internal planning purposes.

Incubation services, however, are not a given; there is a robust process of assessment and pre-incubation to ensure there is a "fit" between Upstart and the client company. Pre-incubation assessment includes interviews and form completion to enable consideration against strict criteria before a pre-incubation agreement is signed by each party setting out each party's obligations. It is also following this phase of assessment that a decision point is reached – should the concept company move to pre- or full- incubation, or exit from Upstart's services.

The pre-incubation phase lasts on average for 6-9 months and comprises assistance to the company with developing the business concept – its viability, market need, etc. The shift from pre- to full incubation follows an assessment of concept/company readiness against a number of criteria. At this point a decision is made to proceed with incubation or for the company to exit Upstart. A formal agreement is signed between the parties outlining the terms of the incubation. This agreement/contract also includes terms for the payment for incubator services in the form of either equity or future profit

share from the business. The actual incubation period is set for a finite period (number of years) with an option to extend.

The diagram below outlines the Upstart assessment process.



Upstart’s approach to the incubation of a new business is promoted as providing a “leg up” to new companies by increasing company value while reducing the risk. Integral to this approach (and their point-of-difference from other incubators) is the manner in which Upstart staff work “inside and for” client businesses as if they were staff of the client company itself. This active involvement of working in the business as well as working on the business sees Upstart staff developing strategy, mitigating risk, resolving issues, and seeking out contacts and funding sources for client companies.

1.3.3. Funding

External financial support is important in the early stages of the incubator process so that after the start-up phase, the young business can maintain financial stability on its own.

In most countries, as part of an economic development strategy, business incubators are regionally, nationally or government funded. It is estimated that one-third of sponsorship comes from economic development organisations, 21% from government entities and 20% from academic institutions. The United States, however, have a large number of incubation programs that are independently or community resourced.

In New Zealand the source of income in 2006/2007 for eight award incubators came mainly from incubator support programmes. This was followed in descending order by private stakeholders and sponsorship, then local government, economic development agencies, and other government grants.

There are four major funders of Upstart Dunedin: New Zealand Trade and Enterprise (NZTE), Dunedin City Council, University of Otago, and Otago Polytechnic. Upstart also receives funding from three local business sponsors. The majority of Upstart income currently comes from NZTE grants, followed by the local sponsorship. The current objective of Upstart is to reach self-sustainability by the end of 2011/2012. This will be achieved mainly through revenue royalties from graduate companies.

1.3.4. Achievements and Clients

Upstart has been successful in providing additional support for start-up businesses in Dunedin in the four years it has been operating. As a result, various ICT companies established in Dunedin remained in the region adding to the local economy, as well as assisting in retaining skilled graduates and professional staff in Dunedin.

Before Upstart began its operations at the end of 2004 there was no formal Angel investor network in the Otago and Southland regions. Investment in start-up businesses occurred on an ad-hoc basis and was difficult to achieve. Now the region has an investor network (which has come about through Upstart) with formal processes and \$2.75 million raised via Angel investors (as at January 2008).

The ICT business development sector in Dunedin prior to Upstart was insignificant and disjointed. Upstart has stimulated the development and retention in the region of the following companies: Vouchermate, Daestra, Exelite, BeLike#1, Cymicon, The Street, Straylight Studios, Kognition, Tracmap, 1000Minds, Orasphere, Innovative Learning, and iBVT. These companies have generally performed well and in the near future will start generating returns to Upstart, in some cases several hundred percent higher than expected.

Some of the significant Upstart successes are:

- In 2007 1000Minds, a University of Otago-based company, won a prestigious Consensus Software Award in Australia. Sponsored by Microsoft and IBM, Consensus Software Awards are the only independently judged awards for Australian and New Zealand software.
- In 2007 Vouchermate closed a very significant deal with Mediaworks, a major player in NZ media. This deal provides the boost for Vouchermate to take its unique product worldwide.
- Elusiv, a successful fashion brand for men, secured large national contracts in the first two years of operation and is currently expanding internationally with its first office having opened in Italy in 2008.
- In 2008 TracPlus won the Global Technium Challenge, a worldwide, high-profile business planning competition to identify and support innovative businesses with growth potential. Later that year TracPlus won the Start-up Exporter of the Year Award in Auckland.

As at 1 January 2009 Upstart had 15 companies in incubation with another four going through the pre-incubation process. Five companies successfully exited the incubator in 2008 and are now operating on their own. Overall, 20 companies (mainly in ICT and fashion industry sectors) have graduated from Upstart since its inception with only three of them ceasing operating. The data available from seven graduate companies demonstrate combined revenue figures of nearly \$3.5 M (includes both domestic and export figures) with 41 full-time equivalent employees and 17 new jobs created.

Despite these successes, it is becoming clear that the Dunedin market alone will not deliver enough entrepreneurs in these target sectors with a high-growth focus in the short term to sustain the level of growth Upstart experienced over the past few years. However, a region-wide operation could provide an additional source of high potential businesses that can benefit from Upstart's services and contribute to the local and regional economies.

1.4. Regional level potential

As outlined, business incubators play a significant role in the economic development of the area where they operate and Upstart Dunedin has been instrumental in the development of start-up businesses in Dunedin. This section analyses the wider Otago Region trends to provide the background information for evaluation of the possible demand for incubation services throughout the wider Otago region.

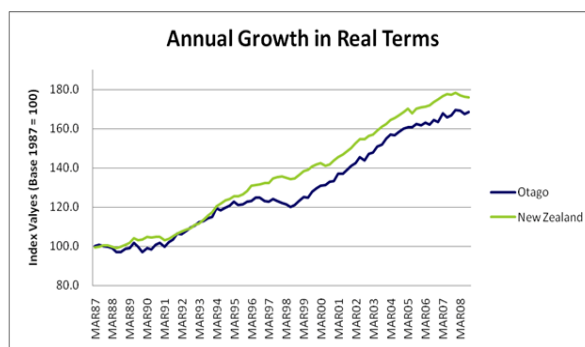
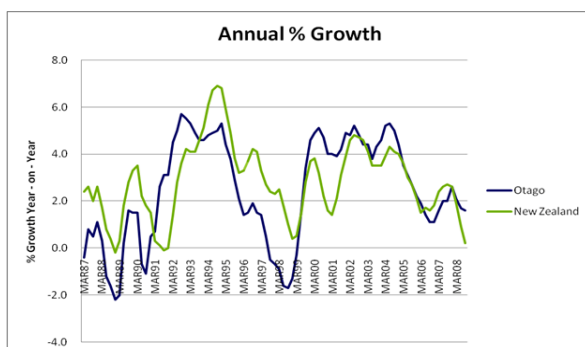
1.4.1. Population Trends

The population of the Otago region is approximately 5% of New Zealand's total population. The 2006 census showed that around 194,000 people lived in the Otago region, with a growth rate of approximately 6% from 2001 to 2006. Projections from Statistics New Zealand showed that from 2006 to 2007 the increase was approximately 0.09% and that this pattern is expected to continue for the next twenty years. Different districts have shown diverse growth results; Dunedin City, Central Otago and especially Queenstown have shown steady increases, while Waitaki and Clutha districts have shown a decline from 1996 to 2006 with an expectation that this decline will continue. Evidence suggests that those who are leaving are doing so for better opportunities offered elsewhere.

1.4.2. The Otago Economy

During the last decade the annual growth rate for Otago has generally been consistent with trends nationally and has shown the same cyclical patterns.

Otago had a lower growth rate than the national average for most of the 1990's with a large gap developing by 1998. However, this has reduced slightly with Otago growth above the national average from 2000 to 2005.



Large employing industries across Otago include retail trade (14% of regional employment), manufacturing (11% of regional employment), health and community services (10% of regional employment), and tourism (approximately 10% of regional employment).

The differences between the districts within Otago are quite significant. The Waitaki and Clutha regions rely on farming and fishing, while horticulture and viticulture are especially important in the Central Otago district. Tourism and hospitality are of particular importance in Queenstown, reflecting on the large growth in both the population and economy. Dunedin City relies on education, health, and secondary industries.

A breakdown of the significant employment industries within each district is presented below:

District	Large Employment Industries
Waitaki District	Mining 4% Manufacturing 23% Agriculture and fishing 13% Retail 11%
Central Otago District	Agriculture and Fishing 30% Construction 12%
Clutha District	Agriculture and Fishing 34 % Manufacturing 21%
Queenstown Lakes District	Retail 14% Arts and Recreation Services 5% Accommodation and food services 28% Construction 11%
Dunedin City	Retail 11% Education and training 13% Health care and social assistance 14%

Since 2003, economic activity in the primary sector, education, tourism and manufacturing has been experiencing negative growth, and the majority of positive economic growth activity has been centred around secondary industries. Statistics New Zealand figures show that the highest growth industries between 2000 and 2008 for the Otago region were: financial and insurance services (186%); rental and hiring real estate (105%); construction (93%); info, media, telecommunication (45%) and accommodation and restaurants (35%).

The secondary nature of the main growth industries within the region represents a key weakness in the underlying makeup of the Otago economy that needs to be addressed. Reversing negative population trends in some districts is also an important area of focus for the region. Therefore, stimulation of economic activity is at the top of the agenda.

2. Approach

2.1. Approach

A detailed (desk based) analysis of Upstart documentation was undertaken as the first step in the review process. This analysis was used to develop understanding and provide clarity for the Deloitte project team in relation to the history of Upstart and the services it provides. All documents were provided to the project team by Upstart. The research into similar initiatives in New Zealand and overseas was also conducted prior to the start of the consultation process.

A number of key stakeholders (e.g. Territorial/Local Authorities, Economic Development Units, and Chambers of Commerce) throughout Otago were selected in collaboration with Upstart (see Appendix II: Consultation List). These selected stakeholders were interviewed between 23 December 2008 and 21 January 2009. The stakeholders were initially contacted via e-mail (or by phone where e-mail details were not available). The purpose of the research, input required from the stakeholder, and the benefits of conducting the research were provided to them. At each interview, a minimum of two interviewers from the Deloitte project team were in attendance. This allowed for the interview team to ensure that the outputs from each interview were accurately captured.

The data collected through various sources was carefully analysed to allow for the development of informed conclusions. The main sources of information used for the analysis were:

- Documentation review;
- Research into similar initiatives; and
- Interview notes.

Based on the analysis of the above, the formal report with recommendations was synthesised and presented to Upstart.

3. Findings

Deloitte consulted a range of stakeholders across the Otago region, focusing mainly on local authorities and economic development agencies as part of Phase One of the project. As it has been noted before, this stage of the project focused on surveying the perceived level of demand for Upstart services with wider consultation with the community proposed as a part of the Phase Two feasibility study.

The main objectives of the consultation were:

- Outlining Upstart’s incubation approach and services and raising understanding of the type of businesses suitable for incubation;
- Establishing whether there is a perceived market demand for Upstart services in the region;
- Establishing whether the Upstart concept is supported across the region;
- Gauging the level of funding support available at the district level; and
- Inviting opinions on the outline of the region-wide incubation services (governance and operations).

It was clearly articulated to the people consulted that services provided by Upstart are different from those provided by local economic development agencies and Upstart should not be viewed as a replacement or an addition to the economic development units that are already in place in some districts while non-existent in others.

In addition, it became clear that the majority of people consulted had only a high level view of Upstart’s purpose and how it operates. While all consulted had heard of Upstart, very few knew exactly what it does and the impact it can potentially generate for the region. This may require further clarification and expansion to ensure buy-in from district authorities.

3.1. Market support

The stakeholders consulted were asked to voice their perception of the demand in their areas for Upstart services. These views reflect their own perception and are based on their knowledge of the district/region and anecdotal evidence of business demand. Wider consultation with business communities will be required to gain a better understanding of the exact level of market demand.

Overall, all stakeholders felt the demand for Upstart services exists throughout the region and local entrepreneurs needed more support with growing their businesses and taking them to a new level. Almost everyone consulted believed they could identify individuals and businesses that could potentially use Upstart services and initial estimates of prospective clients ranged between half a dozen and thirty (per district). Nevertheless, it has been noted that raising awareness will be key to Upstart’s success as in some cases perceived lack of demand can be explained by the lack of knowledge around the Upstart service offering and its availability.

The consultation confirmed the research-based conclusion on the different economic bases for Otago districts, therefore broadening the range of potential clients. Queenstown Lakes District representatives reiterated the district’s strengths in the tourism and hospitality industries, as well as in

film and horticulture sectors. Central Otago District representatives highlighted local viticulture, horticulture and farming industries with notable growth in tourism. Clutha District's strengths included agriculture and a growing eco-tourism sector. Waitaki District bases its economy on viticulture, horticulture, farming and tourism with potential for manufacturing to be developed in the district.

Consultation highlighted that there are businesses and individual entrepreneurs in all of these areas and industries that could potentially use and benefit from Upstart services. The market base across the Otago region may therefore be very broad. However, we would like to emphasise the need for clear communication of Upstart's selection criteria to ensure the community as a whole, and business community in particular, understands what types of businesses are likely to be accepted into the incubation process.

The stakeholders see diversification of local economies as an integral part of their future sustainability. New ideas, if supported, can generate new avenues and even industries for the region, therefore investment at the start-up stage is critical for the region's success. By contributing to this investment local authorities would be in turn supporting the advancement of businesses within their part of the region.

Level of demand "on the ground", as assessed by the stakeholders consulted, can range from growing existing businesses to assistance with both starting and growing new enterprises. Many stakeholders accepted that return on investment in Upstart Otago will take time and indicated they are prepared to accept this in order to see tangible results.

3.2. Concept support

Overall, the stakeholders consulted stated their support for Upstart Otago as a concept. Where economic or district development agencies are in place there appeared to exist a reasonable level of clarity around the differences between the kind of support available through economic development units and the area of expertise provided by Upstart. Nevertheless, these differences need to be communicated to ensure all parties involved understand the limited scope and area of Upstart's focus.

As there is a widely accepted shortage of executive and entrepreneurial skill available in start-up businesses in the Otago region, the majority of stakeholders felt there is a legitimate place in the market for the provision of these services. There was also an agreement between the stakeholders that a region-wide Upstart should be able to provide a high level of entrepreneurial and business skills in a cost-effective manner because resource is shared across the region.

What constitutes a successful roll-out for Upstart Otago does not differ significantly across the region. All stakeholders envisage establishment of new businesses (and potentially industries) as well as re-invention of traditional sectors of the local economy as a result of this initiative. Moreover, some stakeholders mentioned the opportunity to use the availability of the Upstart support as a selling point for the district that can be used to attract businesses from outside of Otago region. In all cases there is a strong feeling that advertising Upstart Otago successes will be crucial for overall success of the concept and buy-in from the community.

3.3. Funding support

As mentioned in earlier sections of this report, incubators in New Zealand operate with funding support from various stakeholders, such as local government, economic development agencies,

educational institutions, and business sponsors. While Upstart intends to become self-sustaining within the next 3 years, it is likely that funding support for offering region-wide services will be required to make the operations feasible. During the consultation process Deloitte asked regional stakeholders to gauge the level of financial support they would be prepared to provide to Upstart.

The type of assistance most commonly offered by the councils is support in-kind, i.e. providing Upstart with access to council resources, including office space and other council services. Councils are also happy to provide marketing support and promote Upstart alongside districts' economic development agencies (if in existence). District leaders are prepared to use their personal networks to introduce Upstart to the local entrepreneurs as well as potential investors and mentors.

Financial support offered by the councils varies from one district to another. While some local authorities are prepared to contribute \$20,000 to \$30,000 towards funding of the region-wide service, others are not prepared to commit physical funds at this stage of the process (while still offering in-kind support described above). It is fair to say that in any case Upstart will need to develop a strong business case to present to the councillors with clear economic benefits identified. As in the majority of cases funding for Upstart would have to be re-allocated from other budgeted activities, strong arguments will be needed to justify such re-allocation.

3.4. Potential outline of incubation services

While the design of proposed regional Upstart operations did not form part of this consultation, the stakeholders were invited to comment on the possible structure and governance model of the Upstart Otago. Overall, the stakeholders felt they would require more information regarding the service model proposed before they can evaluate possible governance scenarios.

Nevertheless, the common approach voiced by a number of people consulted called for a “virtual” Upstart Otago – a separate entity with the Board of Directors comprising of Otago Forward members. Upstart Otago would “purchase” services from the existing Upstart entity by providing funding for additional resources required to extend the services to the whole region. The performance of the entity and any changes to the way it operates would be discussed at an annual general meeting of the Board while day-to-day running can be covered at regular Otago Forward meetings throughout the year.

All stakeholders agreed that in any particular district there is no need for a full-time representative of Upstart or a permanent office space, at least not at the initial phase. The level of demand predicted at this stage would justify a full-time Upstart agent working around the region spending part of their time in each district. It would not necessarily be a particular individual working outside Dunedin all the time but rather the Upstart team spending the equivalent of one full-time employee on regional projects. The time commitment per district would depend on the level of entrepreneurial activity in the area as well as the level of funding provided by the local authorities. The rough estimates given by the stakeholders range from one week a month to a couple of weeks every three months to an “as needed” basis.

4. Conclusion

The purpose of this phase of the project was to establish whether there is a demand for Otago-wide Upstart services. Based on the consultation with representatives from the local authorities and their economic development agencies across Otago, the clear answer to this question is “yes”. The districts currently have no specialised supplier of services to high-growth start-up business and this gap needs to be bridged to stimulate entrepreneurial activity locally. The model used by Upstart in Dunedin is viewed as a potentially suitable mechanism to fill the gap and provide the boost to the economic activity that is vital for the region.

The stakeholders across the region believe the market demand for the Upstart services will prove to be sufficient to justify a dedicated resource, while acknowledging this commitment might not be consistent throughout the year. This aspect will need to be addressed by further research to ensure all funding agencies receive “value for money” while utilising the resources available in the most efficient manner.

Funding of the regional operation can potentially create a number of challenges, mainly due to the different level of support districts are prepared to provide at this stage. As Upstart Otago is a region-wide initiative, every district will need to contribute towards sustaining the service. Some local authorities are prepared to commit a definite sum of money up-front, others are less willing to make any promises at this stage of the process. This difference of opinions, if not bridged, might call for some creative ways of packaging Upstart services.

The next key step in securing pan-Otago support for the broadening of incubation services will be in the selling of the detailed plan and the associated investment to the local authorities. It is important to note that while there is demand, not all ideas or potential growing businesses will be successful nor will they be all suitable for incubation. Upstart is not the panacea for all economic development but rather it provides an additional toolset by which to further tune business development and wealth generation within Otago.

Appendix I: Engagement Letter

27 November, 2008

Norman Evans
Chief Executive Officer
Upstart Incubation Trust
PO Box 1310
DUNEDIN 9054

Dear Norman

Confirmation of Engagement – Otago Upstart

Thank you for engaging Deloitte (“Deloitte” or “we”/”us”) to provide consulting services to Otago Upstart (“you” or “the Client”) in relation to conducting the project to assess the demand and feasibility of offering Upstart incubator services throughout Otago.

The purpose of this letter is to confirm the terms of our engagement and the nature of, and limitations to the services that we will provide. All services are provided subject to the terms and limitations set out in this letter (including any appendices) and the attached Deloitte Master Terms of Business (“Terms”). In case of any conflict between this letter and the Terms, this engagement letter shall prevail. You should carefully read the Terms, as they form an important part of our contract with you.

1. Scope / Services

You have engaged Deloitte to provide Otago Upstart (as the project champion) with the following services that will be delivered to Otago Forward or their agent.

Phase One – Demand Survey:

- Establish a project and project infrastructure for the project;
- Conduct the research into similar initiatives;
- Carry out a consultation programme with key stakeholders throughout Otago to determine potential demand for incubation services;
- Develop a high-level report outlining level of demand for incubation services within TLA’s in Otago.

Following this initial consultation phase there would be a decision as to whether to proceed further, if the decision is to continue then the following steps would be undertaken.

Phase Two – Detailed Feasibility:

- Confirm a project plan and project infrastructure;
- Carry out two levels of consultation activity to refine understanding of demand for incubation services;
- Prepare financial models for the projected development and running of Otago Upstart operations;
- Develop a high level implementation plan for the rollout of the Otago Upstart incubator model;

- Provide a detailed report drawing together all elements of demand and detailed consultation on the feasibility of an Otago Upstart incubator; and
- Presentation of the key findings to Otago Forward.

2. Engagement Team

Mike Horne will be the Partner and Justin Williams will be the Manager responsible for this engagement. The project team will be drawn from the Deloitte Dunedin office and will consist of senior and experienced staff.

Where appropriate, assistance may be provided by other experienced staff. We will ensure that you are kept informed of any staff changes proposed

3. Fees

Our fees, which will be payable by Otago Forward or their agent, are as follows:

Phase One – Demand Survey:	\$30,000
Phase Two – Detailed feasibility (if required):	\$35,000
Total Fees (excluding GST):	\$65,000

Disbursements or out of pocket expenses incurred as part of the engagement will be billed at cost plus GST. Such costs could include any travel and accommodation costs, toll calls, courier services, copying, typing, etc specific to the project. We estimate the disbursements for this project will be approximately \$4,000.

Fees for any additional work outside of the agreed scope will be based on the level of staff and the time required to complete the engagement. We will discuss with you any additional work and the associated cost prior to commencing any such work.

4. Management Responsibilities

You agree and acknowledge that our performance of the Services is conditional and dependent on your timely and effective performance of your obligations under this Contract.

You agree to provide all information that is relevant to the services even if the same information has been given to us previously in the course of a different engagement.

You agree that you remain solely responsible for managing all aspects of your business, for taking all decisions and operating all accounting, internal control (including effective control over financial reporting) or management information systems.

You will identify and comply with, and assist Deloitte to comply with, all applicable laws and regulations (including all New Zealand Stock Exchange requirements, where applicable) and all professional standards which relate to the Services.

5. Dispute Resolution

If a dispute arises between Deloitte and the Client in respect of any matter arising out of the Contract or the Services then Deloitte and the Client will first use their best endeavours to resolve the dispute themselves in good faith. If the dispute is not settled within 14 days from the date the parties first meet to resolve the dispute then either party may by written notice to the other, refer the dispute to mediation. The mediator will be appointed by agreement between Deloitte and the Client or, failing agreement within 10 days of the

written notice of referral, the mediator will be appointed by the President of the New Zealand Institute of Chartered Accountants or its successor, body or and nominee of the President. The cost of the mediator will be shared equally between Deloitte and the Client.

6. Master Terms of Business

All services are provided subject to the terms and limitations set out in the attached Deloitte Master Terms of Business (“Terms”) except as modified or amended by this engagement letter.

7. Agreement

Please confirm your agreement to the terms and limitations of this engagement letter and the accompanying Master Terms of Business by signing below and returning a copy to us.

If you have any questions about this letter or the attached Master Terms of Business, please contact either Mike Horne on (03) 474 8647 or Justin Williams on (03) 474 8662. We appreciate the opportunity to provide assistance to Otago Upstart and look forward to successfully undertaking this engagement.

Yours sincerely
DELOITTE

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Enclosure: Deloitte Master Terms of Business

Appendix II: Consultation List

Name	Organisation
Familton, Alex	Mayor, Waitaki District Council
Gadd, Jonathan	Business Development Manager, Central Otago District Council
Geddes, Clive	Mayor, Queenstown Lakes District Council
Hayes, Juno	Mayor, Clutha District Council
Kircher, Gary	Deputy Mayor, Waitaki District Council
Lockhart, Ann	CEO, Queenstown Chamber of Commerce
MacPherson, Malcolm	Mayor, Central Otago District Council
Martin, Graeme	CEO, Otago Regional Council
Moore, Linda	Executive Officer, Enterprise Clutha
Pearse, Julie	District Development Manager, Clutha District Council

Appendix III: Disclaimer

Restrictions, Reliance on Information, Disclaimer & Indemnity

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