



Impact of Business Incubation in the US – Lessons for Developing Countries



NATIONAL BUSINESS
INCUBATION ASSOCIATION

What is Business Incubation?

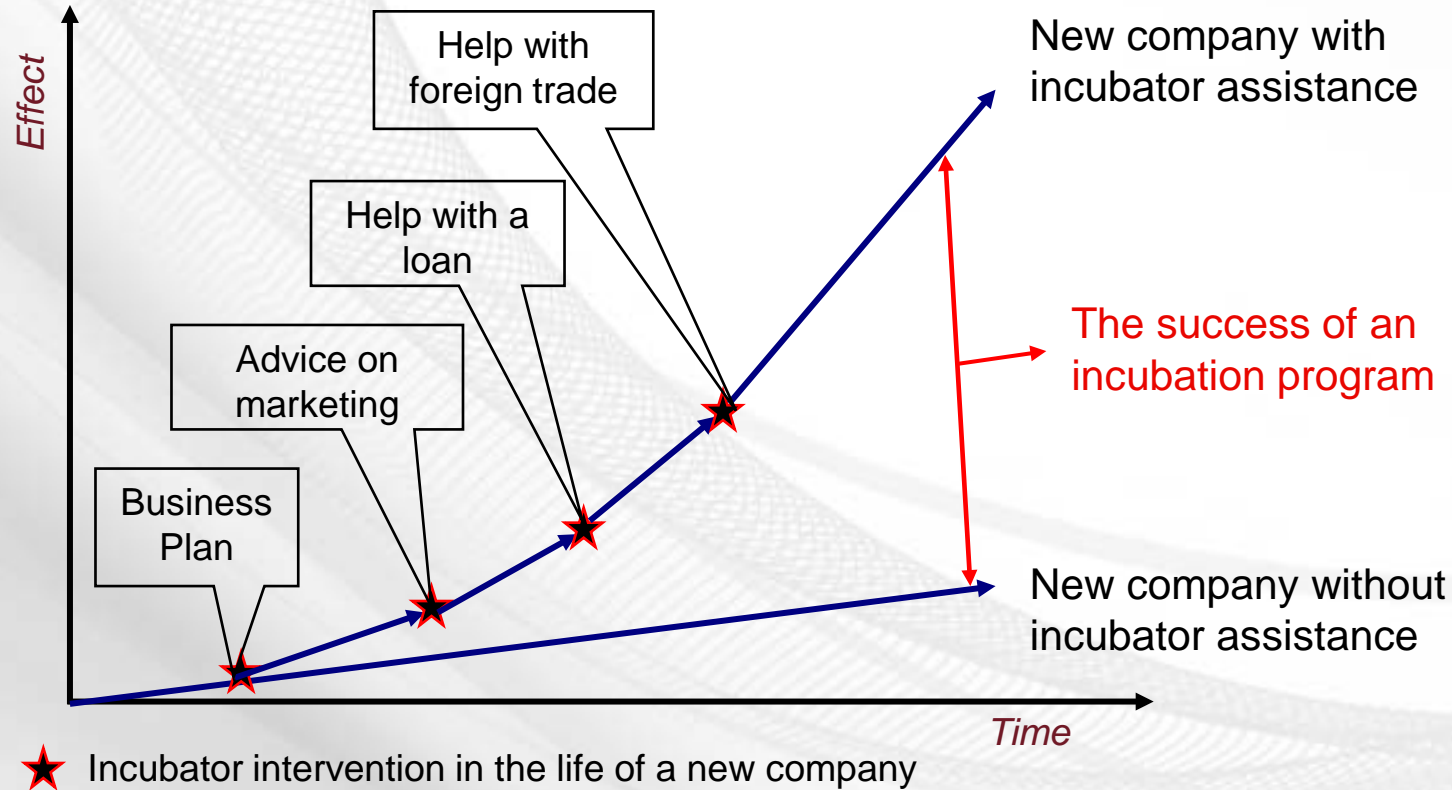


Five key components of business incubation

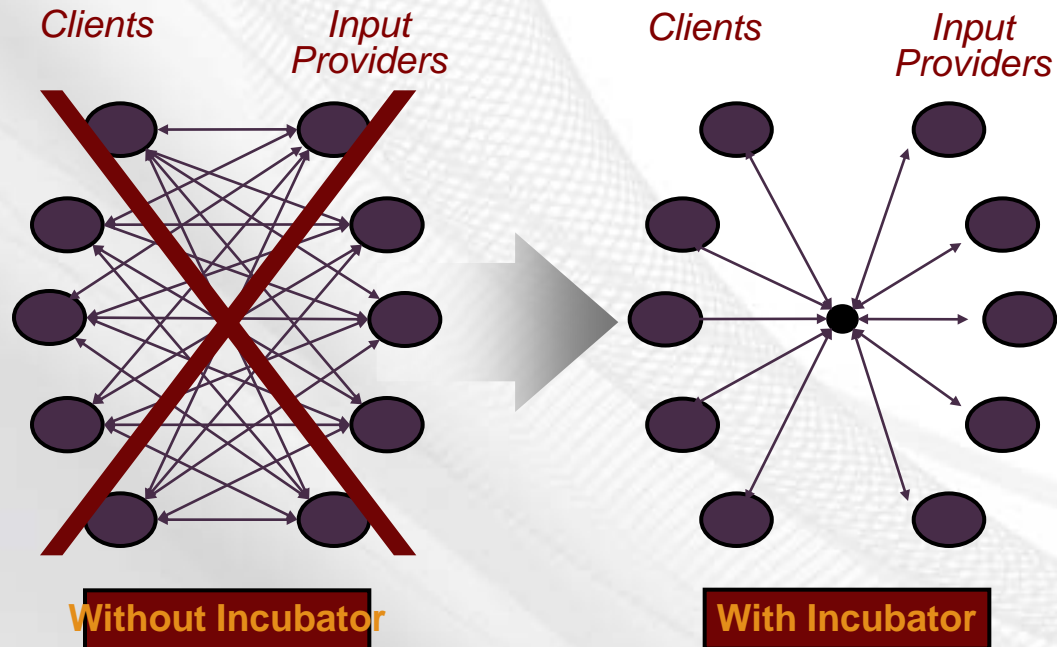
A business incubation program...

- works with new companies
- screens potential clients based on set selection criteria
- provides comprehensive business assistance services
- has on-site management that coordinates the delivery of services
- graduates companies from the program

Bundling assistance that makes a difference



Incubation improves access to inputs

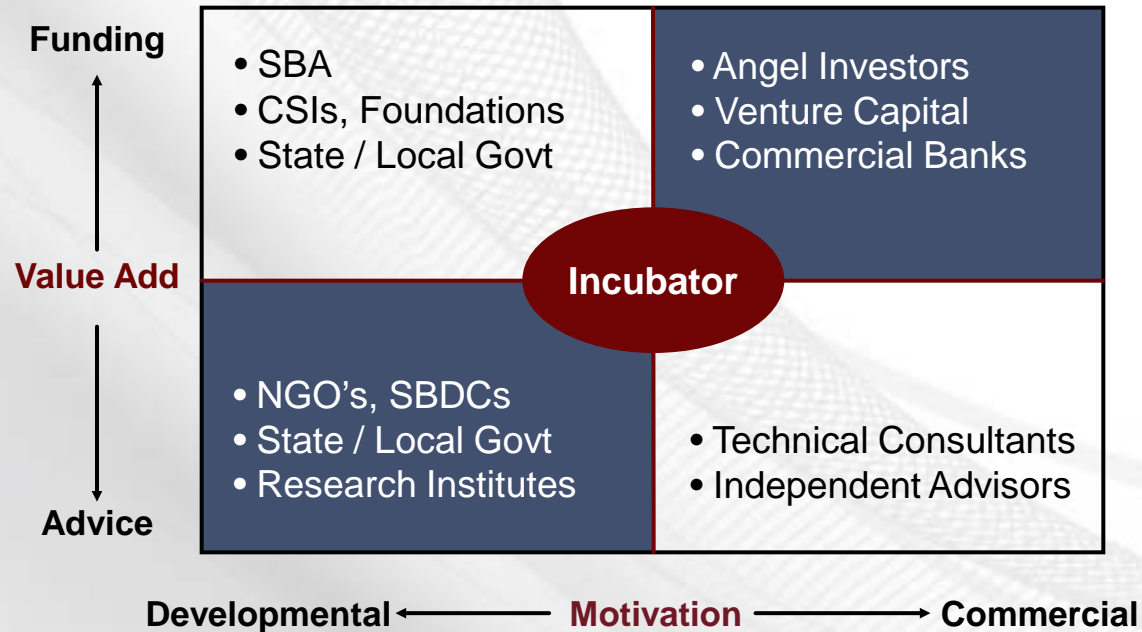


Incubators provide:

- *Help with business basics*
- *Networking activities*
- *Marketing assistance*
- *Help with financial management*
- *Access to capital*
- *Links to university/corporate partners*
- *Business training programs*
- *Mentoring and coaching*

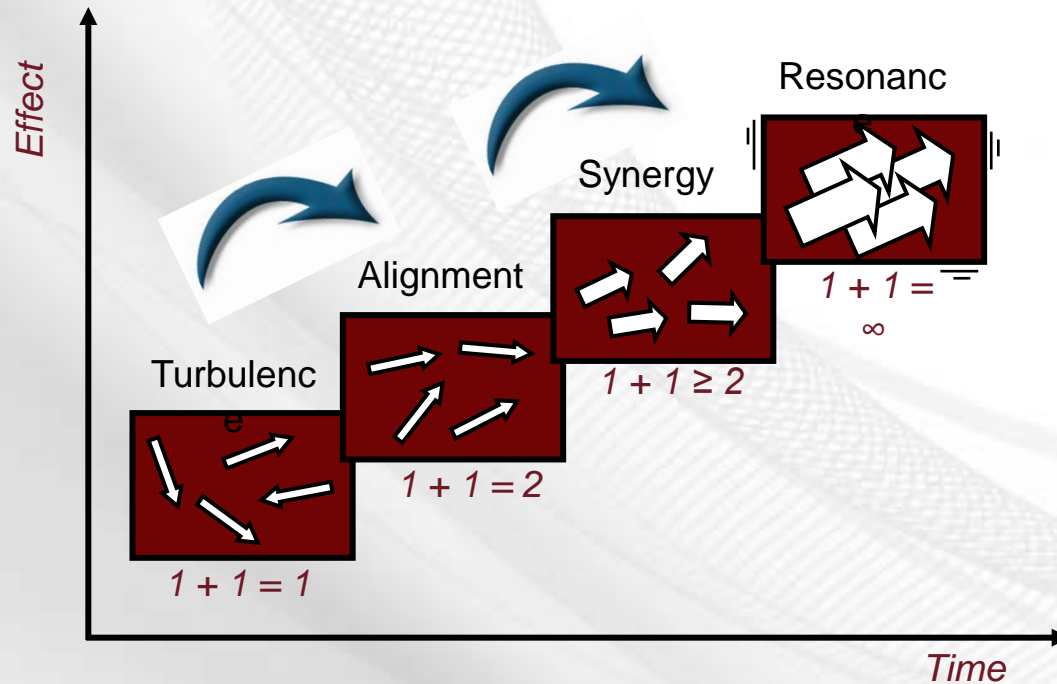
Source: 2006 State of the Business Incubation Industry

Incubation improves access to inputs (cont)



- *In developing countries, private sector inputs are weakest*
- *Incubation programs there have a larger role to play developing complementary private institutions*

Successful incubation requires aligning objectives



- *Startups operate in a complex ecosystem*
- *Successful incubators have the support of key stakeholder groups*
- *Behind most successful incubators is a champion or group of champions who serve as advocates*

Business Incubation in the US



Incubator Facts in North America

- There are over 1,100 business incubators presently operating in North America
- Since 1998, the number of incubators in North America has nearly doubled
- 94% operate as non-profits

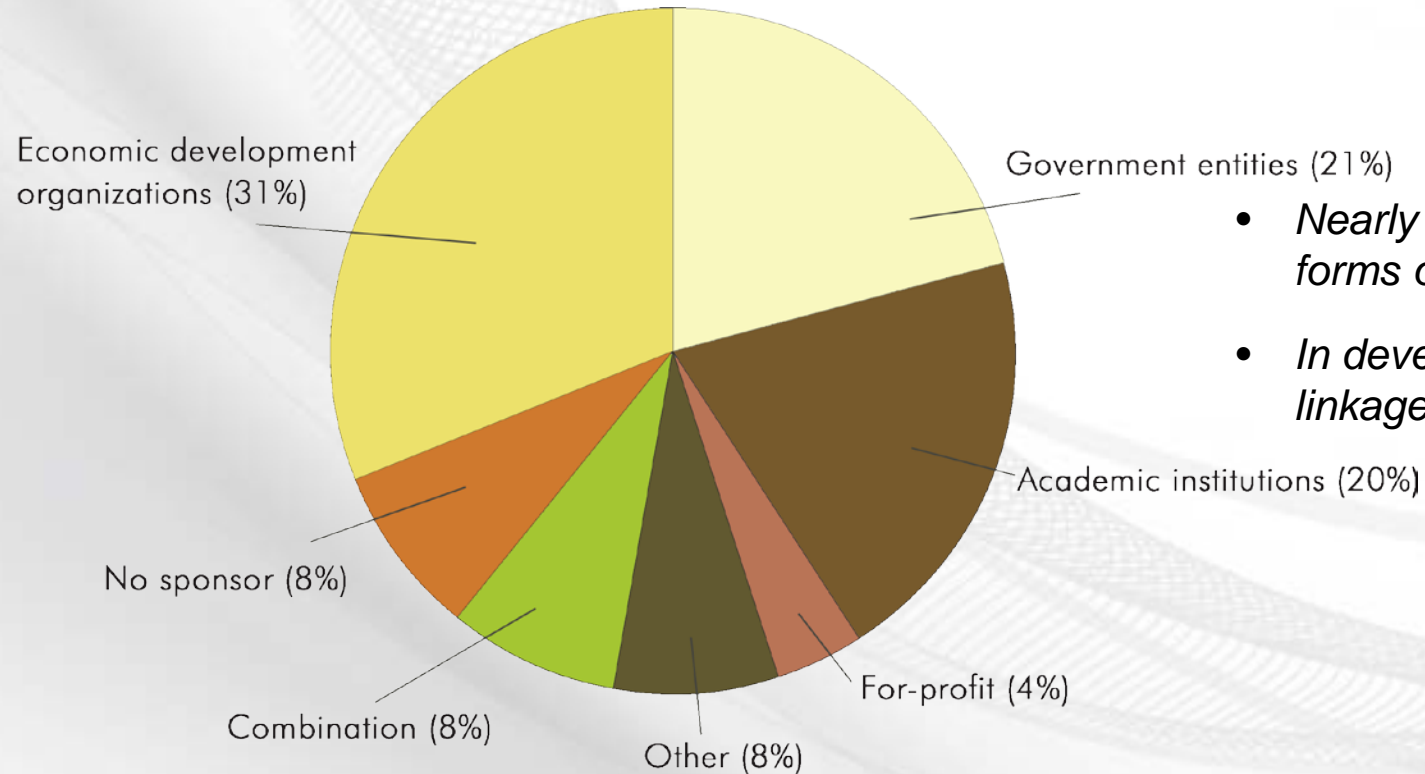
Source: 2006 State of the Business Incubation Industry

Reported motivations for establishing incubation programs

- Create local jobs (84%)
- Foster entrepreneurial climate (77%)
- Commercialize technology (54%)
- Diversify local economies (48%)
- Build/accelerate local industry growth (48%)
- Retain firms in community (45%)
- Encourage minority or women entrepreneurship (30%)
- Generate revenue (28)%
- Identify potential spin-ins or spin-outs (25%)
- Generate benefits for sponsors (19%)
- Revitalize distressed neighborhood (18%)
- Move people from welfare to work (8%)

Source: 2006 State of the Business Incubation Industry

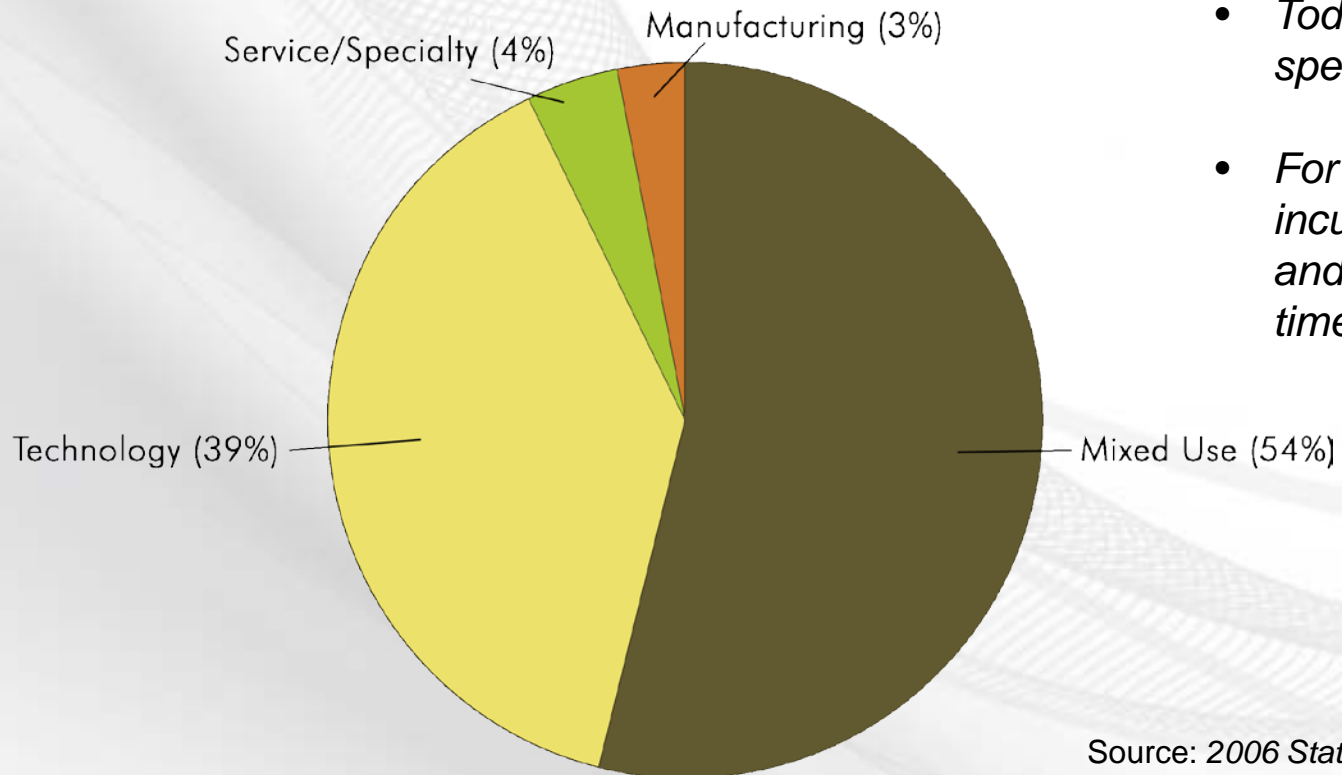
Incubation program sponsors



- *Nearly all programs are excellent forms of public-private partnership*
- *In developing countries, corporate linkages feature more prominently*

Source: 2006 State of the Business Incubation Industry

Types of business incubation programs



- *Today, new incubators are mostly specialized*
- *For practical considerations, incubators can start as mixed use, and become more specialized over time*

Source: 2006 State of the Business Incubation Industry

Incubator client facts

On average:

- 25 clients per incubator (in-house and affiliates combined)
- 3 anchor tenants
- Resident clients received services for 33 months before graduating

Markets clients served:

- Local (25%)
- Regional (25%)
- National (30%)
- International (20%)

Source: 2006 State of the Business Incubation Industry

Equity ownership in all or some clients

- All incubators 24%
- For-profits 58%
- Non-profits 22%
- Technology 46%
- *Aim is to improve the sustainability of the incubator*
- *While equity ownership is desirable, managers in the US find it challenging in practice*
- *In developing countries, royalties provides a more feasible approach*

Source: 2006 State of the Business Incubation Industry

Graduation Policies

- Graduation policies have become more sophisticated over the years.
- In 1991, 58% of SOI respondents set time limits as their only graduation policy.
- In 2006, most SOI respondents have set graduation policies based on business-related benchmarks.
 - Client achieved milestones 44%
 - Client has outgrown space 42%
 - Client spent maximum time 24%
 - No specific policy 19%

Source: 2006 State of the Business Incubation Industry

Pre- and Post-Incubation Services (eco-system awareness)

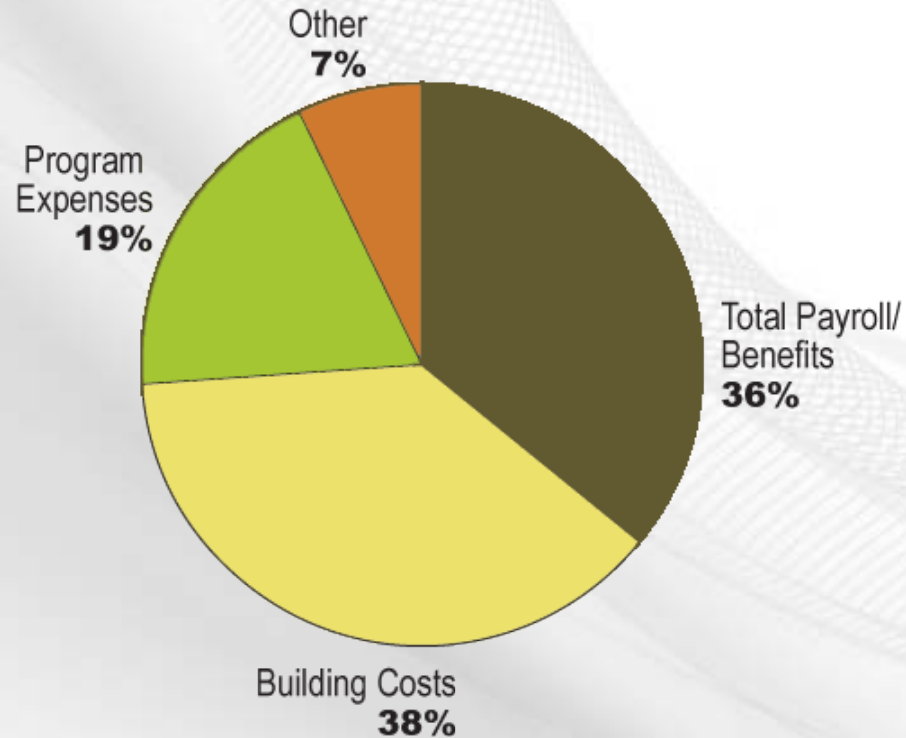
<i>Service</i>	<i>%</i>
• <i>Pre-incubation only</i>	<i>16</i>
• <i>Post-incubation only</i>	<i>7</i>
• <i>Both pre- and post-</i>	<i>50</i>
• <i>Neither</i>	<i>27</i>

Source: 2006 State of the Business Incubation Industry

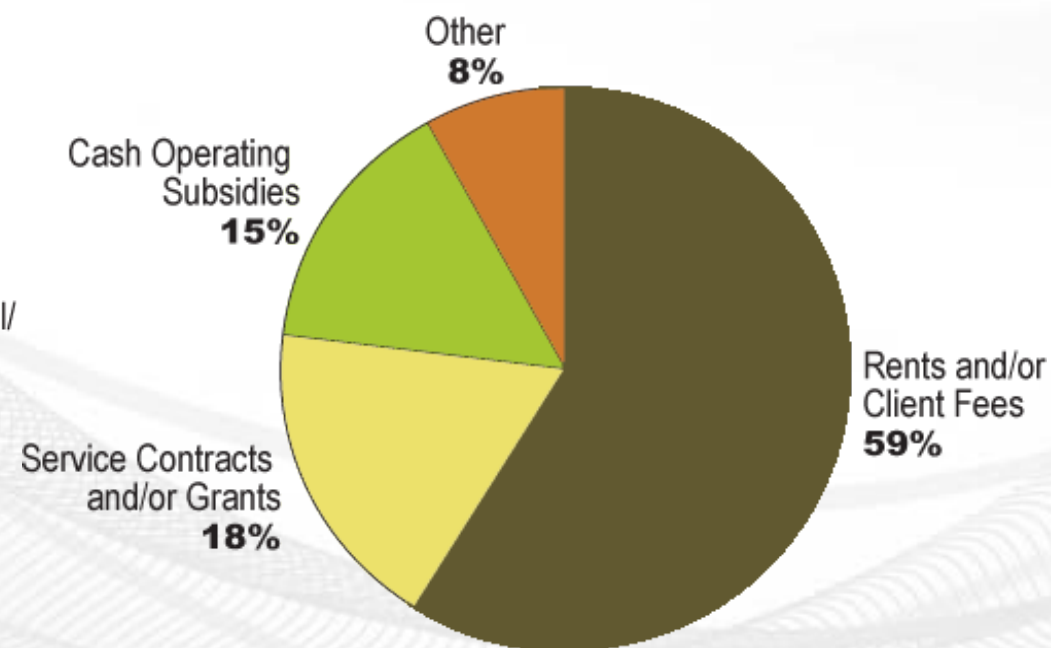
- *In the US, all phases of the MSME development tend to be considered*
- *Pre-incubation services ensure deal flow for incubators*
- *Post-incubation services are part of an effective exit solution for the client; graduates can fail if they're abandoned after incubation*

Business incubation program fund allocations

Expenses = \$548K (avg)



Revenues = \$597K (avg)



Source: 2006 State of the Business Incubation Industry

Business incubation works

Return on investment

\$1 public investment in incubator = \$30 in local tax revenue

Business retention

84% of graduates stay in community

Increased likelihood of business success

87% of incubator graduates stay in business

Source: *Business Incubation Works*, 1997; *2006 State of the Business Incubation Industry*

Incubation success stories

In 2005 alone, North American incubators

- helped more than 27,000 start-up companies
- that provided full-time employment for more than 100,000 workers
- and generated annual revenues of more than \$17 billion.

From NBIA's *2006 State of the Business Incubation Industry*

See the latest success stories at www.nbia.org/success_stories/.

Lessons for Developing Countries



Future of business incubation in the US

1. More tailored service offerings that require third-party providers (manager becomes a facilitator)
2. Continued interest in clusters. Specifically, bio and life sciences, energy, agri-business, construction trade and a renewed interest in IT.
3. Collaboration between investment groups and incubation programs
4. International and domestic partnerships between incubation programs
5. Continued interest in virtual incubation (low cost option with, currently, limited success)
6. Expanded service offering that includes both pre and post incubation services (affiliate clients)
7. More recognition by governments that business incubation is an effective economic development tool that requires public investment (much like education, etc.)

Traits of a successful incubation program

Integration into larger community

- Part of overall community economic development plan
- Community/sponsor support for mission and operations

An effective team

- Professional management with adequate pay
- Network of business advisors, mentors and consultants

Professionalism

- Emphasizes client assistance
- Models good business practices
- Strives for financial sustainability
- Measures effectiveness and impact regularly

Source: NBIA Principles and Best Practices of Business Incubation

Policy opportunities for developing countries

- Widen the scope of government funding programs to support incubators
- Ensure that incubators follow best practices
- Standardize outcome measures across the industry
- Tailor new incubators to the needs of local communities rather than applied as a bureaucratic solution from above
- Improve local, regional and national support for seed, angel and venture capital funding

Policy opportunities for developing countries (cont)

- Consider spending and taxing policies that help foster innovation and reduce costs for new high-growth businesses
- Require or encourage recipients of government research and contracting dollars to form collaborative agreements with incubators that operate within their region
- Ensure that appropriate services and space are available for incubator graduates and other second-stage companies in all communities where incubation programs operate
- Promote the development of intermediary organizations, e.g. databases of service providers and other relevant input providers

Policy opportunities for developing countries (cont)

- Matching grant schemes for purchasing business development services help
- Cashflow based finance is a better option for startups than collateral based methods
- Enlist the sponsorship of large local corporations/supply chain leaders
- Consider government financial guarantees, that reduce debt burden to clients during “valley of death” period



Thank you

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