

Business incubators: which supporting activities do actually contribute to value creation?

Business incubators seem to be everywhere these days. Their advice, network and – in some cases – seed funding are believed to be valuable for (high-tech) startup companies. But how valuable? And which supporting activities are perceived to create most value within startup companies? Research of Golden Egg Check helps business incubators to understand which supporting activities actually contribute to value creation, and where the focus of the BI should be.

Last year, we did research together with the University of Twente about which supporting activities of business incubators (BIs) actually create value for startup companies. We studied three (third generation) major Dutch BIs in-depth by talking to both the incubation managers and several of the startup companies, and asked them to fill out a questionnaire afterwards.

In our study, value creation is defined as: “specific ways that an incubator program enhances the ability of its startups to survive and grow in business” (Mian, 1996). This predefines a link between the BI and the startup firm in the field of value creation. This research focused on the intervening support activities (in contrast to passive support activities such as cheap office space, fast WiFi and good coffee), because this is where value creation was most expected.

The goal of this research was to further investigate the (perceived) contribution on value creation, from both the startup firm’s perspective and the BIs perspective. We defined the value-adding services and networks at a more specific level than the generic findings published in literature so far. This enabled a two-sided view on value adding services and networks in the BI industry, forming a more solid basis for managerial implications.

Peer-to-peer networks create value

The table below shows the top 10 value creating supporting activities from the perspective of both the startup and the BI programme manager. The ratings are on a 1 (contribution to value creation is perceived very low/ none) to 5 (contribution to value creation is perceived very high) point scale. In addition, the usage percentage shows what percentage of the startups made use of this supporting service. Only the services that at least 50% of the startups used are included.

Rank	Startup			BI program manager		
	Supporting activity	Rating	Use % startups	Supporting activity	Rating	Use % startups
1	Peer-to-peer networks	4.00	76%	Value proposition	4.67	76%
2	Team formation	4.00	71%	Peer-to-peer networks	4.50	76%
3	Government grants/loans	4.00	52%	Strategic positioning	4.33	86%
4	Value proposition	3.94	76%	Online marketing	4.33	71%
5	Customer identification	3.88	81%	Customer acquisition	4.33	71%
6	Offline marketing	3.75	57%	Customer identification	4.00	81%

7	Market research	3.69	76%	Business etiquette	4.00	76%
8	Customer acquisition	3.67	71%	Financial planning	4.00	71%
9	Revenue model	3.60	71%	Revenue model	4.00	71%
10	Potential customers	3.57	67%	Team formation	4.00	71%

Top 10 supporting activities of all three business incubators

Overall, according to the startups, participating in peer-to-peer networks (i.e. learning from other peers/ startups), support with team formation and subsidies/ innovation loans from (local) government contributed most to value creation. Especially the peer-to-peer networks are interesting, as BIs only have to facilitate and stimulate them.

The three BI programme managers thought that support with the value proposition (finding products or services that create value for the customer), and peer-to-peer networks contributed most to value creation at the startups.

There is quite some overlap in the views of the startups and the programme manager; six supporting services are in both top ten rankings. Interestingly, the top ten is not in one area (e.g. only market related services) but the services that contributed most to value creation are in all elements of running a business (i.e.: team, product, market and capital). Overall, we see that many of the top 10 activities are strongly related to lean startup and customer development methodologies.

It might also be relevant to look at the supporting services that did not contribute so much to the value creation of the start-up companies. The ten lowest ranked services are presented in the table below. Again, only the services that at least 50% of the startups used are listed.

Rank	Startup			BI programme manager		
	Supporting activity	Rating	Use % startups	Supporting activity	Rating	Use % startups
24	General legal services	2.54	62%	General legal services	2.67	62%
23	Cost structuring	2.54	62%	Market research	3.00	76%
22	Accountancy service	2.64	52%	Mediatraining & PR	3.00	57%
21	Business support services	2.64	52%	Government grants/loans	3.00	52%
20	Mediatraining & PR	2.67	57%	Accountancy service	3.00	52%
19	Management	2.92	57%	Long term planning	3.33	67%
18	Marketing planning	2.93	67%	Marketing planning	3.33	67%
17	Financial planning	3.07	71%	Offline marketing	3.33	57%
16	Long term planning	3.14	67%	Business support services	3.33	52%
15	Online marketing	3.40	71%	Management	3.50	57%

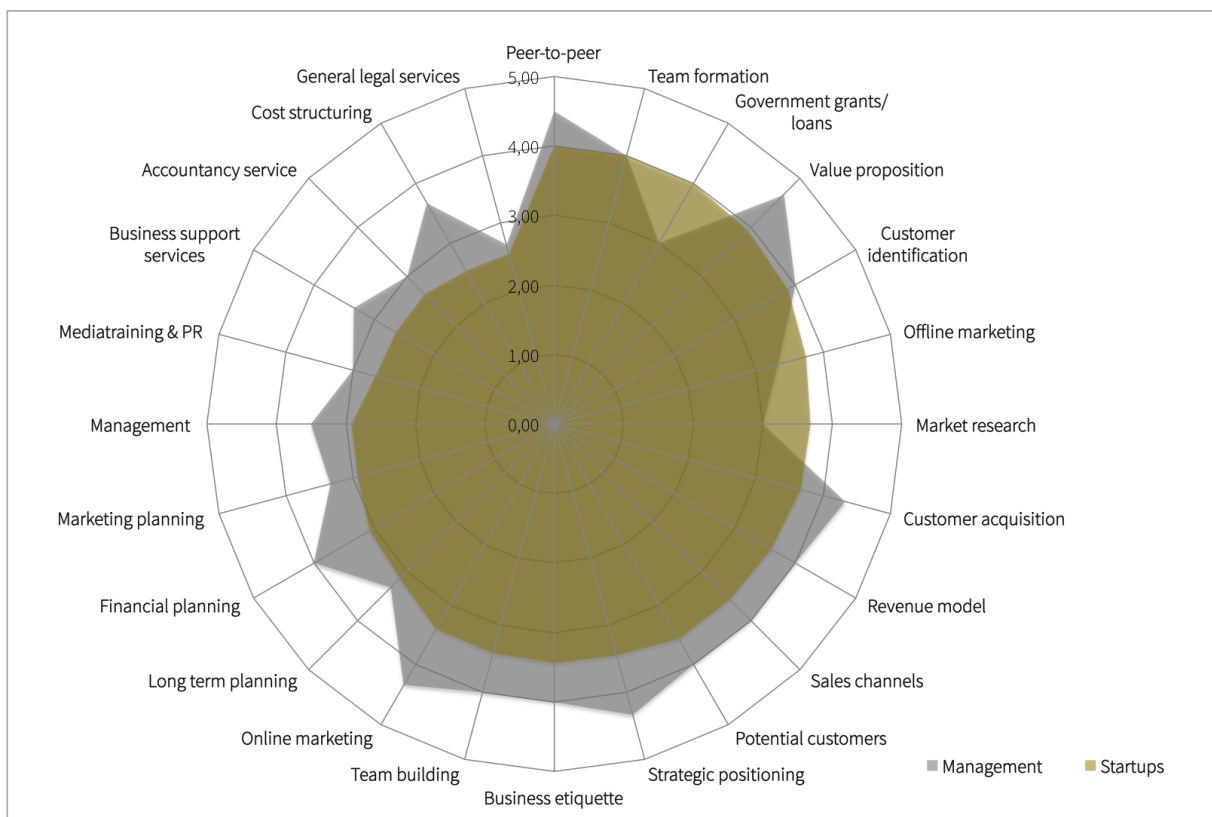
Bottom 10 supporting activities of all three business incubators

There is again high consistency in the reports of the startups and the programme manager (overlap of seven activities in bottom 10). Interestingly, traditional services like accountancy, legal and media training

score low on value creation. Moreover, planning activities do not seem to contribute that much according to both startups and incubation management.

When compared to the top 10 activities (see previous table), it is remarkable that supporting activities related to market research, offline marketing and government grants/ loans are rated as low value-adding services by the incubation managers, while the startups perceived is as three of the top 10 activities.

In order to see how the views of the startups and the programme manager align, their ratings (in decreasing order of the startups) are compared in the radar diagram below. This diagram includes all (24) evaluated supporting services that have a 50% or more usage rate.



Comparison between management and startups

As the diagram shows, there seems to be somewhat of a consensus on the majority of the topics, although the ratings tend to be higher on the management side. The biggest differences between management and startups are 'Cost structuring', 'Government grants/ loans', 'Online marketing' and 'Financial planning'. Except for 'Government grants/ loans', the BI programme manager rated these supporting services higher than the startups.

Conclusions & management implications

We think that BIs should primarily focus on the services that create value for the startups. However, this is easier said than done. We formulated three conclusions and management implications based on our research.

Focus on the supporting activities that contribute to value creation

We think the two-side view comes in useful here; it is good to combine the experiences of the start-ups with the expertise of the BI programme manager to find the supporting activities that create value. Based on this (small) research, it is indicated that these services contribute to value creation and should therefore deserve the focus of the BI:

Rank	Supporting activity	Average rating
1	Value proposition	4.30
2	Peer-to-peer networks	4.25
3	Team formation	4.00
4	Customer acquisition	4.00
5	Customer identification	3.94
6	Strategic positioning	3.89
7	Online marketing	3.87
8	Revenue model	3.80
9	Sales channels	3.79
10	Potential customers	3.79

Top 10 average ratings startups and management

Be smart about the supporting activities that do not contribute to value creation

Similarly, we create an overview of the lowest ranked supporting services based on the average scores of both the startups and the programme manager.

Rank	Supporting activity	Average rating
24	General legal services	2.60
23	Accountancy service	2.82
22	Mediatraining & PR	2.83
21	Business support services	2.98
20	Cost structuring	3.10
19	Marketing planning	3.13
18	Management	3.21
17	Long term planning	3.24
16	Market research	3.34
15	Government grants/loans	3.50

Bottom 10 average ratings startups and management

Traditional services like accountancy and legal advice score low on value creation. This does not necessarily mean that BI managers should not offer these activities, but perhaps they are not the services

to focus attention and budgets on. For example, these services could be offered on a more on-demand basis (e.g. if a start-up needs specific legal advice, it can contact a lawyer in the incubator's network), preferably at startup-friendly rates.

Create a framework to measure which supporting services contribute to value creation

Our research has been done on a small scale; 21 startups and three BIs participated. However, we feel that our framework with all supporting services and the two-sided view can serve as a starting point for BIs to measure and monitor by itself which supporting services contribute to value creation. Furthermore, this type of research can help BIs to evaluate their services among their startups. During our research, multiple startups have used the interview to criticise the programmes in which they were participating. Furthermore, we find that some activities, like market research and offline marketing, are not perceived as value creators by incubation managers, but they *are* perceived as such by startups. In an optimal situation, BIs can collect this feedback and improve accordingly.

Limitations of this research

Application of the framework will be more useful as the scale improves. Furthermore, this research is based on past experiences. The startups and BI programme manager rated the supporting services retrospectively, which could bias the results. It could also be that in some cases there was not enough time in between the usage of the service and the time of research to actually reflect well and see what contributed to value creation.

Finally, this research was only about *perceived* value creation (not actual value creation, although it would be very hard to measure that). For example, do peer-to-peer networks, team formation and value proposition lead to actual value creation in startup firms? Ideally, this should be based on more than merely the view/ideas of the founder of the startup firms, and should include (for example) objective performance data as well.

Want to learn more?

Golden Egg Check offers software and services to incubators. Our software is used to support the creation of investor ready venture propositions. Our services include research about business development structures, financial ecosystems, startup progress, and market analysis for technology companies. Furthermore, we are always testing new tools for startups and incubators, so send us an [email hello@goldeneggcheck.com](mailto:hello@goldeneggcheck.com)> if you're interested in learning more.

This blog has been written by Thomas Mensink (Golden Egg Check) based on the research of Fons Mentink together with the University of Twente.