

1. Definition

"Incubation is a unique and highly flexible combination of business development processes, infrastructure and people, designed to nurture and grow new and small businesses by supporting them through the early stages of development and change." (UKBI.2007)

Business incubation is a process of support for businesses with growth potential. It can be targeted at one or a combination of support to:

- Start-ups,
- Early stage businesses,
- Established businesses with new products/ new directions.

Business incubation supports the start-up and early stage of new business ventures by providing them with the safe harbour, intensive resources and a development environment in which they can flourish. A business incubator is usually the 'physical' manifestation of this process and generally involves the provision of a 'with-walls' facility through which concentrated business incubation support processes can be delivered. Businesses can thus gain from close proximity to like minded enterprises, mutual development and a shared learning environment. 'Virtual' business incubation programmes also exist, though they seek to deliver business incubation processes using means other than physical premises. Although even virtual business incubators frequently provide some contact or hot desking facilities i.e. client meeting rooms, conference mail and address hosting facilities. Business incubatees (either in situ or virtual), often are only a part of a larger mass of businesses supported by or at the business incubator.

'Traditional' business incubation normally consists of facilities usually include hot-desking and small units (from 200sqft to 500sqft). Companies are provided with their own office and pay rent (although it may be subsidised or ramped up over the period of their stay). Companies usually stay for up to three years. There are significant levels of support but usually on a diminishing basis to the point of exit. In some cases, support is subsidised, through financial support from key partners such as RDAs, local authorities, and through in-kind specialist business and technical support from associated corporates. The level of subsidy is provided on a diminishing scale, with clients paying 'market rate' towards graduation. Anchor clients, through their payment of market rate often subsidise the process also.

A number of business incubators also target individuals and businesses that have not yet started formally/ officially. Support might consist of business planning, research support, training, management development, personal development and assistance raising finance. Facilities might include hot desking and 'drop-in' facilities. They also consist in supporting potential entrepreneurs in understanding the advantages and challenges of enterprise. By nature, they allow specific communities/groups and issues to be addressed at a very local level, with support being tailored for what they need and in a way they can readily apply. These programmes often act as pipelines for further 'business incubation' services.

2. Why is business incubation important?

Business incubation features strongly in local, regional and national economic strategies and is a key component in the development of most overseas, developed and developing economies, particularly those aiming to develop a knowledge based economy. The benefits of business incubators are numerous. Amongst other things, they can:

- act as a catalyst for economic change development;
- help young companies to negotiate the hurdles that often lead to their early downfall;
- help entrepreneurs overcome the isolation and stress of starting a business;
- provide access to an array of expertise, mentors, investors and specialist advisors;
- provide visibility and credibility in the marketplace;
- facilitate linkages with and the commercialisation of university or corporate research and new ideas utilising research and development expertise and proof of concept functions;
- encourage faster sustainable growth and greater survival rates of new and existing companies;
- Act as catalyst for urban and rural regeneration;
- enable growing companies to become stand alone entities within the community

Recent research shows a rapid increase, nationally and abroad, of business incubation environments. This is especially true in the late 1990's and early 2000's. This rapid national and international increase in business incubation activity (from around 20 in 1997 to more than 270 identified environments in 2008 in the UK) can be attributed to a number of factors, not least to a growth in regional policy interest and associated funding in recent years at local, regional and national levels. The process of business incubation has been identified as a means of meeting a variety of economic and social policy needs which are often represented in incubators' strategies – mission statement, objectives, targets.

3. Business incubation, innovation centres and managed workspace

Business incubation (process) is not managed workspace (place), nor is it universally provided by innovation centres. There are indeed some innovation centres which purely provide managed workspace. As detailed above, business incubation is fundamentally about the provision of bespoke, hands-on business support to businesses at a stage of their business life cycle where they are the most vulnerable.

Also, crucially, business incubation is a process which selects businesses/business ideas, encourages their development

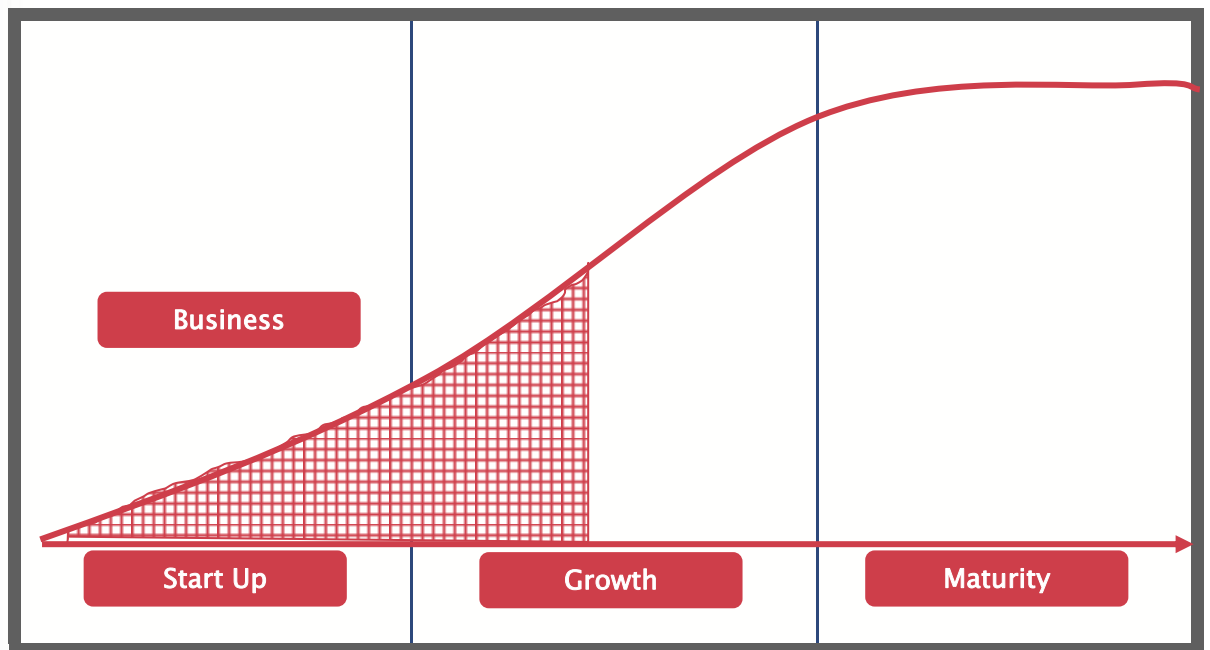
and growth and requires them to graduate or move on.

Instead, managed workspaces or serviced office spaces have:

- no intensive business support or mentoring – having access to a few hours of Business Link or general business support is not sufficient;
- little or no access to wider local and regional networks, particularly finance, technical expertise, etc;
- no focus on growing businesses with selection/entry requirements often restricted (only) to their ability to pay the rent;
- no graduation policy, businesses are encouraged to stay as long as they can pay the rent, which leads to 'silting up' and restricts the number of businesses that can be supported;
- a primary objective of maximising rental income, which is not committed to supporting its client businesses.

Business incubators are focused, fundamentally, on mentoring their growing client businesses and while the provision of office space is a key element, it is nonetheless secondary. Whereas business incubation provides an environment allowing start-ups and early stage businesses to accelerate their growth up to the point where 'they can fly the nest', services offered by managed workspace commonly fit the needs of established, self sustainable businesses. Links with managed workspaces are therefore useful when preparing the incubatees to exit the business incubator and helping them finding grow-on space.

provided. Business incubation can be a resource intensive intervention and there are only a small number of private sector providers which go beyond providing fully serviced managed office space. When properly conducted business incubation is therefore almost invariably subsidised from public revenues in one way or another.



UK BUSINESS INCUBATION LANDSCAPE IN 2008: SUMMARY OF FINDINGS

.5	Additional information	Results
% of respondents having started operations in the 80's		11%
% of respondents having started operations in the 90's		15%
% of respondents having started operations after 2000		74%
% of respondents providing business incubation services		
% of respondents that are public		71%
% of respondents that are private		29%
% of respondents that are for profit		23%
% of respondents that are not for profit		77%
Legal structure most commonly cited	Public, Not for Profit	33%
Initial sources of funding: origins	EU funding	28%
	Funding from parent organisations and main partners	25%
	RDA	20%
	Central government and other public sources of funding	11%
	Income from clients	3%
	Other (including private funding)	13%
Average (%) of initial funding that is of public source		81%
Average (%) of initial funding that is of private source		19%
% of total initial funding used for capital purposes only (capital funding)		57%
% of total initial funding used for revenue purposes only (revenue funding)		18%
% of total initial funding used for both revenue and capital purposes		24%
Sources of revenues (based on list provided)	Rent and service charges	92%
	Grants and other fundings	40%
	Consultancy work	23%
	Investments (equity/royalties)	2%
	Others	13%
	Others	examples
How do business incubation environments cover running costs?	Rent and service charges	67%
	Investments (equity/royalties)	0.19%
	Consultancy work	5%
	Grants and other fundings	15%
	Others	13%
	Others	examples
Average % of public funding covering the running costs		37%
Average % of private funding covering the running costs		61%
Average proportion (%) of mentors and business advisors that are volunteers or supplied as part of the sponsorship package		24%
Average number of sponsors per business incubator/ innovation centre		2
Average annual fee of advisors and mentors per year		£2,988.00
% of respondents considering sustainability as financial sustainability		11%
% of respondents considering sustainability as output sustainability		8%
% of respondents considering sustainability as both financial and output sustainability		80%
% of respondents whose clients are pre start-ups (at entry)		33%
% of respondents whose clients are start-ups and early stage businesses (at entry)		89%
% of respondents whose clients are established businesses (at entry)		31%

Indicators	Additional information	Results
Client base: pre start-ups only (1)		8%
Client base: start-ups and early stage businesses only (2)		46%
Client base: established businesses only (3)		3%
Client base: 1 + 2		15%
Client base: 2 + 3		18%
Client base: All 3		10%
Most commonly cited stage of development of client companies	Start-ups and early stage businesses	
% of business incubators/ innovation centres that are sector specific		66%
% of clients that are not sector specific (i.e. that are mixed use)		34%
Most commonly cited industry sectors		
1st most commonly cited source of dealflow for business incubators/ innovation centre (%)	Local community	90%
2nd most commonly cited source of dealflow for business incubators/ innovation centre (%)	Spinout	63%
2nd most commonly cited source of dealflow for business incubators/ innovation centre (%)	Inward investment	37%
1st most commonly cited source of relocation (%)	Commercial properties/ grow-on space	84%
2nd most commonly cited source of relocation (%)	Own premises	57%
3rd most commonly cited source of re-location after incubation	Remain on site	38%
Average number of businesses currently incubated (per business)		32
Average number of businesses currently interacting with (other)		137
Total number of businesses currently amongst the respondents to the question currently interacting with (other than through)		8,502
Average number of businesses incubated to date		125
Average total turnover of businesses incubated amongst		£233,609
% of respondents providing physical business incubation services		100%
% of respondents providing hot desking facilities		54%
% of respondents providing virtual business incubation services		0%
Average gross size (sqft) of business incubators/ innovation centres		35,364
Average lettable area (sqft)		20,412
Average space dedicated to hot desking facilities (sqft)		732
Average proportion of gross area dedicated to business		
Average number of units (i.e. office units + other types):		39
Average number of office units		32
Average number of hot desking units		8
List of 5 facilities and admin services most commonly available	Meeting rooms and/or conference	100%
	Reception area/ reception facility	94%
	Broadband and office equipment	92%
	Networking areas	88%
	Telephone network and hardware	86%
List of 5 business support services most commonly available in house	1) General business advice/ planning services	92%
	2) Help finding grow-on space	80%
	3) Mentoring	77%
	4) Training, seminars and workshops	73%
	5) Marketing and sales	72%

Indicators	Additional information	Results
List of 5 business support services most commonly provided	1) Specialist advice (e.g. legal) 2) Training, seminars, workshops 3) Management training 4) Marketing and sales 5) Access to R&D	83% 66% 59% 56% 49%
Business services: from most to least often provided (either	1) General business advice 2) Specialist advice 3) Help finding grow-on space 4) Mentoring 5) Training, seminars and workshops 6) Marketing and sales 7) Management training 8) Access to R&D	92% 83% 80% 77% 73% 72% 59% 49%
Financial support service most commonly available in house	Networking with finance providers	65%
Financial support service most commonly provided externally	Investment Readiness Programmes	66%
Seed fund activities provided internally		24%
Access to external seed funding activities		46%
Top 3 financial services provided either internally or externally by business incubators	1) Access to investment readiness programmes 2) Networking with finance providers 3) General financial advice and support	65% 65% 59%