Impact of Business Incubators or Accelerators on Startups: An Empirical Analysis

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Abstract: ***Business incubators and accelerators are frequently lauded as critical instruments for supporting business growth. Entrepreneurs are frequently faced with the decision of not only which incubator or accelerator to join, but also whether to join one at all. Is it always a smart idea to join a business incubator or accelerator? In this term paper, I look into some of the drawbacks that entrepreneurs may face while working with an incubator or accelerator. In this paper, I do not explicitly differentiate between incubators and accelerators and I have used "Business incubators" in general. Secondary research was conducted through publications, papers, and interviews. According to the research, business incubators have a positive but also a negative impact on startup success.***

Keywords: Entrepreneurship, Business Incubator, Business Accelerator, Start - up, Finance

1. Introduction

A business incubator is a non - profit or for - profit organisation that assists startup companies and individual entrepreneurs in growing their businesses by offering a comprehensive range of resources ranging from management training to office space to venture capital funding. We see that the Business Incubator industry originated in the United States in 1959. It then went on to flourish in Europe, South Korea, and other countries at the end of the twentieth century.

India had its introduction to business incubators with the Indian government launching a nationwide incubation programme in 2000 under the auspices of the National Science and Technology Entrepreneurship Development Board by the Department of Science and Technology.

Multiple incubators are common in today's entrepreneurial ecosystems, and they normally complement each other in terms of the services they provide. Startups in their nascent stages can formulate strategies that take advantage of the multiplicity of these incubation strategies, thereby increasing their chance of success. Marketing assistance, support with day - to - day business operations, connections to strategic partners, networking events, Internet access, accounting assistance, and connections to angel or venture capital investors are among the most commonly offered services.

Incubator vs Accelerator.

In order to create and sustain profitable businesses, entrepreneurs often try to find programmes that can assist their companies to grow profitably. Fundamentally, incubators and accelerators were created with the purpose of helping newly formed businesses, startups included, succeed by growing their chances of survival and growth. However, there has been much cause for confusion among academicians and entrepreneurs alike due to the several different types of incubators and accelerators that have been proposed.

Key properties of Incubators

Incubators are created with the intention of helping new businesses find their feet while they're still in their nascent stages. These incubators have the amenities and general atmosphere that is conducive to the development of ideas and the creation of the Minimum Viable Product (MVP). In some cases, they may serve as a source of much - needed guidance for early entrepreneurs. Incubators usually entail the company partaking in them to share an office with several other startups. This may go on for a period as long as 12 months up to several years.

Key properties of Accelerator

Accelerators, as the name implies, assist startups in accelerating their development.

Accelerator programmes are more likely to accept startups that have some initial momentum and a team in place to focus on driving development. These programmes are often conducted within a fixed period of time - ranging from a few weeks to a few months. They provide the startups enrolled in them with access to their network, expertise, and (a relatively limited amount of) funding.

Expansion of Incubators

Several factors - increased entrepreneurship, corporate downsizing, emerging technologies, increased participation of educational institutions in technology transfer, and economic globalisation - came into play and induced the increase in the number of incubators all over the world.

Incubator models first emerged in the Northeastern part of the US, during the late 50s and early 60s. The model of incubators that we are now familiar with emerged in the 1970s and 1980s. In the 1990s, we see that the empirical - both statistical and anecdotal - proof of its success began to spread, thus leading to a rise in numbers. In 2000, the Los Angeles Business Journal estimated that companies that started in incubators stayed in business 87 percent of the time after five years, compared to just 20% of all new business startups. Meanwhile, in the late 1990s, an increasing number of for - profit Internet incubators sprang up in the United States to capitalise on the e - commerce boom.

It was estimated, in the 1990s, that over 70% of the existing incubators were being managed by local government and other allied developmental organisations. The incubators served as a means for these organisations to stimulate local economic growth and to mitigate economic disasters such as high levels of regional unemployment. The remaining incubators were operated by academic institutions (schools, universities), as well as for - profit companies. Incubator services are now widely available - across demographic environments.

Benefits of Business Incubator

We see that incubators can bring companies several advantages in order to help them to get off a strong start. Some of the advantages of incubators are as listed below:

- Since incubators require several companies to share a space, the costs of facilities like office supplies, computing systems, etc are reduced since they are divided amongst all the tenants. Additionally, the rent for the area in which the startup operates is typically lower than average, thus allowing the business to save even more money.
- The staff available at the incubators often provide valuable insight and advice on topics ranging from marketing to funding, which may be useful for the startup.
- Many business incubators will help entrepreneurs get the kind of early - stage funding that new businesses urgently need.
- The incubator programmes also help provide the company with standing in the community. Startups often gain prestige and reputation among vendors and customers after being inducted.
- The wide variety of cultures, sizes, population groups and industries that incubators operate in tend to give those a part of it a certain edge over others.
- Entrepreneurs often credit the entrepreneurial spirit present in the incubators due to the enrollment of several other startups as one of the keys to their success.

Downsides of Business Incubator

Unfortunately, not all incubators have the same capacity to help the entrepreneurs enrolled in them. Some may offer more benefits than others. Here are a few possible drawbacks:

- Despite the help they provide, incubators are not at their essence charitable organisations nor are they, the landlord. However, they still collect tenancy at the end of each month. Starting these incubator programmes is merely a way for them to diversify their portfolios and find new investment avenues. Should they find a better or more promising startup, they will abandon the one that is less so and focus on the other.
- Entrepreneurs enrolled in an incubator programme often belong to the same industry.
- This can pose a real challenge as it would mean working with people who are competing in the same niche.
- As mentioned earlier, incubators are purely business ventures. The contacts are often set in stone, with their duration being the main stumbling blocks. Incubators often sign a 1 - 2 year deal, which can be a major roadblock if the entrepreneur wishes to scale their company.
- Getting involved in a startup incubator entails some extra obligations. When an incubator invests in your company, it sees you as a way to expand its support network. As a result, it will look to you to mentor or provide strategic guidance to the new startups that join its team.

Should your business join an incubator?

The decision of whether to join an accelerator or incubator depends on the stage at which the startup is. Incubators are better suited for startups in their nascent stages - pre traction startups. On the other hand, accelerators are a better fit for companies that already have a team in place to put in the effort or post - traction startups. However, before a company decides whether or not to join these business incubators it must answer the following two questions:

1) Can You Afford It?

The first question the company should ask itself is whether it can afford to be a part of these programmes. Becoming a part of an incubator or accelerator programme often entails handing over a portion of the startups' equity or paying hundreds or thousands of dollars. Companies that are just starting out are often cash - strapped and finding funding can often be an impossible task. This means that companies often end up giving up equity to become a part of these programmes. Keeping these things in mind, it is important that the companies run a cost - benefit analysis over whether being a part of these programmes is worth giving up 5 - 10% of their equity.

2) Does Your Startup Need It?

As there are a plethora of options available when it comes to business incubators, the onus of picking a programme that is the right fit for them falls on the companies. It is important that companies chalk out what it is that they want to gain out of these programmes. Companies should consider joining such programmes only if they have specific measurable goals that they think would not be fulfilled without the conducive environments that incubators and accelerators provide. They must also consider whether these objectives can be fulfilled by seeking guidance from alternative sources, all while retaining the ownership of their equity.

2. Conclusion

In this paper, I reviewed and summarised the various articles, research studies and interviews regarding business incubators and the impact that they have on startups. I also discussed whether or not joining an incubator could prove beneficial to a startup. We see that business incubators have both distinct advantages and disadvantages. How these advantages and disadvantages play out depends primarily upon the nature of the startup. Before a startup makes the decision of whether or not to join an incubator, it must do its due diligence with regards to the incubator programme that they wish to enrol themselves in and whether it fits in with their ideology and their industry. We also concluded that businesses must ask thenmelsevs two very important questions: 'Can I Afford It?' and 'Does Your Startup Need

It. There emerges a dichotomy here because incubators may turn out to be good for one and bad for the other. The decision of whether to join a business incubator or not is purely subjective and must be taken after painstaking research and analysis on part of the startup involved.

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