

Seven Components of a Successful Business Incubator

Summarized by Teresa Gillotti and Ryan Ziegelbauer*

Business incubators are facilities that provide small, entrepreneurial businesses with affordable space, shared support and business development services. They can help young businesses during their start-up period when they are most financially vulnerable. While not a panacea for a community's economic struggles, incubators can provide a boost to small business and promote entrepreneurship. The following are seven components of a successful incubator from Colin Barrow's *Incubators: A Realist's Guide to the World's New Business Accelerators*.

1. Clear and Well Communicated Goals. There are many incubator types and structures. Universities develop incubators to benefit from the science, technology and intellectual property resulting from university research. Private investors start incubators as a way to show investment in multiple firms and to make a profit. Government's reasons for starting incubators vary, but can include jump-starting the economy, job creation, sector development, etc. Other communities may chose to create an incubator to fill a missing piece of the economic mix whether it is a retail, office or light industrial incubator. Regardless, it is important to determine whether the goal is simply filling the incubator or graduate tenants to larger, market rate spaces in the downtown. Other goals may include developing a complementary mix of retail and service business, a revitalized downtown, a specific level of job creation, promoting entrepreneurship within the community and increasing earnings among residents. Determining specific goals is essential to developing the application process and communicating the benefits of locating within the incubator to potential tenants.

2. Incubator Manager. Incubator tenants will likely struggle with their start-up businesses. An incubator manager involved in tenant selection, day-to-day operations and coordination and facilitation of business services can be not only an invaluable asset to incubator businesses, but also the key to the incubator reaching its goals. The manager would be responsible for all the key components of an incubator listed here and will serve as a facilitator, mentor, coordinator and colleague of all the

incubator tenants. Ideally, this manager would be linked within the business community bringing experience, contacts, resources and a presence in the community.

3. Business Services While tenants will come with a variety of skills and experience, in deciding the services to provide, it is important to consider the various stages of business development from planning, startup, maintenance and eventual expansion/graduation from the incubator. Below are some services that may be important for tenants, potential tenants or other entrepreneurs who may not locate their business in the incubator, but pay a membership fee to use the facilities and services.

- Business Plan Development
- Promotional Assistance
- Business Network
- Technical Support
- Funding for Startup and Maintenance
- Customer Service
- Hiring and Managing Employees
- Accounting and Finance

4. Shared Resources Depending on the focus of the incubator, the shared resources can vary. Some services, including duplicating, faxing and secretarial services can be charged to specific tenants based on use either at a regular or reduced rate. Shared services can include: duplicating and faxing, answering service, secretarial/receptionist services, conference rooms, shipping and receiving, warehousing, computer support, insurance, joint purchasing agreements, incubator manager or staff, an integrated sound, alarm and music system, credit reports, joint marketing and promotional assistance, high speed Internet service and even an e-commerce website.



5. Physical Space. Space needs will vary with the focus of the incubator. If several tenants decide to produce food, a commercial kitchen and cold storage area would be appropriate common equipment and areas. If retail is more of the focus, then shipping and receiving docks and storage may become necessary. Generally, subsidized rent is the first thing that attracts potential tenants. Flexible layout and size will encourage the longevity of the incubator as will the ability for tenants to grow in the incubator either by occupying a larger space or by expanding their current site.

6. Financing. The incubator manager or incubator support team should work to gain access to capital for tenants by developing partnerships and pursuing grants and other funding opportunities. Support for tenants seeking capital in the form of resource lists and contact information is essential. While access to capital might not be an initial part of the incubator project, developing a Micro Loan Program or other long-standing fund may be best suited for a long-term project such as the business incubator. While this may not be a priority for the incubator now, an ongoing fund can assist with entrepreneurial training and financial support for the incubator. On a smaller scale, access to information and practices on accounting and maintaining cash flow will be essential for tenants and can be one of the business services provided by the incubator.

7. Application and Acceptance Process. The goals of the incubator will help determine the application and acceptance process. The criteria selected should provide room for flexibility and creativity. The idea-oriented entrepreneur may not be able to put together the plan, while the detailed businessperson may be able to run a shop but not come up with the exciting product or service to market. Understanding that each entrepreneur will have a different skill set and that all ideas will be at various levels of development will allow the incubator manager or support team to match potential tenants with appropriate business services. The application process takes time, and potential tenants should appreciate that the incubator accepts tenants based on strong ideas and strong business plans. Good start-ups for the incubator benefits all involved.

Application Process – Some incubators employ an informal approach where the potential tenant calls the incubator contact and talks over an idea to determine if the business concept—possibly a home business or a just an idea—is developed enough to be considered. Applicants should be required to submit a business and financial plan as well as an application. The level of depth for the business plan required can vary from a summary or a more formal, multi-year plan depending on the process.

However, business counseling should be available to applicants including access to business and financial planning assistance.

Consideration – Basic assessments include examination of the business and financial plan looking for clear market potential, strategy for reaching the market and sound implementation strategy. The incubator support team may show preference to certain target population groups if one incubator goal is draw a certain market segment. The location and purpose of the incubator will also help determine if the potential tenant is a good match. There may be a requirement on who can apply, possibly limiting the pool of applicants to area residents. Separately, tenants should consider if the incubator provides them the services they will need including location, adequate facilities, appropriate services, enough time before graduation and cost. Tenants should consider any tradeoffs they may experience by entering the incubator as compared with a home business or other location.

Tenancy – Once selected, tenants should have a complete business and financial plan, a signed rental or leasing agreement noting any rent increases over the course of their tenancy in the incubator, and any guidelines regarding graduation. Additionally, tenants should gain working knowledge of the facilities and services available through the incubator.

Review and Graduation – The ongoing review process for incubator business can be informal business counseling on a regular basis, completion of specific goals or criteria or some other assessment, usually on a clear timeline. Developing and communicating a clear review policy can strengthen the services available to tenants and help ensure success of the incubator as a whole. Graduation policy can be related to businesses outgrowing their space or a time limit. It will be important for graduating businesses to update and expand the business and financial plan to allow for a new location, larger space and other changes to marketing as well as financing for the move to market rate space. Business counseling will be essential to assist these businesses in transition.

Resources:

National Business Incubator Association:
http://www.nbia.org/resource_center/index.php
Wisconsin Department of Commerce:
<http://www.commerce.state.wi.us/MT/MT-COM-2610.html#INTRODUCTION%20TO%20INCUBATORS>

Source: Barrow, Colin. *Incubators: A Realist's Guide to the World's New Business Accelerators*. Chichester; New York: John Wiley & Sons, 2001.

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