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Dalian venture workshop technology service Co., Ltd.: BUSINESS INCUBATION in china

Yibo Lyu, Shaojie Han, Qing Liu, Jingqin Su, and Jianfeng Hu wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On January 1, 2018, Jianfeng Hu, chairman of Dalian Venture Workshop Technology Service Co., Ltd. (Venture Workshop), faced a dilemma. Founded in 2012 in Dalian, Liaoning Province, China, Venture Workshop specialized in providing incubation and investment services to early stage start-ups, according to their needs. Venture Workshop supported the establishment and growth of start-ups by providing office space through the Venture DNA Coffee House, Venture Nursery, and Venture Incubation Base. It also provided training, consulting, and investment services through collaborations with entrepreneurship tutors and external organizations.

In 2014, the Ministry of Science and Technology of the People’s Republic of China identified Venture Workshop as a “state-level technology business incubator.” Venture Workshop had provided incubation services for more than 15,000 entrepreneurs and 175 start-ups, and had invested more than ¥98 million[[1]](#footnote-1) in 69 start-ups. In 2017, Venture Workshop was the largest incubator in Northeast China. However, behind its prosperity, Venture Workshop had faced years of losses. Since its establishment in 2012, its only income source was the fees it charged for renting office space to start-ups. Its standard rates were far lower than market prices, which made it difficult for Venture Workshop to generate enough income. Compared with incubators of the same size, Venture Workshop’s operating costs were not high, and were even considered low. Hu faced the dilemma of how to increase Venture’s Workshop’s income.

The Development of business Incubators in China

Business incubators were “large buildings operated to nurture young companies by providing low-rent space, shared office services and management advice.”[[2]](#footnote-2) A business incubator was structured to provide cost-saving, time-saving, and skill-developing services in a centralized, controlled environment.[[3]](#footnote-3) Start-ups generally faced problems such as shortages of resources and of talent and lack of experience. A business incubator could provide start-ups with many resources and services that would make up for these shortages and thereby increase the success rate of entrepreneurship. The success rate of start-ups that had received incubator services was significantly higher than the success rate of those who had not received such services[[4]](#footnote-4); therefore, the Chinese government vigorously advanced the construction of business incubators in order to develop start-ups.

In 1987, Donghu New Technology Venture Center, the first business incubator in China, was born in Wuhan, Hubei Province. Over the next two decades, the Chinese government paid little attention to the development of business incubators, and so the number of incubators grew slowly. However, after entering the 21st century, China’s economic strength increased, as did the government’s attention to incubators, and the number of incubators grew rapidly (see Exhibit 1).[[5]](#footnote-5)

In September 2014, at the Annual Meeting of the New Champions, Premier Li Keqiang of the State Council of the People’s Republic of China called on governments at all levels to lend their support to mass entrepreneurship and innovation.[[6]](#footnote-6) Subsequently, the State Council promulgated a series of policies to promote the development of incubators and start-ups, including Guiding Opinions on Expanding Makerspace and Promoting Start-ups by the General Public, Opinions on Several Policies and Measures for Vigorously Advancing the Mass Entrepreneurship and Innovation, Guiding Opinions on Accelerating the Development of Supporting Platforms for the Mass Entrepreneurship and Innovation, and Guiding Opinions of the General Office of the State Council on Accelerating the Development of Makerspace and Serving the Transformation and Upgrading of the Real Economy.[[7]](#footnote-7)

From May 2013 to December 2015, at least 24 relevant documents were issued at the central government level to promote the development of incubators. As a result, the number of incubators in China significantly increased (see Exhibit 2). In 2014, China had 1,755 incubators, which by 2015, had grown to 2,536—an increase of 44.5 per cent. In 2016 China had 3,255 incubators—a 28.4 per cent increase over 2015. In 2015, 102,170 start-ups were incubated, and in 2016, 133,266 were incubated—an increase of 30.5 per cent.[[8]](#footnote-8) The number of start-ups in China had also increased dramatically. In 2013, about 5,000 companies were established per day, which increased in 2017 to about 16,000 companies being established per day.[[9]](#footnote-9) This surge in the number of start-ups further increased the demand for incubators. Meanwhile, the development of Chinese incubators and start-ups boosted the transformation and upgrading of China’s economy from being resource-driven to being innovation-driven.

Venture Workshop and its Incubation system

Hu had been investing in start-ups as an individual investor since 2002. In 2011, he came up with the preliminary idea of building a business incubator to provide a full range of services for start-ups. To this end, Hu went to Beijing and Shenzhen many times to learn about how to set up and operate an incubator, and he began to prepare for its establishment. In May 2012, he set up Venture Workshop in Dalian. The new business incubator specialized in incubating and investing in start-ups in the fields of smart hardware, new energy, and new materials.

The rapid development of Venture Workshop was inseparable from its incubation system. Venture Workshop provided (1) office space rental services through the Venture DNA Coffee House, Venture Nursery, and Venture Incubation Base; (2) training and consulting services through collaborations with entrepreneurship tutors; (3) investment and financing services through angel investments from Venture Workshop and other investors or investment institutions; and (4) a communication platform for entrepreneurs, investors (including investment institutions), and entrepreneurship tutors through activities such as “Entrepreneurial ABC,” and “Angels Beside.”

Incubation Chain

The most basic service that Venture Workshop provided was affordable office space rental. According to the demands of the different stages of start-ups—including the idea period, the production period, and the commercialization period—Venture Workshop correspondingly provided office space through the Venture DNA Coffee House, Venture Nursery, and Venture Incubation Base (see Exhibit 3).

Venture DNA Coffee House

The Venture DNA Coffee House was the outpost station from where Venture Workshop could contact start-ups. Its main function was to help entrepreneurs perfect their ideas. Venture DNA Coffee House was about 500 square metres (m2), equipped with office facilities, conference rooms, wi-fi, books, and beverage services. Entrepreneurs with business ideas could use these facilities for free, perfecting their ideas and finding business partners through communicating with investors and entrepreneurship tutors. In 2017, after only five years of development, the Venture DNA Coffee House had already become a gathering place for entrepreneurs and investors in Dalian.

Venture Nursery

The Venture Nursery was the place to turn ideas into products or services. It was dedicated to providing start-ups with a full range of entrepreneurial services and creating a low-threshold, low-risk environment. Through three to six months of incubation, start-ups could transform their ideas into products or services and then set up a company. Covering an area of 3,500 m2, the Venture Nursery provided start-ups with office space for incubation and charged only 10 per cent of the standard market price. In order to solve the problem of capital shortage often encountered by start-ups in the process of transforming ideas into products or services, Venture Nursery offered them ¥20,000–¥30,000 in assistance.

Venture Incubation Base

The Venture Incubation Base was the last station before start-ups graduated from Venture Workshop. In this phase, Venture Workshop worked with external professionals and companies to provide start-ups with free services related to capital, technology, marketing, talent, finance, and training, and then brought their products or services to market. The Venture Incubation Base possessed about 8,000 m2 of office space. For start-ups stationed in the Venture Incubation Base, Venture Workshop charged 50 per cent of the standard market price for the rent. During incubation, and according to the demands of the start-up, a certain amount of angel funds could be invested by Venture Workshop to help start-ups launch their product or service into the market.

Entrepreneurship Tutors

Venture Workshop provided business support services to start-ups through co-operation with entrepreneurship tutors. Venture Workshop had hired 446 entrepreneurship tutors from Dalian Entrepreneurship Service Center. These tutors, which included well-known entrepreneurs from various industries, investors from venture capital firms, and professors from universities and other educational institutions, provided business support services for start-ups.

On the one hand, tutors provided training services to entrepreneurs. These tutors had rich, practical experiences and profound theoretical backgrounds in enterprise structure design, product marketing, human resources management, financial management, and other aspects of enterprise internal management. Training services were provided in the form of either classroom lectures or one-on-one tutoring. On the other hand, these tutors were also experts with rich social networks in their respective fields; as such, start-ups had access to all kinds of resources through their network of tutors, including capital, technology, suppliers, and channel providers.

Investment and Financing Services

Venture Workshop provided investment and financing services to start-ups to solve the biggest problem in the process of starting a business—capital. Venture Workshop could directly invest in start-ups using its own funds. Before 2015, Hu had invested in start-ups as an individual investor; in 2015, Venture Workshop set up a professional company named Dalian Venture Workshop Capital Management Co., Ltd., at which time Venture Workshop began to invest in start-ups as an investment institution. As of December 2017, 69 start-ups had been supported, and more than ¥98 million in angel funds had been invested by Venture Workshop.

Venture Workshop also built bridges for entrepreneurs and investors to help start-ups obtain external capital. In February 2014, Venture Workshop, in conjunction with outside angel investors and institutions, set up Dalian Venture Workshop Investment Club. Venture Workshop would screen start-ups and recommended any exceptional start-ups to this club, at which point club members would choose potential start-ups to invest in. By December 2017, this club had expanded rapidly from the original 77 angel investors and institutions to 425. At the same time, because start-ups required a large amount of capital, and the city of Dalian had a relatively insufficient supply, Venture Workshop would lead any exceptional start-ups to conduct road shows in well-funded cities such as Beijing, Shanghai, and Shenzhen to help them obtain investments. As of December 2017, Venture Workshop had helped start-ups raise more than ¥500 million.

Entrepreneurial Activities

Venture Workshop had organized a series of entrepreneurial activities designed to promote communications between entrepreneurs and investors, entrepreneurs and entrepreneurs, and investors and investors.

Three examples of these entrepreneurial activities were as follows: “Angel Day” was designed by Venture Workshop to build bridges between entrepreneurs and investors. In this activity, four entrepreneurs each conducted a seven-minute project road show, and then four angel investors in different fields commented and decided whether to invest in these projects. “Brainstorm Day” aimed to help entrepreneurs find the right partners. In this activity, thematic seminars were held for different industries, and the participants were divided into several groups to discuss the theme in an effort to match participants to appropriate business partners. “Consulting Day” was committed to building a platform for communication between entrepreneurs and tutors. In this activity, entrepreneurship tutors systematically shared entrepreneurship-related domain knowledge in the form of classroom lectures. Then, according to entrepreneurs’ own problems encountered in the process of starting a business, tutors would identify the problem, share their own experiences, and offer technical guidance. These three activities were characteristic of Venture Workshop and formed the basis of its “Entrepreneurial ABC” series. As of December 2017, these activities had been held 168 times.

The Dalian Venture Workshop Investment Club also regularly organized activities to promote communication and exchange between investors. Relying on the investors in this club, Venture Workshop held the activity “Angels Beside,” which aimed to help entrepreneurs obtain personal one-on-one guidance from angel investors. As of December 2017, “Angels Beside” had been held 49 times. Venture Workshop also held other activities to promote communication between entrepreneurs and investors, such as the “Product Managers Forum,” held 78 times; “Stuff and Nonsense,” held 33 times; and “Going to Universities,” held 89 times.

start-ups incubated by venture Workshop

Dalian CZUR (Continue Zeal until Real) Technology Co., Ltd.

Dalian CZUR Technology Co., Ltd. (CZUR) was founded in Dalian in 2013. Its main areas of focus were the research, development, production, and sales of fast smart-scanning equipment. This smart equipment could quickly scan books or bound documents without disassembling them. In January 2014, CZUR entered the Venture Nursery to receive incubation from Venture Workshop. Venture Workshop provided ¥30,000 to enable CZUR to make its prototype of the fast smart scanner. After the prototype was completed, CZUR entered the Venture Incubation Base in July 2014 and obtained ¥1,000,000 from Venture Workshop to promote the scanner and take it to market. Subsequently, Venture Workshop also helped CZUR find the proper equipment manufacturers in Shenzhen. In 2016 and 2017, Venture Workshop helped CZUR obtain two rounds of angel investment and a total of ¥10 million from other investors.

Kang Zhou, the founder of CZUR, said, “When CZUR was just established, Venture Workshop provided us with office space and capital, and also gave us help in the aspects of product development, product promotion, etc. Without Venture Workshop, CZUR could not be as successful as it is now.” And there were reasons why Venture Workshop chose CZUR to be an incubated start-up. As Hu said:

The fast smart scanner of CZUR could really solve the problem of scanning books and bound documents, which greatly improved the efficiency of scanning. This product could be sold to organizations in need of book-scanning services, such as libraries, courts, financial companies, etc. I believe there is always market potential for products that could really address customers’ pain points. Besides, Zhou has many entrepreneurial experiences, which make him good at business management, personnel recruitment, marketing, investment management, and so on. At the same time, Zhou also has excellent communication skills, bringing CZUR many high[ly] qualified talents with a wide range of abilities. As a whole, CZUR’s products have huge market potential, and its team is fully capable of completing this product. So I choose CZUR to be an incubated start-up and give it all the resources and supports it needs.

Dalian New World Media Co., Ltd.

Dalian New World Media Co., Ltd. (New World) developed a series of early education products, including books, cards, and educational toys. Through augmented-reality technology, these products could display voice, video, and animation on mobile terminals (e.g., tablet computers and smartphones). These products provided customers with richer experiences than traditional early education products did.

In 2014, New World suffered from a shortage of capital, and product development therefore stopped. Consequently, Lianghua Zhao, chief executive operator of New World, took part in Venture Workshop’s “Angel Day” activity to raise funds. The four investors who participated in “Angel Day” thought that New World’s products were very innovative and interesting and that they would surely win children’s affections. The investors also felt that the outstanding technical and management abilities of Zhao and his team guaranteed product development and marketing. Eventually, Hu, along with the other three investors, invested ¥10 million in New World to help it address its financial problem. In addition, Venture Workshop also provided management consulting, marketing promotion, and other incubation services to New World. In the last quarter of 2017, these products had a turnover of up to ¥200 million.

Dalian Flextail Technology Co., Ltd.

Dalian Flextail Technology Co., Ltd. (Flextail) designed, developed, and promoted original outdoor equipment. Flextail’s core product was a lightweight pump for inflatable outdoor air cushions. This pump was less than two-thirds the size of a soda can and about one-sixth the weight of an ordinary pump. By the end of December 2017, Flextail’s sales had exceeded ¥2,000,000. In August 2015, Tao Li, founder of Flextail, took part in Venture Workshops’ “Angel Day” activity. After the road show, Hu thought that this product’s target customer was clear and that the pump could improve on the drawbacks that ordinary, heavy pumps posed to outdoor travellers. Moreover, Li and his team had finished the product prototype. However, the entire Flextail team, including Li, was composed of college students; although they could develop innovative products, they still lacked the experience of management and product promotion. As such, Venture Workshop provided an angel investment of ¥300,000, invited Flextail to enter the Venture Incubator Base, and provided comprehensive capital, technology, and product marketing services.

venture workshop’s dilemma

Venture Workshop managed approximately 12,000 m2 of office space. It had also hired 446 entrepreneurship tutors and served more than 15,000 entrepreneurs. Venture Workshop had incubated over 170 start-ups, invested in 69 start-ups, and provided more than ¥98 million to incubated start-ups. And Venture Workshop had also helped start-ups raise more than ¥500 million.

Hu was very proud of the success Venture Workshop had achieved, but he always worried about its continual losses that stemmed from insufficient income (see Exhibit 4).

Venture Workshop’s only source of income was from rental fees for office space that it procured from Venture Nursery and Venture Incubation Base. But the fees it charged were already far lower than the standard market price. Because operating costs were difficult to reduce, Hu was considering how to increase Venture Workshop’s income and avoid losing money in successive years.

EXHIBIT 1: the number of Chinese incubators (2001–2016)

Source: Chinatorch, “2016 Torch Statistics Manual (Science and Technology Business Incubator and Makerspace Part),” [in Chinese], chinatorch.gov.cn, November 6, 2017, accessed June 21, 2018, www.chinatorch.gov.cn/fhq/tjnb/201711/92d7e2003f87421aade583186a2c2f9b.shtml.

EXHIBIT 2: the percentage growth rate of Incubators in China (2001–2016)

Source: Chinatorch, “2016 Torch Statistics Manual (Science and Technology Business Incubator and Makerspace Part),” [in Chinese], chinatorch.gov.cn, November 6, 2017, accessed June 21, 2018, www.chinatorch.gov.cn/fhq/tjnb/201711/92d7e2003f87421aade583186a2c2f9b.shtml.

EXHIBIT 3: Incubation chain of dalian venture Workshop technology service co., ltd.

|  |  |  |  |
| --- | --- | --- | --- |
| **Name** | **Venture DNA Coffee House** | **Venture Nursery** | **Venture Incubation Base** |
| **Total Area** | 500 square meters | 3,500 square meters | 8,000 square meters |
| **Fees** | Free of charge | 10% of the market price | 50% of the market price |
| **Function** | Screening entrepreneurial ideas | Transforming ideas into products or services | Promoting products or services to the market |

Source: Created by the case authors based on a discussion with Jianfeng Hu, chairman, Dalian Venture Workshop Technology Service Co., Ltd., on March 2, 2018.

EXHIBIT 4: Profit statistics of DALIAN venture Workshop (2013–2017) (in ¥)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Income** | 605,256 | 1,100,540 | 1,806,508 | 2,507,080 | 3,350,059 |
| **Costs** | 1,985,429 | 2,421,985 | 3,105,420 | 3,010,783 | 3,989,451 |
| **Profit** | −1,380,173 | ­–1,321,445 | –1,298,912 | –503,703 | –639,392 |

Note: ¥ = CNY = Chinese yuan; US$1 = ¥6.62 on June 30, 2018. Because Venture Workshop was established in May 2012, the data for 2012 represent less than one year of operation; as such, data for 2012 have not been included.

Source: Created by authors using data provided by Jianfeng Hu.

1. ¥ = CNY = Chinese yuan; US$1 = ¥6.62 on June 30, 2018. [↑](#footnote-ref-1)
2. James R. Lumpkin and R. Duane Ireland, “Screening Practices of New Business Incubators: The Evaluation of Critical Success Factors,” *American Journal of Small* *Business* 12, no. 4 (Spring 1988): 59–81. [↑](#footnote-ref-2)
3. David N. Allen and Syedur Rahman, “Small Business Incubators: A Positive Environment for Entrepreneurship,” *Journal of Small Business Management* 23, no. 3 (July 1985): 12. [↑](#footnote-ref-3)
4. [Rosa Caiazza](https://www.emeraldinsight.com/author/Caiazza%2C+Rosa), “Benchmarking of Business Incubators,” *Benchmarking: An International* *Journal* 21, no. 6 (2014): 1062–1069. [↑](#footnote-ref-4)
5. Chinatorch, “2016 Torch Statistics Manual (Science and Technology Business Incubator and Makerspace Part),” [in Chinese], chinatorch.gov.cn, November 6, 2017, accessed June 21, 2018, www.chinatorch.gov.cn/fhq/tjnb/201711/

   92d7e2003f87421aade583186a2c2f9b.shtml. [↑](#footnote-ref-5)
6. China Government, “Making Solid Progress in Implementing the Strategy of Mass Entrepreneurship and Innovation,” [in Chinese], www.gov.cn, September 21, 2015, accessed December 6, 2018, www.gov.cn/xinwen/2015-09/21/content\_2935982.htm. [↑](#footnote-ref-6)
7. China Government, “Documents of the State Council of the People’s Republic of China,” [in Chinese], www.gov.cn, September 18, 2018, accessed December 6, 2018, www.gov.cn/zhengce/zhuti/shuangchuang/gwy.htm. [↑](#footnote-ref-7)
8. Chinatorch, op. cit. [↑](#footnote-ref-8)
9. China Government, “The Report on the Work of the Government,” [in Chinese], www.gov.cn, March 5, 2018, accessed June 20, 2018, www.gov.cn/zhuanti/2018lh/2018zfgzbg/zfgzbg.htm. [↑](#footnote-ref-9)