

LESSONS ON VIRTUAL BUSINESS INCUBATION SERVICES



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About the authors



The report has been developed by Triodos Facet. Triodos Facet is a consultancy company specialised in the promotion and development of sustainable micro, small and medium-sized enterprises, predominantly in developing countries.

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The cover design was by Samhir Vasdev.



Foreword

An often cited advantage of conventional business incubation (with incubatees operating within the confines of a physical building) is that physical interaction is a powerful tool for building knowledge and networks among starting entrepreneurs. However, physical incubation also has some disadvantages. It is relatively capital-intensive and outreach is limited by the available office space and the start-ups operating within the geographical area. What's more, the physical space offered by the incubator may not equally suit the needs of all start-up enterprises.

Virtual business incubators, on the other hand, provide services beyond the confines of a physical building. This allows a company to use the services of an incubator, without actually being located at the incubator site, for instance through extension workers, online tools and off-site advisory services. They can also serve a much larger number of companies over an extended geographical area.

However, virtual business incubation is a tool in search of a business model. For physical incubators, a major source of income is rent for business premises, but this form of income is not available to virtual business incubators. A number of models are emerging, categorised in this report as hand-holders, network boosters and seed capital providers. But their viability and effectiveness is not yet well understood.

This study on “Lessons learned from virtual business incubation services” provides new insight into the potential of virtual business incubation tools and services. This analytical study is part of a broader study carried out by infoDev that also includes pilot programmes in Vietnam, East Africa and the Caribbean and was funded by the Ministry for Foreign Affairs of Finland, the UK Department for International Development (DfID) and the Canadian International Development Agency (CIDA). Donors working together on studies that combine analytical and operational elements is one of the hallmarks of *infoDev*'s work and this study is a good example of that. It emerges from a Public Private Partnership on Creating Sustainable Businesses in the Knowledge Economy, carried out jointly by Finland, *infoDev* and Nokia. *infoDev* expresses its gratitude to all of its donors and partners for their contributions to this work.

Valerie D'Costa,
infoDev Programme Manager

List of abbreviations

BDS	Business development services
EU	European Union
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFI	International Financial Institutions
IP	Internet Protocol
IPO	Initial Public Offering
ISP	Internet Service Provider
IT	Information Technology
NGO	Non-Governmental Organisation
PC	Personal Computer
R&D	Research and Development
SME	Small and Medium Sized Enterprises
SMS	Short Message Service
VBI	Virtual Business Incubation
VBIs	Virtual Business Incubators
VC	Venture Capital
VoIP	Voice over IP

All dollar amounts are US dollars unless otherwise indicated.

Executive summary

This report on lessons learned from virtual business incubation is to provide insight into the potential of virtual incubation services and tools and to improve the cost-effectiveness and outreach of business incubation services. These lessons can be used by new business incubators (including virtual ones), as well as existing conventional and/or virtual business incubators.

First, we clarify what we mean by the term “virtual”.

What is virtual business incubation (VBI)?

For the purposes of this study we broaden the definition to capture the full range of business incubation tools and services that are not (necessarily) provided to clients residing inside the facilities of a business incubator. As a form of ***shorthand***, in this report we use the term “virtual” in the sense of *location-independent*.

We distinguish virtual service *concepts* from virtual *tools*:

- **Virtual service concept** refers to a service that is offered to non-resident incubatees.
- **Virtual tool:** a virtual tool is a way of delivering a service to a dispersed group of users (using ICT-based or other means), where the service provider and service recipient are not in the same physical location.

Service concepts

This report identifies three groups or types of **service concepts**:

- Incubators offering mainly business development services: “***hand-holders***”
- Networking focused business incubators: “***network boosters***”
- Finance-focused business incubators: “***seed capital providers***”.

“Hand-holders” offer an incubation service concept that emphasises training and mentoring, as opposed to access to finance or networking, even though these are typically also parts of their service package. They address the challenges entrepreneurs face in developing their entrepreneurial capacities to be able to get their business off the ground.

Typically, VBIs that fit this description are conventional business incubators that have expanded their services to non-resident/remote clients. See *examples of these in the Annexes: 3ie, ParqueTec and Softstart BTI*.

“Network boosters” are incubators whose main aim is to bring entrepreneurs, investors, volunteers, and service providers together and help them to provide added value to each other’s businesses, rather than focusing on delivering services themselves. In this case the incubator is a *facilitator*.

There are two types of network boosters: the “business-plan-competition-plus” (BPC+) network boosters and the “2.0” network boosters. The first group are in effect “advanced” business plan competitions (BPCs), where the incubators spend a great deal of energy on launching BPCs, but continue to service and support a selected

number of BPC participants *after* the competition. Examples include Endeavor and the BiD network.

A second group: the “2.0 network boosters”, do not organise competitions, but rather focus on bringing people together, typically by hosting regular events. Examples include the HUB and Mobile Monday.

Thirdly, we distinguish a group of incubators that focus on providing seed investment capital, combined with (short or long-term) mentoring support. Again, we found two types of seed capital providers, namely those with a commercial mission (often called ‘venture accelerators’) and those with a social mission. Social seed capital providers typically combine provision of capital (grants, loans and equity) with a long-term mentoring support programme. Venture accelerators typically provide a short-term programme (3 months) of training, mentoring and networking support designed to prepare companies for external finance. Examples included in the research are Parquetec, Villgro, Y-combinator and Founder Institute.

Costs and revenues

Financially self-sustaining VBIs in our sample would be organisations with a revenue model that is based on (up-front) payments from the members/incubatees, and an additional income stream that is not related to the core incubation process (e.g. for renting out buildings and facilities for events and providing consultancy services).

The costs of service delivery per incubatee vary, depending on the nature of the services as well as on the business ecosystem and target group. Providing incubation services to off-site clients is not necessarily a more affordable form of incubation that reaches a larger number of enterprises at lower cost. The main cost item for the incubators in our sample is staffing costs. For incubators that have a rural population of incubatees, travel costs are considerable and this takes second place.

Expenses per incubated company are generally lower in privately funded business incubators. These commercial variants, such as the HUB, offer a much more focused service package, and are very effective in mobilising voluntary contributions. They generally also charge a higher admission/membership fee to their incubatees.

Do virtual services offer new opportunities for revenue generation? Looking at the cases researched, we found that a number of VBIs are indeed generating significant revenues. Revenue models purely based on online service provision, however, were not identified. If incubatees pay a fee, it is for a service that is provided human-to-human, or for computer and internet use. Access to websites, e.g. via an online matchmaking tool or an e-learning programme, is not generating significant revenues.

Sources of revenue for virtual business incubators include admission and/or membership fees, income from commercial activities ‘on the side’, as well as royalties on sales and equity.

In terms of royalties on sales, these vary from 2.5 to 10 percent of the gross value of sales generated by the incubatee, over a period of several years. Collecting royalties on sales is challenging, implying that the incubator needs to systematically monitor the performance of the business.

Issuing equity is being explored by several incubators in the sample, which have taken (minority) equity stakes in their incubatees. However, none have received cash for equity so far. There are various reasons for this.

Only the “venture accelerators” have managed to generate revenues by taking an equity stake in the businesses they incubate. However, they typically target ICT start-ups in a business environment in which venture capital is available. Product and business model development can be as short as 3 months.

Because of the focus on (equity) finance in the debate on business incubation, it is important to note that many entrepreneurs prefer to rely on retained earnings rather than external finance for growth, because they want to grow at their own pace, and do not want to be accountable to outside investors.

Core competencies

The three types of VBIs require different core skills, because of the variation in the way they provide services.

Hand-holders define and implement a structured incubation process, usually with several stages of business incubation. The core skills of these incubators include business training and mentoring, defining and managing the incubation process and fund raising and reporting to donors/government.

Network boosters’ success depends on their ability to attract and select a mix of incubatees or members by building the brand of the organisation and entering into partnerships with other initiatives. Once the network is established, a network booster needs skilled hosts (facilitators) to keep the network alive and mobilise and channel the contributions of the members.

Seed capital providers’ success is based on the incubators’ ability to select high-potential entrepreneurs, building a strong brand name and reputation and accessing and mobilising the “elite” of entrepreneurs and investors. A number of seed capital providers have specific sector knowledge, which allows them to further improve the selection process and provide more targeted mentoring, training and network building services to their incubatees.

The motivation of staff and volunteers differs per type of business incubator, but also per business environment. Staff and consultants at most hand-holders and social seed capital providers provide services on a fixed salary basis. Nevertheless, there are hand-holders that are exploring new incentive schemes, the most common of which is a bonus based on royalties on sales by the incubatees. Staff and volunteers at network boosters are often self-motivated; they identify with the mission of the incubator, seeing future career opportunities, or simply have a feeling of personal well-being.

The table below summarises the main findings related to each service concept.

Item	Hand-holders	Network boosters	Seed capital providers
Service focus	Business development services (training, mentoring)	Access to business networks	Access to business finance
Target group(s)	Special high-potential target groups	High-potential, Educated	High-potential, ICT or 'Social enterprise'
Outreach	10-20 business per year	100-300 businesses per network /competition	15-30 per season
Service provision	Service provider(s)	Facilitator	Facilitators
Funding	Donor/Govt/Univ/NGO	Foundations, commercial	Commercial
Typical main revenue model	Sponsorships, additional consultancy projects	Sponsors, membership fees	Admission fee, equity

Virtual business incubation (VBI) tools

To be able to learn from these VBI service concepts, and get a better idea of whether and how elements of the concepts can be replicated, we need a better understanding of how services are delivered.

VBI services can be delivered in six ways: on-site, through a website, through 1-on-1 ICT-based exchange, through virtual communities and through an online crowd.



On-site: Group training, workshops, presentations and events to which incubatees are invited (physical locations).



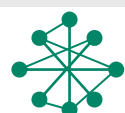
E-learning: Providing online training materials and information.



1-on-1 ICT exchange: E-mail, SMS, phone, Skype, MSN and online collaboration tools.



Online recruitment: Recruiting incubatees, mentors, interns, investors and 'matching' them to add business value.



Virtual communities: (virtual) communities and online platforms where entrepreneurs meet, exchange knowledge and information, and engage in collaboration.



Mobilising the online crowd: Crowdsourcing and crowd funding

On site:**On-site virtual services**

Delivering BDS to non-resident clients can expand the geographical coverage of an incubator, increase its cost-effective (if facilities are readily available), expose entrepreneur to another business environment, and allow for exchange between entrepreneurs from different backgrounds and regions.

Lessons

- ☉ If an incubator works with incubatees in a remote location, it needs a **local partner** to mobilise local knowledge, networks and reputation in that area.
- ☉ In the start-up phase, entrepreneurs greatly value interacting with and leaning from peers. Incubators need to actively facilitate this interaction.
- ☉ If incubatees and incubator staff need to **travel**, this can be **costly** and time-consuming.
- ☉ Interacting with entrepreneurs without visiting their workplace is often less effective.

Websites and E-learning:**Websites and E-learning**

Websites can provide information or online training materials. This can expand the outreach and geographical coverage of an incubator and it has the benefit that incubatees can learn/look for information at their own pace, whenever and wherever it is convenient.

Lessons

- ☉ The potential of E-learning depends on the **skills** and access to **tools** of incubatees, the training **topic** and the level of responsibility or **motivation** among the incubatees.
- ☉ If training is related to changing the habits, motivation or mind-set of the trainee, face-to-face training is far more effective
- ☉ For a business incubator, it is **costly** to develop quality e-Learning training modules and materials. Cooperation with existing e-learning portals is recommended.
- ☉ Information made available through the Internet (e.g. on a website) **needs to be kept up to date**.
- ☉ Social media tools can be added to a site at little or no cost to help enhance the **brand identity** of the incubator, but an incubator will need to allocate time and resources to monitoring user content, frequently post new announcements and reply to requests.

1-on-1 interaction with ICT**1-on-1 interaction with ICT**

Mentoring or monitoring incubatees using ICT (phone, email and Skype) can save time and (travel) costs and it is a fast way of communication, which can be important in some situations.

Lessons:

- ☉ Use of ICT in communication between VBIs and incubatees depends on the **complexity of the issue** that is being addressed. Complex issues need to be handled in face-to-face contact, were simple tasks can be performed through ICT.
- ☉ The success of ICT-based communication also depends on building a **relationship of trust** between the incubatee and the service provider. Such relationships do not develop overnight and often require face-to-face contact, and/or a business incubator with a strong reputation.
- ☉ For specific advice that does not involve disclosing too much about the background of the entrepreneur and the business, ICT-based advice is considered to be **fast and efficient**.
- ☉ **Video Skype** in another location (outside the incubatee office) can help to ensure that the incubatee makes him or herself fully available for the conversation.

- **Online collaboration tools** can make exchange through phone and Skype more effective.
- Remote supporting of incubatees through a diverse means of ICT poses **management challenges to the incubator**, if it is not systemised.

Online recruitment



Online recruitment

Through the internet, incubators can reach and mobilise interested mentors/volunteers/incubatees and **select the most appropriate candidates** and improve the quality of the incubator service. Recruiting highly qualified volunteers can **save costs** without jeopardising quality. Online recruitment can also positively contribute to the **brand** of the incubator.

Lessons

- Online recruitment is a suitable tool for recruiting **incubatees and mentors**; for access to finance, other tools are required.
- The incubator needs a well thought through **recruitment strategy** to ensure high-quality applications.
- The incubator needs to invest in **building a brand**, and build partnerships with networks or organisations that have a relationship with the target audience (volunteers, mentors and incubatees).
- **Social media** can be used as additional tools to support recruitment campaigns.
- The incubator needs to verify the quality of applicants. In the final phase of recruitment, **face-to-face meetings usually remain essential**.

Virtual communities and events

A lively community **mobilises its members** to actively contribute by providing valuable resources. This may improve the **quality** of the services offered by the incubator and may cut **costs** or even generate **revenues**, because members may be willing to pay a membership or admission fee.

Lessons:

- Social media can be used to build and maintain a brand in existing off-line communities, or for disseminating invitations, announcements and news; **building an active online community** in which members exchange knowledge **is very challenging**.
- The successful virtual communities in our sample are based on **regular combined networking and training events**, usually outside of office hours. Members join the networks to learn, get inspired and build their network.
- Hosting a community is an art; it requires skill and resources, and **is not necessarily cheap**.
- Financing networks work best if they include **investors who are geographically and culturally close** to the incubatees.

Crowdsourcing and crowd funding

Through the internet, incubators as well as incubatees can mobilise large numbers of people to contribute their knowledge and/or finances online.

Lessons:

- Building an attractive platform for crowds to become active is a sophisticated challenge; VBIs can, however, seek cooperation with existing platforms.
- Crowds are so far mostly operating in advanced countries; there is limited knowledge about local solutions in other countries.
- Crowdsourcing may be suitable for incubators or incubatees with a clear problem definition, such as feedback on a new product or service design (as suggested by

Virtual communities and events



Crowdsourcing and crowd funding



Mobile Monday in the start-up phase), or feedback on specific challenges related to business models.

- Crowd funding may offer access to potential sources of finance, especially when incubators can connect with existing crowd-funding platforms.

Conclusions

(V)BIs can study the different service concepts and tools, and get inspired to introduce new services or ways of providing a service, based on components of hand-holders, network boosters and seed capital providers. Hand-holders can take up services and tools of network boosters to increase their outreach and revenue generation, or elements of seed capital providers to improve their brand building and selection tools, or shorten or focus the scope of their incubation services. Network boosters in turn can take up elements of seed capital providers or hand-holders to increase the impact of their services.

Depending on the services needed by the target group, business incubators can use new virtual tools and replicate the successes of other virtual business incubation service providers.

Services	Virtual tools	Service concept
Brand building	Website/social media Online recruitment through partners Social media Virtual communities with regular events	Network boosters, Venture accelerators
Member/client selection	Online recruitment Online aptitude and skills testing	Seed capital providers
Training/providing information	Client comes to the incubator/Satellite offices E-Learning Website/social media	Hand-holders, Network boosters
Mentoring	Fellowship programmes Online recruitment of volunteers	Seed capital providers, Network boosters 'BPC+'
Networking	Online matchmaking Virtual communities with regular events	Network boosters 2.0
Access to finance	Online recruitment of business plans Demo days/pitching sessions Crowdsourcing	Network boosters 'BPC+', seed capital providers

CHAPTER

1 Approach

1.1

INTRODUCTION

The authors of this report on “lessons on virtual business incubation” reviewed a population of successful virtual business incubators who operate in many different environments, have different objectives and missions, and have therefore different approaches to supporting starting enterprises. The descriptions, findings and lessons presented here may serve as inspiration for arriving at new ideas or questioning existing concepts.

It is not our intention to provide a definitive answer to the question ‘which virtual business incubation concept is the best?’ There is no single path to successful business incubation, but rather a bewildering variety of concepts, tools and results.

1.2

RESEARCH APPROACH

The report was developed using the following research methodology:

Literature review and case study selection

Through extensive literature review, complemented by a series of consultations and a focus group discussion at the *infoDev* 4th Global Forum in Helsinki, the team collected information and insights from a wide variety of VBIs that are operating successfully around the world, each working in different circumstances, with a different mission and individual approach.

Case study research

After this broad consultation round, the team selected 12 virtual business incubators and/or virtual business service providers as case studies for further research. The case studies were selected based on a preliminary assessment of a long list of incubators, which met the following criteria:

- ☉ Mature and considered successful
- ☉ A range of services is offered
- ☉ A mix of virtual, blended and physical services
- ☉ A mix of services provided by professionals and services provided on a voluntary basis
- ☉ A selection that includes conventional incubators with a virtual ‘add-on’ as well as dedicated organisations offering a *comprehensive* virtual incubation package and those offering a virtual incubation *service* only.
- ☉ A selection that includes at least one incubator with a rural focus.

When looking for examples of successful virtual business incubators, many innovative virtual service concepts can be found, although not all qualify as fully-fledged virtual

business incubators. These new virtual business *service* providers are “niche players”: rather than being a fully-fledged business incubator, they tend to focus on one or two services, instead of attempting to provide a comprehensive package of incubation services. Although it is questionable whether these service providers are, strictly speaking, business incubators, their lessons are relevant to business incubators and for this reason some examples have been included in this study.

Through desk research, and where possible complemented by phone interviews, the Mission and Background, Clients, Enterprise eco-system, Service package, Virtual services and -tools, Virtual lessons learned, Impact, Governance structure, Main cost items and Revenue generation models of the following virtual business incubators were mapped:

Table 1: Overview of virtual business incubators and service providers researched

Incubator	Short description
<i>3ie</i>	The 3ie International Institute of Innovation and Entrepreneurship provides capacity building support for developing ideas into a business plan and further into a fully fledged business. 3ie targets university students as well as other starting entrepreneurs, who may be on- or off-site. In addition to technical support, 3ie manages and disburses grants to starting enterprises on behalf of the Chilean government. The 3ie Institute, which was established by the Universidad Técnica Federico Santa María in 2001, is based in Valparaíso, Chile; a region that is sometimes promoted as well on its way to becoming “the Silicon Valley of Latin America”.
<i>BiD Network</i>	The BiD (Business in Development) Network supports the start-up, growth and financing of SMEs in developing countries. The foundation does this mainly by organising business plan competitions (BiD Challenges), preparing entrepreneurs for financiers and bringing together (angel) investors and entrepreneurs with a ready-for-finance business plan. Most services are provided online, and through events. The BiD network, which was established in the Netherlands in 2004, currently operates with national partners in Philippines, Jordan, Kenya, Liberia, Tanzania, Uganda, Argentina, Bolivia, Colombia, Ecuador, Mexico and Peru. In 2011 BiD Network also initiated activities in Burundi, Liberia, Kosovo, Rwanda and Palestine.
<i>BusinessLink.gov.uk</i>	Business Link is the British government's main online resource for businesses. The website contains essential information, support and government services for businesses of all sizes. The Businesslink.gov.uk website was launched in 2004 in order to support Business Link's regional advisory services. In the last three years the content of 175 government websites has moved to businesslink.gov.uk, adding over 100 interactive tools and 2,000 guides.
<i>Endeavor</i>	Endeavor is a non-profit organisation, which helps entrepreneurs in emerging markets overcome barriers to growth. Through a competitive selection process (12-18 months), entrepreneurs are selected and provided with customised services from a volunteer network of 1,000+ global and local business leaders (“Venture Corps”), who serve as mentors, advisors, connectors, investors, and role models. Most the services are provided online and through events. Endeavor, headquartered in New York City, was founded in 1997. It currently operates in 11 countries: Argentina, Brazil, Chile, Colombia, Egypt, Jordan, Lebanon, Mexico, South Africa, Turkey, and Uruguay.

Founder Institute

The Founder Institute – a global network of start-ups and mentors – offers a four-month training program. Mentoring is provided through a global network of over 400 mentors, who are normally the CEO or founder of a successful start-up. The mentors are accessible both during the sessions and via email. Graduates can present their companies at so-called Founder Showcase Events in order to attract investors. The institute was founded in Silicon Valley in 2009. It currently has locations in the USA (8), Europe (4), Asia (1), and South America (2).

Mobile Monday

Mobile Monday (MoMo) is an open community platform founded in Helsinki, Finland in 2000. The initiative started as an informal get-together for the Finnish mobile industry on a Monday evening in 2000. Currently, monthly events (i.e. on the first Monday of the month) are organised in over 100 cities. Individuals can also become a member of MoMo online, and get in contact with other mobile experts around the globe. In March 2011, Mobile Monday had 115 active chapters worldwide.

MYC4

MYC4 is an Internet marketplace where investors from around the world can lend money directly to entrepreneurs who are doing business in Africa. MYC4, which was established in Denmark in 2007, operates through local partners in Kenya, Tanzania, Uganda, Ghana, Ivory Coast, Rwanda and Senegal.

ParqueTec

ParqueTec offers in-house and external incubation services to innovative entrepreneurs. Besides technical assistance, selected entrepreneurs receive seed capital funding. Incubatees repay this investment plus service costs by paying a percentage of their gross sales value to the incubator, thus creating a sustainable business model. Apart from the core business incubator activities, ParqueTec also implements rural business incubation projects for various donors. For remote (rural) incubatees, a new training and mentoring approach was developed, based on regular face-to-face interactions combined with phone, SMS, E-mail and Skype contact. ParqueTec, which was established in 2004 as the first ICT incubator in Costa Rica, currently operates in San José, as well as in two rural regions.

SoftStart BTI

The Softstart Business and Technology Incubator (SBTI) is a multi-model (real-estate, virtual & satellite) incubator operating in the ICT sector in Gauteng, South Africa. It supports entrepreneurs from the concept phase, through development and ultimately implementation. Profitable market opportunities are exploited and the focus is on growing the depth and breadth of the venture. SBTI was established in 2006 from the merger of Softstart, a real-estate incubator founded in 2002, and Bodibeng Technology Incubator, a virtual networked incubator.

The HUB, Amsterdam

The HUB is a privately funded business incubator or business centre for “social enterprises”. The HUB does not consider itself to be a business incubator, but rather a community of social entrepreneurs. The HUB facilitates cooperation and exchange between its members, who initiate and implement member-driven, HUB-branded entrepreneurial activities. The revenue model is based on monthly membership fee; the level of membership defines the hours of access to HUB facilities. Social media are actively used to promote the HUB, and its entrepreneurs and activities. The first HUB opened in London, in 2005. There are now over 30 HUBS around the globe in major cities in Europe, the USA, Canada, Mexico,

Brazil, South Africa, Israel and Australia.

Villgro

Since 2001 Villgro Innovation Foundation has focused on innovations with social impact on low-income markets (the “base of the pyramid”) in India. Villgro empowers rural development by identifying and incubating innovations that can be translated to market-based models, thus impacting thousands of rural households. Villgro considers itself to be an “angel incubator”, meaning a hybrid of an angel investor and a business incubator for innovative social enterprises with an impact on rural communities in India. It offers funding and (virtual) incubation services to its incubatees, who are located in Chennai and in other towns and areas across India.

West Midlands Collaborative Commerce Marketplace (WMCCM)

The WMCC is an online collaboration tool for SMEs. The WMCCM website provides registered SMEs with details of EU and local government tenders. Furthermore, using competency profiling techniques, the site offers a matching tool, which helps SMEs to form complementary partnerships online in order to jointly respond to tender opportunities. The WMCCM site, which was launched by the University of Warwick in 2004, targets SMEs based in the West Midlands of the United Kingdom.

Y-Combinator

Y-Combinator is a venture fund, which focuses on seed investments and business consulting to start-up companies. Twice a year Y-Combinator invests a small amount of money (average \$18k) in a large number of start-ups. Selected start-ups move to Silicon Valley for 3 months, during which they are mentored in order to get into good shape and refine their pitch to investors. Each cycle culminates in a Demo Day, when the start-ups present to a large audience of investors. Founded in Boston in 2005 it currently operates from Silicon Valley.

(For more information, please see Annex)

Field research

In addition to desk study research and phone interviews, five virtual business incubators were selected for field study research. During these field visits, incubator staff was interviewed, as well as current and former incubatees. The incubators selected for field study research were:

- 3ie (Chile)
- The BiD Network Foundation (the Netherlands)
- The HUB Amsterdam chapter (the Netherlands)
- ParqueTec (Costa Rica)
- Villgro (India).

1.3

STRUCTURE OF THE REPORT

The report is structured as follows:

- The second chapter provides a clearer **definition** of what we understand by “virtual” and “virtual business incubation”, and how business incubation differs from other approaches to supporting enterprise development.
- Chapter three discusses the results of the case studies and describes how business incubation works in practice. This section offers insight into the variety of **target groups** and **business environments** in which business incubators operate. Next,

the chapter defines **categories of incubators** and explores the **business models** used within these categories. Finally, the chapter makes an attempt to **compare the impact** of the different types of incubators.

- ⊙ Chapter four provides insight into the **virtual tools** used by incubators, the **lessons** learned in relation to these tools and the **conditions** under which these tools can be used.
- ⊙ Based on this assessment we draw **lessons for virtual business incubation** in Chapter five. These lessons are not meant to be the definitive guide to successful virtual business incubation, but they can be used as inspiration and arguments for discussions on how to build a “best practice” VBI in any given situation.

1.4

RESEARCH LIMITATIONS

There are some limitations of the lessons learned we present in this report:

Firstly, the population of VBIs we have looked at is small; there are thousands of incubators worldwide, and a report on 12 VBIs can thus only be considered to be based on “anecdotal evidence”.

Secondly, we have deliberately not chosen a representative set of VBIs, but rather tried to select the most interesting and innovative concepts on offer (based on our subjective impressions). We can therefore only make qualitative comments, with no guarantee of completeness.

Thirdly, hard data has been difficult or impossible to obtain, even for the case studies about the incubators we have visited. Few have reliable M&E data sets that would give us a clear measure of results. This does not matter too much, since the nature and quality of the (intended) impact of the VBIs is very diverse, making quantitative comparisons fairly irrelevant.

Finally, much of the discussion on virtual business incubation is difficult to capture with a set of definitions: there are many possible ways of looking at VBI. In other words, we have tried to categorise the elements of VBI we think are important in order to gain insights and provide a clear overview of the field, but these remain our subjective opinions.

CHAPTER

2 Defining virtual business incubation

To arrive at a better understanding of virtual business incubation, we need to define two frequently used terms:

- What do we mean by virtual?
- What do we mean by virtual business incubation?
- How does it differ from other enterprise support concepts?

2.1

DEFINING VIRTUAL



“Virtual” is often viewed as synonymous with “electronic” or “online”, although in this context this does not capture what we understand by this term. Instead, in the context of business incubation, “virtual” stands for “not bricks and mortar”, which refers to the difference between two incubation *models*. A “traditional” bricks and mortar incubator offers its services within the walls of the incubator building and uses the physical concentration of incubatees as a tool for improving incubation outcomes. A virtual incubation service is not bound by a physical building or any other geographical constraint; the services are made available to a dispersed group of users.

In both cases, the way incubatees are serviced can be based on ICT (such as email, phone, or online tools) – or not. In most cases, as we will see in this report, the services have elements of both: an online community that meets regularly in a physical space, or a mentoring scheme that involves ICT-based as well as face-to-face contacts.

‘Virtual’ is not necessarily ‘online’;

The report refers to virtual services as all services targeting to **non-resident clients**.

infoDev in its Training Manual “Module 11 – Setting Up Virtual Services” uses three definitions to further define ‘virtual business incubation’. It introduces the terms “virtual incubation”, which refers to services that are exclusively transmitted electronically; “outreach virtual incubation”, which refers to services supplied to non-resident incubatees; and “satellite/networked incubation”, which refers to physical incubators with several outreach locations where the same services are offered. For the purposes of this study we broaden the definition to capture the full range of what is called “virtual business incubation”. We therefore distinguish virtual service *concepts* from virtual *tools*:

- ☉ **Virtual service concept:** a virtual incubation service concept refers to the service that is offered to non-resident incubatees or to services provided by service providers that are not physically present. A non-virtual service concept requires the service provider and the user(s) to be present at the business incubator location.

- **Virtual tool:** a virtual tool refers to a way of delivering a service to non-resident incubatees, where the service provider and service recipient need not be in the same physical location.

As *shorthand*, in this report we use the term “virtual” to refer to *location-independent*.

2.2

DEFINING VIRTUAL BUSINESS INCUBATION

Business Incubation is also loosely defined in many publications and it is conceptually related to many other business support systems and programmes. There are many different definitions of what is understood by “business incubation”, reflecting the large diversity of approaches that exist.

infoDev defines business incubation as follows. The business incubation process entails a “public and/or private, entrepreneurial, economic and social development process designed to nurture businesses from idea generation to start-up companies and, through a comprehensive business support programme, help them establish and accelerate their growth and success”. This definition emphasises the fact that business incubation is about supporting starting enterprises by means of a “bundled service package”, i.e. a set of services that offer a combination of benefits.

Some definitions in the literature go into further detail, describing what these services might be. According to Von Zedtwitz (2003)¹, for example, a business incubator offers at least four of the following five types of service categories:

1. *Access to physical resources* (e.g. Office space, furniture)
2. *Office support services* (e.g. secretarial services, mail handling)
3. *Access to financial resources* (e.g. venture capital)
4. *Entrepreneurial start-up support* (e.g. training, coaching, mentoring)
5. *Access to networks* (e.g. access to key employees, customers, suppliers).

While many incubators indeed offer a mixture of the above, the emphasis on office services and physical resources is seldom a predominant feature, so that many incubators in our sample would not qualify based on this definition, whereas they do qualify according to infoDev’s definition.

Our working definition

For this report, business incubation must satisfy the following criteria:

- A **mission to support new business activities**; incubators generally focus on starters, albeit at different stages of growth – they can be start-ups, but also ‘accelerated’ or recently established enterprises. Also, in a few cases these can be existing enterprises that innovate with their business model or start a new, innovative activity. As we show in this report, incubators have different client focuses depending on the growth stages in which their incubatees are.
- A **comprehensive service package** that addresses all of the observed key needs of the chosen target group of incubatees; what this package looks like, e.g.

¹ Zedtwitz, M. von. (2003); ‘Classification and Management of Incubators’; *International Journal of Entrepreneurship and Innovation Management*, 3 (1/2), 176–196.

whether it is focused on a single service or offers a wide variety of services depends on the needs of the target group.

- ⊗ Virtual business incubators are those where some or most of the **service package is virtual** (i.e. location-independent) by design, and/or **delivered (partially) with virtual tools**.

Based on the above, the following **shorthand** definition is used in this report:

A business incubator is a service provider that offers a comprehensive package of services (more than one) designed to support, facilitate and accelerate the growth of starting businesses. A virtual business incubator does this with services and tools that are – at least to a significant extent – independent of the location of the service provider and/or the users of these services.

Some of the incubators in our sample do not consider themselves to be business incubators (e.g. seed finance-oriented organisations), but rather service providers. Nevertheless, because their service concepts and/or tools are largely virtual, including these service providers in the research enables us to review experiences with virtual services and tools. Their lessons and insights can be used by business incubators as an addition to their current service package.

CHAPTER

3

Virtual business incubation; *typologies and business models*

This chapter provides a typology of three different service concepts and business models for virtual business incubation and attempts to compare the models and impacts of these VBI service concepts.

First we provide an overview of the different incubator missions, varying from a social to a commercial orientation. Next, the challenges of the various “business ecosystems” (remote, basic, emerging and advances) in which VBIs operate are described. Finally, we take a closer look at the variety of services provided by VBIs (the selection process, training services, mentoring and coaching services, networking, access to finance and the intensity of ‘brand building’ activities in the incubator).

These factors together lead us to categorise the VBIs in our sample in three typical types of VBI, each with a different conceptual idea behind their approach to virtual business incubation. Also, each incubator type has a “business model”, which describes where the VBI spends its resources, how it generates revenue, what staff competencies it requires and how it is managed. We have included a further section to offer more insight into the diversity of the business models we have seen in the sampled VBIs.

Finally, different VBI service concepts achieve different types of impact, which we discuss in the concluding section of this chapter.

3.1

MISSION, TARGET GROUPS AND BUSINESS ENVIRONMENTS

An incubator helps its incubatees to remove bottlenecks that affect their growth. Entrepreneurs however, face a wide range of entrepreneurial challenges, possess (or lack) different skills, know-how, and their resources and networks can also vary considerably. What VBI service concept and VBI tool is suitable thus depends to a large extent on the VBI’s (business) environment and mission. All VBIs we looked at have a mission; however, these vary widely. Missions are important, especially for the public, donor or sponsor-funded VBIs, as the prime justification for their existence and their funding.

Mission and target group

In general, the mission of a business incubator defines the target groups it is designed to impact. Typical target groups can range from disadvantaged segments of society to high-potential ICT entrepreneurs, to social enterprises, plus others in between. The table below provides an overview of possible missions, target groups and intended impacts of (virtual and non virtual) business incubators. It also provides examples of VBIs, detailed case studies on which are included in the Annexes.

The **mission** of a business incubator defines what target group it aims to impact.

Table 2: Mission, target groups and intended impact of VBIs

Type	Concept	Intended impact	Typical target group	Example
Social orientation	Designed to address social issues, for disadvantaged groups, focus on (self-) employment and income generation	Employment, income generation	Low-tech start-ups in remote regions or disadvantaged segments of society	ParqueTec, BID Network
Society orientation	Seeks to address wider social and environmental challenges to society through entrepreneurship	Alternative enterprises that can help to change society	Innovative enterprises with a positive social-environmental impact	Villgro, the HUB
Business culture orientation	Seeks to foster and improve the culture of doing business as a catalyst for economic growth and development	Role models for the local business community	Young, emerging local business elite	Endeavor, Mobile Monday
(Sectoral) innovation orientation	Stimulates growth and development of a sector through innovative technology enterprises	Sector/regional development through innovation dissemination	University-based and other technology-minded start-ups	3ie, Softstart BTI, WMCCM
Commercial orientation	Offers a set of commercial services to a target group of enterprises	Increasing dynamic of local business	Quick-return, high-tech innovators in emerging or advanced economies	Y Combinator, Founder Institute

Business environments

A crucial factor for VBIs is the business environment their incubatees are operating in: incubatees that are operating in e.g. the United States face different challenges than those in a rural area in e.g. Kenya. SMEs face a variety of challenges and constraints, including a lack of relevant information, poor access to markets and competition with better-resourced, larger enterprises, interference by local authorities, non-availability of skilled labour, and a lack of appropriate premises. In addition, and especially in rural areas, the poor condition of rural infrastructure such as roads, telecommunications, transport links, water supply, and electricity, as well as problems with regard to





The **mission** of a business incubator defines which target groups it aims to impact.

security, access to raw materials and markets, add to the risks and costs of operating an enterprise.

SMEs face a variety of challenges, which also depend on the **business ecosystem** they are operating in

In the following section, we look at the various enterprise eco-systems. In the table below, we have made a brief typology of five ecosystems for start-ups and growing enterprises, ranging from the “worst” (remote) to the “best” (advanced). An important note here is that there is no country that fits entirely into one of these categories; most countries are combinations of several types: e.g. within advanced EU countries you find regions which fit the description “emerging” or even “basic”. In emerging economies, rural areas are often “basic” or “remote”.

Table 3: Enterprise ecosystem categories

Context	Remote' 	Basic 	Emerging 	Advanced 
<i>Summary</i>	<i>Off-centre (rural) area in a country that is developing positively, underserved region</i>	<i>Developing country context with a positive but not yet implemented agenda for private sector development</i>	<i>Emerging market context, fast growing, with pressure for reforming and improving private sector institutions and policies</i>	<i>Developed country, not perfect but close to an achievable level that is conducive to private sector development</i>
Business enabling environment (BEE)				
<i>Policy/institutional</i>	Small effect of BEE policy on area, few operating institutions Ineffective legal system	Fundamental policies and institutions in place Fundamental rights secure, but inefficient enforcement/regulations	Pro-business policies, and some functional institutions Effective and predictable legal system for key legal areas	Pro-business environment, most private sector institutions efficient Reliable legal framework /enforcement of government regulations
<i>Financial</i>	Limited access to capital, few formal financial institutions, little access to investment capital	Basic venture financing (mainly family and friends), small loans from MFIs/banks; inefficient financial services	Credit (debt) market developing, limited access to venture/risk capital, improving efficiency of financial services	Well-functioning credit markets, public equity markets, vibrant venture capital market
<i>Skills and access to BDS</i>	Low overall skill level, limited access to education/BDS	Small but growing highly skilled group, large group with low skills, basic BDS available mainly publicly funded	Skills in high demand, largely available, BDS emerging business sector	“Oversupply” of high-level skills, good availability of BDS services
Virtual infrastructure				
<i>ICT</i>	Limited Internet access and bandwidth Basic (mobile) phone coverage	Basic Internet access everywhere Good mobile phone coverage, SMS service industry emerging	Good Internet, mobile phone coverage Broad range of telecom services	No limitations, Broadband, 3G networks available everywhere

The VBIs in our sample operate in different business ecosystems. The table below indicate the range of ecosystems covered by each VBI included in the research sample.

Table 4: Business environment of the selected case studies

VBI service provider	Remote	Basic	Emerging	Advanced
3ie		←→		
BiD Network			←→	
BusinessLink.gov.uk				←→
Endeavor			←→	
Founder Institute			←→	
Mobile Monday			←→	
MYC4		←→		
ParqueTec	←→			
SoftStart BTI	←→			
the HUB Amsterdam				←→
Villgro		←→		
WMCCM			←→	
Y-Combinator			←→	

3.2

VBI CONCEPTS

In an effort to understand the nature of the VBIs we have researched we have looked at the *range of services* VBIs (and standard business incubators) generally provide.

An incubator provides a range of services to its incubatees; however, there is considerable diversity in the *intensity* of service delivery. Services can be provided in a very limited way (“shallow”), or intensive (“deep”). To be able to compare VBI concepts, we have scored the services of each incubator in the sample on ‘service intensity’.

We scored the incubators on five core aspects of a virtual business incubation service, namely 1) the selection process, 2) training services, 3) mentoring and coaching services, 4) networking, and 5) access to finance. In addition, we also assessed the intensity of their ‘brand building’ activities.

Key incubation services

Naturally, the *process of selecting members (incubatees)* is an important step in the incubation process. Some incubators have a very limited number of applicants (there may not be many eligible candidates, or they may have the wrong model in the wrong place), while others have a highly competitive application process.

Training to enhance the capacities of incubatees is a key service for most incubators. Training topics vary, but most include topics such as marketing, financial management, support for product development, business management and entrepreneurial skills. Training in (virtual) incubators, which is not limited to formal classroom-based training, includes training as part of a networking event and training in peer-to-peer networks (in which incubatees train each other).

Key incubation services

- Selection
- Training
- Mentoring
- Networking
- Access to finance
- Brand building

Mentoring we defined as individual one-on-one support of incubatees. The mentoring services can be provided by incubator staff, professional business development consultants, non-expert or expert volunteers or seasoned entrepreneurs.

Business networking, according to the definition, is an activity through which groups of like-minded businesspeople recognize, create, or act on business opportunities. Networking in virtual business incubation is mainly offered to achieve the following benefits for the incubatees:

- Facilitating exchange of knowledge and ideas (peer-to-peer learning networks)
- Forging business partnerships (e.g. through match-making)
- Mobilising often large pools of external people and bringing them together with the incubatees for access to services, markets, customers, or finance (e.g. volunteers and investors).

Many businesses need **access to finance** to start and grow. Incubators can help their incubatees gain access to grant, debt or equity finance in various ways, ranging from:

- Providing information (on grant facilities, business plan competitions, sources for funding, credits);
- Pitching sessions (supporting incubatees in pitching their business to potential investors during specific events or prior to meetings)
- Actively matching incubatees to potential financiers
- Providing financial services (risk-bearing investments by the incubator).

Finally, although it may not spontaneously spring to mind when thinking of the core services of a business incubator, **brand building** is a key activity for many virtual incubators, both for themselves, their incubatees and their sponsors or donors.

For example, incubators use brand building to:

- Attract and select new clients, members and incubatees. The brand building is a key service that is used to raise the quantity and/or quality of applications;
- Build a reputation in order to generate “eagerness to belong to the community”, and to recruit volunteers and sponsors.
- Influence the business environment (e.g. raise the profile of entrepreneurship and promote sustainable business development)

Service intensity

All of the researched VBIs offer several or all of these service, albeit in differing combinations and intensities. The blend of services defines what we refer to as the “service concept”.

When analysing the results, three types of service concepts were identified:

- Incubators offering mainly business development services: “**hand-holders**”
- Networking-focused business incubators: “**network boosters**”
- Finance-focused business incubators: “**seed capital providers**”

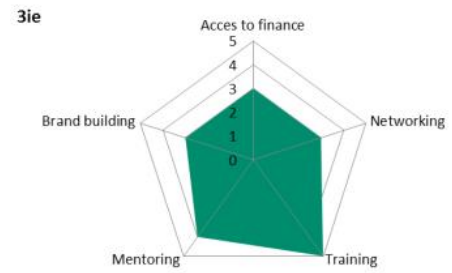
The following sections take a closer look at these types of virtual business incubators, by providing insight into their mission, the business environment in which they operate, the entrepreneurial challenges they help address, their services and the way they provide them, and their outreach.

3.2.1

HAND-HOLDERS

Hand-holders address the challenges entrepreneurs face in developing their entrepreneurial capacities.

“Hand-holders” offer an incubation service concept that emphasises training and mentoring, as opposed to access to finance or networking, even though these are typically also parts of their service package. They address the challenges entrepreneurs face in developing their entrepreneurial capacities to get the business off the ground.



Typically, VBIs that fit this description are conventional business incubators that have expanded their services to non-resident clients.

Mission, target group and business environment

The *mission* of hand-holders is frequently social, society or sector innovation oriented. ‘Hand-holders’ operate in *business environments* that are typically less than advanced, with limited availability of other BDS service providers. The selection process for incubatees is usually not very competitive. ‘Hand-holders’ typically support entrepreneurs over a longer period of time (1 to 3 years), from idea generation to mature company.

Main services

The emphasis of the *services* of these virtual business incubators is on training and mentoring, and to a lesser degree on access to finance and networking. The support process is generally split into three or four steps, which are related to the development stage of the business. In early stages, the training services prevail, while in later stages of business development, the emphasis is on mentoring. The services are usually provided by incubator staff of subcontracted professionals.

Outreach

These incubators, because of their social, society or sector innovation mission and the emphasis on capacity development, generally do not charge the full service costs to the incubatee. They often (partially) rely on donor or government funding. Incubatee numbers range from 10 to 30 per year in our sample.

Examples included in the Annexes: 3ie, ParqueTec, Softstart BTI

3.2.2

Network boosters bring entrepreneurs, investors, volunteers, and service providers together and **help** them to provide added value to each other's businesses.

For **network boosters**, the brand is important to attract entrepreneurs, it raises the profile of network members, and mobilises other (voluntary) contributions to the network.

Examples of network boosters include:



NETWORK BOOSTERS

“Network boosters” are incubators whose main aim is to bring people together; they bring entrepreneurs, investors, volunteers, and service providers together and facilitate them to provide added value to each other's businesses, rather than focusing on delivering services themselves. The incubator is a *facilitator*.

There are two types of network boosters, the “business-plan-competition-plus” (BPC+) network boosters and the “2.0” network boosters. The first group of network boosters are in effect “advanced” business plan competitions (BPCs), where the incubators spends a great deal of energy on launching BPCs but continues to service and support a selected number of BPC participants *after* the competition. Examples include Endeavor or the BiD network.



A second group, the “2.0 network boosters”, do not organise competitions, but rather focus on bringing people together, typically by hosting regular events. Examples include the HUB and Mobile Monday.

Mission, target group and business environment

Network boosters often target a specific entrepreneurial sector, such as ICT, social enterprises or export-oriented businesses. Their *target group* is skilled in ICT, and educated. Although network boosters can recruit participants from anywhere, most incubatees come from *emerging* and *advanced business environments*. Selection usually takes place online and requires putting a detailed business plan on paper, and events are usually organised in major cities; more suitable for emerging and advanced settings.

Main services

BPC+: The Business-plan-plus network boosters' main services are *member selection*, and *connecting* entrepreneurs to (voluntary) mentors, relevant business partners, and potential investors. These connections are usually made during events that coincide with awards ceremonies that announce the winners of competitions. Besides networking opportunities and the possibility of being awarded grant money and/or attracting investors, these events boost their *motivation*. A number of BPC+ VBIs also organise '*pitching sessions*', where selected entrepreneurs can present their idea to potential investors. Similarly, some connect starting entrepreneurs to a *business mentor*, usually an experienced entrepreneur. The period during which the businesses are supported is usually 6 months to 1 year. Services are often provided by volunteers mobilised by the incubator or paid for by the sponsors of the competition.

2.0: The 2.0 network boosters' *main services* are member selection and creating a community in which members can meet and exchange. Usually, they organise events, such as lectures, workshops or panel discussions with speakers, followed by a networking opportunity. They also have online communities allow them to communicate with the members, and members to connect. The services are mainly developed and provided by the members of the network themselves.

All Network boosters invest heavily in a *strong brand*; the brand is important to attract entrepreneurs, it raises the profile of network members, and mobilises other (voluntary) contributions to the network. Without a brand, network activity very soon falls flat.

Outreach

The outreach of the network boosters is high, they can reach and mobilise hundreds of entrepreneurs. To most the members, the services they provide are very limited. However, only a small number of members/incubatees are really helped by the network to find a business partner or investor.

Examples included in the Annexes: the HUB, Mobile Monday, Endeavor, the BID network

3.2.3

SEED CAPITAL PROVIDERS

Seed capital providers providing seed investment capital, combined with (short or long-term) BDS support.

They can have **commercial or social** motives.

As a third group, we distinguish that focus on providing seed investment capital, combined with (short or long-term) mentoring support. Again, we found two types of seed capital providers, namely those with a commercial mission (often called ‘venture accelerators’) and those with a social mission.



Mission, target group and business environment

Commercial: Venture accelerators are often driven by a commercial mission. An estimated 130 venture accelerators are currently in operation around the globe, and they are spreading rapidly. They operate in emerging and advanced environments, where venture capital investments are common and Internet is affordable, stable and fast. The target group of venture accelerators is very narrow. Accelerators are only suitable for firms that can grow quickly with relatively little cash, and they are attractive to venture capitalists. Most venture accelerators select incubatees that develop mobile apps, cloud computing, social media, gaming and entertainment, and web services. The base infrastructure of many new mobile apps and Internet products and services already exists via smart phones, cloud computing and other resources. For that reason, product development of new mobile applications and their business models can be limited to 3-4 months. The entrepreneurs are mainly young, recent university graduates, and male.

Social: Social seed capital providers, who often have a society oriented mission, seek to address wider social and environmental challenges to society through entrepreneurship, and aim to select innovative enterprises with a positive social environmental impact. The business environment in which they operate can range from remote to advanced.

Main services

Commercial: They generally invest \$5,000 to \$8,000 per founder and between \$18,000 and \$25,000 per company. The average equity stake they take is 5-6 percent. If successful, the shares are liquidated through an acquisition or initial public offering (IPO). In addition to making highly selective, small investments in numerous companies, venture accelerators provide training, mentoring and networking support that focuses on preparing companies for external finance.

Mentors and experienced entrepreneurs give participants training in developing their products, presenting to customers, and preparing to pitch to additional investors. Some bring entrepreneurs together for 30 to 90-day 'boot camps' (a military term, used here to describe a recruitment training programme that usually involves incubatees living, getting trained and working at the incubator site), while others organise regular (weekly) training and motivation building events. These training, networking and mentoring services are generally offered for a short period (3-6 months), after which the company should be ready for external finance.

Social mission: Social seed capital providers also have a highly competitive selection process that is based on selecting enterprises with a social/environmental mission and growth potential. The finance provided, which can be equity or debt finance, depends on the capacities, sources of funding and institutional arrangements of the incubator, and varies widely. Villgro for example provides grant financing and is funded by a US-based donor with an interest in social enterprise development. ParqueTec provides smaller loans (\$5000-\$10,000) through its own investment fund. Besides seed capital, these VBIs generally provide mentoring services by taking a seat in a real or simulated Board of Directors, as a way to monitor business performance and provide strategic guidance. Other business development services, if they are considered necessary by the seed capital provider and the incubatee, are mostly provided by selected companies or consultants for commercial rates. Support is usually provided for a longer period of time (1-3 years).

Incubators with good access to financial services invest heavily in brand building. The brand of seed capital providers is a strategic tool that can be used to attract quality entrepreneurs and (in turn) to attract investors.

Outreach

Outreach is generally limited to 15-30 incubatees (not a large group). However, those who are supported or included often benefit significantly from access to finance in particular.

Examples included in our research: Parquetec, Villgro, Y-combinator and Founder Institute

3.3

VBI BUSINESS MODELS

In the following sections, we analyse the business models of each type of virtual business incubator, and look at costs and revenue generation as well as the core competences and governance models of these incubators.

3.3.1

MAIN COST ITEMS

Providing incubation services to off-site clients is not necessarily a more affordable form of incubation that reaches more enterprises at lower cost. The main cost item for the incubators in our sample is staffing costs. For incubators that have a rural population of incubatees, travel costs are considerable, taking second place. The costs. This building and facilities range between 5-15 percent of the annual budget, with the

Virtual incubation services are not necessarily more affordable

exception of the HUB² (see Table 6 for an overview of main cost items per case study incubator).

The cost structure of a business incubator thus depends on its mission and the business environment in which it operates. By and large, in a challenging business ecosystem with a social mission (and limited business opportunities, limited other service providers and limited capacity to pay), a comprehensive, intensive incubation package is naturally expensive.

The costs of service delivery per incubatee vary, depending on the nature of the services as well as the business ecosystem and target group.

A less challenging environment (e.g. one that is “emerging” or “advanced”), a more general mission (e.g. “impacting the business culture”), more high-profit business opportunities, and the ample availability of BDS providers, create the possibility to offer a light service package at lower cost. Also, depending on the mission, the targeted members may have more capacity to pay for services up-front (as with the Founders Institute).

The expenses per incubated company are generally lower in privately funded business incubators. These commercial variants, such as the HUB, offer a much more focused service package and are very effective in mobilising voluntary contributions. They also generally charge a higher admission/membership fee to their incubatees.

3.3.2

REVENUE GENERATION

The financial sustainability of a virtual business incubator depends on the cost structure, but also on the revenues generated by the incubator. But do virtual services offer new opportunities for revenue generation? Looking at the cases we researched, we found that a number of VBIs are indeed generating significant revenues.

Sources of revenue:

- Admission and/or membership fees
- Business ‘on the side’
- Royalties on sales
- Equity

The main sources of revenues we identified are:

1. An admission fee and/or (monthly) membership fee.
2. Operating a business “on the side” that generates revenues from third parties, e.g. by renting out space or providing consultancy services.
3. Income from royalties on sales of incubatees.
4. Income by successfully selling an equity stake in an incubatee.

We will now look at these sources of revenue in more detail:

Membership fees

Access to websites, e.g. an online matchmaking tool or an e-learning programme, was not observed as a revenue generator.

The membership fees charged by incubators vary, but for the three self-sustaining incubators in the sample they form a significant and reliable source of revenue. Interestingly, we did not find examples of entrepreneurs paying for online services. In cases where incubatees pay a fee, it is for a service that is provided human-to-human, or for computer and internet use. Access to websites, e.g. an online matchmaking tool or an e-learning programme, was not observed to generate (significant) revenue.

² The situation of the HUB Amsterdam is exceptional; the HUB Amsterdam is located in an expensive building in the city centre. This privately funded incubator, which is self-sustaining, derives 40 percent of its income from renting out meeting rooms, and during weekends the entire office floor, to third parties.

Incubatees' decisions to pay an administration fee upfront were mostly related to them being attracted to the brand/reputation of the incubator (brand and networking services), and (in the case of seed capital providers) the hope or expectation that the VBI will help them to attract external capital (network and access to finance).

Payment of membership fees was more often evaluated against the perceived value of continuing to be part of the network, as well as the business development services received.

Basically, there are two ways in which membership fees can generate significant income.

Small fee, large group: User can pay a small amount for access to a network, or participation in an event. This virtual revenue can be significant, if the crowd reached is large enough. Examples are mainly network boosters, such as Mobile Monday and the HUB.

Large fee, tangible output: Significant revenues per incubatee are only generated from brand building or networking services or for (access to) finance. An example is the Founders Institute, where participants pay a cost-covering contribution up-front in order to be able to join the programme (admission fee). 3ie and ParqueTec also charge (part of) the cost of the incubation services to the incubatee; however, their payment conditions are more flexible (membership fees).

Royalties on sales

Two incubators in the sample take a percentage of the gross value of sales generated by the incubatee. For example, ParqueTec takes a negotiable percentage of the sales revenues, during a period of two times the period the entrepreneur was in the programme. The royalties vary from 2.5 to 10 percent.

Collecting royalties on sales is challenging; it means that the incubator needs to structurally monitor the performance of the business

An advantage of royalties on sales is that the amount due is easy to define, and it provides an incentive for the incubator to encourage the company to start selling. Disadvantages are that it may provide an incentive to incubatees to contract clients off balance sheet, and that incubatees cannot invest their profit margin into growing the company.

This means that the incubator needs to structurally monitor the performance of the business. Examples can be found in the case studies on ParqueTec and Villgro. Both these incubators provide *seed capital*. This financial relationship allowed them to introduce a mentoring programme, including a real or simulated Board of Directors meeting as a way to monitor business performance.

Equity finance in business incubation

In the in-depth case studies researched, three incubators take (minority) equity stake in their incubatees. However, none of them have received cash for equity so far. Reasons for this vary. Firstly, despite the business incubator support, many enterprises do not make it beyond their first years. Next, in most business environments and sectors, it takes a long time for a start-up to mature. It will take at least several years to make it to an IPO or to attract a venture capital investor, if the company ever makes it at all. Another complicating factor in many business environments is the willingness of an investor to buy out the incubator minority shareholder. Venture capitalists as well as

former incubatees may have little incentive to buy out the incubator. This was especially evident in cases where the incubator was government or donor-funded.

LESSON:

Equity is considered only if there is:

- A good relationship
- Clear added value
- An above-average business proposition

LESSON: *Carefully consider equity*

ParqueTec only takes equity in exceptional cases, because if difficulties arise in the relationship or in the company, it has proved difficult to separate roles. Equity is only considered in cases where 1) ParqueTec has a good relationship with the entrepreneur, 2) The added value of ParqueTec services is evident, and 3) the business proposition of the enterprise is promising.

Only the “venture accelerators” have managed to generate revenues by taking an equity stake in the businesses they incubate. These, however, typically target ICT start-ups, in a business environment where venture capital is available and product and business model development can be as short as 3 months.

Because of the focus on (equity) finance in the debate on business incubation, it is important to note that there are many entrepreneurs who prefer to rely on retained earnings rather than external finance, because they want to grow at their own pace, and do not want to be accountable to outside investors or individuals.

LESSON: *Entrepreneurs' requests for business finance are not always realistic*

When initially entering the incubation process, the vast majority of incubatees consider the lack of external finance is their primary concern. ParqueTec, however, stresses that finance is a means, not an end. Not all incubatees understand the implications of external finance, such as no longer being the sole owner and key decision-maker in the company, or paying high interest rates. Once entrepreneurs understand the consequences of external financing, ParqueTec noticed that some preferred to explore other means to reach their objective, including cost savings, negotiating supplier credit and alternative growth strategies.

3.3.3

FINANCIAL SUSTAINABILITY

Two out of five incubators in the case studies researched are financially self-sustaining; The Hub and the ParqueTec. They have in common that their revenue model is based on up-front payments from members/incubatees and an additional income stream that is not related to the core incubation process (renting out buildings and facilities for events and providing consultancy services).

Table 5: Main cost items and revenue generators per business incubator

Incubator	Main cost item	Main revenue generator	Self sustaining?
ParqueTec	1. Staffing costs (40%)	Monthly contribution of incubatees (5% - 10%)	Yes
	2. Travel (20%)	Share of gross sales value from incubatees (10% - 30%)	
	3. Building (5%)	Provision of training and consultancy services (60%)	
3ie	1. Staffing costs (65%)	Monthly contribution of incubatees	No
	2. Building & facilities (15%)	(estimated 10% of the budget)	

The HUB	1. Building & facilities (40%)	Membership fees (60% of the budget)	Yes
	2. Staffing costs (40%)	Renting out office facilities for events (40%)	
The BID Network	1. Staffing costs	No revenue generation, donor and sponsor funded.	No
	2. Events	Mobilises volunteers to screen business plans and provide coaching services.	
Villgro	1. Staffing costs (40%)	No revenue generation, fully donor-funded.	No
	2. Investment (40%)	Mobilises volunteers through 'fellowship programme'.	

From these examples we can see that the question of financial sustainability does *not* depend on the increased use of virtual tools and concepts; instead, the mission and target group define whether or not an incubator opts to be commercial or operates as a donor-funded initiative. Where possible, incubators try to generate additional revenue to fund (part of) their activities, which is not necessarily more effective or easier if virtual incubation models are applied.

3.3.4

Entrepreneurial management; understanding the market is key.

CORE COMPETENCIES

Entrepreneurial management

Just like conventional business incubators, virtual services and incubators need entrepreneurial management to be able to succeed. A business incubator must develop its services based on the needs of the target group, offering services that the target group requires and are accessible for the target group. All types of VBIs need to have their ears tuned to the market.

In the case study research, most incubators have dual management, where one visionary director (usually the initiator of the incubator) drives innovations and a second director is responsible for operational management. The network of the visionary director is often important for mobilising funding and in-kind support for the incubator.

Core VBI skills

The three types of VBIs require different core skills, because service provision varies.

'Hand-holders' define and implement a structured incubation process, usually with several stages of business incubation. These incubators often provide services themselves, and in addition work with sub-contracted professionals (or sometimes trained volunteers) under the supervision of the incubator. Staff functions in these incubators are mostly related to defining and implementing the incubation process and providing business development services.

Network boosters bring people together to improve business. Network boosters initially need to recruit new members. Most do this by actively building the brand of the organisation in partnership with other initiatives. Once the network is established, a network booster needs skilled hosts or facilitators to keep the network alive and mobilise and the channel contributions of the members.

Venture accelerators' success is based on the incubator's ability to select high-potential entrepreneurs, and to access and mobilize the "elite" of entrepreneurs and investors. This elite contributes to the brand of the venture accelerator, and can be called on to

provide speeches, trainings and mentoring services, as well as eventually to acquire the companies under incubation. A number of seed capital providers have specific sector knowledge, which allows them to further improve the selection process and provide more targeted mentoring, training and network building services to its incubatees.

Table 6: Delivery of the services and required skills per service concept

Type:	Service delivery	Core skills
<i>Hand-holders</i> :	Services are defined by the incubator, and delivered by incubator or by sub-contracted professionals or trained volunteers under supervision of the VBI.	<ul style="list-style-type: none"> - Business training and mentoring - Define and manage the incubation process - Fund raising
<i>Network boosters</i> :	Services are defined and delivered by incubatees, volunteers, and network members. The incubator facilitates the process.	<ul style="list-style-type: none"> - Selection of incubatees/members - Building partnerships with other organisations - Branding - 'Hosting' of incubatees to keep the network alive and mobilise and channel contributions of the members
<i>Seed capital providers</i>	(commercial) Short, structured support targeted to prepare incubatees for external finance. Elite-network of trainers, speakers and investors provide the services. (social) Intensive mentoring/monitoring services, with the objective to recover incubation costs and seed capital (loan) financing.	<ul style="list-style-type: none"> - Solid selection process - Business mentoring with specific sector knowledge - Able to access and mobilize elite of entrepreneurs and investors - (Seed investment) fund raising - Branding

Motivation of staff

The motivation of staff and volunteers differs per type of business incubator, but also per business environment. Staff and consultants at most *hand-holders* and *social seed capital providers* provide services on a fixed salary basis. Still, there are hand-holders exploring new incentive schemes, the most common of which is a bonus based on royalties on sales by incubatees.

Network booster staff and volunteers are often self-motivated.

Self-motivation can be based on identifying with the **mission** of the incubator, perceived as future **career opportunities** or on a feeling of **personal well-being**.

An important lesson is that, if bonus schemes are to be introduced, they need to include qualitative aspects of the service process or a 'shared successful result', such as obtaining equity finance or contracting new clients.

None of the *network boosters* rely on incentive schemes to motivate staff. Staff as well as volunteers share the mission of the organisation and feel that being part of the organisation or community improves their career opportunities or personal well-being.

Venture accelerators often do rely on staff incentives. Salaries or bonuses can be based on the number of incubatees or course participants who paid to join a new cycle. Also, by taking equity in the companies incubated, staff are incentivised to select and support the best high-potential incubatees. The value of the equity stake is of course uncertain.

Table 7: Staff motivation model per service concept

Type:	Motivation model
<i>Hand-holders</i> and <i>'social seed capital providers'</i>	Self-motivated, share incubator mission.
<i>Network boosters</i> :	Self-motivated, share mission, sense of

	belonging to a community.
<i>Venture accelerators</i>	Share in equity

Motivation of volunteers

When looking at the rewards given to volunteers, case study examples (such as the HUB and the BiD network) prefer to motivate volunteers by offering them special events, networking opportunities or official recognition. In the case of the BiD network, remuneration of volunteers even led to less motivation and commitment. This lesson may not be valid in all countries, however. Motivation of volunteers is likely to be specific to the business culture and business environment.

In the case of the BiD network, the HUB and Villgro, the brand of the incubator also helps to attract and motivate volunteers. Volunteers feel positive about being associated with a reputable organisation.

LESSON: Paying volunteers does not work

Remuneration of volunteers leads to them being less satisfied and (thus) less committed. Instead, volunteers appreciate e.g. being invited to special events, for the networking opportunities they bring. Volunteers are motivated by the emotive benefits the engagement gives, the experience and the learning opportunities. Financial rewards confuse this and may attract different types of ‘volunteers’.

3.4

VBI IMPACT

The impact of incubation is generally that the incubatees have grown or accelerated to become stable and growing businesses and are no longer in specific need of incubation services; they have successfully “graduated” in incubator-speak. As an orientation, the five in-depth cases we have studied yield the following data:

Table 8: Overview of the different impacts of five in-depth VBI cases

Incubator	Mission type/ ecosystem type	Incubator type	Budget per year(\$)	Number of companies incubated, average per year	Access to finance, average per year	Job creation (average per year)	Wider impact/achievement
ParqueTec (Costa Rica)	Social Emerging & remote	Hand-holder/seed capital provider	300,000	11+3 innovation oriented SMEs, Average 5-7 graduate per annum 36 remote BoP entrepreneurs	1 investments through angel investor network, 3 \$10,000 seed capital from own funds	10-15 jobs	Advocacy for start-ups and entrepreneurship; resulted in Costa Rican government adopting new programmes
3ie (Chile)	(Sector) innovation	Hand-holder	1 million	14 in pre-incubation 13 in incubation 1-3 graduates per year	Disburse \$600,000 seed capital (govt. fund); Mobilise \$ 100-150,000 in angel investor capital	20-25 jobs	Entrepreneurship introduced into culture of technical university
The HUB (EU)	Idealistic-commercial	Network booster	350,000	Hosting 295 business, of which 195 start-ups	Not an activity	Not monitored	Stimulating social enterprise development
The BID Network (LA, Africa)	Society	Network booster	2,1-2,8 million	100 SMEs supported	\$ 2,9 million of finance matched	400 jobs	Stimulation of local angel investor networks
Villgro (rural India)	Society	Seed capital provider	1 million	8-12 start-ups	Own funds, Successfully matches about 3-5 incubatees with local VC investors	25-50 jobs	Stimulates the “social enterprise ecosystem”; social returns for employees and consumers

‘Hand-holders’ generally impact a small number of companies. The impact achieves depends greatly on the quality of the incubator, e.g. its selection process and the quality of the services provided.

Network boosters have a ‘shallow’ impact on a large number of companies, and a ‘deep’ impact on a small, selected number of companies (the companies that find what they need in the network).

Finally, the seed capital providers have a deep impact on a small number of companies. Impact depends greatly on the selection process and the ability of the seed

capital provider to attract high-potential entrepreneurs and investors with an appetite for risk and/or a social mission.

Table 9: The impact of VBI service concepts

Type	Impact
<i>Hand-holders'</i>	<i>Deep</i> , expensive services for a small number of enterprises (10-20 per year)
<i>Network boosters</i>	<i>Shallow</i> impact on a large number of companies (100+) <i>Deep</i> impact on a small, selected number of companies (10+)
<i>Venture accelerators</i>	<i>Deep</i> impact on a small number of companies (15-30 per year)

3.5

BUSINESS ENVIRONMENTS AND VIRTUAL BUSINESS INCUBATION

In the following section, we look at the business environments in which VBI service concepts can flourish. Although there is no way to define which model is most appropriate where, the appropriateness of a service concept will depend on the incubator mission, the business environment, the incubator core competences, but also on the business culture in the targeted business sector or community. Issues related to trust, willingness to cooperate with people from different social or cultural backgrounds, and willingness to voluntarily offer services are also related to the (business) culture. Some service concepts will be more culturally appropriate than others (for instance, the *network booster* model does not seem to work well in the countries of the former Soviet Union).

The table below provides an overview of the core elements in the business environments and business cultures that affect the appropriateness of a VBI service concept.

Table 10: VBI types and business environment

Type of incubator	Business environment and business culture
Hand holder	<p>The 'hand-holder' services are most likely to be relevant in remote, basic or (to a lesser extent) emerging settings. In advanced business environments, it is likely that the BDS are already widely available.</p> <p>When expanding services to a new sector or region, VBIs need to realise that adapting to entrepreneurs from another culture requires specific skills.</p> <p>The hand-holder concept can also be in successful in environments with limited business opportunities.</p>
Network booster "BPC+"	<p>Emerging and advanced business environments, mainly because the business plan competition application process is usually online. Can be replicated in rural areas with modifications.</p> <p>In some countries and/or business sectors, many business plan competitions are already active. In these settings, it is not recommended to replicate the BPC+ service concept.</p> <p>Needs to target sectors and/or regions with sufficient business opportunities.</p>
Network booster "2.0"	<p>Likely to be most relevant in cities or business sectors with many professionals and freelancers, if there are no competing networks or e.g. business associations with a similar role. Not suitable for widely dispersed target groups.</p> <p>The business culture needs to allow for networking and engaging in new business activities with new business connections and/or people from different backgrounds. The network needs to ensure that the skills and businesses of the members are largely complementary.</p> <p>Needs to target sectors and/or regions with new emerging business opportunities.</p>
Seed capital provider-social	<p>Can vary from basic to advanced.</p> <p>Business culture of trust and professional business exchange needs to be created between the incubatee and the incubator, for example through quarterly Board of Directors meetings.</p> <p>Needs to target sectors and/or regions with sufficient business opportunities.</p>
Venture accelerator-commercial	<p>Emerging and advanced environments, where venture capital investments are common, and Internet is affordable, stable and fast.</p> <p>Targets firms that can grow quickly with relatively small cash investments, and are attractive to venture capitalists.</p> <p>Needs to target sectors and/or regions with sufficient business opportunities.</p>

3.6

SUMMARY

The chapter presents three service concepts that are common in virtual business incubation; the hand-holder concept, the network booster concept and the seed capital provider concept. We have also elaborated on the business environments in which these models are operating, as well as their core competencies and their cost and revenue structures.

The VBI service concepts range in cost-effectiveness and impacts, as well as in means of service delivery and revenue generation capacity. The table below summarises the main findings for each service concept.

Table 11: Main findings on each of the three service concept

Item	Hand-holders	Network boosters	Seed capital providers
<i>Service Focus</i>	Business development services (training, mentoring)	Access to business networks	Access to business finance
<i>Target group</i>	Special high-potential target groups	High-potential, Educated	High-potential, ICT or 'Social enterprise'
<i>Outreach</i>	10-20 business per year	100-300 businesses per network /competition	15-30 per season
<i>Service provision</i>	Service provider(s)	Facilitator	Facilitators
<i>Funding</i>	Donor/Govt/Univ./NGO	Foundations, Commercial	Commercial
<i>Typical main revenue model</i>	Sponsorships, additional consultancy projects	Sponsors, membership fees	Admission fee, equity

To be able to learn from these VBI service concepts and to get a better idea whether and how elements of the concepts can be replicated, we need to better understand how services are delivered. The following chapter provides more insight into the tools used for virtual business incubation.

CHAPTER

4 Virtual incubation tools

The following chapter provides insight into the **virtual tools** used by incubators, the **lessons** learned about these tools, and the **conditions** under which they can be used.

Almost all incubators in our sample use virtual tools, but in different ways and with different intensities. In the following section, we describe in more detail the virtual incubators tools we have observed and the practical lessons learned by the VBIs.

As a start, we categorised the VBI tools we have seen into six types or categories. Although there are many ways to describe the set of virtual tools used by VBIs, this classification covers at least all the tools applied by our sampled VBIs and may be useful for discussing the use of virtual tools by any other VBI.

For better overview, we have grouped the VBI tools into the following six categories:

Table 12: Six categories of virtual business incubation service tools

	<i>On-site:</i> Group training, workshops, presentations and events where incubatees are invited to come to a physical location.
	<i>E-learning:</i> Online training materials and information provision.
	<i>1-on-1 ICT exchange:</i> E-mail, SMS, phone, Skype, MSN and online collaboration tools.
	<i>Online recruitment:</i> Recruiting incubatees, mentors, interns, investors and ‘matching’ them to add business value.
	<i>Virtual communities:</i> (virtual) communities and online platforms where entrepreneurs meet, exchange knowledge and information and initiate collaboration.
	<i>Mobilising the online crowd:</i> Crowdsourcing, Crowd funding

In the sections below we discuss each VBI tool in detail, and provide examples and lessons learned that are based on the case study research. The section also provides a list of possible online tools that VBIs can consider using. The list is of course not exhaustive; it is meant as an example and inspiration for VBIs.

4.1

ON-SITE SERVICES FOR OFF-SITE CLIENTS



Face-to-face BDS for non-resident incubatees

The most basic tool for virtual business incubation is to have the non-resident client come to the incubator premises. In most cases where a *brick and mortar incubator* services a (minority) of non-resident clients, the incubatee comes to the incubator to make use of the available services. In situations where the incubator has facilities available for the client to use (such as a service, a scheduled training or an event), inviting the out-of-wall client is the most cost-effective. Regular face-to-face contact with the incubatees is felt by all incubators to be very important.

The Founders Institute, BiD network and Mobile Monday *rent facilities* or attract sponsors to make facilities available as an ‘in-kind’ contribution for their events or training/networking sessions.

Options for face-to-face VBI-client interaction:

- Incubator building
- Rented/sponsor facilities
- ‘Boot camps’
- Satellite offices
- (Rural) partners
- Come to the incubatee

Venture accelerators sometimes invite entrepreneurs to move to the site of a *boot camp*, usually for a period of three months. There, they usually live in dorm-like conditions, and have the time to focus on their product and business. Of course the benefit of a ‘boot camp’ is that the starting entrepreneur is outside his/her usual environment and can dedicate all attention to the learning process and the start the business. Not all entrepreneurs, however, can and want to do that. ‘Boot camps’ may be most suitable for young entrepreneurs, such as recent graduates.

A number of incubators, Softstart BTI, have developed other ways to provide services to remote groups of incubatees. They have opened so-called “*satellite offices*”.

ParqueTec provides rural services in cooperation with a *locally based partner organisation*. One benefit of this is that the local knowledge, reputation and network of a local partner can be mobilised, which will improve the level of service provision of the incubator.

LESSON: *ParqueTec needs strategic partners in rural areas*

A partner (for example, the municipality) wants to introduce the incubator and provide support in selecting the entrepreneurs. This is important in order to build trust, and to understand the entrepreneurial conditions in the town or region, which can vary widely.

Strategic rural partners build trust and mobilise local knowledge and networks.

Another possibility is of course for the service provider to come to the business. Interacting with the entrepreneur without experiencing the workplace is mentioned by some service providers as less effective. Villgro and ParqueTec are both incubators that invest in their incubatees and they recognise the importance of experiencing the business premises of the entrepreneur.

LESSON: Villgro: the Board comes to the incubatee
“Creating a board for an innovator company is crucial”

Boards are not just for larger companies, but vital for small innovative companies, who require more advice, steering and network access than conventional businesses. The board is also vital to attract commercial (or angel) investors later on – no investor steps into an enterprise without a reputable and active board.

Networking and peer-to-peer learning

Besides cost saving, asking non-resident incubatees to come to the incubator has other benefits. Starting entrepreneurs greatly value being able to *interact with and learn from their peers*. ParqueTec for example mentions that the workshops in the incubator are an opportunity for the entrepreneur to be exposed to another business environment, and to meet other entrepreneurs from different backgrounds and regions.

Text box 1: Workshops expose entrepreneurs to another business environment

ParqueTec: Rural-based incubatees are invited to regular (monthly) workshops or company visits at the office of ParqueTec. Besides saving costs for ParqueTec, these workshops are an opportunity for the entrepreneur to be exposed to another business environment, and to meet other entrepreneurs from different backgrounds and regions. The workshop is often combined with a visit to a company, which is considered to have an interesting business model for the participants.

Networking amongst entrepreneurs is often mentioned as an important benefit of having all incubatees under one roof. However, in practice, synergies will not emerge automatically. In many conventional business incubators, the “office hours” of the incubatees vary widely; limited overlap will limit possibilities for interaction.

Incubatees interacting with each other has most value in the early start-up phase.

Incubatees also mentioned that interacting with each other has value in the early start-up phase, but in later phases the businesses become very different and there was limited need to interact. Maybe also because they then have more internal capabilities and staff.

Conclusion

The “On-site services for off-site clients” tool has benefits, but also a number of limitations.

- ⊙ Although the incubatee does not occupy a building, if facilities need to be rented the same challenges and costs apply as for conventional incubation.
- ⊙ If incubatees need to travel, this can be costly and time-consuming.
- ⊙ Interacting with the entrepreneur without actually seeing the workplace and experiencing the atmosphere is mentioned by some service providers as less effective.
- ⊙ If an incubator works with incubatees in a remote location, a lack of local knowledge, networks and reputation in that specific area can jeopardise the quality of the incubator service.
- ⊙ In the start-up phase, entrepreneurs greatly value interacting with and leaning from peers. Incubators need to actively facilitate this interaction.

4.2



E- LEARNING AND PROVIDING ONLINE INFORMATION

Training and information can be offered **face-to-face**, but also **online** without face-to-face contact with the trainer or information provider. E-learning and online information provision has benefits, which includes opportunities for the incubatee to access information at any time, the services are location-independent and, once a website is in place, the VBI can increase outreach at no additional cost.

It is therefore worth exploring what the lessons and experiences are in replacing face-to-face contact with E-learning and/or information provision.

Online learning

With online learning, also referred to as **E-learning**, content is delivered via the Internet, intranet/extranet, audio or video tape, satellite TV, and CD-ROM. It can be self-paced or instructor-led and includes media in the form of text, image, animation, streaming video and audio. A mixture of online and face-to-face learning is often referred to as **blended learning**. If well designed, this can be very effective, combining the “best of both worlds.”

The degree to which E-learning offers an opportunity to replace face-to-face training depends on the **target audience** and the training **topic**.

E-learning requires access to basic equipment and bandwidth. Also, a minimum level of computer knowledge is required in order to perform the tasks required by the system. An incubatee who does not possess these **skills**, or does not have access to the needed **tools** (computer, CD/DVD player, internet), cannot succeed. In addition, the flexibility and self-paced nature of e-Learning **requires a high level of responsibility** and motivation from the incubatee. It is therefore suitable for a more “educated” type of audience – those who are used to studying from materials without face-to-face training.

Some **topics** are not appropriate for e-Learning. Certain subjects that require physical practice and face-to-face feedback, for example practicing an elevator pitch, are not good candidates for e-Learning. In general, where factual and technical information is transported, e-Learning can be useful; where changing the habits, motivation or mind-set of the trainee is the objective, face-to-face training is far more effective.

Finally, for a business incubator, it is **costly** to develop quality e-Learning training modules and materials. If existing materials can be used that match the cultural context and skills of the target audience, however, this hurdle can be overcome.

Text box 2: Examples of existing E-learning modules include:

- The IFC SME Toolkit offers software, business forms, training, and more to help small businesses in emerging markets grow and succeed. There are special modules for helping women in business. <http://www.smetoolkit.org/smetoolkit/en>
- My Own Business, Inc. is a non-profit organization committed to helping people succeed in business. An online training course is presented by successful business owners, who point out common, avoidable mistakes. <http://www.myownbusiness.org/>
- The UK government's Business Links website offers a wealth of online information, including checklists, training materials and online instruction videos on practical issues, such as business registration, hiring a new employee, or assessing and improving business cash flow. <http://www.businesslink.gov.uk/>

Online information provision

A number of incubators in our sample developed websites and use other online tools for sharing documents, schedules and information to complement the existing training and coaching package. However, this sometimes had limited success, if it was not implemented structurally.

Websites that provide information soon became out of date, as does the information they provide. Another challenge is the fact that there is already so much of this sort of information available on the web that there is no need for more web sites trying to provide more of the same.

Information made available through the Internet (website) needs to be kept **up-to-date**; incubators need to regularly post new information and provide information in an attractive **format**.

The box below, on the Business Links online platform, provides more details on the challenges and lessons of online information provision.

Text box 3: Online training and information provision for entrepreneurs

The *Business Links* website of the UK government offers a wealth of online information, including checklists, training materials and online instruction videos on practical issues, like business registration, hiring a new employee, or assessing and improving business cash flow.

Developing the centre was extremely resource-intensive. The main challenge is now to ensure that information remains up-to-date. Benefits are that information is online for free, and is being used by (staff of) entrepreneurs, as well as by business coaches and trainers in the regional chambers of commerce, who use the online tools and videos in their workshops. This saves business service providers time and resources, and ensures that the information provided is up-to-date and in line with government regulations.

More information: please refer to the case study report in the Annexes or visit <http://www.businesslink.gov.uk/>

LESSON: *For online information provision*

Lessons for online information provision included:

- Hyperlinks must work well; if an entrepreneur runs into a non-functioning website, the window will be closed and the site will not be used again.
- Information should be available for download; many people prefer to read from paper.
- Information should be offered in an attractive, interactive manner.
E.g. include short 'quiz-like' questions to help incubatees assess their business situation; provide links to relevant text sections; examples of existing entrepreneurs; videos; short interviews/quotes.

Conclusion

Although E- learning and providing online information *can have* benefits for incubatees and incubators alike, it also has limitations.

- ☉ The potential of E-learning depends on the **skills** and access to **tools** of the incubatees, the training **topic**, and the level of responsibility or **motivation** from the incubatee.
- ☉ If training is related to changing the habits, motivation or mind-set of the trainee, face-to-face training is far more effective.
- ☉ For a business incubator, it is costly to develop quality e-Learning training modules and materials.
- ☉ Information made available through the Internet (website) needs to be kept **up to date**.

4.3

Client and VBI
exchange 1-on-1

REMOTE ONE-ON-ONE COMMUNICATION

Email, phone, Skype, video calls are all tools for one-on-one communications, and not surprisingly, all incubators in the sample exchange information with incubatees through e-mail, SMS and mobile phones to some degree. Use of these tools is part of their daily work.

Also, many other online collaboration tools are available on the internet. These tools for example allow for working in a shared calendar or document, or can enhance remote communication by for example providing an online “whiteboard” that can be used to jot on while conversing through Skype or phone.

The box below provides an overview of some popular online tools.

Text box 4: Online tools that enhance remote 1-on-1 communication

- Zoho Writer allows collaborative word processing, writing and sharing. <http://writer.zoho.com/>
- DabbleBoard is an interactive whiteboard that will help trainees visualize, explore and communicate ideas. <http://www.dabbleboard.com/>
- Twiddla provides a whiteboard skin on top of any web page, excel sheet, or blank canvas. Trainees can mark up the whiteboard layer and interact at the same time. <http://www.twiddla.com/>
- Doodle is an online poll tool for scheduling an event, selecting options from a list, checking box options and other surveys. <http://doodle.com/main.html>
- Survey Monkey is a widely known and cost effective tool for online surveys. <http://www.surveymonkey.com>
- Brainjuicer is a tool which produces mind maps for survey results. <http://www.brainjuicer.com/>.
- Other mind-mapping programmes are described on www.cul.co.uk/software/index.htm

One-on-one communication is mainly relevant for providing *mentoring services*. In the VBIs studied, the degree to which mentoring services can be provided effectively through ICT strongly depends on the **topic** addressed, and the **relationship** with the mentor and/or the incubator.

All virtual incubators in our sample stressed the fact that mentoring to address problems or challenges in the emerging business is based on a relationship of trust, and that this relationship develops best if there is regular face-to-face contact. The reputation of an incubator also plays a role in the trust incubatees have that their information will be treated confidentially. If the incubatee trusts the incubator, he or she will be more open to sharing information through email, phone, or other media. However, for specific advice that does not involve disclosing too much about the background of the entrepreneur and the business, ICT-based advice is considered to be fast and efficient.

Face-to-face contact is gradually replaced by ICT-based communication, after trust has been established

As elaborated on in the box below, ParqueTec has a strategy where face-to-face contact is gradually replaced by ICT-based communication.

ParqueTec specifically chose to set up a Video Skype connection in the offices of its rural partner, because it noticed that communication with the incubatees per phone was often interrupted. Entrepreneurs could easily be distracted. The video connection outside the entrepreneur's office forces the incubatee to make him or herself fully available for the conversation.

Text box 5: Combining face-to-face individual with ICT-based coaching

ParqueTec consultants combine face-to-face individual coaching with virtual communication with their entrepreneurs. In their experience, however, before entrepreneurs call or send an SMS about a specific issue, a relationship of trust needs to be established first between the coach and the entrepreneur. For this, several face-to-face meetings are required. Once trust is established, especially long distance 'troubleshooting' has worked well, e.g. providing an answer for a specific question. For less urgent coaching topics, phone communication was insufficient; entrepreneurs would lose their concentration without face-to-face contact. A new computer with a Video Skype connection set up at the local municipality may offer a solution. This way, entrepreneurs need to be fully available for the coaching session. Also video contact may be possible, although this will depend on the speed of the Internet connection, which fluctuates depending on the time of the day.

More information: please refer to the case study report in the Annexes

Villgro has an ICT-based "review system" in place, including an online (financial) reporting format, and weekly and monthly meetings per phone. Still, trust needs to develop in face-to-face meetings. The ICT-based review is combined with quarterly physical meetings.

Text box 6: Monitoring the performance of remote incubatees

Villgro places heavy emphasis on the mentoring part of incubation; all companies it invests in are put under its “review system”, which is based on ICT-based exchange and quarterly physical board meetings:

- After a business plan has been developed and agreed, milestones are defined and once every week a portfolio manager contacts the company by **phone** to discuss challenges and possible requests for support.
- Once a month, a “heavy talk” takes place in the presence of Villgro’s director (who is also on the board of the enterprise); here the performance and progress of the preceding month is reviewed critically and incubatees are motivated to adapt, if needed. The incubatee needs to **email a progress report** in advance, which is discussed over the **phone** or through Skype.
- Finally, there is a quarterly meeting with the board of the enterprise, **face-to-face** and in **the company’s location**.

More information: please refer to the case study report in the annexes

Conclusion

ICT-based one-on-one communication can thus save time and (travel) costs, but has the following limitations:

- ⊙ A general trend is that use of ICT in communication between VBI and incubatee depends on the complexity of the issue to be addressed. Complex issues need to be addressed in face-to-face contact. Simple tasks can be performed using ICT.
- ⊙ Video Skype in another location can be used as a tool to ensure that the incubatee makes him or herself fully available for the conversation.
- ⊙ Online collaboration tools can make exchange through phone and Skype more effective.
- ⊙ If complex issues are to be addressed through ICT, there needs to be a relationship of trust between the incubatee and the service provider. These relationships do not develop overnight, and often require face-to-face contact and/or a business incubator with a strong reputation.
- ⊙ For specific advice that does not involve disclosing too much about the background of the entrepreneur and the business, ICT-based advice is considered to be fast and efficient.
- ⊙ Remote support of incubatees using a range of ICT options presents management challenges to the incubator, if it is not systematic.

4.4



ONLINE RECRUITMENT

This section is about the potential role of ICT in attracting incubatees, volunteers, mentors, and investors to the incubator. Some business incubators mobilise crowds of potential service providers through the Internet and match them to their incubatees. Others use business plan competitions, which encourage entrepreneurs to participate and upload their business ideas.

The benefits of online recruitment can be twofold: first, a large number of applicants offer the incubator the opportunity to choose the most appropriate candidate; on the other hand, recruiting online can save costs, especially if an automated selection (or preselection) tool is developed.

A strong *brand* is important for online recruitment and incubators work in partnership with strong brands. This is very evident in business plan competitions, in which incubators usually partner with reputable companies and financial institutions to add cachet to the competition.

Online recruitment of incubatees

Online recruitment of incubatees is common in all of the types of VBIs we distinguished in the research. However, BPC+ and seed capital providers recruit the largest numbers of applicants and dedicate significantly more time and resources to the selection process.

When recruiting entrepreneurs for the business plan competition and investor match-making sessions through the Internet, an incubator aims to attract serious entrepreneurs with realistic and attractive business plans and not “fortune seekers”. Low-quality incubatees are not only a waste of resources – they also damage the reputation of the VBI with potential investors, donors and sponsors.

Lessons from using business plan competitions to select members show the importance of a targeted promotion strategy.

A sound promotion and selection strategy, plus “quality-based” rewards from the funder.

LESSON: *Attracting quality participants to a business plan competition*

- External communication should emphasize the fact that joining the competition is not about the prize money, but about coaching, contacts, networks and access to investors.
- Select targeted publicity partners to reach the appropriate audience.
- Performance-based rewards schemes should not be based on a fee per business plan uploaded on the platform. Instead, the focus should be on the number of high-quality business plans.

The HUB’s recruitment of members is done by tapping into networks of like-minded networks and organisations. Besides reaching out through printed media and social media networks, many meetings and presentations were held at like-minded organisations to explain the idea behind the HUB.

In some cases a diverse range of incubatees needs to be ensured

Once a critical mass of members is reached, most new applications come in via “word of mouth”. The VBI risks getting stuck in a certain network, which limits the diversity of incubatees. Incubating too many ‘similar’ businesses can become a financial risk for a VBI. For network boosters, it can undermine the added value of the membership. The VBI must therefore continue to actively approach people and organisations outside the network in order to attract “unlikely members” or underrepresented groups to maintain the diversity of entrepreneurs.

Text box 7: The need to actively safeguard the diversity of members

The HUB has a three-step application process:

1. Members complete an online questionnaire, specifying their business sector, what they expect from/want to contribute to the HUB, and the desired level of membership.
2. The HUB host reviews the applications. If an applicant is active in a sector that is already over-represented, or if the host considers that he/she has little to contribute, (s)he is put on a waiting list.
3. Selected applicants are invited for an interview with one or two HUB hosts. During the interview, the hosts assess whether the applicant has the right “business acumen” to contribute to the community, and if the entrepreneur matches mission of the HUB i.e. to contribute to a ‘better world’.

For more information: please refer to the case study report in the Annexes

Online recruiting and matching of mentors

A number of incubators use the Internet to mobilise and recruit mentors, who are then matched with the incubatees. The service providers recruited are mostly volunteers. Villgro for example uses the Internet to recruit International Fellows, who are assigned to work in the incubator company for 6-9 months. Out of typically 250 applications, from typically over 10 countries, 10-15 highly motivated and skilled fellows are selected.

Text box 8: Recruiting and matching international Fellows

Villgro: Each incubated enterprise has one fellow assigned, for 6-9 months, in each year of the incubation period. Fellows are recruited by a special team within Villgro, who announce the programme through the network of Villgro in high-profile business schools and by posting the job on the website. Villgro’s strong international reputation is a crucial factor for attracting applications from potential fellows. Out of typically 250 applications, from typically over 10 countries, 10-15 are selected. The typical fellow is academically schooled, has some working experience and is entrepreneurial and committed to social enterprises. Fellows receive a small remuneration (approx. € 350 per month) and are reimbursed for their travel costs.

More information: please refer to the case study report in the annexes

Another example is the BiD network, which has recruited over 750 voluntary coaches and experts, who support entrepreneurs while they write their business plans. Voluntary coaches can apply by completing an online profile and application form. The BiD network matches the volunteer to a company in a sector or country where the volunteer has experience. Interaction is online only.

Text box 9: Mobilise volunteers as ‘in-kind’ contributions by large companies

Most coaches and experts are recruited through cooperation with multinational or large companies and, to a lesser extent, alliances with business schools. These organisations are approached as potential sponsors or partners of the BiD Network. As part of their support, they can offer an ‘in-kind’ contribution, by promoting voluntary work for the BiD Network among their staff, and allowing them to do coaching (in some cases) during office hours. The BiD Network also promoted coaching activities on social networks such as LinkedIn and Facebook, but this proved to be less successful in terms of the numbers of coaches contracted (more labour-intensive, fewer results).

For more information: please refer to the case study report in the annexes

Potential volunteers are best reached through partner organisations in existing networks

Potential volunteers can best be reached and approached through partners in their existing network. For an effective campaign, incubators need to form partnerships with relevant organisations who can advertise the volunteering opportunity for the incubator. For this, a strong brand and an active community are essential to attract volunteers. People are more likely to volunteer their services if they feel it enhances career opportunities, social standing or personal well-being.

LESSONS: *How best to recruit large number of volunteers?*

- Recruiting through networks of skilled professionals works best.
- Build the brand; volunteering should be an attractive option.

Volunteerism is often based on career opportunity, social standing or personal well-being.

Online matching of incubatees and investors

Many incubators in our sample have the objective of matching incubatees to investors, but few succeed. The BiD network piloted an online match-making facility, publishing elevator pitches and business plans online to attract investors. It found, however, that investors generally do not browse the Internet for ready-for-finance business plans. Bringing investors and potential investees together requires face-to-face contact, but also a relationship of trust. For example, a recommendation by the VBI that knows the investor and its requirements can recommend a number of entrepreneurs. After this recommendation, a YouTube broadcast of an elevator pitch can give an investor a first impression. If the investor is interested, face-to-face contact will be sought.

Automated selection tools

The Founders Institute is a good example of a competitive application process that is partially automated. The organisation requests applicants to fill in a “predictive admission test” and a computer model analyses the replies and selects the participants. Selection is based on this admission test, which does not even require the entrepreneur to propose a business plan or idea.

Textbox 10: Competitive recruitment for the Founders Institute training course

The Founder Institute uses a so-called predictive admissions test to select participants. Having a business plan or idea is not required. The test was developed by leading social scientists in conjunction with the Founder Institute and is the main criteria for evaluating applicants. The costs of submitting the application ranges from \$50 to \$100.

Only 10 percent of all applicants are selected to participate in the Institute's four-month training programme with weekly sessions, where experienced business people help the selected entrepreneurs develop and launch their new businesses. Participation in the training is charged at full cost.

For more information: please refer to the case study report in the annexes

Many entrepreneurial psychometric testing tools are available online. The tests can, however, can be biased towards specific (business) cultural settings. Also, if the applicant has no experience of personality tests, this can introduce some bias into the results.

Text box 11: Entrepreneurial skill and aptitude testing

Examples of websites:

- ☉ The Saville Consulting Wave® site provides a range of psychometric tests including Entrepreneurial Potential tests :
http://www.psychometricassessment.com/entrepreneurial_potential_assessment.php
- ☉ A much simpler but free test is available at
<http://www.bizmove.com/other/quiz.htm>

Automating business match-making tools

The West Midlands Collaborative Commerce Marketplace developed an automated matching service, targeting SMEs. The WMCCM-site provides registered SMEs with details of EU and local government tenders. Before SMEs can register, they need to develop a competency profile. The match-making tool helps SMEs to form complementary partnerships online, so that they can jointly respond to tender opportunities.

Text box 12: Online matchmaking tool: The need to validate information

The match-making function of the WMCCM site only works well if the company profiles are correctly filled in. Most SMEs did not correctly complete the form, some overstated their competences. Therefore, WMCC staff physically visit the SMEs to complete and validate a competency profile based on the companies' capacity, capabilities and skills. The profile captures both what a company does already and what it potentially could do in the future.

More information: please refer to the case study report in the annexes

Conclusion

The benefits of an online recruitment tool are that an incubator with a **strong brand** can attract many potential contributors. With a wide choice of interested mentors, volunteers, or incubatees, the incubator can select the most suitable candidates and improve the quality of its services.

Lessons include:

- ④ The incubator needs to invest in building a brand, and build partnerships with networks or organisations that have relations with the target audience. In our sample, the best online recruitment is through an appropriate network of recruitment partners.
- ④ Social media are often used to disseminate news about the recruitment campaigns as additional tools, but do not deliver the best results.
- ④ The incubator needs a well thought through recruitment strategy, to ensure that the quality of the applications is high.
- ④ The incubator needs to verify the quality of applicants, by screening applicants, and introducing terms or contracts, which can be time-consuming. In the final phase of recruitment, face-to-face interaction is usually still needed.
- ④ A lesson learned by incubators in the sample is that online recruitment is a suitable tool for recruiting incubatees and mentors; for access to finance, other tools need to be used. (see section 4.5 and 4.6).

4.5



Online presence in communities to build and maintain a brand

Forums are commonly used for sending messages, but responses and interactions are limited.

SOCIAL MEDIA AND VIRTUAL COMMUNITIES

While with online recruitment the incubator decides on whom to recruit, networks and virtual communities leave the initiative to the members. Lively “virtual communities” create value for their members with significant input from the members themselves.

The following section seeks to identify lessons the services provided by these virtual communities, as well as on the extent to which virtual communities can replace face-to-face interaction.

Online communities/platforms /discussion forums

Firstly, there are online communities that are only based on online interaction. These can be online forums created by the incubator, but also include social media where groups or communities can be formed, such as through Facebook or LinkedIn. An online community or forum can be used to exchange information with a select online group and have discussions, post questions and answers, share calendars and announce events.

Many incubators have in the past years made attempts to set up an online forum for their incubatees. In principle, an online forum can be a valuable platform for interaction. However, in the experience of the incubators in our sample, online forums were never used for more than a few months. Members did not use the platform frequent enough, and the functionality of the online forum quickly became out-dated.

LESSON: *Use free tools that are available online.*

Since “*new and free platforms and tools become available online ‘like daily bread’*”, 3ie makes sure that executives know how to use the most popular online free tools. 3ie incubates ICT companies, who start their own online platforms and tools such as Google Docs, NING, Windows Messenger, Facebook, Twitter, or LinkedIn.

While setting up an online community is relatively easy, with so many websites that offer the possibility, most online communities have a short life. Facilitating online interaction of members of the platform is very challenging. In many cases, some members posted questions, announcements and opinions, but no relevant response or interaction takes place. The community soon degrades to a “bulletin board”, where interaction is only one-way and no exchange takes place.

Still, an online presence if structurally managed by the VBI has value for brand building and information sharing purposes. Online forums and social media tools can be added to a site at little or no cost. But an incubator will need to allocate time and resources to monitor user content, frequently post new announcements, reply to requests and to keep the website up to date.

Text box 13: Tools for online communities

- Wikipedia provides an overview of a wide range of “social software” that is available on internet: http://en.wikipedia.org/wiki/Social_software
- Ning is a hosted solution with a feature set that includes shared user profiles, blogs, forums, photo galleries, support for video and podcasts, a Facebook-like activity stream (newsfeed), event calendar and groups. The platform also integrates with other social networks like Facebook, Twitter and YouTube. (www.ning.com). The service is not free. Other similar providers are www.groupsite.com, [www.groups](http://www.groups.com), and www.socialgo.com.

Networking communities

The successful virtual networks in our sample show the online network is a “back-up” or directory of members of a physical community. For example, the success of the Mobile Monday community is based on the monthly meetings, where members come to attend an interesting lecture and to network. The online platform was introduced at a later stage.

Text box 14: Mobile Monday's community

Mobile Monday (MoMo) is an open community platform founded in Helsinki, Finland in 2000. The initiative started as an informal get-together for the Finnish mobile industry on a Monday evening in 2000. Since then, many Mobile Monday “chapters” have been founded over the world, each organizing monthly events for the mobile industry.

While MoMo was traditionally meant for face-to-face encounters, most chapters opened their own website and members connected by forming groups in existing social media such as Facebook and LinkedIn. In response to this, Mobile Monday launched an online platform to connect the different individuals as well as developments in the over 100 locations worldwide.

More information: please refer to the case study report in the annexes

Virtual communities:
Members are passionate
about being involved

All service providers that have succeeded in setting up a virtual community share a common characteristic: members are passionate about being involved. A key lesson of the research is that passionate involvement cannot be created online. The HUB, the BiD network, Mobile Monday, all organise events, have a physical space where members, or volunteers are invited and encouraged to interact. In addition to these physical events, they have an online platform, which is used as an “address book” and “events calendar” or “message board” by the service provider and the members of the network. However, the physical events set the tone and create the dynamics, the motivation, and enthusiasm.

The physical events set
the tone and create the
dynamics, the motivation,
and enthusiasm.

LESSONS: *How to attract people to something new?*

1. The concept has to have something special in it, something crazy
2. Don't go online too late. Take it public in small circles, get feedback, and develop it together.
3. Give it away free, and you will get something free back.
4. Get an existing network to back it and add reputation. High profiles. Who is the best in the field? Partner with them.

More information: please refer to the case study report in the annexes or visit

A ‘client attitude’ needs to
be avoided

A lively community mobilises members to actively contribute and provide resources, and requires active facilitation to stimulate and channel member initiatives.

Lessons from the HUB: Avoid a client attitude

For the HUB, an important lesson to keep members active and involved was that it needed to avoid members developing a ‘client attitude’. The key message of the HUB is that “members own the HUB”, and “the HUB is what you make of it”.

Also, according to management, the soul of the HUB is kept alive by the “hosts” of the facility. Hosting is a skill, even an art. A good host creates a positive working atmosphere, is an energetic, hands-on and communicative person, who brings members together who can create synergies.

More information: Please refer to the case study report in the annexes or visit www.the-hub.net

Access to finance communities

As mentioned in previous sections, a number of VBIs aim to bring together investors and entrepreneurs. Virtual communities can play a role in this.

BiD network, Y-Combinator and Founders Institute for example developed their own network of investors and organise regular pitching sessions where incubatees can pitch their idea to groups of potential investors.

A key lesson is that matching investors from Europe and the USA to (starting) SME entrepreneurs in developing countries proved to be extremely challenging. Most investors have their own preferences and criteria in terms of business sectors, geographical regions and minimum size of the investment. In addition, although investors were eager to invest in a developing country, unfamiliarity with the local context, cultural barriers and high transaction and monitoring costs represent a high threshold.

Starting SME entrepreneurs are more likely to be served by an investor who is close to their business geographically and culturally.

Still, most investors are not interested in project ideas; they have more confidence in a more robust and experienced business. Also, the appetite for risk among angel investors varies widely. In some sectors or countries, angels certainly come in far earlier than banks. However, there are also examples of angel investor networks that very rarely make investments. In most business ecosystems however, there are few commercial, bank or angel investments in start-ups.

BiD Network a 3-step “champions approach” for setting up an Angel

Investor network:

1. Identify willing “champions with clean money”
2. Organize a pitching event for him/her and five like-minded friends
3. Facilitate the contracting process

Text box 15: Setting up local angel investor networks

BiD Network has developed a so-called “champions approach”.

1. BiD Network’s in-country partners scan the region for influential and wealthy (ex-) entrepreneurs. Through formal as well as informal background checks, including information from legal institutions, rating bureaus, financial institutions and other entrepreneurs, the network aims to select one champion entrepreneur with “clean money”.
2. If (s)he confirms basic interest and willingness to invest in local SMEs, BiD Network offers to facilitate a ‘pitching-session’, at a location of the angel investor’s choice. The conditions are that the investor brings a number of likeminded friends, and then BiD Network’s partner selects and prepares five entrepreneurs. During the ‘pitching-session’, information is exchanged, however negotiations are not yet allowed.
3. If there is a “match” or a potential interest to invest from one of the investors, BiD Network offers expertise, coaching and contract templates to both the investor and the entrepreneur, and arranges a new meeting. During this second session, draft contracts can be discussed and negotiated under facilitation of BiD network and its partner when this is required. The investor often brings his/her accountant and/or lawyer.

More information: please refer to the case study report in the Annexes

More information: please refer to the case study report in the Annexes or visit www.mobilemonday.net

Conclusions

Building a network may improve the quality of services of the incubator, and may cut costs or even generate revenues. The main lessons learned about virtual communities which stood out in our research are the following:

- Online forums and social media tools can be added to a site at little or no cost. But an incubator will need to allocate time and resources to monitor user content, frequently post new announcements, reply to requests and to keep the website up to date.
- Social media can be used to build and maintain a brand in existing off-line communities, or for spreading invitations, announcements and news; building an active online community where members exchange knowledge is very challenging.
- Successful virtual communities in our sample are based on regular combined networking or training events, usually outside of office hours. Members join the networks to learn, get inspired and build their network.
- Hosting a community is an art, and requires skills and resources.
- Financing networks work best if they involve investors who are geographically and culturally close to the incubatees.

4.6

CROWD FUNDING AND CROWD SOURCING

The final virtual tool we discuss is “mobilising the online crowd”. While in the previous examples of virtual tools are based on interaction between members of selected groups (the incubator staff, the service provider, other incubatees or community members), the online crowd is an anonymous crowd of virtual users.

Crowd funding

Social media, online communities and micropayment technology can engage many people and secure donations at very low cost. MYC4 is an example of an Internet marketplace where investors from around the world can lend money directly to entrepreneurs.



Text box 16: MYC4

MYC4 is an online Peer-to-Peer platform where individuals can become a “crowd investor” and provide loans directly to small businesses. Investors who have created accounts on the website are given a variety of third-world businesses to choose from, which they then bid money towards supporting. The recipient, after agreeing on the terms, closes the transaction. A bid can be as little as €5, while repayment times may run to three years. So far **18,668** investors from 110 countries have lent € **13,846,913** to **7,016** small businesses in 7 African countries.

More information: please refer to the case study report in the annexes

Crowd-sourcing

Crowdsourcing means problems are broadcast to an unknown group of problem-solvers in the form of an open call for solutions. Users—also known as the crowd—typically form into online communities and submit solutions. The crowd also sorts through the solutions, finding the best ones. These are then owned by the entity that broadcast the problem in the first place – the crowd-sourcer – and the winning individuals in the crowd are sometimes rewarded.

There are crowd-sourcing platforms that aim to support projects or emerging (social) enterprises in developing countries. An example is Nabuur.com, an online volunteering platform that links online volunteers with communities in Africa, Asia and Latin America. Connected through Nabuur.com, they share ideas and find solutions to local issues.

Conclusion

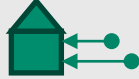

Crowdsourcing may be suitable for incubators or incubatees with a clear problem definition, such as feedback on a new product or service design (as suggested by Mobile Monday in the start-up phase), or feedback on specific business model related challenges. Crowd funding may offer access to finance opportunity, especially when incubators can connect with existing crowd-funding platforms.

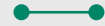
4.7

SUMMARY

Below we summarise lessons learned about the use and application of virtual incubation tool in a concise table:

Table 13: Benefits and limitations of virtual business incubation tools

Tool	Benefits and limitations	Summary:
 <p>The client comes to the incubator:</p>	<p><i>Benefits:</i></p> <ul style="list-style-type: none"> - Expanded geographical coverage. - Cost effective if facilities are available. - Exposes entrepreneur to another business environment. - Exchange with other entrepreneurs from different backgrounds and regions. - In the case of Satellites: local knowledge, reputation and network of a local partner can be leveraged to improve the level of service provision of the incubator. <p><i>Lessons</i></p> <ul style="list-style-type: none"> ⦿ Although the incubatee does not occupy a building, if facilities need to be rented, the same challenges and cost apply as for conventional incubation. ⦿ If incubatees and incubator staff need to travel, this can be costly and time-consuming; ⦿ Interacting with the entrepreneur without experiencing the workplace can be less effective. ⦿ If an incubator works with incubatees in a remote location, a lack of local knowledge, networks and reputation in that specific area can jeopardise the quality of the incubator service. ⦿ In the start-up phase, entrepreneurs greatly value interacting with and leaning from peers. Incubators need to actively facilitate this interaction. 	<p><i>Business environment:</i> Rural to advanced</p> <p><i>Service concept:</i> Hand-holder</p> <p><i>Services:</i> Training, mentoring</p>
 <p>The client comes to the Internet:</p>	<p><i>Benefits</i></p> <ul style="list-style-type: none"> - Expanded outreach and geographical coverage - Incubatees can learn/look for information at their own pace, whenever and wherever convenient. <p><i>Lessons</i></p> <ul style="list-style-type: none"> ⦿ The potential of E-learning depends on the skills and access to tools of the incubatees, the training topic, and the level of responsibility or motivation from the incubatee. ⦿ If training is related to changing the habits, motivation or mind-set of the trainee, face-to-face training is far more effective. ⦿ For a business incubator, it is costly to develop quality e-Learning training modules and materials. ⦿ Information made available through the Internet (website) needs to be kept up to date. 	<p><i>Business environment:</i> Emerging/advanced</p> <p><i>Service concept:</i> Hand-holder</p> <p><i>Services:</i> Training, information provision</p>



**1-on-1
interaction
with ICT
replaces face-
to-face
contact:**

Benefits:

- **Saves time** and (travel) **costs**
- Fast (for troubleshooting)

Business environment:
Rural to advanced

Lessons:

- ④ Use of ICT in communication between VBI and incubatee depends on complexity of the issue to be addressed. Complex issues need to be addressed in face-to-face contact. Simple tasks can be performed through ICT.
- ④ If complex issues are to be addressed through ICT, there need to be a relationship of trust between the incubatee and the service provider. These relationships do not develop overnight, and often require face-to-face contact, and/or a business incubator with a strong reputation.
- ④ For specific advice that does not involve disclosing too much about the background of the entrepreneur and the business, ICT-based advice is considered to be fast and efficient.
- ④ Video Skype in another location (outside the incubatee office) can help to ensure that the incubatee makes him or herself fully available for the conversation.
- ④ Online collaboration tools can make exchange through phone and Skype more effective.
- ④ Remote supporting of incubatees through a diverse means of ICT poses management challenges to the incubator, if it is not systemised.

Service concept:
All

Services:
Mentoring,
monitoring



**Online
recruitment:**

Benefits:

- With a wide choice of interested mentors/volunteers/incubatees, the incubator can **select the most appropriate candidates** and improve the quality of the incubator service.
- Recruiting highly qualified volunteers can **save costs** without jeopardising quality.
- Contributes to the **brand** of the incubator.

Business environment:
Rural to advanced

Service concept:
All

Services:
Training,
mentoring,
networking

Lessons:

- ④ The incubator needs to invest in building a brand, and build partnerships with networks or organisations that have relations with the target audience (volunteers, mentors and incubatees).
- ④ Social media are support recruitment campaigns as additional tools.
- ④ The incubator needs a well thought through recruitment strategy, to ensure the quality of the applications is high.
- ④ The incubator needs to verify the quality of applicants. In the final phase of recruitment, face-to-face interaction is usually still be needed.
- ④ Online assessment is a suitable tool for recruiting incubatees and mentors; for access to finance, other tools need to be used.



Social media and (virtual) communities:

Benefits:

- Social media tools can be added to a site at little or no cost, and are a good tool for enhancing the **brand identity** of the incubator.
- A lively community **mobilises members** to actively contribute, by providing resources.
- This may improve the **quality** of services of the incubator, and may cut **costs** or even generate **revenues** because members may be willing to pay a membership or admission fee.

Business environment:
Emerging/advanced

Service concept:
Hand-holders,
network booster

Services:
Access to finance,
networking, training

Lessons:

- ☉ Online forums and social media tools can be added to a site at little or no cost. But an incubator will need to allocate time and resources to monitor user content, frequently post new announcements, reply to requests and to keep the website up to date.
- ☉ Social media can be used to build and maintain a brand in existing off-line communities, or to send out invitations, announcements and news; building an active online community where members exchange knowledge is very challenging.
- ☉ Successful virtual communities in our sample are based on regular combined networking or training events, usually outside of office hours. Members join the networks to learn, get inspired and build their network.
- ☉ Hosting a community is an art, and requires skills and resources.
- ☉ Financing networks work best if they involve investors at geographical and cultural proximity of the incubatees.

Benefits:

Mobilises large numbers of people to contribute their knowledge and/or finances online.

Business environment:
Emerging/advanced

Lessons:

- ☉ Building an attractive platform for crowds to become active is a sophisticated challenge; VBIs can, however, seek cooperation with existing platforms.
- ☉ Crowds so far are mostly emerging in advanced countries, with limited knowledge about local solutions in other countries.
- ☉ Crowdsourcing may be suitable for incubators or incubatees with a clear problem definition, such as feedback on a new product or service design (as suggested by Mobile Monday in the start-up phase), or feedback on specific business model related challenges.
- ☉ Crowd funding may offer an access to finance opportunity, especially when incubators can connect with existing crowd funding platforms.

Service concept:
network booster,
seed capital
providers

Services:
Networking, access
to finance



Crowdsourcing and crowd funding:

This concludes the section on virtual tools; in the following chapter we discuss a number of key questions relating to the use of virtual business incubation, and summarise the main lessons learned about virtual business incubation.

CHAPTER

5

Lessons learned

The degree to which virtual tools can be of benefit for business incubation depends on the mission of the incubator, the service the incubator aims to provide, the competencies, business environment and location of the target group, and the resources available.

In the following sections, we provide an overview of the specific virtual tools that can increase the outreach, quality or cost-effectiveness of VBI services

Then we provide an overview of the opportunities ICT tools can offer to improve the cost-effectiveness and outreach to rural areas of the three defined virtual business incubation service concepts, namely 1) hand-holders, 2) network boosters and 3) seed capital providers.

We also discuss the conditions under which these service concepts can be replicated, and what lessons can be learned to improve virtual incubation service concepts.

We would such as to stress that there is no rule that says service concepts cannot be mixed. Staff at BIs and VBIs can study the various service concepts and tools, and get inspired to introduce new services or ways of providing a service, based on the characteristics of hand-holders, network boosters and seed capital providers.

5.1

SERVICE PROVISION WITH VIRTUAL TOOLS

The table below provides an overview of the specific virtual tools that can be used to increase the outreach, quality or cost-effectiveness of VBI services.

Table 14: Virtual tools that can be used to enhance VBI services

Services	Tools
Brand building	Partnerships with 'communication partners' Events Media Website and social media Virtual communities with regular events
Member/client selection	Online recruitment (most effective in cooperation with partners) Online aptitude and skills testing
Training/information provision	Client comes to the incubator/Satellite offices/rented facilities Rural/local partners needed for local networks and knowledge E-Learning Website/online information provision (well maintained) Fellowship programmes
Mentoring	Online recruitment of volunteers Structured ICT-based mentoring (combined with regular face-to-face meetings)
Networking	Online matchmaking (need for trust/'quality check') Virtual communities with regular events
Access to finance	Online recruitment of business plans Demo days/pitching sessions Crowdsourcing

5.2

LESSONS IN RELATION TO HAND-HOLDERS

Hand-holders define and implement a structured training and mentoring programme at all stages of enterprise development, from initial idea to established company.

In the table below we present an overview of the lessons for improving cost-effectiveness and outreach to rural areas, using virtual business incubation services and tools.

Table 15: Lessons about improving cost-effectiveness and outreach to rural areas

Hand-holder	Definition of service concept	Opportunities to improve cost-effectiveness and/or rural outreach
<i>Target group, outreach, business environment</i>	<ul style="list-style-type: none"> - Special high-potential target groups - 10-20 business per year - Can range from remote rural to emerging; in advanced business environments, training services are often already offered by other institutions. 	<i>Options for locations for face-to-face VBI-client interaction:</i> <ul style="list-style-type: none"> - Incubator building - Rented/sponsor facilities - 'Boot camps' - Satellite offices - (Rural) partners - Visit the incubatee.
<i>Services, duration and service intensity</i>	<ul style="list-style-type: none"> - Structured training and mentoring programme. - Services usually offered over a longer period of time 	<i>Virtual tool opportunities:</i> <ul style="list-style-type: none"> - E-learning and Internet-based information provision (depending on the Internet skills and self-discipline of incubatees).

	(1-3 years).	- 1-on-1 communication via ICT can partially replace face-to-face mentoring, dealing with simple issues or once trust has been established.
	- Services are in-depth, usually with emphasis on training in the beginning of the incubation process, and mentoring in later stages.	- Use of online collaboration tools makes ICT communication stronger
<i>Service provider</i>	- Clearly defined service package - Provide services themselves - Work with sub-contracted professionals (or sometimes trained volunteers) under the supervision of the incubator.	- Cooperation with local (rural-based) institutions and service providers can be sought to increase outreach and service quality. - Online recruitment of voluntary service providers (e.g. fellowship programmes) can improve services while reducing costs. - VBI poses new management and quality control challenges
<i>Typical main revenue model</i>	Monthly 'membership' fees Sponsorships Consultancy assignments.	- In most cases online services do not offer a new source of revenues. Repayment through royalties on sales produced some results. - Crowd-funding may be explored to attract investments/grants for incubatees.

Outreach and cost-effectiveness

- ☉ Since services are intensive and provided over a longer period of time, and revenues generated from incubatees generally do not cover all costs, so the outreach of hand-holders is limited.
- ☉ Increasing outreach to rural/dispersed groups is expensive, even if replaces some of the face-to-face contact with ICT-based communications, because of increased travel and management costs.
- ☉ In most cases virtual services do not offer a new source of revenue.

Considerations for replication

The main considerations are:

- ☉ The hand-holders' services are most likely to be relevant in remote, basic and (to a lesser extent) emerging settings. In advanced business environments, it is likely that the BDS are already widely available.
- ☉ The hand-holders service concept can be replicated to dispersed or rural target groups, but at higher costs. Rural customers can be invited to come to the incubator premises, satellite offices can be opened, cooperation with local institutions can be sought, or the mentor can come to the incubatee. This will involve travel time and costs.
- ☉ Depending on the target group's access to ICT, 1-on-1 communication can partially replace face-to-face mentoring, if it is well structured. Use of online collaboration tools makes ICT communication more effective.
- ☉ Replacing training sessions in a classroom setting with E-learning is less promising. Developing quality e-learning tools is costly; it's better to cooperate and use existing tools as long as these suit the target audience. To a large extent, the usefulness of a tool depends on the Internet access and skills, and self-discipline of incubatees. However, in specific situations (e.g. if the training topics are suitable for E-learning, tools are readily available and incubatees are skilled in ICT and motivated) it can be a cost-effective way of providing training.
- ☉ Incubatees greatly value peer-to-peer exchange in the start-up phase. VBIs can enhance the quality of services if they actively facilitate this. Peer-to-peer

exchange needs to be facilitated during physical events and online communities can complement the network.

- Managing quality in ‘hand-holder’ VBIs requires structures as well as checks and balances; this is particularly important for conventional incubators that aim to introduce the same service package to non-resident clients.

Lessons

-> The process needs to be well managed

A remote incubation process must be well managed. It involves various information flows (phone, email, SMS, face-to-face exchange with different people). This information needs to come together in the VBI.

-> Challenge entrepreneurs and be demanding

Clear deliverables and deadlines for delivery must be set and, if these are not met, then there needs to be some sort of consequence.

-> Actively stimulate exchange

If exchange between entrepreneurs is not actively promoted and stimulated, it is not likely to occur.

-> Trust needs to be established before remote coaching is effective

Combine remote coaching with face-to-face individual coaching and workshops for groups of entrepreneurs.

-> Adapting to entrepreneurs from another culture requires specific skills

Mentors/coaches with many years of experience had a lot to learn before they could adapt to entrepreneurs in rural areas, in terms of working at a different pace, business hours, understanding the cultural challenges at the village level (often related relatives/other villagers are stakeholders in the business) and changing their vocabulary.

-> Injecting talent through fellowships motivates and improves incubatees

‘Fellows’ provide a cost-effective way to invigorate a start-up, keeping motivation high and offering new external perspectives.

5.3

LESSONS IN RELATION TO NETWORK BOOSTERS

‘Network boosters’ bring people together to improve business. The ‘BPC+ network booster’ involves a business plan competition that provides services beyond the awards ceremony. The second group of ‘network boosters’ we distinguished are the “network boosters 2.0”, who are basically business networking clubs, bringing entrepreneurs together and facilitate exchange of ideas and knowledge. They usually target a business sector, or a group of professionals with shared values.

5.3.1

NETWORK BOOSTERS BPC+

The table below provides an overview of the BPC+ service concept and summarises opportunities for improving cost-effectiveness and rural outreach with ICT technology.

Table 16: Lessons for improving cost-effectiveness and outreach to rural areas; network boosters BPC+

Network boosters BPC+	Definition of service concept	Opportunities to improve cost-effectiveness and/or rural outreach
Target group Outreach Business environment	<ul style="list-style-type: none"> - ICT-skilled, educated, specific business sectors - 30-300 participants per competition - 1-10 “winners” receive further support Emerging and advanced business environments, because the business plan competition application process is online	<ul style="list-style-type: none"> - If the application process were simplified, not requiring Internet skills, additional target groups could be addressed - Outreach to entrepreneurs without Internet access, but with Internet skills, has been piloted through the use of mobile phones and Internet cafes.
Services, duration and service intensity	Duration: generally 3 months to 1 year, depending on whether the entrepreneur is selected for the next stage. Services are likely to include: <ul style="list-style-type: none"> - Business plan competitions, combined with coaching - Networking - Grants/prize money - Elevator pitching sessions or investor match-making - Business partner match-making - Mentoring. 	<ul style="list-style-type: none"> - Service provision beyond the selection of winners, through ICT-based mentoring, matching with investors, and setting up local angel investor networks.
Service provider	Volunteer mentors/trainers, including successful entrepreneurs Professional business coaches	Through online recruitment, BPC+ is very effective in mobilising large number of entrepreneurs and volunteers. Conventional incubators can use this tool or cooperate with BPCs to improve their pipeline.
Typical main revenue model	Because of extensive outreach, through social media and targeted campaigns, BPC+ is attractive to sponsors.	If there are many BPCs, or the BPC has been active in the same market for several cycles, sponsors, volunteers and participants may lose interest.

Outreach and cost-effectiveness

- Although BPC+ outreach is high in the initial stages, the services offered are very limited. During and after the awards ceremony, more intensive services are offered to a small group. Given the low value of services in the initial stages, the cost of a BPC+ needs to be carefully weighed against the benefits.
- In some countries and/or business sectors, many business plan competitions are already in operation. In these settings, it is not recommended to replicate the BPC+ service concept. The additional value of the services offered is likely to be limited and new competitions are likely to attract the same business plans as the other competitions.
- With fellowship programmes, online recruitment of (local) volunteers, and promotion of (angel) investment networks, more entrepreneurs could be reached with more and better services.

Considerations for replication

The BPC+ service concept can be replicated as long as:

- There are no other business competitions active in the region/sector.
- The BPC+ concept can be replicated by targeting dispersed communities with Internet skills and access. Outreach to entrepreneurs without Internet access, but with Internet skills, has been piloted through the use of mobile phones and

Internet cafes. The target group also needs to possess the language, writing and analytical skills to put ideas in writing and submit a business idea or plan.

- ☉ If the application process were simplified and did not require strong ICT skills, additional target groups could be addressed.

Lessons

Relevant lessons communicated by the staff at incubators who were interviewed for this report include:

-> Attracting quality participants: based on a sound strategy and a qualitative approach

Distinguishing real entrepreneurs from “fortune seekers” requires a sound promotion and selection strategy from the implementer, as well as a “quality-based” evaluation and reward system from the funder.

-> Mobilising volunteer coaches as ‘in-kind’ contributions by large companies

Mobilising large numbers of volunteers can be an effective way to improve the cost-effectiveness of a business plan competition during labour intensive stages, such as business plan and business idea screening, providing individual feedback to entrepreneurs and coaching entrepreneurs during business plan development. Their role is most likely to be limited to coaching and motivating the entrepreneur. Large numbers of volunteers can be recruited for example by partnering with (departments of) large (multinational) companies with business development expertise or business schools.

-> Preparing entrepreneurs for investment opportunities requires professional support

Volunteers can support entrepreneurs cost-effectively up to a certain level, and their role is most likely to offer new perspectives, motivate and/or coach the entrepreneur. Yet, bringing a business plan up to the quality level where it can be presented to an investor requires professional support.

-> Business plan competitions are useful for establishing the brand and creating volume in the business

Business plan competitions have proved to be very effective for generating publicity and establishing a brand. The quality of the submitted plans varies considerably.

-> Participating in too many business plan competitions has a negative effect on business development

Entrepreneurs are attracted to competitions by the prize money and the opportunities for travel that they promise. Joining in too many competitions causes a loss of focus on sales and business development.

5.3.2

NETWORK BOOSTERS '2.0'

The second group of 'network boosters' we distinguished are "network boosters 2.0", who are basically business networking clubs, bringing entrepreneurs together and facilitating the exchange of ideas and knowledge. They usually target a business sector, or a group of professionals with shared values. The types and growth stages of the businesses in the network are diverse, but most are professionals, freelancers and consultants.

Table 17: Lessons for improving cost-effectiveness and outreach to rural areas; focus on network boosters 2.0

Network boosters "2.0"	Definition of service concept	Opportunities to improve cost-effectiveness and/or rural outreach
Target group Outreach Business environment	<ul style="list-style-type: none"> - Professionals with shared values/in the same business sector - 30-100 people per event; - 1-10 members are helped to connect with a business partner or investor - Emerging and advanced, urban - Although financially self-sustaining, the life cycle is usually 3-5 years. After this period, members/volunteers tend to lose interest. 	<ul style="list-style-type: none"> - Can be replicated in new cities or business sectors, with many young professionals and freelancers, if there are no competing networks or e.g. business associations with a similar role. - Suitability also depends on the local business culture, as well as the complementary nature of members. - Replication in rural areas can be challenging if it involves substantial costs for travel to events.
Services, duration and service intensity	<ul style="list-style-type: none"> - Member selection - Hosting a community where members can exchange - Regular events that combine training and networking - An online platform has added value, but only as an add-on to the physical network. Network boosters based on online interaction only have not succeeded. 	<ul style="list-style-type: none"> - Outreach is high, but service intensity is usually low. A small number find what they need through the network; for them the value of the service is high.
Service provider	<ul style="list-style-type: none"> - The "network owner" builds the brand, selects new members, facilitates and coordinates. - Members of the network organise and communicate new events, mainly through social media. 	<ul style="list-style-type: none"> - An existing incubator could consider a "network booster" approach to expand its outreach and network, improve its brand identity and improve the level of services provided to incubatees.
Typical main revenue model	Admission fees for members Sponsorships.	<ul style="list-style-type: none"> - Admission fees can cover costs, especially if the incubator facilitates rather than implements activities. It needs to mobilise and channel voluntary member initiatives.

Outreach and cost-effectiveness

- Network boosters 2.0 reach and mobilise large numbers of people. People are keen to be involved in the network and volunteer their time.
- The impact and value of the network booster 2.0 is difficult to capture in monitoring or reporting tools. It is recommended to provide anecdotal evidence (e.g. by following a selected number of members for several years), filling in evaluation forms after events and annual or biannual member surveys.

- ⊗ If a network booster 2.0 achieves comparable business outcomes to other models, it is a very cost-effective model.
- ⊗ Network boosters generally remain active for 3-5 years. After some time, the added value of the network will diminish and members will leave. If the sector is not sufficiently large, and/or the VBI does not innovate in terms of branding and recruitment, they will not be replaced by new members and the network will die.

Considerations for replication

The network boosters 2.0 concept can be replicated under the following conditions:

- ⊗ Potential members are not too dispersed. Attending an event should require less than one hour of travel.
- ⊗ The business environment should offer ample business opportunities in the targeted sector.
- ⊗ Members of the target group are diverse and complementary in skills and know-how. It is useful for (most of) them to network.
- ⊗ The business culture allows for networking with people with different backgrounds.
- ⊗ Replication to rural areas is challenging, because the network relies on frequent (often monthly) meetings, with a maximum of one hour's travel time. Also, in rural areas, because communities are smaller, it will be of less value to bring entrepreneurs together to meet and exchange ideas.

Lessons

Relevant lessons communicated by the incubators interviewed for this report include:

-> Keep stressing that "the members own the community"

The message that "the network is owned by its members" needs to be reiterated. Avoid a 'client attitude'.

-> Actively ensure a diverse mix of members

A diverse mix of members is very important to remain attractive to new members, but more importantly to ensure that the members are of value to each other. Members must complement each other in skills and know-how.

-> Ensuring that effective exchange takes place in a network requires active hosting

Hosting is a skill, even an art. A good host creates a positive working atmosphere and brings members together who can create synergies.

-> Use social media to communicate and build a brand

Social media are effective tools for communication and contribute positively to the brand and identity of the organisation. They are not often used for real exchange of ideas.

5.4

LESSONS IN RELATION TO SEED CAPITAL PROVIDERS

The success of *seed capital providers* is based on the incubator's ability to select high-potential entrepreneurs, and to access and mobilize funds, allowing them to provide seed capital to these companies. Commercial seed capital providers take equity with the objective of selling their shares for profit, whereas social seed capital providers also offer a wider range of financing options.

5.4.1

SOCIAL SEED CAPITAL PROVIDERS

In the table below we present an overview of the lessons for improving cost-effectiveness and outreach to rural areas with virtual business incubation services and tools.

Table 18: Lessons for improving cost-effectiveness and outreach to rural areas; focus on seed capital providers with a social objective

Seed capital providers	Definition of service concept	Opportunities to improve cost-effectiveness and/or rural outreach
<i>Target group</i> <i>Outreach</i> <i>Business environment</i>	<i>Social</i> <ul style="list-style-type: none"> - Firms with social/environmental impact, small businesses (special target groups). - 5-10 supported incubatees, a mix of new and established companies - Rural, emerging, advanced. 	<ul style="list-style-type: none"> - The potential for replication is limited if commercial returns are expected. Many social seed capital providers rely on grants or other means of soft funding. - Much depends on the quality of the selection process, and the appetite for risk among investors.
<i>Services, duration and service intensity</i>	<i>Commercial</i> <ul style="list-style-type: none"> - Seed capital (\$10,000 to \$300,000) in the form of grants, loans or equity - Long term monitoring and mentoring - The brand of the seed capital provider is of strategic importance to attract quality applicants and eager investors. 	<ul style="list-style-type: none"> - Mentoring services through a blend of face-to-face contact and ICT. - Mobilisation of additional investors through crowd-funding can be considered to attract additional investment funds.
<i>Service provider</i>	<ul style="list-style-type: none"> - The VBI selects entrepreneurs, and structurally monitors/mentors the incubatee. - BDS/training services are provided by third parties. 	
<i>Typical main revenue model</i>	<ul style="list-style-type: none"> - Grant financing - Fund management for social investors. 	

Outreach and cost-effectiveness

- ☉ Outreach is limited, with an average 5 to 10 companies per year.
- ☉ Not self-sustaining, dependent on outside grand funding/investment capital with soft conditions.
- ☉ The quality of outreach and impact depend to a large extent on the quality of the selection process and the monitoring and mentoring.

Considerations for replication

- ⊗ Forging investment relationships between investors and entrepreneurs with a different (business) cultural background is very challenging. Locally based investment partners are needed.
- ⊗ It may also be worthwhile to explore whether local angel investor networks can be initiated by the VBI. For this, the presence of regional “champions”, class of established entrepreneurs willing to become an angel investor, is essential.

Lessons

Relevant lessons by the VBIs and service providers interviewed for this report include:

-> Scouting and selection are crucial

As investor and incubator, selecting the right incubatees is even more important than otherwise. Lengthy procedures scrutinising the incubatee is not a waste of time, but a learning process for the incubatee and the start of relationship building with the incubator. It is also crucial to invest in the application pipeline.

-> Innovation needs grants or patient risk capital

Real innovation (in a challenging sector) requires finance in the form of grants or patient investment, not (access to) debt finance.

-> Build a brand name

Having a strong reputation and strong brand name recognition in the sector is crucial for attracting funds and good incubatees.

-> Not all enterprises are served with external finance

Not all entrepreneurs feel comfortable with the implications of external finance (such as losing a mandate, not being able to grow at their own pace or high interest rates).

-> Alternatives to external finance should also be explained and considered

-> Repayment of loans can be good, if money is put to a well-considered use

Small-scale seed capital finance (\$ 8,000) was repaid in 80 percent of cases. This high repayment rate may be related to 1) the screening of entrepreneurs in the project phase; 2) the incubator having a strong say in how the funds are put to use; 3) continued mentoring and monitoring through a Board of Directors structure. Loans were repaid by charging a royalty on sales.

-> Angel investors need robust businesses

Angel investors, although the name may suggest otherwise, are not interested in the vague project ideas; they have more confidence in a more robust experienced business.

5.4.2

COMMERCIAL SEED CAPITAL PROVIDERS

In the table below we present an overview of ways to improve cost-effectiveness and outreach to rural areas with virtual business incubation services and tools.

Table 19: Lessons for improving cost-effectiveness and outreach to rural areas with virtual business incubation; focus on seed capital providers with a commercial objective

Seed capital providers	Definition of service concept	Opportunities to improve cost-effectiveness and/or rural outreach
Target group Outreach Business environment	<p><i>Commercial</i></p> <ul style="list-style-type: none"> - Firms that can grow quickly with relatively little cash and are attractive to venture capitalists. - 15-30 supported incubatees, half of whom succeed in starting a business; only a small proportion will grow and thrive. - Emerging and advanced environments, where venture capital investments are common, and Internet is affordable, stable and fast. 	<ul style="list-style-type: none"> - Potential for replication is limited if commercial returns are expected. - Much depends on the quality of the selection process and the appetite for risk among investors.
Services, duration and service intensity	<ul style="list-style-type: none"> - Seed capital (\$10,000 to \$30,000) - Short-term training/mentoring (usually for 3 months) - Ends with pitching sessions or demo days to match incubatees to investors or venture capitalists - The brand of the seed capital provider is of strategic importance to attract quality applicants and eager investors. 	<ul style="list-style-type: none"> - Some implemented a (partially) automated selection process, saving further time and resources. - Training and mentoring services are light, but highly sector-specific, and therefore of great value. - Seed capital and 'boot camps' allow entrepreneurs to dedicate 100% of their time and energy, which motivates and attributes to the status of the start-up.
Service provider	<ul style="list-style-type: none"> - The VBI selects entrepreneurs and facilitates the process. Investment funds are provided by third parties. - Structured planned mentoring and training services are provided by a mix of professionals and (experienced) volunteers. - Elite entrepreneurs and renowned speakers are mobilised to contribute to the training programme and boost the brand and reputation. 	
Typical main revenue model	<ul style="list-style-type: none"> - Member administration and admission fees. - Equity stake of around 5% in each incubatee's business. 	

Outreach and cost-effectiveness

- ☉ Training and mentoring services are light, but if they are highly sector-specific, they may still be of great value.
- ☉ ICT is mainly used during the selection process, and to boost the brand of the seed capital provider.
- ☉ Outreach is limited, with an average 15 to 30 companies per session, and one or two sessions per year.

- ⊙ Although financially self-sustaining, the life cycle of a commercial seed capital provider can be short if it operates in a “bubble”. If investors lose interest in the targeted sector, the seed capital provider will need to close down.

Considerations for replication

Seed capital providers target a specific range of companies, in an emerging or advanced business environment. Opportunities for replication are therefore limited. The seed capital provider model can be replicated in the following settings:

- ⊙ Emerging and advanced environments, where venture capital investments are common, and Internet is affordable, stable and fast.
- ⊙ There are business and investment opportunities for firms that can grow quickly with relatively little cash (mobile apps, cloud computing, social media, gaming and entertainment, and web services.)

If venture capital markets are underdeveloped in the region or business sector targeted by the seed capital provider, it can seek to develop investor networks. The following lessons apply:

- ⊙ Forging investment relationships between investors and entrepreneurs with a different (business) cultural background is very challenging. Locally based investment partners are needed.
- ⊙ It may also be worthwhile to explore whether local angel investor networks can be initiated by the VBI. For this, the presence of regional “champions” –established entrepreneurs willing to become angel investors – is essential.

Lessons

Relevant lessons communicated by the VBIs and service providers interviewed for this report include:

-> Scouting and selection are crucial

As investor and incubator, selecting the right incubatees is even more important than otherwise. Lengthy procedures scrutinising the incubatee is not a waste of time, but a learning process for the incubatee and the start of relationship building with the incubator. It is also crucial to invest in an application pipeline.

-> Brand building through the reputation of associates

Mobilising elite entrepreneurs and renowned speakers to contribute to the training programme – and recommending the programme in the media – boosts the brand and the reputation of the VBI.

5.5

CONSIDERATIONS FOR NEXT STEPS IN PROGRAMME DESIGN

An incubator helps incubatees remove bottlenecks affecting their growth. Entrepreneurs however, are faced with a wide range of entrepreneurial challenges. Their skill, know-how, resources and networks also vary. An incubator needs to understand the starting point of the entrepreneurs it targets before defining its service concept and choosing tools to deliver services.

When initiating a new virtual incubator, of course, many issues need to be decided and managed, including the business model, the target group, the service package, the management structure and the monitoring cycle.

infoDev has developed a comprehensive set of training materials to support the capacity development of **(starting) business incubators**. The training programme is designed for business incubation managers and other stakeholders wishing to increase their understanding and know-how of the business incubation process. It consists of 11 training modules ranging from basic introductory topics designed for professionals new to business incubation to specialised topics such as Technology Commercialisation and Virtual Business Incubation Services.

In conclusion, as with any business incubator, ***high-quality leadership*** is a key factor that determines the probability of success. An entrepreneurial incubator develops its services based on the needs of the target group and knows how to sell them.