

WHITEPAPER:

BUSINESS INCUBATORS

I. Business incubator generally

Business incubators are programs designed to support the successful development of start-up and fledgling companies by providing entrepreneurs with an array of targeted resources and services. These services are usually developed or orchestrated by incubator management and offered both in the business incubator and through its network of contacts. A business incubator's main goal is to produce successful firms that will leave the program financially viable and freestanding. These incubator graduates have the potential to create jobs, revitalize neighborhoods, commercialize new technologies, and strengthen local and national economies.

Incubators vary in the way they deliver their services, in their organizational structure and in the types of clients they serve. Critical to the definition of an incubator is the provision of management guidance, technical assistance and consulting tailored to young growing companies. Incubators usually also provide clients access to appropriate rental space and flexible leases, shared basic business services and equipment, technology support services and assistance in obtaining the financing necessary for company growth.

As of October 2012, there were over 1,250 incubators in the United States, up from only 12 in 1980. The National Business Incubation Association (NBIA) estimates that there are about 7,000 business incubators worldwide. The incubation model has been adapted to meet a variety of needs, from fostering commercialization of university technologies to increasing employment in economically distressed communities to serving as an investment vehicle.

II. Research and technology parks

Incubators differ from research and technology parks in their dedication to startup and early-stage companies. Research and technology parks, on the other hand, tend to be large-scale projects that house everything from corporate, government or university labs to very small companies. Most research and technology parks do not offer business assistance services, which are the hallmark of a business incubation program. However, many research and technology parks house incubation programs.

III. U.S. Small Business Administration's Business Development Centers

Incubators also differ from the U.S. Small Business Administration's Business Development Centers (and similar business support programs) in that they serve only selected clients. SBDCs are required by law to offer general business assistance to any company that contacts them for help. In addition, SBDCs work with any small business at any stage of development, not only

startup companies. Many business incubation programs partner with their local SBDC to create a "one-stop shop" for entrepreneurial support.¹

IV. Business incubation services

Although most incubators offer their clients office space and shared administrative services, the heart of a true business incubation program is the services it provides to startup companies. The most common incubator services include:

- Help with business basics
- Networking activities
- Marketing assistance
- High-speed Internet access
- Help with accounting/financial management
- Access to bank loans, loan funds and guarantee programs
- Help with presentation skills
- Links to higher education resources
- Links to strategic partners
- Access to angel investors or venture capital
- Comprehensive business training programs
- Advisory boards and mentors
- Management team identification
- Help with business etiquette
- Technology commercialization assistance
- Help with regulatory compliance
- Intellectual property management

The amount of time a company spends in an incubation program can vary widely depending on a number of factors, including the type of business and the entrepreneur's level of business expertise. Life science and other firms with long research and development cycles require more time in an incubation program than manufacturing or service companies that can immediately produce and bring a product or service to market. On average, incubator clients spend 33 months in a program. Many incubation programs set graduation requirements by development benchmarks, such as company revenues or staffing levels, rather than time in the program.²

V. Types of incubators

Incubation programs come in many shapes and sizes and serve a variety of communities and markets:

¹ National Business Incubation Association, available at www.nbia.org.

² Wikipedia, available at http://en.wikipedia.org/wiki/Business_incubator.

- Most U.S. business incubators (about 93%) are nonprofit organizations focused on economic development. About 7% of U.S. incubators are for-profit entities, usually set up to obtain returns on shareholders investments.
- 54% are “mixed-use,” assisting a range of early-stage companies.
- 37% focus on technology businesses.
- About 6 % focus on service businesses, serve niche markets or assist other types of businesses.
- 3% serve manufacturing firms.
- About 47% of business incubators operate in urban areas, 28% operate in rural areas and about 25% operate in suburban areas.³

VI. Industry sectors served by incubators

- Technology
- Computer software
- Services/professional
- Manufacturing
- Internet
- Biosciences/life sciences
- Electronics/microelectronics
- Telecommunications
- Computer hardware
- Medical devices
- Creative industries
- eBusiness and eCommerce
- Wireless technology
- Healthcare technology
- Advanced materials
- Defense/homeland security
- Energy
- Environment/clean technologies
- Media
- Nanotechnology
- Construction
- Arts
- Aerospace
- Kitchen/food
- Retail
- Fashion
- Wood/forestry
- Tourism⁴

³ National Business Incubation Association, available at www.nbia.org.

VII. Business incubator sponsors

Organizations or individuals who support an incubation program financially may serve as an incubator's parent or host organization or may simply make financial contributions to the incubator.

- About 32% of U.S. business incubators are sponsored by academic institutions.
- 25% are sponsored by economic development organizations.
- 16% are sponsored by government entities.
- 4% are sponsored by other types of organizations.
- 4% of business incubators are "hybrids" with more than one sponsor.
- 4% are sponsored by for-profit entities.
- 15% of incubators have no sponsor or host organization.

VIII. Industry best practices

To lay the groundwork for a successful incubation program, incubator developers must first invest time and money in a feasibility study. An effective feasibility study will help determine whether the proposed project has a solid market, a sound financial base and strong community support – all critical factors in an incubator's success. Once established, model business incubation programs commit to industry best practices such as structuring for financial sustainability, recruiting and appropriately compensating management with company-growing skills, building an effective board of directors, and placing the greatest emphasis on client assistance. The following industry guidelines are replicable and broadly applicable to incubation programs around the world, regardless of their focus or mission.

Two principles characterize effective business incubation:

1. The incubator aspires to have a positive impact on its community's economic health by maximizing the success of emerging companies.
2. The incubator itself is a dynamic model of a sustainable, efficient business operation.

Model business incubation programs are distinguished by a commitment to incorporate industry best practices. Management and boards of incubators should strive to:

- Commit to the two core principles of business incubation.
- Obtain consensus on a mission that defines the incubator's role in the community and develop a strategic plan containing quantifiable objectives to achieve the program mission.
- Structure for financial sustainability by developing and implementing a realistic business plan.

⁴ Wikipedia, available at http://en.wikipedia.org/wiki/Business_incubator.

- Recruit and appropriately compensate management capable of achieving the mission of the incubator and having the ability to help companies grow.
- Build an effective board of directors committed to the incubator's mission and to maximizing management's role in developing successful companies.
- Prioritize management time to place the greatest emphasis on client assistance, including proactive advising and guidance that results in company success and wealth creation.
- Develop an incubator facility, resources, methods and tools that contribute to the effective delivery of business assistance to client firms and that address the developmental needs of each company
- Seek to integrate the incubator program and activities into the fabric of the community and its broader economic development goals and strategies.
- Develop stakeholder support, including a resource network that helps the incubation program's client companies and supports the incubator's mission and operations.
- Maintain a management information system and collect statistics and other information necessary for ongoing program evaluation, thus improving a program's effectiveness and allowing it to evolve with the needs of the clients.

IX. How do incubators help start-ups get funding?

Incubators help client companies secure capital in a number of ways:

- Managing in-house and revolving loan and microloan funds
- Connecting companies with angel investors (high-net-worth individual investors)
- Working with companies to perfect venture capital presentations and connecting them to venture capitalists
- Assisting companies in applying for loans⁵

⁵ National Business Incubation Association, available at www.nbia.org.
