

# How to set up a successful university startup incubator

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*Proven in the US as a model for nurturing young companies, start-up incubators are now thriving in Europe. But is there an “ideal” model, and if not, what is the best flavour of incubator for your needs?*

*Isis Enterprise at the University of Oxford has set up incubator programmes worldwide. Here, Britta Wyatt and Renate Krelle gather metrics on successful programmes and share top tips for building a start-up incubator.*

Start-up incubators can support students in developing entrepreneurial skills and provide tailored support for early-stage, high-growth businesses and ideas.

At their best, they can also create a virtuous cycle of job creation, university-industry collaboration, revenues for local businesses and for governments and show tangible benefits of academic “impact”.

A recent Isis Enterprise review of UK university start-up incubators found that the many were launched in the last two years. Increasingly, then, start-up incubators are becoming a requirement rather than “nice-to-have” for UK universities.

## Company factories

The first business incubator opened in 1959 in the US. Since then there has been an enormous rise in start-up incubators, with nearly 1,200 incubation programmes in the US, and over 7,000 worldwide.<sup>1</sup> Incubators have been shown to increase the chance of a business succeeding after five years from 30 per cent to over 85 per cent.<sup>2</sup>

But improved success rates for entrepreneurs are only one of the many benefits from successful incubator programmes. Communities and universities can also see impact from incubating and accelerating start-ups.

At Isis Enterprise, we help clients build start-up support services, including incubators, accelerators, seed funds and entrepreneurship training. We run our own [Isis Software Incubator](#), and recently completed a best practice review of nine UK and five US university start-up incubators and accelerators.

Here, we share our top tips for setting up a successful start-up incubator.

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<sup>1</sup> NBIA, Business Incubation FAQ, October 2012. [http://www.nbia.org/resource\\_library/faq/#3](http://www.nbia.org/resource_library/faq/#3)

<sup>2</sup> UKBI Business Incubation Statistics, <http://www.ukbi.co.uk/resources/business-incubation.aspx>

### What is a start-up incubator?

A start-up incubator supports early-stage, high-growth businesses and ideas.

The traditional business incubator operates on a tenancy model, providing free or subsidised office space, plus access to advisors, mentors, networks and other supports.

In 2005, a new incubation model called the “Accelerator” emerged in the US with the launch of Y-Combinator. This original accelerator model provided a cohort based programme of advice and supports aimed at accelerating a business to market in a short period of time, typically offering seed investment in exchange for equity in the new venture.

#### The university incubator

The *National Business Incubation Association* reports that 73% of incubators in the US are affiliated with universities, economic development agencies or government entities.<sup>1</sup>

And in the UK, the number of universities supporting start-ups and entrepreneurship is on the rise. A 2012 survey by *The National Centre for Entrepreneurship in Education (NCEE)* reported that 90% of Higher Education Institutions in the UK support students and graduates in creating new business ventures (up from 77% in 2010).<sup>1</sup>

A number of different “flavours” of entrepreneurship centres and programmes to support student enterprise have evolved within the university ecosystem, bringing with them courses, facilities, or other supports similar to incubators and accelerators.

### 1) Think about your objectives

Although seed accelerators (such as Y-Combinator in the US) tend to attract the most media attention, incubators and accelerators can be structured in different ways, and the incubator structure should reflect the needs of the university and the student body. A model focussed on big exits and financial returns may not always be the most suitable structure.

Requirements to keep in mind when mapping out the structure and success metrics of your incubator include:

- Is the aim to up-skill idea-owners to improve new venture creation or does your main stakeholder require the incubator to generate regular rental revenues?
- Can you set up your incubator as part of an entrepreneurship course or link it to course-work?
- Is it designed to support commercialisation of academic IP that is not patentable or too early for market, falling outside the typical tech transfer model?
- Is it designed to build student entrepreneurial skills and new ventures independent from research, and to facilitate the creation of an entrepreneurial ecosystem?
- Is it designed to bolster the local business ecosystem and create links between the university and industry?

### 2) Understand your “clients”

Understanding your users and stakeholders often goes hand in hand with clarifying your objectives. Conducting a stakeholder analysis to identify the different groups involved in the incubator is a good way to begin.

Keep in mind there will be multiple stakeholders both within and outside the university. Administrators, staff and students will all have requirements, as will external stakeholders such as development agencies, funding bodies, and business networks.

Once you have identified your key stakeholder groups actively seek feedback via interviews, surveys or focus groups. This is important in order to test that your vision for the incubator service is aligned with their real needs.

For example, Isis Enterprise recently ran a survey of academics and students for a proposed incubator service, which found that what people really wanted – even more than office space – were “pre-incubation support” services. These included assistance in evaluating the commercial potential of new ideas and building early business propositions, often before a product is built.

The survey highlighted the need for basic advice with regards to setting up a business, including financial, and legal considerations.

### **3) The “ideal” incubator?**

While there is no “ideal” incubator, it can be helpful to look at other start-up incubators for inspiration. Isis recently completed an in-depth review of both UK and US university start-up incubators.

Below are some metrics from the study:

- University start-up incubators supported an average of 30 ventures per year
- Most programmes were hosted either by a Tech Transfer Office or Entrepreneurship Centre. Eight of the programmes had more than one host.
- Staff number varied from 1 to 12, but most programmes had 1-2 core employees.
- In most instances, the programme managers had an entrepreneurial or business background. Students and recent alumni were another common source of incubator staff.

### **4) Be creative with your funding**

Unlike typical business incubation centres, which are funded through tenant rental and service fees, university start-up incubators are often offered free-of-charge to university participants.

Another model for capturing returns from participants is via equity investment, royalty agreements, or loans (usually only paid back upon success). These arrangements typically require a long lead time (5-10 years) before the portfolio will begin to show any results from revenue royalties, or exit events, so patient stakeholders are a must!

Even for “big name” Universities it takes a long time, and a lot of luck to reach a self-sustaining model. The majority of start-up incubators and accelerators in the recent Isis Enterprise study were funded by their university hosts, or leverage mixed sources of funds, including:

- Corporate sponsorship (for example a prize fund for the winner of a “pitch day”)
- Public funds
- Economic development agencies
- Alumni donors

Universities should expect to provide ongoing support to the incubator to some degree, although there are varied and creative ways of structuring this support. In addition, “softer” benefits are a big part of the vision which justifies a new incubator programme.

### 5) Building your business case

Building a strong business case for internal approval and attracting partners and funders is an absolutely crucial step. While long-term financial returns are possibility, it is also useful to highlight the earlier impact and community benefits that can come from accelerating start-ups. These include:

- **Business Retention & Job Creation** – Successful incubator ventures are likely to remain in the local ecosystem, creating opportunities for new job creation as well as channels for university-industry interaction.
- **Increased Tax Revenue** – A report by the NBIA found that in the US, every \$1 of public investment in incubator translated into \$30 in local tax revenue.<sup>3</sup>
- **Increased Impact Figures** – University start-up incubators serve as a pipeline for new student ventures that may not be exploited by traditional technology transfer channels.
- **Student Recruitment and Career Enhancement** – Entrepreneurship is increasingly considered an attractive career choice for students. A 2012 survey found that 1/3 of the respondents from the millennial generation were interested in launching their own business.<sup>4</sup>
- **Alumni Engagement** – A software incubator has to potential to attract both donations from and engagement with alumni. A 2014 QAA report noted that “Entrepreneurial alumni are the main source of donations to universities and are more likely to be inclined to donate if they believe that their time at university had a material influence on their subsequent entrepreneurial success.”<sup>5</sup>

Using both existing data and statistics such as the points above and tailored data from your own stakeholders and prospective participants can bolster your case.

### 6) Geared for success

Gearing a programme for long-term success is one of the key elements of a good start-up incubator. Good policies and operational practices are part of this process.

A University will need to look closely at its IP policy and benefits-sharing policies, and make sure these are both attractive for participants and also structured so that investors will make good returns. Isis Innovation has managed this process for a number of institutions.

Externally, you will need to build communications channels in multiple areas to bring in mentors and service providers, connect with investors to support your out-going start-ups, and generate positive buzz to attract investors.

Within the university, you will need to generate awareness to attract participants, volunteers and mentors. Particularly for smaller universities, incorporating an incubator as part of an entrepreneurship course or linking it to course-work can be a great way to start things off and increase student participation.

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<sup>3</sup>NBIA, Business Incubation Works,1997; NBIA, 2006 State of the Business Incubation Industry.

<sup>4</sup> Lent A (2012) Generation Enterprise: The Hope for a Brighter Economic Future; Lent A (2012) A time for heroes? RSA Journal, Autumn, pp 16-17.

<sup>5</sup> QAA Scotland, “Creating Entrepreneurial Campuses: A report for Scotland.” February 2014.

### Setting the course

Building a start-up incubator is not a one-size-fits-all process. Understanding your aims, stakeholders and external landscape are essential to a strong incubator strategy.

Key decision makers and influencers need to be involved early, ideally through a stakeholder consultation process. Politically, this plays well, and doing it badly sets you up for a difficult launch.

**Isis Enterprise** can work with your organisation to design a suitable incubation service for your stakeholders and goals. We offer support both at the planning stage for new incubators and start-up support services, collaborative mentoring and delivery of the services, and commercialisation and licensing support for established incubators with market-ready start-ups.

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