

# Understanding business incubation

Incubators in various formats offer support for the bioentrepreneur setting up a business. Toni Wanklin offers her perspective.

**B**usiness incubation provides a nurturing, instructive, and supportive environment for entrepreneurs during the critical stages of starting up a new business. The goal of incubators is to decrease the chance that a startup will fail, and shorten the time and reduce the cost of establishing and growing its business. If successful, business incubators can help to nurture the fast-track companies that form the true creators of a region's or nation's future wealth and employment.

Indeed, since 1979, more than 75% of all new jobs created in the United States have been generated by fewer than 10% of small businesses.

Here we provide an overview of the basics of business incubation and case studies of two quite different models.



## The goals of incubators

Business incubators typically meet their objectives by:

- Selecting startups on the basis of their viability and potential for growth. In general, this is done through an examination of business plans.
- Operating an exit or graduation policy once the startup has reached a certain size or stage in its development.
- Making available an incubator manager or team whose role is to nurture the client businesses by helping them to build networks of support.
- Providing client businesses with visibility and credibility in the marketplace.
- Aspiring to become a cluster/catalyst for economic activity in a sector, locality, or region.

## Why we need incubators

It is important to put incubators in perspective: Rather than being “medical emergency rooms” for failing companies, incubators serve as a launching pad for young and small businesses. Startups, which are innately dynamic entities, need access to support, and incubators are one means of providing this. Whether located in urban or rural areas, most incubators are distinguished by the specialist services that they offer in addition to a physical home for a budding company.

Business incubation helps young companies overcome the problems that often lead to their early downfall, in particular a lack of breadth of business skills and inadequate financing. Because of their “entrance qualifications”, incubators weed out the “no-hopers” from the start, and can combat the loneliness and stress of setting up a business. During a startup's early development, an incubator will also provide access to a range of business skills and training to help the business grow, can offer routes for financing, and enable new enterprises to stand on their own feet more quickly than if they were to go it alone.

Business incubation is a process that can be undertaken at different levels and in different formats. Science parks, business/enterprise centers, and innovation/incubator centers all seek to provide an environment in which businesses can be nurtured, improving their chances of survival. However, there can be important differences in their objectives of each model and in the type of businesses that become their clients.

Some, such as science parks and business/enterprise centers, offer little more than managed workspace, whereas incubators predominantly take an active, hands-on approach, becoming part of the startup team. Involvement can vary from day-to-day administrative assistance (secretarial support) through to marketing and business development. In general, incubators attract

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very early-stage knowledge-based firms, whereas science parks and business centers appeal to businesses graduating from incubators and university spinouts.

Incubators can come with or without “walls”. Most incubators provide property on a flexible basis, offering easy-entry and easy-exit tenancy terms, and will offer some common facilities and services. The level of provision depends on the individual incubator and the types of business it targets, but frequently incubators offer a central reception area, communal areas (e.g., meeting rooms, a café or restaurant, and kitchens), access to telecommunications, and sometimes shared secretarial services. These services alleviate the administrative burden the tenant companies must bear, reducing the need for equipment and personnel. However, a growing number of “virtual” incubators are delivering a similar package of business support and development services, but without a physical property. Case studies of the two very different types of incubators are outlined below (see “Innovation in Manchester” and “Incubation without walls”).

### Does incubation work?

Incubators have been created with the intention of achieving a wide range of objectives, primarily those at which small businesses are good: creating jobs, developing innovative ideas, diversifying the local economy, and broadly generating activity and wealth in a region by creating a vibrant small business sector. However, bioentrepreneurs may well ask whether they actually achieve such goals.

As a test case, in 2001, UK Business Incubation measured the impact of incubators (not specifically for biotechnology) on the local economy and work force in the United Kingdom. The survey<sup>1</sup> revealed that an incubator’s client businesses provided an average of 167 jobs (full-time equivalents) per incubator and were home to an average of 30 client businesses. Most (60%) incubators also operate “outreach” services, helping and advising companies located outside the walls of the incubator. Incubators operating outreach activities supported an average of 106 additional businesses. Across the sample, an average of 75% of client companies turned over up to £500,000, but only 1.5% had a turnover of more than £5 million.

More importantly, companies housed within UK incubators had an average success rate of >80% compared with the national average of <50% (ref. 2) of all small- and medium-sized companies registered and trading in that year. Around 70% of incubators attempted to measure the impact of their

client businesses, for example, on the basis of jobs created and financial performance. Such indicators have also influenced government policy and funding in this arena.

Such studies<sup>3</sup> do highlight the support for incubators, as well as their potential contribution. In particular, they highlight the usefulness of incubators in identifying and supporting potential growth businesses, helping technology transfer, developing innovation, and expanding the range of local businesses. However, because incubation has been operative in the United Kingdom for only a relatively short time, there is less evidence that they are generators of jobs and wealth.

Perhaps this is to be expected given the nature of these facilities, which is to offer longer-term approaches to immediate start-up deficiencies. The true benefits to the economy are not likely to be evident for some years to come, but such is the nature of biotechnology.

1. UKBI Mapping Survey. [http://www.ukbi.co.uk/other/pages\\_render.asp?page%5Fid=20](http://www.ukbi.co.uk/other/pages_render.asp?page%5Fid=20)
2. *Finance for Small Business in Deprived Communities*, 6th edn. Domestic Finance Division, Bank of England, London, UK, 2000
3. Chapman, P. & Hannon, P. *UK Incubators: Identifying Best Practice: Full Report*. UK Business Incubation, Birmingham United Kingdom, 2001

## Innovation in Manchester

Maire Smith explains how tailored laboratory space and support from seasoned executives make Manchester Innovation an attractive home for startups in the northwest of England.

**M**anchester Innovation Ltd., a wholly owned subsidiary of the University of Manchester, was formed in September 1999 by the merger of Manchester Biotech, an incubator of young biotechnology companies, and Vuman, the technology commercialization arm of the University of Manchester.

Manchester Innovation has three goals: to manage all aspects of university-owned intellectual property, including licensing deals, spinoffs, and joint ventures; to manage the Manchester Incubator for young biotechnology companies; and to provide mentoring and incubation for university spinoffs.

The university first identified the need for an incubator in 1995, in the belief that early-stage biotechnology opportunities were more difficult to exploit in the United Kingdom than in the United States. An incubator was viewed as an important intermediary in commercialization, serving as a nurturing halfway house. The £15.2 million required was raised from a variety of sources, including the European Regional Development Fund (ERDF), Hulme Regeneration (a local charity), and the university itself. The building was officially opened in September 1999.

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### What does the incubator offer?

The Manchester Incubator was designed to get early-stage companies up and running as quickly as possible. The campus-based building has 75,000 square feet of lab-ready, state-of-the-art space, a restaurant, and underground parking. The laboratories can be operated at Advisory Committee on Genetic Manipulation (ACGM) containment level 2 and are fitted with fume cupboards and exhaust thimbles for class II hoods for work with cell cultures and low-risk pathogens. All laboratories can be supplied with piped gases and de-ionized water. There are 16 laboratory suites with desk space and secondary support facilities, including darkrooms, coldrooms, and substantial additional office space. The building is set up for security-card access, and has communal meeting areas on each floor and a suite of meeting rooms. The restaurant also provides valuable opportunities for interaction, and contributes importantly to the “lived-in” ambience of the building.

### Prerequisites for entry

It is important that companies entering the incubator be commercially sound. As a result, we expect prospective clients to have carried out the following steps:

- Defined the company’s patent strategy and likely market potential for its products
- Written a robust business proposal
- Obtained at least seed finance
- Set up a board of directors and core team