



AN OVERVIEW OF BUSINESS INCUBATORS

Oxford dictionary describes a business incubator as, "Something which facilitates the growth of businesses;" The definition is extended to specify that a business incubator offers, "a professional service that facilitates the growth of new businesses by providing resources, support, and advice." In other words, it is an organization or a virtual service, which is designed to help various start-ups and other companies through an array of business support services and resources, which includes raising capital, training, providing working space and other common services.

WHEN DID BUSINESS INCUBATORS EMERGE?

According to Oxford dictionary, the term was used first back in late 19th century. It was not one of the buzz words 20 years ago, but it is getting more and more popular nowadays. Business incubators started getting recognition around the year 2000. For instance, in 1980 in North America there were 12 incubators while in 2006 the number of business incubators has reached more than 1,400. At the same time in England the number of incubators accelerated from 25 in 1997 to 270 in 2005. Moreover, the European Commission cites there are around 900 incubators in Western Europe in 2002. Business incubators are becoming even more successful, since virtual business incubators were

discovered, which allows the creation of remote locations for various entrepreneurship hubs all over the world. Virtual business incubation programs offer services to clients who are located far away from an incubator and usually their programs does not offer any multi-tenant space. The International Business Innovation Association (InBIA) estimates that there are around 7,000 business incubators all over the world as of today [2016]².

WHAT IS THE VALUE OF BUSINESS INCUBATORS?

Business incubators are indeed helpful, and beneficial to those who need start up knowledge and assistance. They create jobs, maintain local population, especially in remote

locations, and commercialize new technologies, therefore strengthening local, regional and national economies. Only in 2011, incubation programs assisted more than 49,000 companies, providing employment for more than 200,000 people, as well as generated \$17 billion of annual revenues in North America.³ Business incubators also reduce the risk of failure of a start – up business. For instance, InBIA claims that 87% of the companies who graduated from the incubators are still running their businesses.⁴

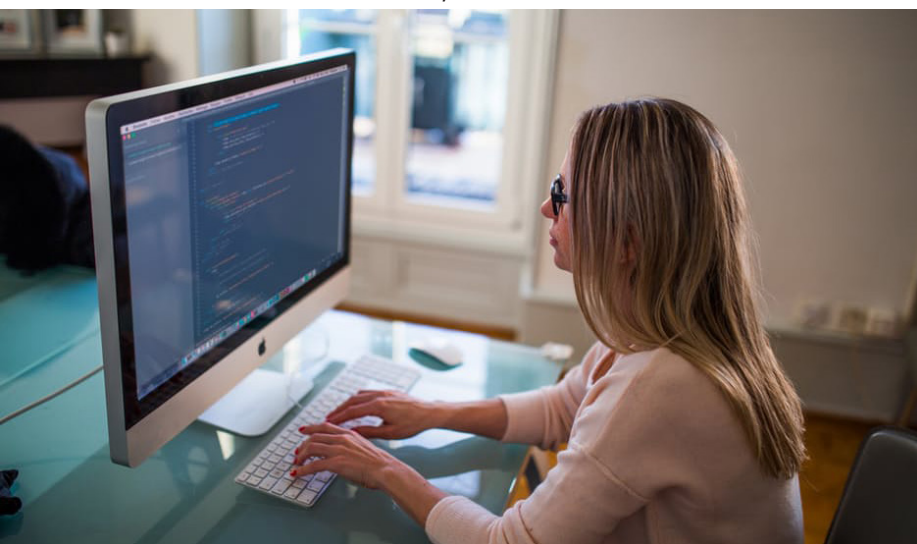
Business incubators are oftentimes funded by private companies and private institutions, such as universities. The main goal of incubation programs is to help young businesses to develop and grow, providing them with financial and technical support. The working space is usually being offered at below-market prices. Furthermore, young companies are receiving ongoing business advice and can rely on the professional expertise of the incubator advisors and staff on how to develop their businesses. Business incubators are also helping fund some of the start-up companies. In average, companies spend around 2 years in a business incubator. It is typical incubated businesses to share some of the office spaces, telephone service and some of the equipment expenses. Overall, the business incubator

I HAVE AN IDEA! WHAT SHOULD I DO NEXT? OR HOW DOES A BUSINESS INCUBATOR WORK?

Imagine that you have a business idea and no business experience at all. What you should do is contact your local business incubator to set up an initial meeting with them. Make sure that you go prepared as much as possible and let them know that you are at the idea stage of your project and need assistance. They would be happy to help you evaluate your idea. If the idea makes sense, seems doable, profitable they will be able to assist you in setting up your business by making you and your company a part of their incubator, assisting you with grant writing, office space, business advice, and bringing your product or service to the market. But before that and after the initial meeting, you will most likely go home with homework or the research and next steps you need to pursue. It will most likely take time before you submit an application and your start up business gets accepted as most business incubators need to make sure that you are dedicated to your business idea and eager to put the effort. Be aware that they will not do the work for you but will be your helping hand and guidance in the process of turning your idea into a reality.

WHAT IS NEEDED TO GET ACCEPTED?

The requirements for entering business incubation programs vary widely from one incubator to another. It depends on the type of incubator program as well as size of the incubator. Most of the smaller incubators have more informal criteria that could be easier to meet. However, larger business incubators have a selection process, which includes various criteria, such as a level of capital commitment from



the entrepreneur or proven level of revenue.⁵

Once accepted and incubated, most of the business incubators introduce their participants to structured schedules as well as mentoring programs. Participants have to attend tutoring sessions, where they have their specific plan and syllabus. They usually meet with their mentors once a week brainstorming together how to flourish their business. During the sessions they build the company's infrastructure, develop their product/service or their prototype and prepare for the presentations with their investors. Both participants and mentors treat these sessions as an actual business meeting, where participants have group tasks to complete.



WHAT IS THE TYPE OF HELP I WOULD GET?

Business incubators teams usually have professionals specializing in various business fields. That is how a business incubator program is able to offer professional services such as marketing, accounting, etc. For instance, if the owner of a business requires some assistance with declaring a patent, incubator's staff is usually knowledgeable on the entire patent process and might have

access to patent programs who offer assistance.

Incubators usually invite successful entrepreneurs as mentors and volunteers, who then guide the incubated businesses. If participants of the program have any specific question, professionals are able to help them accordingly, which makes the process of starting your business and getting your product/service to the market much quicker and easier. Some incubation programs act on behalf of their clients to find investments in order to take the incubated businesses to the next level. However, it does not mean that entrepreneurs do not have to put work hours themselves. Business incubators usually would give them opinion, guidance and support but the incubated businesses are the ones who should do the actual work, further research, and make decisions.

HOW LONG DOES IT TAKE TO BECOME AN INDEPENDENT SUCCESSFUL BUSINESS?

The amount of time that startups spend in a given business incubation program varies, depending on different factors. One of the factors is the type of business, whether it requires professional market and marketing research and longer development cycles, or in the case of a service company where the entrepreneur has all the skills needed for the service, which can immediately introduce a product to its potential customers and investors. The entrepreneur's level of business expertise and experience plays a big role as well. On average, startups are spending around 30 months in incubation programs. Most of the incubators are setting special requirements for graduation to ensure the business is ready to continue successfully on its own.

TYPES OF BUSINESS INCUBATORS

Business incubators' main aim is to assist entrepreneurs with their startups from any industry. However, each startup has different needs, needs different types of expertise and so on. That is why incubators vary in types, services, ways they deliver these services and their organizational strategies. The incubator types usually include virtual business incubators, technological business incubators, cuisine incubators, social incubators and science and technology parks. For instance, classical incubators are the most common general-purpose programs that are able to serve a variety of different young companies with low or medium technological orientation of their businesses.

While traditional incubators are mostly oriented on providing support through various ways like providing space for work, giving a piece of advice, giving network references, along with other services of the same kind, virtual business incubators provide their services online. These entrepreneurs are not positioned in the incubator's office, but instead of it, they work from a home office or they pose the venture, but still can benefit from services that incubators provide. The participants of virtual business programs are not supposed to be present in incubation office – they work with incubator's staff and get any assistance online. This type of business incubation is suitable for entrepreneurs who are in need of advice, but would prefer to maintain company's offices and equipment.

High-tech as well as technological and knowledge-based companies are the ones who find business incubators the most beneficial for their future growth. Technological incubators' prime role

is to assist technology-based young companies. But it does not mean that entrepreneur of technological startup along with incubation staff are working on development of technologies, instead they are focusing on selling the product or service on the market. They mostly cooperate with universities, research institutions and science and technological parks. However, science and technology parks may offer limited business assistance services, they support mostly large-scale projects, which include everything from government or university labs to very small companies. Many science and technology parks are hosting their own incubation programs.⁶

Other businesses that benefit the most from incubators are the companies from food industry. A kitchen or culinary incubator is a program dedicated to assist young retail, wholesale and catering food businesses. Kitchen incubators, also known as shared use commercial kitchens, are mostly created in countries with high levels of food safety where investing in professional kitchen equipment can be impossible for starting businesses. That kind of startups does not receive any bank financing in most of the cases, since profit margins are volatile and small in such highly competitive market, as the food industry. Moreover, the products created must be tested before its release, as well as they are supposed to be packaged and distributed before the company earns any profit. So by sharing the cost of kitchen equipment and facilities among entrepreneurs, companies can develop to the phase where they can afford their own kitchen facilities.

Seed accelerators are very similar to business incubators; however,

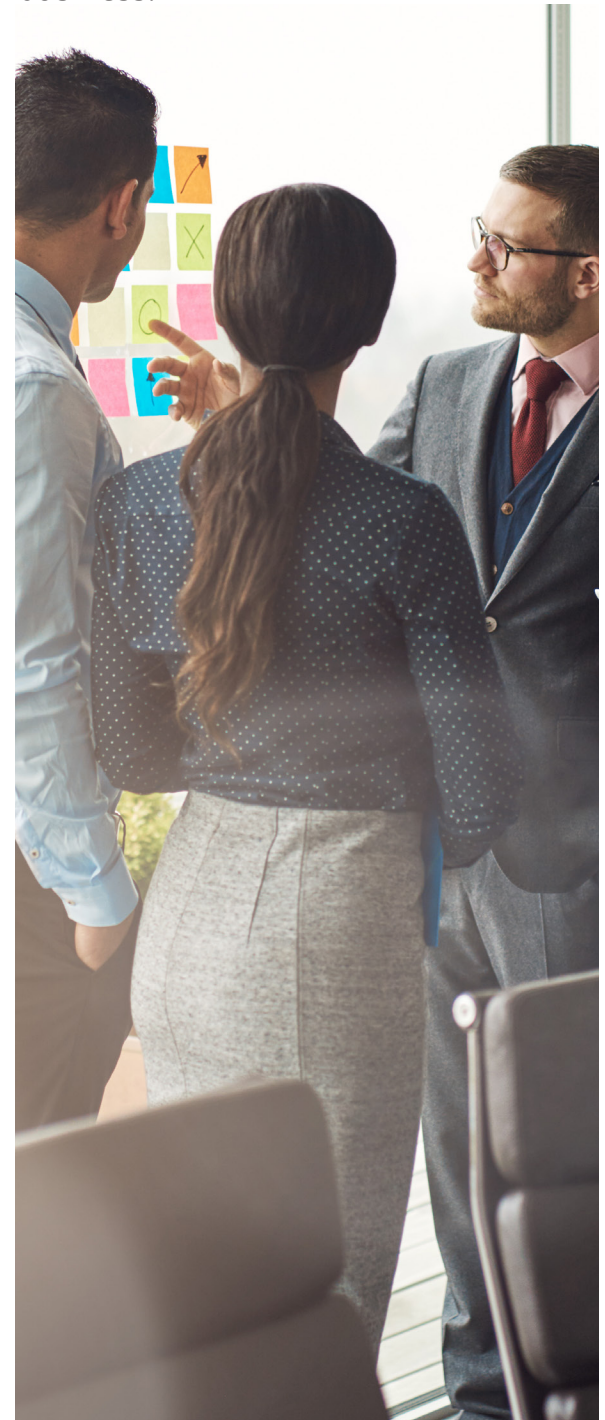
accelerators invest some capital into startup companies, usually in exchange for equity. Traditional incubators usually focus on medical technology, biotech or product-centric businesses and most often sponsored by government, accelerators are focusing on various industries and they can be both privately and publicly funded. A corporate accelerator is one of the forms of business accelerators. They are similar to seed accelerators, aiming to help starting companies by providing mentorship and office space. However, in contrast to usual seed accelerators, corporate ones derive their objectives from the sponsoring organization.

Another type of business incubator is a public or social incubator. The main difference is that social incubation programs develop ideas that will be beneficial to the society. They often take care of underprivileged and disadvantaged people, as well as they are focusing on employment and job creation.

PROS AND CONS OF A BUSINESS INCUBATOR.

If an entrepreneur is deciding to create a new business, they have to plan, research and set it up, which is both time consuming and requires special expertise. First of all, they have to find some office space; then they have to set up the communication infrastructure, such as phone systems, Internet, fax, conference call systems as well as the entire IT infrastructure that is the network, intranets, servers and personal equipment and hardware. The other challenge is that the entrepreneur has to pay for all the office equipment and set up which is a substantial investment prior to earning any income from the start up. Unfortunately, not all of

the emerging companies can afford that, so business incubators turn out to be the best option for them. Entrepreneurs will have a little less on their plates to worry about and can focus on developing their business idea versus spending too much time in organizational and administrative tasks. Above all, a business incubator saves a lot of the expenses and is a very cost effective way to set up a business.



The other major benefit is that participants of business incubation programs receive ongoing support from the incubators' staff. The business incubator employees are there to help and support the incubated companies and are interested in their success. Both the startup team and the incubator help each other be motivated especially as they are seeing tangible evidence of the success of the incubated businesses on a daily basis. The business incubator staff, when needed or at the right point of time, can introduce the startups to various business leaders and networks which can help the entrepreneurs further develop their idea and might lead to finding potential investors.

Furthermore, business incubators are extremely efficient and adapt new processes and ideas quicker than anyone else. For example, many incubators are currently mastering a new lean- startup strategy, which turns out to be beneficial for the emerging companies. Lean- startup strategy is growing in its popularity among business incubators, as it throws

away the traditional business plan. In essence, a lean- startup strategy is similar to a focus group. The main idea of the approach is to introduce a product to your customer and only after that to decide whether to launch it or not. Typically, the way it works is first the startups create a webpage, where they introduce the product. If customers like the introduced product it can be developed further. In other cases, entrepreneurs can elaborate on the idea, based on the feedback or change the idea and start the process all over again. Other ways of testing a product are used by entrepreneurs such as Interviews, focus groups, in-home prototype test with feedback afterwards are the most popular ones, since they collect detailed and informative feedback on a product. It does not matter whether startups have any starting capital or not, if the product they created becomes successful, they can start looking for investors and using the results from the lean program to support their business case in order to increase the chances for success.⁷

However, the benefits of being a participant of a business incubation program might also become the reasons of not joining it. The incubator staff can become a distraction to you and your team as they might have stronger relationship with investors, who might have different expectations and views on your company. The various forms of micromanaging from the investors and incubator personnel might make an entrepreneur feel as if somebody is looking over their shoulder, monitoring and micromanaging each step on the way. Fortunately, this is a rare case in the history of business incubators. However, the decision of joining a business incubator should be carefully evaluated especially if the



incubator is looking for ownership in the startup business. Above all, one needs to calculate the costs of joining an incubator as well.

Business incubators are opening the doors for many small and medium businesses all over the world. Owners of such businesses do not only get financial support, but also great mentorship. So if you want to join one, you can find one in the National Business Incubation Association through the search engine⁸ or directory⁹. Of course, there are plenty of businesses, which survived without incubation programs, but if there is such an opportunity, it is definitely worth trying.

To sum up, according to Business News Daily, a company graduated from business incubation program has a survival rate of 87%, while the survival rate of a non-incubated business is only 44%. Tracy Kitts, COO of the National Business Incubation Association, a trade association, operating in 60 countries with 1,900 members, admitted that, "There is a significant increase in the rate of success for businesses if they start out in incubators."¹⁰

SOURCES:

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