B.COM: SEM--4

Subject: ENTREPRENEURSHIP EVELOPMENT

UNIT -II

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LECTURE NO. 04

**TOPIC: The concept, role and functions of business incubators**

**Concept: BUSINESS INCUBATORS**

A business incubator is a company that helps new and startup companies to develop by providing services such as management training or office space. Business incubators also facilitate to nurture young (startup) firms during their early months or years. It usually provides affordable space, shared offices and services, hand-on management training, marketing support and, often, access to some form of financing.

According to The National Business Incubation Association (NBIA) business incubators is a catalyst tool for either regional or national economic development. NBIA categorizes their members’ incubators by the following five incubator types: academic institutions; non-profit development corporations; for-profit property development ventures; venture capital firms, and combination of the above.

According to Allen and Rahman, “The universal purpose of a business incubator is to increase the chances of a firm surviving its formative years, but the business incubator also adds value by maximizing the firms’ growth potential.”

As per Allen, “A business incubator is defined as a facility that provides affordable rent to new and small firms, shared office and logistical services, and arranges business management and financial assistance.”

Sherman and Chappell have defined “Business incubator as an economic development tool primarily designed to help create and new businesses in a community. Business incubators help emerging businesses by providing various support services, such as assistance in developing business and marketing plans, building management teams, obtaining capital, and access to a range of more specialized professional services. They also provide flexible space, shared equipment, and administrative services”.

In short, a business incubator may be defined as an organization which offers a range of business developments services and access to small space on flexible terms, to meet the needs of new firms. The package of services offered by a business incubator is designed to enhance the success and growth rates of new enterprises thus maximizing their impact on economic development. Business incubation helps startups by providing their clients with services on a ‘one-stop-shop’ basis and enabling overheads to be reduced by sharing costs, business incubators significantly improve the survival and growth prospects of new start-ups.

Business incubators differ from research and technology parks in their dedication to startup and early-stage companies. Research and technology parks, on the other hand, tend to be large-scale projects that house everything from corporate, government or university labs to very small companies. Most research and technology parks do not offer business assistance services, which are the hallmark of a business incubation program. However, many research and technology parks house incubation programs.

In India, the business incubators are promoted in a varied fashion: as Technology Business Incubators (TBI) and as Startup Incubators -- the first deals with technology business (mostly, consultancy and promoting technology related businesses) and the later deals with promoting startups (with more emphasis on establishing new companies, scaling the businesses, prototyping, patenting, and so forth).

**Types of Incubation Services:**

Since startup companies lack many resources, experience and networks, incubators provide services which helps them get through initial hurdles in starting up a business. These hurdles include space, funding, legal, accounting, computer services and other prerequisites to running the business. Following are the most common incubator services:

a. They help with business basics

b. They provide Networking activities

c. They provide Marketing assistance

d. Incubators help in Market Research

e. They provide High-speed Internet access

f. Incubators Help with accounting/financial management

g. They help in providing Access to bank loans, loan funds and guarantee programs

h. Incubators help with presentation skills

i. They link to higher education resources

j. They link to strategic partners

k. They provide Access to angel investors or venture capital.

l. They organize Comprehensive business training programs.

m. They act as Advisory boards and mentors.

n. They help in Management team identification.

o. They help with business etiquette.

p. They provide technology commercialization assistance.

q. They help with regulatory compliance.

r. They provide Intellectual property management

**Role of Business Incubation**

Business incubation has been identified as a means of meeting a variety of economic and socioeconomic policy needs, which may include

• Creating jobs and wealth

• Fostering a community's entrepreneurial climate

• Technology commercialization

• Diversifying local economies

• Building or accelerating growth of local industry clusters

• Business creation and retention

• Encouraging women or minority entrepreneurship

• Identifying potential spin-in or spin-out business opportunities

• Community revitalization

**Stages of Business Incubation Development:**

Three Stages of Business Incubation Development:

1. Physical facility support – Business incubation provided within physical facility

2. Support service – Business incubation as business support service

3. Networking facilities -Business incubators provide networking facilities to the members.

**Types and functions of business Incubators:**

There are a number of business incubators that have focused on particular industries or on a particular business model, earning them their own name, these are as follows:

1. **Virtual Business Incubators**: These are also known as online business incubators. Business incubators began in the 1950s and took off in the late 1990s as support for startup companies who need advice and venture capital to get their ideas off the ground. As the dot-com bubble burst, many high-tech business incubators did so too. Now the model of a business incubator is changing. Several of the incubator companies who survived the dot-com bubble switched to a virtual model. The old incubator model required a startup venture to set up shop at the incubator’s site. The virtual model, on the other hand, allows a company to garner the advice of an incubator without actually being located at the incubator site. This new model suits those entrepreneurs who need the advice an incubator offers but still want to maintain their own offices, warehouses, etc.

2. M**edical Incubator:** This is a business incubator focused on medical devices & biomaterials. For encouraging innovation and entrepreneurship in medical technologies, through technology, business incubation support is given to innovators, start-ups and industry.

3. **Kitchen Incubator:** It is a business incubator focused on the food industry. Specialty foods are typically high-value and, at least in the beginning, low production. Starting a commercial kitchen from scratch can cost a huge amount of investment. The average food entrepreneur has to spend plenty before even making their first batch of food item. This need for low-cost kitchen space has led to the development of shared commercial kitchens that can be rented for hourly or monthly rates. But finding a place to make specialty food products is only the first step. Entrepreneurs who want to make a profit have to successfully package, market, and sell their products, too and the food incubators provide help with all this.

4.  **Public/Social Incubator**: This is a business incubator focused on the public good. Social incubators aim to provide social entrepreneurs with the tools to expand their business. The challenging economic environment is changing the landscape of how we do business. At one end, some businesses avoid their social responsibility and, at the other, charities have to find ways to be more business savvy to survive. India has embraced the concept, with a twist, creating the idea of “social business”.

5. **Seed Accelerator:** This is a business incubator focused on early startups. Seed accelerators, also known as startup accelerators, are fixed-term, cohort-based programs, that include mentorship and educational components and culminate in a public pitch event or demo day. While traditional business incubators are often government-funded, generally take no equity, and focus on biotech, financial technology (“FinTech”), medical technology (“MedTech”), clean tech or product-centric companies, accelerators can be either privately or publicly funded and focus on a wide range of industries. Unlike business incubators, the application process for seed accelerators is open to anyone, but highly competitive. There are specific types of seed accelerators, such as corporate accelerator, which are often subsidiaries or programs of larger corporations that act like seed accelerators.

6. **Corporate Accelerator**: It is a program of a larger company that acts akin to a seed accelerator. A corporate accelerator is a specific form of seed accelerator which is sponsored by an established for-profit corporation. Similar to seed accelerators they support early-stage startup companies through mentorship and often capital and office space. In contrast to regular programs, though, corporate accelerators derive their objectives from the sponsoring organization. These objectives can include the wish to stay close to emerging trends or to establish a funnel for corporate venture capital investments. Corporate accelerators differ from Business incubators, which usually have a continuous intake, due to their fixed-term, cohort-based oraganisation (similar to seed accelerators) and are distinct to corporate venture capital which is a direct, targeted investment.

7. **Startup Studio**: This is a business incubator with interacting portfolio companies. Startup studio, also known as a startup factory, or a startup foundry, or a venture builder, is a studio-like company that aims at building several companies in succession. This style of business building is referred to as “parallel entrepreneurship”.

8.  **Venture Builder**: These are similar to a startup studio, but builds companies internally. Venture-builders are also called tech studios, startup factories, or venture production studios: They are organizations that build companies using their own ideas and resources. Unlike incubators and accelerators, venture builders do not take any applications, nor do they run any sort of competitive program. Instead, they pull business ideas from within their own network of resources and assign internal teams to develop them such as Engineers, advisors, business developers, sales managers, etc. Venture builders develop many systems, models, or projects at once and then build separate companies around the most promising ones by assigning operational resources and capital to those portfolio companies. In its most basic form, the venture-building company is a holding company that owns equity in the various corporate entities it helped created. The most successful venture builders are, however, much more operational and hands-on than holding companies- They raise capital, staff resources, host internal coding sessions, design business models, work with legal teams, build MVPs (minimum viable products), hire business development managers, and run very effective marketing campaigns during their ventures’ pre-and post-launch phases.

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