



celebrating **25** years

The Value of Business Incubation and Best Practices



NATIONAL BUSINESS
INCUBATION ASSOCIATION



Business Incubation History

1959: First U.S. incubator founded in Batavia, N.Y.

1985: National Business Incubation Association founded with 40 members

2010: 7,000 incubators worldwide; 2000 NBIA members from over 60 countries

What is business incubation?

Business incubation is a business support process that accelerates the successful development of start-up and fledgling companies by providing entrepreneurs with an array of targeted resources and services.

The basics: Incubation programs...

1. have a client selection process.
2. work with new companies.
3. offer comprehensive business assistance.
4. have professional on-site management that facilitates the delivery of service.
5. graduate companies.

Company support is
NOT episodic.

The incubation difference

US Small Business Development Center

By law, works with any small company that asks

Works with small businesses at any stage

Research/technology park

Focuses on large or established companies

Offers few or no business assistance services

Permits companies to stay as long as they like

Business incubation program

Works with select, viable start-up and early-stage companies

Offers targeted, specific business assistance services

Requires companies to graduate

Key point ...

“The process of incubation will look different depending on the needs and resources of each community that embraces it.”

(Source: Developing a Business Incubation Program, p. 17)

Business Incubation Around the World



- Over 7,000 incubation programs worldwide...and growing
 - In Europe alone, NBIA estimates there are more than 1,800 business incubation programs today.
 - China has 750 recognized incubation programs and another 250 in the works.
 - North America has approximately 2000 incubation programs
 - InfoDev, an arm of the World Bank Group and the United Nations Industrial Development Organization (UNIDO) fund 160 and 500 incubation programs respectively in developing and transitioning economies.
 - There are 79 members of the Global Business Incubation Network representing 37 countries.

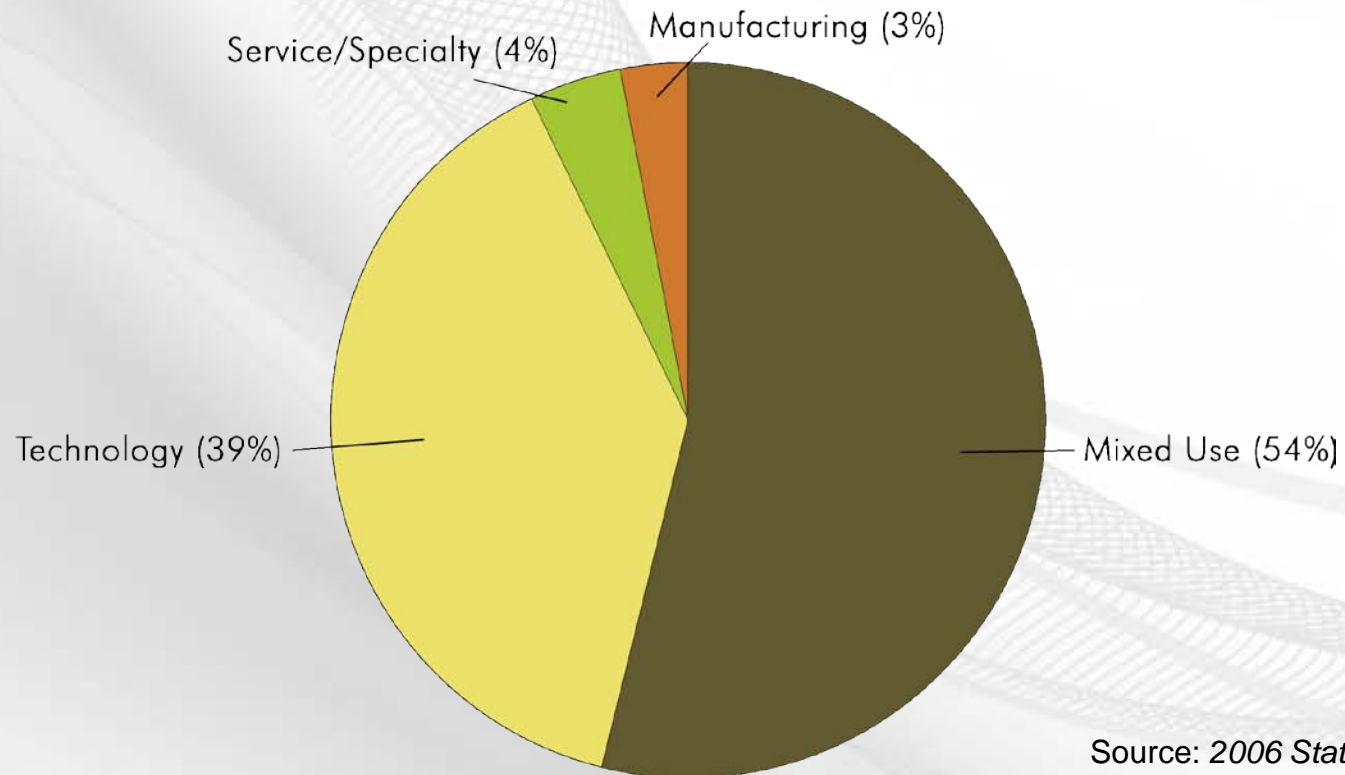
Business Incubation Around the World

- Most common focus is on community job and wealth creation
 - Developing countries are using the model to help create an entrepreneurial environment
 - Developed countries are using the model to create innovation economies
 - The new “old” buzz is the creation of regional innovation clusters

Policies that support business incubation

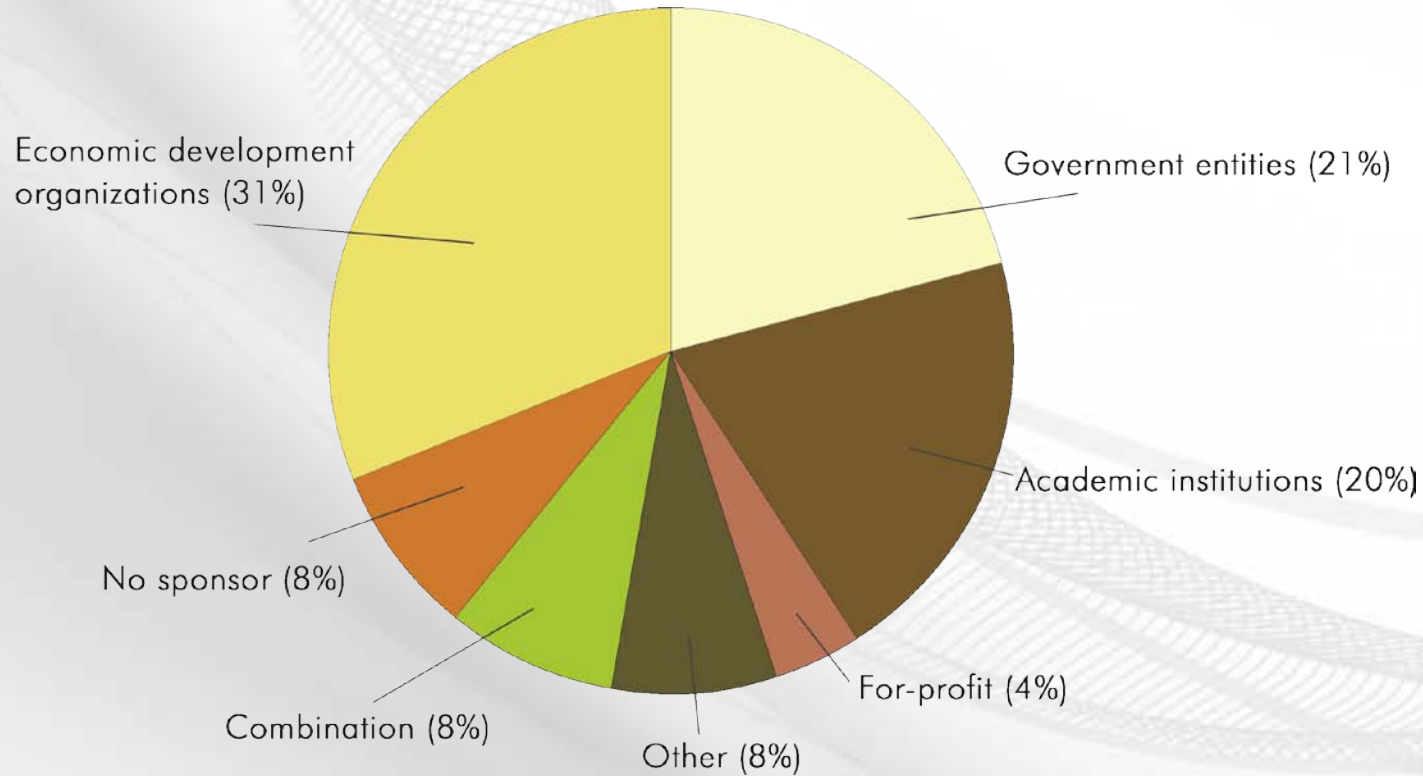
1. **Wide scope of program funding to support incubators**
2. **Ensure that incubators follow best practices**
3. **Standardized outcome measures across the industry**
4. **Improve support for seed, angel and venture capital funding**
5. **Consider spending and taxing policies that help foster innovation and reduce costs for new high-growth businesses**
6. **Encourage recipients of federal research and contracting dollars to form collaborative agreements with business incubation programs that operate within their region**
7. **Ensure that appropriate services and space are available for incubator graduates and other second-stage companies in all communities where incubation programs operate**

Types of business incubation programs



Source: 2006 State of the Business Incubation Industry

Incubation program sponsors



Source: 2006 State of the Business Incubation Industry

A typical mixed-use incubation program

Facility and clients

40,610 square feet

16 resident clients

Goals

Creating jobs

Fostering entrepreneurial climate

Services

Marketing assistance

Networking

Access to loan funds

Business training programs

Source: 2006 State of the Business Incubation Industry

A typical technology incubation program

Facility and clients

36,631 square feet

14 resident clients

Goals

Technology commercialization

Economic diversification

Identifying corporate spin-out businesses

Services

Specialized equipment or facilities

Management team identification

Access to angel or venture capital

Source: *2006 State of the Business Incubation Industry*

A typical specialty incubation program

Facility and clients

13,146 square feet

15 resident clients

Goals

Accelerating growth in a particular industry

Business retention

Fostering minority/women entrepreneurship

Services

Shared facilities and/or services

Networking

Logistics/distribution help

Source: *2006 State of the Business Incubation Industry*

Business incubation works

EDA's strategic focus on innovation and entrepreneurship makes sense, in that investments in business incubators generate significantly greater impacts in the communities in which they are made than do other project types.

From "Construction Grants Program Impact Assessment Report," a study undertaken by Grant Thornton for the U.S. Department of Commerce Economic Development Administration, 2008

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/.

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



Case Studies



Areas of best practice

- Governance and management practices
- Staffing
- Incubator finances
- Selecting clients
- Serving clients
- Graduation
- Marketing and PR
- Facilities management
- Measuring impact

Benchmark Your Incubator Management Practices – and Access Tools for Continuous Improvement

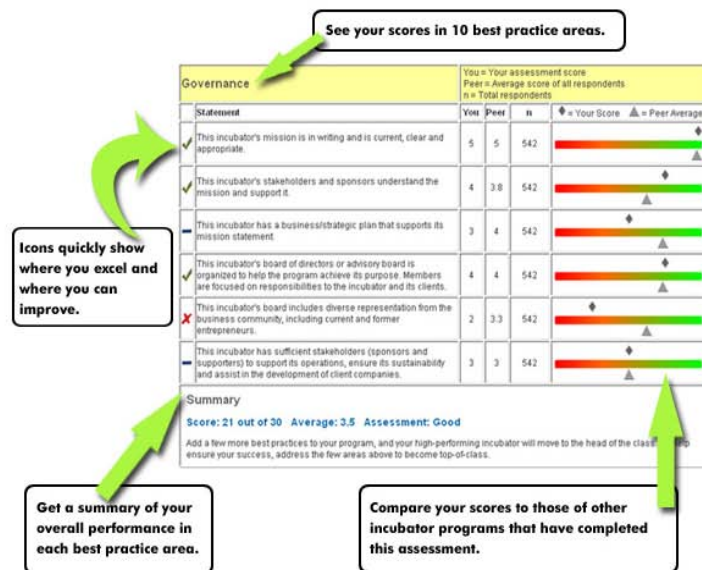
To date, 223 program managers have completed this assessment.

As a dedicated incubator manager, you are always looking for ways to enhance your program's effectiveness and efficiency. This online benchmarking tool makes it easier for you to do that in the privacy of your own office.

This simple benchmarking survey helps you compare your incubation program's management with those of your peers and with NBIA-accepted best practices. In just 10 minutes, you can:

- Evaluate your incubation program's performance in 10 best practice areas.
- Discover your incubation program's areas of excellence
- See where your program can improve
- Compare -- in confidence -- your program's practices with others
- Learn more about best practices and how to achieve them

This also is a continuous improvement tool. Check your results as often as you like to see how your scores change as more managers complete the tool. And you can repeat the assessment as you incorporate new best practices into your operations.



This free product has been made available through the support of the Tennessee Valley Authority and the Appalachian Regional Commission.

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Selecting Clients

- Effective application and screening process that identifies companies that can help the incubator achieve its current mission.
- Selection of entrepreneurs who support the incubator's goals, are willing to take advice and share information, and contribute to a positive atmosphere of entrepreneurial support within the incubator.
- Selection process identifies a potential client's needs and indicates how the firm could benefit from the incubator's services.
- During the selection process, incubator management gains each company's commitment to providing revenue, investment, employment and other necessary data throughout the incubation period and for at least five years thereafter.

Source: *2006 State of the Business Incubation Industry*

Meytav Incubator, Kiryat Shmona, Israel
Orit Shaked, CTO
www.meytavti.co.il

- Privately owned and operated incubator, in existence since 1991
- Sources deal flow from investment companies that are co-owners of Meytav, universities, hospitals, etc.
- Incorporates a “filtration system” that looks for companies that:
 - Show solid proof of concept, IP protection, clear regulatory path, commercial potential
 - Are spin-offs of companies that will offer assistance to the new company
 - Have clear market potential, that meet unfilled gap in market
 - Show potential to create beneficial alliances with strategic partners
 - Can achieve a major milestone during their incubation period
 - Are operated by experienced entrepreneurs with strong business backgrounds
- Projects go through a strict screening process

Meytav Incubator, Kiryat Shmona, Israel
Orit Shaked, CTO
www.meytavti.co.il

- Screening process can take up to three months
 - Stage 1: Go or No-Go. The management team (CEO and CTO) and relative consultants examine the initial proposal.
 - Stage 2: Initial Meeting. The group meets with the applicant to request detailed information, and the application formally enters the screening process.
 - Stage 3: References and Due Diligence. The management team conducts background checks, reference checks and the application undergoes a detailed technological analysis.
 - Stage 4: Work Plan. The practical issues are written up in a work plan that includes time frames, targets and budgets.
 - Stage 5: Approvals. Board decides on whether to forward the project to the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor.



Screening Process for Special Populations
William M. Factory Small Business Incubator
Tacoma, Washington, USA
Tim Strege, Executive Director
www.williamfactory.com

Things they look for in screening entrepreneurs:

- Intent to devote oneself full-time to the entrepreneurial business
- Payment of a \$70 application fee (weeds out “pretend” entrepreneurs)
- Evidence of premarketing activities
- The intent to compete on quality rather than price
- Desire and willingness to use incubator services, not just space
- Willingness to bootstrap the business. Grow the company with revenues initially rather than debt or equity investments
- Willingness to undertake short-term leases
- Willingness to share company data
- Evidence that the company operates in a sector and stage at which the incubator can add value

Client services: Why incubation works

- 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*



Innovation Depot
Birmingham, Alabama, USA
Susan Matlock, president and CEO
www.innovationdepot.net

- Opened in 2007, a combination of two long-time programs: The Entrepreneur Center and the University of Alabama at Birmingham's Office for the Advancement of Developing Industries.
- Serves primarily technology businesses
- Is located near the University of Alabama at Birmingham's (UAB) campus in a 140,000 sq. ft. building.



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- Being close to, but not part of the UAB campus has allowed the incubation program to leverage the expertise located on campus while operating without the university restraints.
- Key strategy has been to assure all senior-level staff at the Innovation Depot also serve on the governing or advisory boards of a variety of business, technology, and community organizations to integrate the Innovation Depot into the fabric of the region.
- Small staff leverage resources in the community to provide services to their clients.
- The staff of the Innovation Depot still play a very active role in coordinating the delivery of those services.



San Diego CONNECT
San Diego, California, USA
Camille Sobrian, COO
www.connect.org

- Founded in 1985 by the University of California, San Diego
- Serves high technology and biotechnology businesses
- Probably the most famous “virtual incubation” program, though it only loosely fits the definition of an incubation program.



San Diego CONNECT
San Diego, California, USA
Camille Sobrian, COO
www.connect.org

- CONNECT has a very large number of program offerings that include:
 - Springboard offers free mentoring for up to six months
 - Deal Network allows investors to review “scrubbed” (vetted) deals.
 - Venture Roundtable gives entrepreneurs the opportunity to present to venture investors
 - FrameWorks Workshops are half-day workshops on practical business skills offered two or three times a month

Client Graduation

- Graduation allows the incubation program to operate as an economic engine in the community
- Some programs have limits on the amount of time a company can stay in the incubation program
- Achieving set benchmarks are becoming more common in the industry. Some business types take longer than others to become self-sustaining.
- Incubation programs also have to move out nonperforming companies. This is NOT graduation.



Mississippi e-Business Innovation Center
Jackson, MS
www.innovationcenter.ms

- Innovation Center clients graduate when they meet any two of the following criteria
 - The center has no space to accommodate further growth
 - The client has significant growth in revenues
 - The client no longer needs the services offered by the incubation program
 - The company is acquired or merges with a larger corporation
 - The client makes a successful public stock offering
 - The client gives appropriate notice of leaving as prescribed in the lease agreement



Thank you

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