SUMMARY OF PROCEEDINGS

Recent evolutions in incubation and acceleration practices for start-up and scale-up promotion

16 January 2024

Webinar organised by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities

What's the issue?

Business incubators and accelerators have a pivotal role at the heart of the start-up ecosystem, offering a diverse range of services and facilities in order to stimulate the creation and growth of promising new ventures. In line with technological advancements, changing policies, markets and business environments, and the shifting needs and demands of start-ups, incubators and accelerators have been evolving rapidly in recent years. For example, they are digitalising services, increasing out-of-walls support, offering new services such as soft-landing programmes in overseas markets, creating partnerships with other ecosystem actors, and specialising more on specific sectors and groups.

These developments pose a number of questions: How are incubators and accelerators' evolving practices impacting the performance of start-ups and scale-ups? What are some of the inspiring new approaches that have had success in promoting new companies? To what extent are government policies advancing (or hindering) the evolution of incubation and acceleration practices? Examining these questions can unlock valuable insights for both policymakers and incubation and acceleration practitioners on how to strengthen support for high-potential start-ups.

The emergence of business incubators and accelerators

During their remarks, **Christopher Haley, Head of Research at Startup Genome** and **Professor Sarfraz Mian, State University of New York at Oswego, USA** each described the emergence of business incubation and acceleration as a support tool for start-ups over the past 70 years. The Batavia Industrial Centre, which opened in New York in 1959, is regarded as the first business incubator. Since then, business incubation has become an established concept for new venture creation and development, with consistent growth in the number of business incubators over time.

Business accelerators are a more recent phenomenon. They differ from incubators in the length, content and structure of their programmes, with accelerators typically adopting fixed-duration programmes that provide intensive supports to cohorts of start-ups on a selective basis. By contrast, incubation supports tend to be more open-ended and are primarily structured around physical space. Y-Combinator, which was founded in the United States in 2005, is recognised as the first example of a business accelerator. While business accelerators are less numerous than business incubators, the number of accelerators has increased quickly and consistently since 2010.

Evolutions in incubation and acceleration supports

The support needs of start-ups has changed significantly over time. **Alexandre Almeida, Incubation Project Manager, IPN Incubator, Coimbra, Portugal** outlined how the rise of remote work has led to a demand for resources and guidance in areas such as the management of remote teams, cybersecurity measures, and digital collaboration tools. Start-ups are also seeking more mentorship and networking opportunities, as well as a more diverse range of funding options. Changing consumer demands are also having an impact, with start-ups increasingly seeking support from incubators and accelerators to help them to adopt eco-friendly practices and ethical business models. More broadly, the pace of technological advancement and regulatory change creates a challenge for incubators and accelerators in terms of providing valuable and relevant supports (including quality mentors) in rapidly evolving or emerging fields.

Incubators and accelerators are responding to these trends through changes in the supports they provide to start-ups. **Professor Mian** described how the support offering of business incubators has evolved significantly over time. The first generation of incubators in the 1980s focused primarily on the provision of physical space and university services. During the 1990s and 2000s, incubators began to add coaching, training, networking, commercialisation support to their service offering and more recently, incubators and accelerators are moving towards providing greater access to external technological, professional, financial resources.

Mr. Almeida referred to how incubators and accelerators have expanded their mentorship networks to provide start-ups with a broader range of professionals and industry experts. **Morgan Lorimer, Senior Manager at MaRS Discovery District, Canada** shed light on how the incubator leverages a network of more than 100 volunteer experts with specialised and niche expertise. **Ali Amin, CEO and Co-Founder of UBI Global** also stressed the importance of this aspect of incubation and acceleration support, describing how the top incubators rely on a higher number of active coaches and mentors that help their start-ups by providing individualised support.

Another success factor for incubators is a focus on community building and collaboration, with the top incubators in the UBI Global network having larger investor networks and an active approach to ecosystem engagement that helps to attract a higher number of start-ups. Incubators and accelerators are also building partnerships with established corporations to help start-ups gain access to market opportunities, distribution channels, and mentorship from industry leaders. This approach is again evident in the case of the MaRS Discovery District. **Ms. Lorimer** referred to the mix of start-ups, academics, investors and corporates that are present at the incubator's premises in Toronto. The incubator organises around 2 000 events each year, which facilitates strong interactions between these different actors in the entrepreneurial ecosystem.

An important trend acknowledged by all of the speakers is the growing specialisation of incubators and accelerators. Many have now developed specialised programmes tailored to specific industries or technologies, recognising the need for targeted support in niche areas. **Dr. Haley** noted that 75% of UK accelerators launched since 2019 were sector-specialised compared to 38% launched between 2015-2018 and 29% before 2015. Potential drivers of this trend include greater competition for deal flow and the larger catchment areas of incubation and acceleration programmes, which provides scope for increased specialisation. The MaRS Discovery Disrict provides an illustration of this trend, with its five acceleration programmes all being mission-based with specialised and tailored supports. **Ms. Lorimer** shared the example of the biotech accelerator programme, which has specific wet lab spaces and partnerships with relevant organisations that can support the development of start-ups in this field.

Another trend identified by **Mr. Almeida** is the shift towards the "lean start-up" method of support, which aims to shorten product development timelines and rapidly discover business model viability. There is also an increasing use of more flexible models for funding start-ups, particularly among private accelerators. These include Simple Agreements for Future Equity (SAFE) arrangements, revenue based financing, and

blended finance. Many incubation and acceleration programmes also now emphasise sustainability and social impact, aligning with the values of start-ups and reflecting changing market demands.

The spread of new models for service delivery

Dr. Haley and **Mr. Almeida** highlighted the rise in the number of virtual acceleration programmes and the growing using of hybrid physical-virtual delivery models. **Professor Mian** described how, prior to the COVID-19 pandemic, a barrier to the digitalisation of incubation and acceleration programmes was a lack of familiarity with virtual technologies on the part of entrepreneurs and incubator managers. The pandemic resulted in many more start-ups and incubators learning about how to use virtual tools and their potential benefits, thus accelerating significantly the digitalisation of service delivery.

The speakers shared their reflections on some of the benefits and drawbacks of the shift towards virtual and hybrid programmes. On the one hand, the digitalisation of service delivery has increased cost-effectiveness, expanded programme reach, and facilitated international networking and events. On the other hand, virtual and hybrid incubation and acceleration programmes may not deliver the peer-learning benefits associated with physical incubation and acceleration. Ms. Lorimer also emphasised the importance of place in MaRS' operations, with its proximity to federal offices, universities and financial institutions considered a key asset for the incubator.

Another trend identified by the speakers in the delivery of incubation and acceleration supports is the use of more highly compressed programmes, including pre-accelerators and start-up weekends. There is also a growing use of stage-gated intake processes with a large "funnel" to provide initial support to a higher number of start-ups.

Shifting business models

Mr. Almeida referred to the longstanding challenge that incubators and accelerators face in securing funding for their own operations (as well as for their start-ups). This point was also raised by **Dr. Haley**, who noted that around 30% of incubators and 42% of accelerators in the UK operate at a loss. The pure equity model for funding accelerators is now to a large extent defunct, with a large increase in the number of corporate accelerators and publicly-funded programmes. Indeed, in the UK, an estimated 45% of funding for accelerators comes from corporate sponsorship, while a further 28% comes from the public sector (either the UK government or European or international funding). During her intervention, **Ms. Lorimer** described how MaRS Discovery District is a non-profit organisation funded through a combination of public support and service fees, as well as corporate and philanthropic donations.

Policy implications

During his intervention **Dr. Haley**, emphasised that the needs of an entrepreneurial ecosystem will vary depending on its level of maturity, and that this should be reflected in the design of the incubation and acceleration system and supports. Generally, ecosystems require a range of supports that cover different stages of start-up development, which implies a mix of pre-accelerators, accelerators and incubators. Dr. Haley also stressed that a "minimum viable ecosystem" with a base of existing start-up activity and appropriate support services is needed in order for accelerators to be an effective support instrument.

Another key consideration for policy makers is how to fund incubator and accelerator programmes that are unlikely to be profitable without public funding. **Mr. Almeida** referred to the need for governments to provide funding or tax incentives for incubation and acceleration programmes, as well as for the hiring of highly qualified professionals that are needed for these programmes to be impactful. It is important, however, for governments to balance continuity in funding support – which enables programmes to operate for a sufficient amount of time and facilitates learning effects – with the need to filter out under-performing programmes and provide space for new entrants.

A point raised by several speakers is the need for more robust evidence on the impacts of incubation and acceleration programmes and the types of approaches that are more effective. Funders of the incubator and accelerator system can help to build this evidence base, for example by requiring funded programmes to keep records of rejected applicants to support in the construction of control groups.

Finally, **Mr. Almeida** noted some operational aspects of policy that could be improved, including the amount of time taken to make funding decisions and process payments, the clarity of information provided, and engagement with stakeholders in the policy design process.

OECD contacts

For more information on OECD work on SME and entrepreneurship policy evaluation, please contact jonathan.potter@oecd.org, pablo.shah@oecd.org.