

Trends and New Directions in Small Business Incubation

New strategies are emerging and being tested driven by the need for relevance and impact in a fast changing economic climate and increasing demand for local solutions to achieve sustainability. It is now not uncommon in the global innovation and incubation community to see a combination of the following models:

- Classic/Traditional Incubation
- University incubation
- Accelerators (with or without seed funds)
- Mentorship capital
- Sector Specific Incubation
- Virtual Incubation
- Online matching platforms
- Makerspaces
- Hubs

1.1 The evolution and diversification of models

The incubation landscape has changed significantly in the 21st Century with new models, such as maker-spaces, co-work spaces, hubs and accelerators.

From an incubation perspective, many of these develop new privately run differentiated models out of aspects of traditional business incubation. Alongside these new models, many traditional incubators continue to prosper improving and evolving their services. Seeing through the hype of the promoters of new models, who all too often say their model is better than others, Eric Hersman in Kenya says, (that incubation vs makerspaces) *"It's not an either/or, it's an "and". We don't need to get rid of accelerators and incubators for software development; we need to add more maker-spaces for hardware development and experimentation on top of what we already have"*¹

Distinctions between entrepreneur led and investment led incubation, are evident in the evolution of business incubation. Enriching local ecosystems numerous early stage business development services are offered now including innovation and business plan competitions, start-up weekends, demo days, hackathons, and other challenges that help people develop and ideas and technology. Traditional incubators now have the option to assess their role regarding pre- incubation, or consider whether it is better to leave this to other stakeholders and instead, use these early stage services as feeder channels.

1.2 Accelerators

In 2005 Paul Graham's team in Silicon selected 8 start ups and created the first and most famous of the new wave of seed accelerators, Y-Combinator. This was followed by Techstars in Boulder Colorado in 2007; the concept started to proliferate around the USA, into Europe and around the world. In June 2013, Paul Graham told an investor audience *"Y Combinator has now funded 564 startups including the current batch, which has*

¹ <http://ventureburn.com/2013/02/the-need-for-both-makerspaces-and-incubators-in-africa/>

53. *The total valuation of the 287 that have valuations (either by raising an equity round, getting acquired, or dying) is about \$11.7 billion, and the 511 prior to the current batch have collectively raised about \$1.7 billion. As usual those numbers are dominated by a few big winners. The top 10 startups account for 8.6 of that 11.7 billion. But there is a peloton of younger startups behind them. There are about 40 more that have a shot at being really big.”²*

TechStars reports that 170 of the 234 companies it selected from 2007 through 2013 raised \$370 million in follow-on angel or venture capital investment. Of those 234 companies, 21 were acquired, 22 failed and 191 were still active. Average financing per company was \$1.58 million, and the firms had created 1655 jobs.³ The exact number of seed accelerators is unknown, although lists such as Seed DB report 171 programs world-wide, most of which are still in the USA, followed by Europe, 2,888 companies accelerated, 152 exits for \$ 1,318,558,600, \$,599,601,373 funding and 8,815 jobs created⁴. Industry insiders believe more than 200 now exist around the globe and their number is growing.

Anyone involved in business incubation in the second half of the 1990s will remember the first wave of accelerators, most of which failed spectacularly with the dot.com crash at the turn of the century. Like the new wave of accelerators, most were private and focused on ICT and digital industries but the new wave are different and often run by cashed up entrepreneurs, rather than by bankers and consultants. Importantly, since the dot.com boom, the environment for building tech startups in the internet and mobile space has changed dramatically, with demand from investors and buyers making it far easier and less costly for startups. Use of the cloud to minimize hardware costs, open source software to minimize the cost of software licenses, agile software development tools and far easier ways to acquire customers, make it both cheaper and easier, at least for startups in the mobile, social media, internet and software domains.

NESTA a world leading independent innovation research, experimentation and investment organisation in the UK, notes in its analysis⁵ that accelerator programs are based on 5 main features:

1. An application process that is open yet highly competitive.
2. Provision of pre-seed investment, usually in exchange for equity. Typically this is in the range of USD\$10,000 to \$20,000, for less than 10% equity, but can be higher in the older and larger accelerators.
3. A focus on small teams, not individuals.
4. Time-limited support comprising programmed events and intensive mentoring. Most also offer short-term (10-week to 90-day) boot camps, highly intensive periods during which founding teams of two or more (including a technical person) gather to link up with mentors and experienced entrepreneurs, validate a product and customer or market, and prepare investor pitches. Follow-on funding is often secured during a “demo day,” characterized by each founding team presenting before a large group of angel investors.
5. Startups supported in cohort batches or ‘classes’.

² <http://www.paulgraham.com/invtrend.html>

³ <http://www.techstars.com/companies/stats/> accessed 8 August 2013

⁴ <http://www.seed-db.com/>

⁵ The Startup Factories: The rise of accelerator programs to support new technology ventures, NESTA 2011, www.nesta.org.uk

With variations the core business model of accelerators is relatively simple. Investors invest in the accelerator program, with some of the money covering the costs of the program and some invested in the start-ups, as equity (shares or convertible notes). The accelerator then hopes to make a return on the shares from the proportion of the companies supported that succeed. Some generate additional revenue from sponsorship of events and from public sector support and not all aim to make a financial return. Other than the early accelerators, Y-Combinator and TechStars, it is arguably too early to judge the viability and scalability of the basic business model. Making good returns from equity stakes in new ventures takes time and depends on the health and vibrancy of equity markets.

As NESTA notes, "While their growth has been rapid and the model has started to spread to new countries, it's still very early in the history of accelerator programmes to say whether or not they have had a positive impact overall"⁶. Noting their report was written in 2011, they also conclude, "We can expect to see many more new accelerator programmes created in the coming years and for the model to become a much more common route for ambitious young companies and founders to take through their earliest, most fragile, days. We make no prediction about the future success of individual programmes because we believe that the business model for running an accelerator programme is yet to be proven. There is certainly no one correct way of running a programme and there will continue to be a great deal of innovation in this area over the coming decade."⁷ The Kellogg Business school in the USA suggests that US accelerator programs should "begin a larger conversation about what makes seed accelerators successful."⁸

Looking at the growth and future of accelerator programs a number of issues and questions arise:

Will they work outside the web and mobile space?

The accelerator model works in the web and mobile space, because of the lack of capital needed and the speed at which products can be developed. Other sectors such as clean tech and bio-tech are far slower and capital intensive and may not suit the accelerator model; although accelerators will continue to try to specialise as they attempt to differentiate themselves. None the less, the 2012 Kellogg Business school ranking notes "Another emerging trend in the accelerator world is a focus on industry verticals. Many of the new emerging accelerator programs have a strong bias toward a specific industry (e.g. Healthcare, Energy, Big Data & Cloud, etc.). This contrasts starkly with the more generalist model adopted by earlier accelerator programs"⁹.

Do they suit all start-ups?

Many start-ups do not seek external finance instead bootstrapping the company, or relying on their own savings, or that of family and friends. This approach does not suit those accelerators such as Y-Combinator whose business model revolves around company financing. Even though accelerators only take on teams as opposed to individuals for sound reasons, many people still go it alone. In the end, there is no one recipe or single service that suits all needs and accelerators are not the panacea some people look for.

⁶ ibid page 32

⁷ ibid page 36

⁸ <http://www.kellogg.northwestern.edu/faculty/hochberg/htm/Accelerator%20Companion%20FINAL.pdf>

⁹ ibid page 3

Is the model applicable in emerging economies?

The model clearly suits advanced economies, such as the USA and Europe, with relatively good business ecosystems, strong networks of mentors, entrepreneurs and investors, a culture of trust and well developed equity markets. NESTA research suggests the model can work in areas with a lower concentration of investment and potential mentors, albeit with public support.¹⁰

The model is being adopted in developing economies, although often not in isolation from developed economy accelerators. The Founders Institute/TOPICA from Vietnam and MEST from Ghana are just two examples from infoDev's network. The Founder Institute claims to be the World's Largest Startup Accelerator, operating in 26 countries, including Vietnam through an arrangement with TOPICA, with a mission to "Globalize Silicon Valley" and help founders build enduring technology companies¹¹. It is more education oriented than some other accelerators and involves a part-time entrepreneur training program, whereby people can launch a company with guidance and feedback from experienced startup CEOs .

FI Vietnam Graduate Examples:



Appota, which started in 2011, has its own SDK that allows developers to monetize their apps and has 7.6 million users in Vietnam. In 2013 teamed up with Metaps, the Android monetization platform out of Japan.



Medical social network start up, Yton received the highest 5-star prize from the Sao Khue (Venus) Software Award, organized by the Vietnam Software Association (VINASA) in 2013. Yton is a platform that helps patients manage their health care by connecting them with medical professionals and providing easy access to the latest health, drug, and disease news.



Source: <http://fi.co/posts/1120>

The Meltwater Entrepreneurial School of Technology (MEST) accelerator in Accra Ghana supports its graduates with viable ideas that are internationally applicable and aims to replicate conditions similar to those in Europe and the USA for its graduates¹².

¹⁰ Ibid page 35

¹¹ www.fi.co

¹² <http://www.meltwater.org/incubator>

MEST Client Examples



Dropifi is a messaging platform that seeks to bridge the relationship gap between visitors to a website and the business owners. Most web sites have a contact form which is dumb, just sending an email. Dropifi is a smart contact form which extracts the right data. Very much aimed at small businesses.



Counts Amazon as a customer (one of Amazon's 6 preferred partners) , Retail Tower provides software solutions to online retailers, allowing them to manage their inventory across multiple channels from one platform. It automates data feed submission, monitors competitor pricing and product reviews on these channels, and allows merchants to measure and optimise their ROI for each sales channel.

Source: <http://techcrunch.com/2012/06/14/out-of-africa-a-whole-mest-of-startups-emerges-in-ghana/>

What is the impact of accelerators?

For most accelerators it is still too early to properly assess their performance and impact and clearly more research is needed. Most accelerators are private and aim to make a return for investors. Accelerator performance against typical incubator KPIs such as job creation, company growth and investment, their potential to make a positive contribution to the development of entrepreneurial cultures and innovation and entrepreneurship ecosystems, needs more research. Some accelerators in developing economies aim to have their graduates succeed in the very competitive entry for leading USA accelerators such as Y-Combinator and TechStars, so that the products developed, can be financed and commercialized in Silicon Valley. This may be excellent for the entrepreneur and investor but the impact on the home economy may not be immediate, other than to spur an entrepreneurial culture.

Are accelerators a replacement for traditional business incubators?

The typical accelerator programme takes 3 months. However, to grow a successful company, as noted by an investor interviewed for the NESTA report: *“[when a company finishes an accelerator programme] it's still just such a young company, it's only been in existence for 90 days. And as a consequence they're fairly fragile and then they're thrown into the Darwinian process of the market. They still take quite a bit of nurturing in order to figure out whether they're actually viable.”* Indeed graduates of accelerator programs may well end up as entrants to property based incubation programs. For example, even in good ecosystems like Silicon Valley, they may go to the Plug and Play Tech Center¹³. In short, accelerator programs complement traditional incubators, which can work with accelerators as feeder channels, providing pre-incubation and market validation services, or which may bolt on their own accelerator program, as happens in New Zealand with Creative HQ¹⁴, learning from TechStars.

¹³ <http://plugandplaytechcenter.com/>

¹⁴ www.creativehq.co.nz/

1.3 Co-work spaces, Hubs, Maker spaces

From an incubation perspective, accelerators are a differentiated product in the pre-incubation arena. In a similar vein co-work spaces, hubs and maker spaces are differentiated products in the sphere of the traditional property, networking and peer learning aspects of business incubators. Many are privately operated, profitable, sustainable and scalable; indeed recent growth across the globe is astounding.

As the name suggests, **co-working spaces** are where like-minded people come together to work in a spirit of interaction, connection and community. They are far more open and flexible than serviced offices, largely catering to individuals, rather than organisations with their own space. They reflect technological and socio-economic changes that make it easier than ever before for people to work from a laptop, without the need for sophisticated infrastructure, but still with a desire for connection with their peers. Co-working spaces appeal to innovators, inventors, self-employed and importantly entrepreneurs. They come in many variations depending on the interests of their community members, ranging from office and business center style facilities, to technology hubs and spaces for technology prototyping and making things.

In the words of Deskmag the Coworking magazine, "Coworking is a self-directed, collaborative and flexible work style that is based on mutual trust and the sharing of common core objectives and values between members. The members treat each other equally, and can increase their well-being by working in a collaborative atmosphere, and accumulate – through cooperation, not competition – greater economic, social, and cultural capital, more so than through that which is possible in an isolated form of work"¹⁵.



iHub a leading co-working space in Kenya Africa describes itself as, "iHub - Nairobi's Innovation Hub for the technology community. An open space for the technologists, investors, tech companies and hackers in the area. This space is a tech community facility with a focus on young entrepreneurs, web and mobile phone programmers, designers and researchers. It is part open community workspace (co-working), part vector for investors and VCs and part incubator."¹⁶



It is no surprise iHub is one of the partners behind infoDev's East Africa MLab, a hub focusing on mobile applications¹⁷. Afrilabs a growing network of 20 hubs and Labs across Africa reports, "Across Africa, in cities from Cairo to Addis Ababa to Dar es Salaam, technology innovation hubs are mushrooming around the continent and are playing a central role in the fledgling tech and entrepreneurial scenes in Africa. These "islands of innovation" are being established to foster and promote local technological innovation. The hubs serve as incubators, meeting places for the local technology community as well as points of knowledge exchange"¹⁸.



¹⁵ Deskmags 2nd Annual Co-working Survey

¹⁶ <http://www.ihub.co.ke/about>

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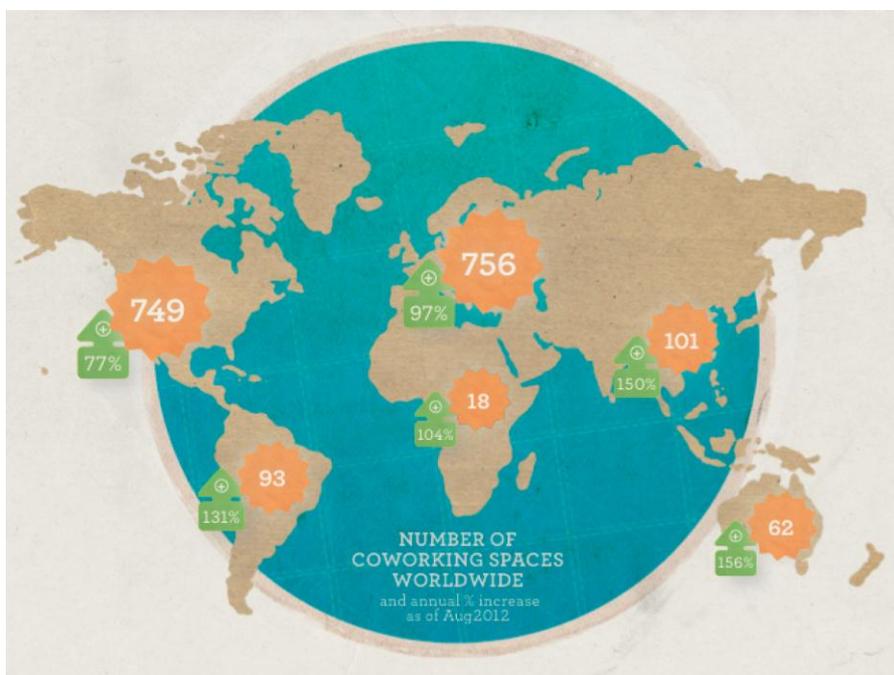
¹⁸ <http://afrilabs.com/2013/05/06/global-innovation-hubs-gather-at-republica/>

Fab labs, which began as an outreach project from MIT's Center for Bits and Atoms (CBA) are another variant providing widespread access to modern means for invention.

Fab labs have spread from inner-city Boston to rural India, from South Africa to the North of Norway. The central web site lists 128 operating labs. "Activities in fab labs range from technological empowerment to peer-to-peer project-based technical training to local problem-solving to small-scale high-tech business incubation to grass-roots research. Projects being developed and produced in fab labs include solar and wind-powered turbines, thin-client computers and wireless data networks, analytical instrumentation for agriculture and healthcare, custom housing, and rapid-prototyping of rapid-prototyping machines"¹⁹.

Makerspaces are places where people come together to make things. Makerspace.com describes them as, "Makerspaces come in all shapes and sizes, but they all serve as a gathering point for tools, projects, mentors and expertise. A collection of tools does not define a Makerspace. Rather, we define it by what it enables: making. Learning environments rich with possibilities, Makerspaces serve as gathering points where communities of new and experienced makers connect to work on real and personally meaningful projects, informed by helpful mentors and expertise, using new technologies and traditional tools."²⁰

The 2011 Deskmag Global Co-working Survey reports more than 1,100 co-work spaces globally, with numbers doubling every year since 2006²¹ and 1800 in 2012²², although these numbers are unlikely to capture all that is happening across the globe.



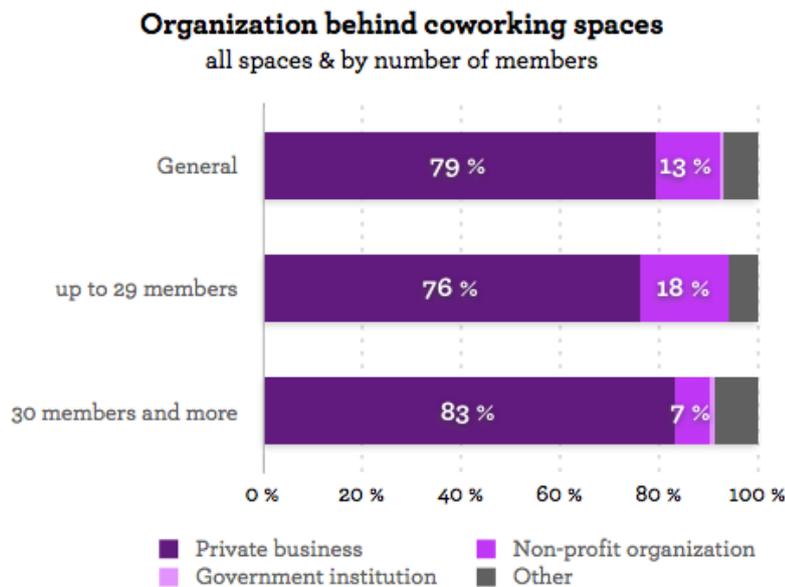
¹⁹ <http://fab.cba.mit.edu/#top>

²⁰ <http://makerspace.com/>

²¹ <http://www.deskmag.com/en/the-birth-of-coworking-spaces-global-survey-176>

²² <http://www.deskmag.com/en/1800-coworking-spaces-worldwide-700-in-the-us-survey>

Based on its 2011 survey, Deskmag reports that the main revenue source is rent of desks, with other revenue coming from membership fees, rent of meeting rooms, use of office facilities and communications and consumables, 40% of co-working spaces are profitable (only low because of the infancy of the movement), 72% become profitable after two years of operation and the start-up costs are in the order of USD\$58,000. Most are established by private businesses as shown in the chart below.



Even though they do not attempt to provide the intensity of business support provided by traditional business incubators, they are excellent for collaboration, networking and peer learning; critical features of any good incubator. European Business Innovation Centre Network (EBN) in its Technical Note #1, 2012, quoting the Co-working Europe 2010 survey, reports that "87% (out of 50 surveyed European co-working spaces), reported new projects being born in their space thanks to tenants who met and chose to partner within the co-working space."²³

Some incubators may see co-working spaces as an easier approach; others may wish to incorporate co-work spaces in what they offer. EBN sees an opportunity for the business innovation centers (BICs) it represents (incubators) to integrate co-working into their service offerings, stating, "Co-working has grown as a convincing answer in Europe, North America and elsewhere, and co-working practices and spaces can be integrated in the BICs to become an integral part of the overall service portfolio for the new entrepreneurs of today and tomorrow. BICs and Co-working spaces are not indeed competitors. They complement each other. Co-working spaces and BICs can learn a lot from each other's experiences and together support the growth of a new generation of entrepreneurial and innovation ecosystems"²⁴.

²³ EBN Technical Notes #1 2012: Co-working, Collaborative Spaces for Micro-Entrepreneurs.

²⁴ Ibid page 5

1.4 University Incubation

Across the developing world more and more universities involve themselves with incubation, often with questionable results if the incubator is directly run by the university. The motivation is clear, to provide employment for graduates in economies with growing numbers of educated unemployed people, but implementation is the issue.

A Challenging View: As a panelist at the Incubation Lab in infoDev's 2013 Global Forum, Francisco (Paco) Medina, Deputy Secretary Jalisco State Ministry of Innovation, Mexico, stated that he believes Mexico's 500 incubators are mostly failures, with only 1,000 graduates and very few successes, especially those implemented by academic institutions. He argued they are not business savvy, "*understaffed by overstaffed academics, who don't understand business*" and notes a trend of "*starving them to death, or putting them to sleep*" stressing governments "*have to learn to kill business incubators that do not perform*". None the less he believes universities have a role to provide infrastructure, including labs and IT, and with specific academic training. Opportunities exist for the private sector to work more closely with them. The other panelists concurred. Charles Wyeth, Venture Operations Manager, Sasol ChemCity, SA, former Chairperson of SABTIA, former COO of SA Small Enterprise Development Association (SEDA) and head of their incubation program for 8 years observed that "*Universities struggle, trying to commercialize research with too much focus on inputs as opposed to outputs*". Steve Giddings, infoDev's facilitator for Africa believes they suffer from a lack of market validation and that "*It all comes down to who runs the incubator*". Many participants agreed with the panel, making comments like, "*universities are stifled with politics*" and "*professors are the worst entrepreneurs*". Some disagreed though and others commented about how universities, with a focus on teaching, can work with the private sector and venture capitalists for finance and business advice, or focus on developing an entrepreneurial culture amongst students, or undertake pre-incubation only as feeder channels for incubation run by other bodies.

A Robust Solution: India, with a vibrant incubation industry in which most incubators are associated with universities, is a source of insights about how to make university incubation work well. Technology incubators in India are supported by the National Science and Technology and Entrepreneurship Development Board, which only provides core funding for a 5 year period after which incubators have to be self-reliant. NSTEDB works to ensure its technology incubators represent a dynamic model of sustainable business operation and generate revenue as well as profits. To achieve this they now insist that incubators are autonomous organisations stating in their institutional mechanisms guidelines, "... it has become mandatory to register the new TBIs as an autonomous body functioning as a society registered under societies act of 1860/or as a nonprofit making section 25 company. The affairs of the TBI should be managed by an Advisory Board. The Board of the TBI should help not only in development of a strategic plan containing quantifiable objectives to achieve the desired results but also in managing the TBI efficiently and effectively. The Board should have representation from the promoters and reputed professionals."²⁵ The guidelines regarding the institutional mechanisms go on to address the role of the host organisation, typically a university or research institute: "The Host Institution has to play an important role not only in the establishment of the TBI project but also in its smooth and efficient functioning. Only those institutions/ organisations that can provide land and built-up space for TBI and are also willing to share available facilities and expertise would be considered for setting up of the TBI. An MOU would be signed by the TBI, HI and DST, which will clearly define the role of these three agencies. HI should demonstrate its commitment and responsibility towards the TBI project. The

²⁵ <http://www.nstedb.com/institutional/tbi.htm>

HI will provide a suitable built up area of about 5000-10,000 sq. ft. where-in the TBI could be set up besides provision of utilities such as electricity and water. The HI will also ensure availability of following facilities to the tenants of the TBI on mutually agreed charges: Lab/testing facilities; library; mainframe computer; faculty support.” This is not dissimilar to the situation in many developed economies where university affiliated incubators are run by autonomous non-profit organisations owned by universities and other stakeholders.

Unless incubators are autonomous they run the risk of being bogged down with university bureaucracy, politics and institutional purchasing procedures and cannot pay private sector salaries to secure high quality and experienced entrepreneurial management. All too often the university incubators that underperform are run by a university department and managed by academics on a part time basis, alongside their main teaching or research responsibilities.

1.5 Entrepreneur or Investment Led Incubation?

Across the globe more and more incubators see the importance of selecting entrepreneurs, as opposed to just selecting potentially viable businesses. After all it is entrepreneurs who make businesses viable, sometimes with second or third rate technology. Consequently, more and more incubators include selection of people and teams with the right entrepreneurial attributes in their selection criteria. The leading example for this is RaizCorp in South Africa, a private enterprise managing 8 highly successful full service incubators, in which selecting the right entrepreneur is at the core of their selection process. In their words: “Raizcorp has identified the essential quality that stands out in every successful entrepreneur, and this quality is Blue Heart®. Entrepreneurs with Blue Heart® believe passionately in the potential of their business and they have exceptional tenacity and drive to make it succeed. Entrepreneurs with Blue Heart® believe in themselves; they are the ones who are always able to stand up again when life knocks them down. Blue Heart® (is an) idiomatic expression, a condition diagnosed mainly in entrepreneurs; characterises individuals with passion for business.”²⁶

Raiz Corp Fact Sheet:



Raizcorp:

- was founded in 2000
- has over 900 companies that have graduated from its Prosperator™ programmes
- currently supports more than 300 companies in Prosperation™ programmes
- develops over 3 000 companies per annum in “other” programmes
- has 8 physical business incubators known as Prosperators™ (7 in RSA and 1 in Angola)
- employs approximately 90 full time staff
- has been profitable since 2006
- processes between 10 and 40 applications to incubation programmes per day

²⁶ <http://www.raizcorp.com/entrepreneurs/>

Recently growing numbers of **technology incubators** have their own investment funds, leading to subtle changes in motivation. If an incubator invests in its clients, is the main driver to ensure a return on the investment, or to assist the entrepreneur? The distinction is clearest with incubators such as those supported funded and administrated by the Office of the Chief Scientist (OCS) of the Ministry of Industry, Trade and Labor in Israel²⁷. Also the incubator success story PowerHouse in New Zealand²⁸: A global role model for commercializing technology, in which the incubator team finds technology for commercialization, builds a business case around the concept, validates the market and then invests. The investment is often used to go out and hire the entrepreneur, avoiding the common problem of being stuck with a non-entrepreneurial researcher, or trying to broker a match without funds as a lever. Skeptics about seed accelerators which take an investment to then drive further investment, argue the organization's motivator is to benefit the investor rather than the founding team.

The Technology Development Board of the Government of India recognizes the power of investing in startup companies via business incubators. Following an initial successful pilot with 5 incubators it has given a growing number of Technology Business Incubators their own seed funds to invest in clients.²⁹ These investments can be made as loans, grants or equity and to date only a small number of incubators have used the seed fund for equity investments, preferring loans which are more acceptable to clients and which involve fewer issues.

Obviously the ability to invest in startups that need investment gives an incubator additional leverage and power, especially when it comes to commercializing research in capital intensive sectors such as clean tech, advanced manufacturing and biotechnology, and accumulating additional revenues to achieve financial stability.

The point of the distinction is not to say one approach is right or wrong, but to acknowledge the difference and the issues involved.

Some Investment led issues:

- If an incubator invests its own funds in a startup then maximizing the returns from that investment is a legitimate strategy, requiring venture capital expertise and paradigms.
- Critics point out that investing in clients compromises the facilitative nature of an incubator manager's role, in which serving the entrepreneur and their needs is the priority. They sometimes argue the incubator has become a venture capitalist and not an incubator. On the other hand investing in clients who understand what an equity investment entails, ensures the client and the investing incubator are aligned around the interest of maximizing the value of the venture.
- If an incubator has a business model, relies upon investing in its clients then they are unlikely to take on clients who do not need investment. As everyone in the industry knows, many successful businesses bootstrap themselves without the need for any external investment.
- If incubators do not have funds to invest then they are restricted to facilitating finance from other sources.

²⁷ <http://www.science.co.il/Technology-Incubators.asp>

²⁸ <http://www.powerhouse-ventures.co.nz/>

²⁹ <http://www.tdb.gov.in/WebContent.aspx?id=10&type=homemore>

- Having your own funds to invest at a very early stage, adds leverage when it comes to seeking external funds, proving the incubator has its own “skin in the game”.
- While most incubators in this space invest by way of equity, some make debt investments, which mean the incubator is not a shareholder, not on the board and thus in a less powerful and controlling position.

infoDev's growing network of Climate Innovation Centers are further examples of investment led incubation, with funds directed to investing in the companies and to the incubation of those companies³⁰.

1.6 Virtual Incubation

infoDev's 2012 report, Lessons on Virtual Incubation Services, introduces the topic with the following foreword: “An often cited advantage of conventional business incubation (with incubatees operating within the confines of a physical building), is that physical interaction is a powerful tool for building knowledge and networks among starting entrepreneurs.

However, physical incubation also has some disadvantages. It is relatively capital intensive and outreach is limited by the available office space and the start-ups operating within the geographical area. What's more, the physical space offered by the incubator may not equally suit the needs of all start-up enterprises. Virtual business incubators, on the other hand, provide services beyond the confines of a physical building. This allows a company to use the services of an incubator, without actually being located at the incubator site, for instance through extension workers, online tools and off-site advisory services. They can also serve a much larger number of companies over an extended geographical area.

Nevertheless, virtual business incubation is a tool in search of a business model. For physical incubators a major source of income is rent but this form of income is not available to virtual business incubators³¹

The report goes on to define virtual incubation as “the full range of business incubation tools and services that are not (necessarily) provided to clients residing inside the facilities of a business incubator - virtual in the sense of location-independent. The report finds that a number of models are emerging, including accelerators and co-work spaces profiled earlier and categorized as:

1. **Hand-holders** offer an incubation service concept that emphasizes training and mentoring, as opposed to access to finance or networking, even though these are typically also parts of their service package. They address the challenges entrepreneurs face in developing their entrepreneurial capacities to be able to get their business off the ground. Typically, VBIs that fit this description are conventional business incubators that have expanded their services to non-resident/remote clients. Examples in the research are 3ie in Chile, ParqueTec in Costa Rica and Softstart BTI in South Africa.
2. **Network boosters** are incubators whose main aim is to bring entrepreneurs, investors, volunteers, and service providers together and help them to provide added value to each other's businesses, rather than focusing on delivering services themselves. In this case the incubator is a facilitator. There are two types of network boosters: the “business-plan-competition-plus network boosters” and the “2.0 network boosters”. The first group are in effect advanced business plan competitions (BPCs),

³⁰ <http://www.infodev.org/climate>

³¹ <http://www.infodev.org/articles/lessons-virtual-business-incubation-services>

where the incubators spend a great deal of energy on launching BPCs, but continue to service and support a number of BPC participants after the competition. Examples noted include Endeavor and the BiD network. The second group, the 2.0 network boosters, do not organize competitions, but rather focus on bringing people together, typically by hosting regular events. Examples noted in the report include the HUB, which is a co-work space and Mobile Monday.

3. **Seed capital providers** focus on providing seed investment capital, combined with (short or long-term) mentoring support. Again, the analysis finds two types of seed capital providers, namely those with a commercial mission (often called venture accelerators – the accelerators profiled earlier) and those with a social mission. Social seed capital providers typically combine provision of capital (grants, loans and equity) with a long-term mentoring support program. Venture accelerators typically provide a short-term program (3 months) of training, mentoring and networking support designed to prepare companies for external finance. Examples included in the research are ParqueTec in Costa Rica, Villgro in India, Y-Combinator in the USA and Founder Institute in the USA and other countries.

1.7 Possible future trends

A number of possible future trends have been identified:

Incubation of existing SMEs

Even though business incubation is normally applied to new starts there is no reason why it cannot be used to support existing small and medium enterprises, which in particular environments may be easier and more successful. In the development of a number of agribusiness innovation centers, infoDev has found more potential in the short to medium term incubating existing small and medium agro processors than starting with fresh new starts, because of the complexities in the industry and the fact that the best impact can be achieved by helping existing SMEs to grow³². Francisco (Paco) Medina, Deputy Secretary Jalisco State Ministry of Innovation, Mexico, reflecting on Mexico's experience has a similar insight, that "It is easier to nurture an existing SME, even of it is micro, than to stand the pangs of birth."³³

³² <http://www.infodev.org/agribusiness>

³³ Francisco (Paco) Medina, Deputy Secretary Jalisco State Ministry of Innovation, Mexico at infoDev's 2013 Global Forum