

Guidelines for creating a business incubator

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1. Concept of a business incubator and its types

Business incubator — an organization that aims is to support new small enterprises and entrepreneurs who, due to lack of financial resources, lack of experience and (or) qualifications, are not able to implement their projects outside the business incubator. According to the international classification, business incubators are divided into university and non-university (traditional) models.

Traditional services of a business incubator services:

- provision of a working space equipped with furniture, computers, communications and office equipment, on preferential rental terms;
- provision of common areas (meeting rooms, rooms for meetings and trainings, kitchen space, etc.);
- provision of paid, preferential or free basic services, such as secretarial services, administration, accounting and management accounting, Internet access;
- project expertise, assistance in writing a business plan;
- consulting services on various aspects of business activity;
- involvement of external specialists and mentors, professional development and training services (thematic seminars and trainings);
- services for the protection and valuation of intellectual property, licensing and certification of innovative products;
- assistance in obtaining bank loans, providing guarantees for banks, attracting venture funds and business angels;
- “Packaging” of projects for investors: design and preparation of presentation materials, organization of exhibitions and presentations (pitches) of projects and other services.

According to the methodology of the MGIMO Innovation and Business Incubation Development Fund (FIBI), the *general characteristics* of a business incubator should include the area, number of staff, as well as industry specialization and the specificities of client work (for example, participation in the authorized capital). In addition, the general characteristics of the business incubator include a number of indicators that reflect the specificities of its clients: average age and degree of development of projects at the time they enter the business incubation program, average income and number of resident staff members, as well as release criteria from the business incubation program and the average annual number of graduate companies.

The following *main types* of business incubators can be distinguished:

- Business incubator at the universities
- Business Incubator at Technoparks
- State business incubators
- Private business incubators
- Virtual business incubators

The listed types of business incubators differ from each other mainly in two aspects: (1) source of financing and (2) structure and legal regulation.

According to the research of the Foundation for the Development of Innovations and Business Incubation, the majority of business incubators in Russia were established by state authorities or universities. Accordingly, the model often involves targeted funding from the founders.

Russian BIs primarily work with small businesses, often with complex scalable start-ups. One of the first difficulties that BIs face is recruiting a critical mass of start-ups to interest corporate partners, investors, etc. To create a stable flow of projects, incubators have to coordinate with various public organizations, with local government, as well as with other actors of the innovation ecosystem to stimulate entrepreneurial activity in general.

It is worth paying attention to aspects that determine the *effectiveness* of an incubator: the status of investors and partners; volume of attracted investments;

number and success of projects released. The main criterion is nevertheless the viability of the projects issued by the business incubator. The implementation of the idea is only the beginning, the business should stay afloat and face many underwater stones. In many respects, the sustainable development and scaling of a business depends on what base it was possible to lay in the business during the incubation process.

Founded in 2013, the 1776 business incubator has already produced over 60 companies. The business incubator monetization model is rental, but it is also subsidized by the state. This incubator has many locations. The main stakeholder of 1776 is the US Parliament, which means that the incubator works only with startups in areas regulated by law: medicine, transport, health, education, etc. Often teams with innovative solutions come to the incubator to gain access to Congress and prepare the legislative ground for the project to enter the market.

One of the most common business incubator models in the world is a university business incubator. What is the advantage of creating a business incubator with universities? The fact is that scientific developments, which can become the core of an innovative company, are usually carried out in research laboratories, universities, scientific collaborators. It is in the educational and scientific complexes that the high potential of ideas and scientific developments has developed, for the implementation of which often requires organizational, legal and financial support.

Squared (Great Britain) is a university business incubator founded in 2002. With its help, more than 1,000 companies have already attracted over \$1.5 billion in investments. Squared's current capitalization is in the billions of dollars. The monetization model of this business incubator is rental - startups at the entrance buy either virtual residency or jobs (\$200 per month for a job).

The main feature of this university BI is that it was established immediately by five universities and is represented in each of them, which allows you to get quick access to university resource bases. Networking also allows you to more effectively attract residents, partners and investors.

Another feature of this BI is that they are a closed-type incubator and accept only those scientific developments that appear inside the universities themselves as residents. According to Squared, 95% of emerging companies survive, which is a high rate. This is largely due to the fact that before BI accepts the team to become residents, it finds the company that needs the development the team proposes, with the further sale of company's intellectual property, team and other project resources.

2. Current state of the business incubation market in Russia and the world

More than 75% of business incubators in the world are not-for-profit organizations and as a rule do not participate in the authorized capital of their residents. As in world practice, *mixed incubators* (58.9%) with residents from various industries prevail in the total number of Russian business incubators. The most comfortable areas for starting a business are: services, trade, IT, logistics, catering. Starting from 2015-16 there is a shift in priorities towards the creation of specialized biotechnology in such fields as medicine, IT, instrumentation.

The following is a typical portrait of a Russian business incubator:

- Founded in 2009
- Total area of 2572 sq.m., of which 59% (1518 sq.m.) reserved for residents
- 15 employees
- Without pronounced industry specialization
- 18 resident students and 3 affiliated companies go through a business incubation programme at a time
- 9 residents and 3 affiliated companies graduate annually from the business incubator
- Average annual budget of up to 5 million RUB, of which 40% provided from targeted budget financing and 29% from rent

The average number of full-time positions of business incubators is 15 people, of which 7 were employees of the administration, one each in accounting, legal service and protocol, and the remaining 5 positions in other areas of activity. It is worth

noting that the number of external specialists annually attracted (consultants, mentors, service providers, etc.) exceeds the number of staff by almost 2 times and averages 27 people.

In addition to the industry specialization of business incubators, their social orientation should also be noted. The vast majority of BIs are focused on supporting small business representatives (80.4%), and more than half - on university students (58.9%) and on youth (57.1%).

An integral feature of the business incubator is the characteristic of its customers. The business incubation program mainly accepts low-level projects that are at the idea stage and without a legally formed company.

The average number of clients and graduates of business incubators, depending on their status, is:

- 18 residents
- 3 affiliated companies
- 9 graduates (both from the number of residents and from the number of affiliated companies)
- 4 anchor tenants (including graduates who became anchor tenants and anchor tenants who did not participate in business incubation programmes)

The number of employees of one resident of a business incubator is 5-15 people, one anchor tenant is 10-20 people, and one graduate is 49 people. As noted earlier, an average of 9 residents and 3 affiliated companies are released annually from a business incubator.

A client's graduation from a business incubation programme usually occurs for two reasons:

- The client company participated in the programme the maximum allowable time (usually 3 years)
- Needs of the company in the workspace exceed the maximum permissible according to the program

To evaluate the activities of BI, various *performance indicators* are used, including financial indicators of the business incubator and its resident companies, the number of projects issued and the jobs created by them, and the amount of taxes paid. In addition, such indicators as the level of utilization of the business incubator space, the survival rate of resident companies, the volume of attracted investments, the number of intellectual property objects and several others are taken into account. The overwhelming majority of BIs consider the most important goal to be profit from technological developments, stimulating the development of business and industry, improving the entrepreneurial climate in their region, and supporting export-oriented companies.

The *average space utilization* allocated for residents of business incubators is more than 70% in Russia. More than half of the companies-residents of business incubators survive for two years from the moment of production in almost 60% of incubators.

The range of services provided by business incubators is extremely wide: from providing rental space to financing projects of their clients. The set of services provided by each specific subject is determined by the specifics of each business incubator, including the duration of its existence, industry affiliation, personal characteristics of the management and many other factors. More than half of business incubators called assistance the most popular service at the initial stage of the project: writing a business plan, developing a business concept, assisting in the commercialization of technologies, providing administrative and office services, conducting trainings and staff development, helping finding partners and providing access to high-speed Internet.

Modern business incubators add new services to the ones they already provide, including:

- paid services, including entrepreneurship courses and services for large businesses;
- expanding the range of technological services: video conferencing, crowdfunding platform services, software testing, etc .;

- creation of a multifunctional center for business;
- search for partners abroad, including accelerators;
- evaluation of start-ups by the Expert Council;
- preparation and packaging of projects for entry into Russian and international accelerators (IIDF, SparkLabs, 500 Startups, etc.);
- structuring of investment transactions;
- customer development to order;
- conducting a technology audit;
- valuation of business and property;
- merchandising expertise;
- services for the export-oriented startups to foreign markets (softlanding);
- timely legal assistance;
- provision of coworking services;
- franchising services;
- microfinance;
- provision of licensed types of educational services;
- assistance in organizing and optimizing the production process, etc.

BI is usually led by people with extensive experience in supporting SMEs, as well as their own business experience. Over 40% of the leaders of business incubators in the past created companies and more than 30% own their own business today. The heads of business incubators spend most of their time on providing business development services to residents and affiliated customers (21%). This allows us to conclude that in many business incubators, managers directly participate in educational trainings as speakers and mentors, actively interacting with residents and clients. Expanding the network of contacts and partners also takes a lot of time from directors and managers of business incubators - more than 17% of their time is spent by the manager on networking. About 15% of the time is spent interacting with authorities, which is a particularly important aspect for government business incubators. About 11-12% of the manager's time is spent on infrastructure management

and fundraising, and less than 10% on articles such as customer acquisition, staff training, accounting, and others.

The following is a generalized portrait of the modern leader of a Russian business incubator:

- Work experience in the field of business incubation 9 years
- Has his own business or was an entrepreneur in the past
- Spends most of his time working on providing business development services to residents and affiliated clients
- Participates in educational training as a speaker and mentor

Most business incubators have a *Board of Trustees*. Most often, the size of the council is from 6 to 7 people. It mainly consists of experienced entrepreneurs, representatives of the regional department for economic development, top managers of large organizations, representatives of regional governments and financial circles. Among the main issues that the Board of Trustees is considering:

- evaluation of the effectiveness and improvement of the business incubator;
- definition of a business incubator development strategy;
- coordination of the interaction of the business incubator with state authorities;
- supervision of financial and economic activities;
- support for the competition of business projects, etc.

The main *source of financing* for state business incubators is local government or higher education institutions (for university BI). Also, business incubators can receive funding from non-profit organizations, private sponsors and investors, or commercial organizations.

Thus, the main source of funds is targeted budget financing, income from leased space, services provided, participation in grants, investment income (royalties, dividends). Salaries and employee benefits account for more than half of all business incubator expenses. 23% and 16%, respectively, in the structure of total expenses are spent on infrastructure costs and expenses under the main business incubation programme.

3. Methodology for creating a business incubator using the MGIMO Business Incubator as an example

The first university business incubator in Russia was the Center for Start-up Entrepreneurship “MGIMO Business Incubator”. Here we consider the stages of creating a business incubator using the example of this innovation centre.

Mission

At the first stage, it is necessary to determine the *mission*. In a generalized sense, a business incubator is an organization whose main mission is to improve the economic situation in a particular region. The main process of business incubation is to increase the survival of resident companies. The focus of such structures is focused on the early stages of innovative companies.

The mission of a university BI can be formulated in the following way: *Support for student entrepreneurship and the development of business ties within the MGIMO brand* (MGIMO Business Incubator). The vision of the mission may vary depending on the tasks that the university or other founders set for the incubator.

Team and structure

Using the example of “MGIMO Business Incubator”, let us consider what features can be in the structure and team of a university incubator.

The main feature of the structure of BI MGIMO is that it is an internal structural unit of the university. A number of restrictions follow from this, including financial and organizational ones. BI MGIMO also has its own premises, equipped with working places for incubator residents and suitable for various events.

However, there are many “pluses” in the fact that BI MGIMO is a structural unit of the university. Key resources of a university business incubator include:

- image of an educational institution;
- scientific potential and intellectual development of the university;
- laboratory research base;
- location of the business incubator and classroom fund of the university

- lack of need for the maintenance of auxiliary personnel (accounting, business department, etc.)

The key staff units of the business incubator are the director, educational programme manager, resident manager, PR manager, event manager, and administrator. One employee can fulfil several roles, taking into account competencies and loading.

The BI team cannot contain all the necessary competencies for the sustainable development of start-ups. That is why it is very important for incubators to form a pool of experts, mentors and industry specialists who can provide residents with comprehensive knowledge on various aspects of business development. Accordingly, one of the main tasks of any BI is to be the place (“hub”) where entrepreneurs can get the necessary expertise, partners and contacts.

Monetization Model

The work of any incubator includes three main business processes: (1) attracting potential resident companies; (2) the development of residents; (3) "sale" of graduates.

Based on this, we can distinguish the following revenue streams:

- payment for services and jobs;
- grants;
- income from participation in the activities of issued companies.

Plug and Play is one of the largest private business incubators in Silicon Valley, founded in 2006. The main incubator monetization model is rental, they did not take shares even from their largest residents, such as Dropbox, SoundHound or PayPal. The rental rate in BI is high - \$ 500 per month for the workplace. An additional way to incubator monetization is to sell your own franchise, so Plug and Play has more than 20 locations. Residents of Plug and Play totaled \$ 3.5 billion in investments.

Also among sources of income are often found:

- co-financing from corporations;
- hosting events;

- provision of consulting legal and accounting services;
- conducting educational programs for an external audience;
- payment for services to attract external financing (“payment for success”).

In the case of affiliated business incubators (at universities / technology parks, etc.), there may be other conditions for monetization. For example, BI MGIMO is a closed-type incubator (it works only with MGIMO students), and its activities are fully funded by the university. Services to residents are provided free of charge, as an additional bonus to specialized education.

Programme plan

One of the main conditions for an effective incubation programme is the quality of team selection. Usually competitive selection takes place in the following sequence:

- Formation of an incoming project funnel;
- Acceptance of applications from potential residents;
- Review of applications, interviews, elevator-pitches;

Further work with residents is divided into the following blocks:

- Training programme for residents;
- Detailed study of the business model
- Mentoring
- Internal pitches, expert and investor
- Commercialization, scaling
- Release from a business incubator

The *incubation programme* may vary depending on the specifics of the incubator. The purpose of the training program is to either provide a clear plan for the creation and development of a business, or to ensure that the selected business model is not viable. BI MGIMO recommends that university incubators build the training program as follows, adjusting it depending on their own experience and industry affiliation of resident companies:

- Canvas business model

- Modern marketing technologies for start-ups
- Business modeling
- Financial modeling
- Social Media Marketing
- Selling site
- Features of accounting in a small business
- Rent for small businesses
- Packing a project for an investor
- Crowdfunding
- Intellectual property protection
- Presentation art
- Meetings with successful entrepreneurs and industry professionals

In addition to the main activities in the framework of work with residents, the MGIMO BI carries out the following programs for various target audiences.

Целевые группы Программы	Студенты МГИМО	Резиденты инкубаторов и технопарков - партнеров БИ МГИМО	Инициаторы -нерезиденты инкубаторов и технопарков	Инкубаторы и технопарки – партнеры БИ МГИМО	Школьники
Инкубационная программа для студентов МГИМО	•				
Кросс-дисциплинарная инкубационная программа	•	•	•	•	

Программа «Кейс-соревнование»	•	•		•	
Сертификационная программа МГИМО-NBIA				•	
Международная программа по трансферту технологий и бизнеса	•	•	•	•	
Преинкубационная программа					•
Программа информационной и рекламной поддержки	•	•	•	•	•
Российско-американский форум по бизнес-инкубаторству	•	•	•	•	

These programmes complement the core and are based on the principle of synergy of resources. Their presence is optional, but they allow you to promote the main business incubation program and the brand of the business incubator / university, attract a new audience, expand relations with expert communities, and sometimes serve as an additional source of income.

Conclusion

Thus, when creating a business incubator, it is extremely important to focus on the best practices in this field, however, it is recommended to start from basics -

the programme of business incubation, which allows the audience to get general idea about the features of doing business in the corresponding region. Business incubators often fulfil a social function (“social elevators” for companies), therefore it is extremely important to decide on the main source of financing from the beginning. The size of the incubator staff, the size of the incubation program, and the rules for admitting new residents (at what stage of the development of the project) will depend on financing source whether there is a restriction on industries, etc.