



## The joint marketing efforts of the InActive or UnKnown designers

Some information in this particular edition of the business plan has been either erased or blocked for confidentiality reasons.

Hreinn Þór Hauksson - FURNYX

## Business plan

Lund University, Master program in Entrepreneurship  
2011- 2012

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# Executive Summary

## The model

The furniture design business is considered to be hard to enter for a newcomer. A “new” or „No Name“ designer must work hard to get his or her products noticed. Their efforts most likely will focus on getting exposure through trade shows and design-fairs and then sell their product/design to a larger party that has production, distributing and marketing channels in place. On a similar note, many products are sold through blogs and own selling sites that aim at catching the attention of such larger parties as well as making private and direct sales. Importantly, if unsuccessful at getting their product noticed, many designers abandon their product and never go into marketing their own design. For that reason many products are never available for purchasing.

This opens the opportunity for FURNYX to become a central facility for joint marketing efforts of „second chance“ products and unknown designers and become their solution to the problem of getting recognized.

FURNYX will focus its efforts on delivering internet traffic from the right group of customers to maximize the selling opportunities of participating designers. Participating designers are unknown in the sense that they either have been unsuccessful in getting their product into the marketplace or simply haven't had the opportunity to do so. Delivering internet traffic from the right group of customers refers to individuals and professional buyers that seek variety of fresh, independent and unknown design furniture.

FURNYX will be a neat looking and appealing website with market-place function where we guide buyers towards sellers.

Service offered to sellers involve marketing, manufacturing options and payment optimization vs. delivery methods. We will negotiate value chain prices on behalf of the total population and therefore a participating designer should receive a better price than when working alone. Most importantly, sellers own their design and receive the bulk of the payment, in contrast with the normal way of selling away the design and receive 3-5% commission of the price of each unit sold. FURNYX will take 20%-30% of a products selling price.

Service offered to buyers will be in the form of an appealing and fast browsing experience and secure payments vs. delivery. They should find fresh and independent design from the original designer.

FURNYX will earn its money by taking commission percentage of sales made through the portal and selling advertising spots to appropriate partners. The company has the chance to influence the profitability of product sold by possibly providing participating designers with more cost efficient solutions in manufacturing and payment handling.



## Financially speaking

There are two revenue stream available to the venture, product sold and advertising through the webpage. As per the financial planning, product sale is the primary source of income and the advertising sales are supplementary but offer the possibility to introduce a quite different scenario in a positive sense.

We expect the FURNYX operations to deliver balanced positive results from year two and forward. This also applies for the cash flow analysis. As is the nature of a venture with a low initial investment need and the possibility of a „joint“ expense account with the founders, a break-even point comes early. In our planning, we have compensated for every cash shortage with the financing options discussed later on in this part - grants or owners equity.

Year	2	5
Turnover - Sales	509 925	1 019 850
Operational cost	196 761	854 977
EBITDA	48%	16%
Earnings	184 989	123 655
Cash balance	280 775	1 021 861

The goal of the founders of FURNYX is to establish an operationally functioning entity that needs minimal support from outside and creates early on and growing cash flow that delivers the necessary funds to operate.

# The Business Model

## The Vision and an Apparent Need

The furniture design business is considered to be hard to enter for a newcomer. A “new” or „No Name“ designer must work hard to get his or her products noticed. Their efforts most likely will focus on getting exposure through trade shows and design-fairs and then sell their product/design to a larger party that has production, distributing and marketing channels in place. On a similar note, many products are sold through blogs and own selling sites that aim at catching the attention of such larger parties as well as making privately and direct sales. Importantly, if unsuccessful at getting their product noticed, many designers abandon their product and never go into marketing their own design. For that reason some products are never available for purchasing.

We want to provide the unknown designers out there with a way to get their design / product out in the open and recognized. We want the designers and product developers that don't have the opportunity to sell their ideas through regular channels to-be-able-to-do-so by providing them with a way to minimize their overhead and operations and help them with marketing.

We want to help the unknown designers to start their career and finally have their own design efforts work on their own behalf, providing extra income and in the end enable them to focus entirely on their products. We will free the designer from setting up and maintaining their own marketing efforts, give them a spot where more designers are

gathered and can be viewed as both friendly competition and partners.

With more interesting products available at the marketplace, marketing the whole becomes easier and thereby more traffic is attracted.

With more traffic the chances of selling the product increases. We therefore want to create a place where the one designer helps the other by selling through the same portal, similar to getting buyers to walk through your store, where one successful and strategically positioned product attracts customers to walk past other options.

Group efforts should maximize the probability of market success for individual designers.



## Who is our customer?

From a simplistic view we see our customer profiles as threefold, Sellers, Buyers and Word Spreaders. Sellers are those that have a product to sell through our website and use the basic service provided by our company.

To elaborate, buyers are firstly those professional buyers targeted by our marketing efforts and also those who stumble in from the “street-web-traffic” and view the store and buy through our payment systems See “Marketing for sustained sales”. Word spreaders are the ones that view our site as part of their interest or job and carry on the sites reputation. All parties need to be satisfied. Detailed and personified descriptions of our customers can be found in appendix.

## FURNYX operations

As can be seen in figures 2 and 3 later in this chapter, FURNYX may be interpreted as a broker of furniture and fees from either business to business or business to customer. As per the marketing efforts described later on, the preferred setup is business to business as the main target buyer group is professional interior designers. FURNYX sits in the middle of the flow of products and funds and processes orders from professional or general buyer for a certain number of products at a given price. FURNYX processes the payment to the level for both parties to have secure transaction. The buyer pays upfront but the designer only receives the payment when the product has arrived to the customer. FURNYX actively promotes its contents to the predefined target group via social media and direct marketing. FURNYX will also actively promote itself as a viable selling venue to constantly increase and optimize the number of registered designers and products for sale. The FURNYX web site will be actively edited as per its contents and FURNYX employees will engage in a discussion

with the registered designers to either improve the quality of material or to agree on a selling price of products.

We will work hard to create a high buyer-traffic web place that attracts both sellers and advertisers to list their products and utilize the visibility of the site.

We will work hard to create a lively web place with material that sustains high traffic from buyers and supports our social media marketing efforts.

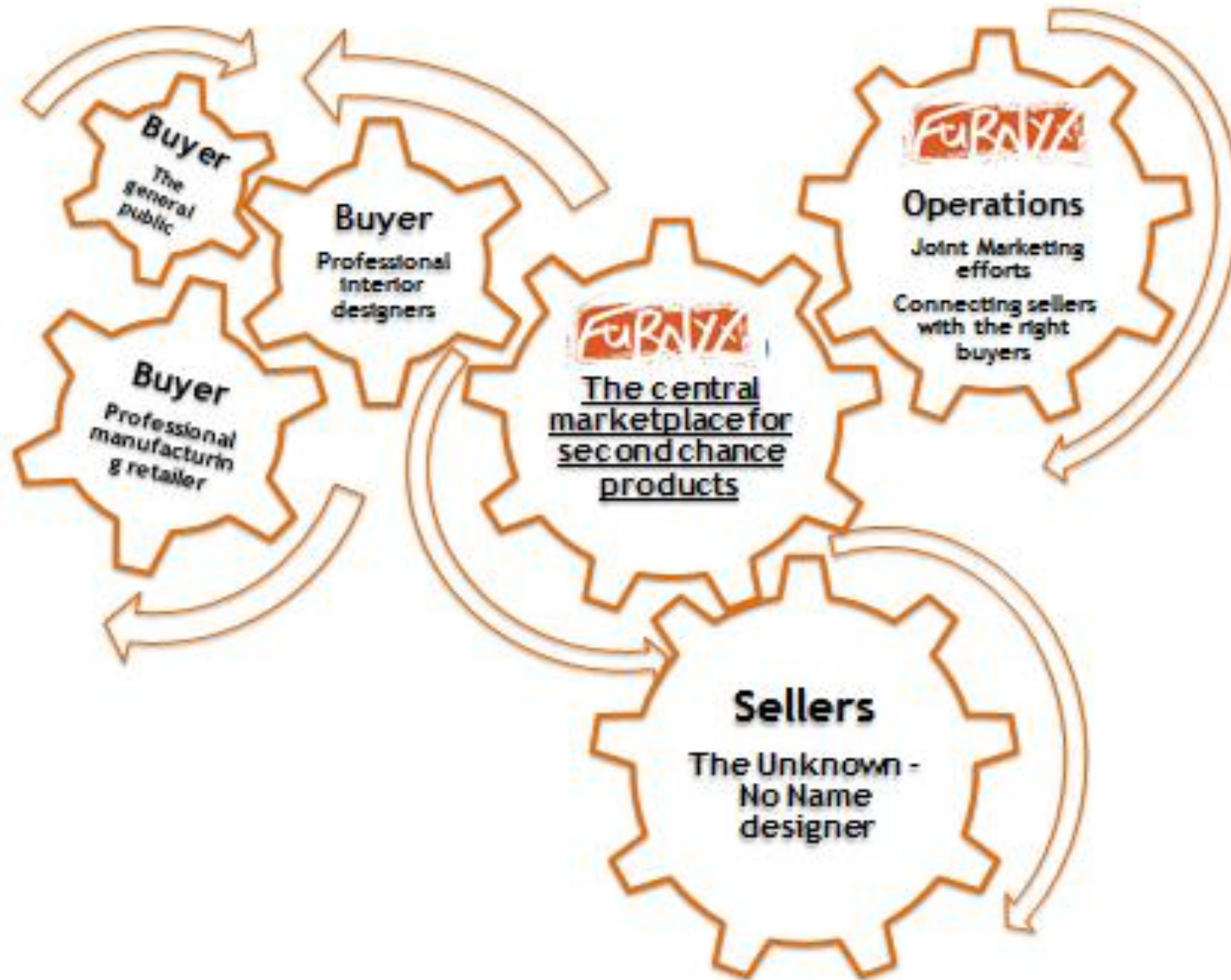
The business model depends on relatively high traffic from buyers to make it attractive for designers to make their product available and a functional website and operations that minimizes the efforts needed by designers to promote their product and the functions needed to make sales and receive payments.

Daily operations are about getting and sustaining web traffic through Internet social media marketing and visibility through the most recognized designer communications platforms.

Daily operations are about making the portal seen by sellers and convincing designers to use the community and the page as a portal for their sales.

Daily operations are about acquiring and accepting products for selling and negotiating turnover shares and advice on price of the product sold. Our interests lie in the product being sold at the right price, not too high or too low.





**Figure 1** - Showing the dynamic relationship between the different stakeholders of the value chain. Indicative to the importance of each stakeholder is the size of the wheel. Central is the web page it self, the market place where everything must come together in a harmonic way. Similar in size are the FURNYX operations and the single most important external stakeholder, the sellers of design. On the left hand side is a group of buyer-orientation that together are similar in size as the other ones, but have a different importance to the success of FURNYX.



## The Management Team



**Hreinn Þór Hauksson** was awarded a B.Sc degree in Business administration from Reykjavík University in 2005 and is currently studying for his Master degree in Entrepreneurship at Lund University in Sweden. He has 6 years of experience within the banking industry as an operational manager, loan officer and private banker. Hreinn has played handball at a professional level for many years and is as such very aware of the upsides of being apart of a team. Hreinn is skilled in operations analytics and efficient process execution. He holds knowledge on how to run and grow a small company in a sustainable way. Hreinn is a co-founder of FURNYX.



**Kristinn Berg** was awarded a B.a degree in History from Aalborg University in 2006 and a Master degree in religious history from Aarhus University in 2009. Kristinn also has a degree in journalism from Aarhus University (2010). Kristinn has studied internet and social media marketing with emphasis on search engine optimization and worked on several such projects in a team acquiring the relevant experience needed to successfully implement FURNYX strategies. Kristinn is an enthusiastic and experienced writer and as such he has the editorial skills needed to keep our website professional and efficient. Kristinn also has connections within Denmark. Kristinn is a co-founder of FURNYX.



## Added competences to the management team.

[Redacted content]

## The company setup

FURNYX will become a limited liability company, based in Sweden at a point in year two of operations. Daily management of the company will be joint between Hreinn and Kristinn as the two founders until specialities present themselves and necessity for larger scaled operations. In the beginning, Hreinn will be the primary counterpart in handling financial matters and Kristinn will be the web page material editor. Both founders will be board members with equal voting rights. For the purpose of a formal structure, Kristinn is the managing director. The acquired person mentioned earlier will also take on a board seat. Hreinn will act as head of the board with the responsibilities that come with it.

As FURNYX is small in scale and simple in operations in the beginning, so will the company's structure be.





## FURNYX strengths

Novisch business model

A "new source" of product => "second chance"

Only a middleman => Less responsibility towards buyers

Trends towards buying furniture online and customizable approach

## FURNYX weaknesses

Lack of industry experience within with the founders => acquired competences

Intended products are hiding and need to be found => startup efforts more difficult

Limited control of manufacturing and quality of products

Distance from sellers

Figure 2 - Summarizing strengths and weaknesses of the FURNYX business model



## How FURNYX makes money

### Multiple revenue streams,

In basic, FURNYX will depend on product sales volumes to survive. Further in the future we will also depend on selling access to advertisement spaces on our webpage to strategic counterparties.

FURNYX will take up to 30% royalties and down to 20% of the selling price of each unit sold. As financial analysis concluded we will maintain a 20% average as necessary. We will have the ability to positively affect a product's manufacturing price and therefore its margins. Positively affecting margins gives way to be able to better adapt end buyer prices towards needs of the market. As can be seen in figure 3, the flow of funds within the value chain can vary based on the service level needed by single sellers. Should the seller need help with finding a manufacturer or product developer, it decreases his own profitability since it adds external cost factors.

Refer to figure 2 and figure 3 for detailed and animated view of the value chain, its vital parts and the flow of products and funds within.

A hugely commercial and attractive selling point in the whole value chain is the fact that the designer owns his idea/design/product him self. He does not sell away his rights to a larger retailer, and moreover, he receives the bulk of the selling price. This means that instead of receiving only 3-5% royalty fees of every unit sold, as is the industry

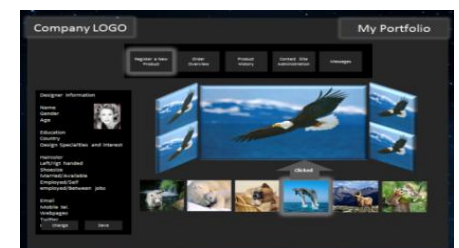
standard, the designer most likely takes away 30% to 45%, depending on the service level and the agreed upon royalty fees. FURNYX's interests therefore lie along with the interest of the sellers.

Web page advertising is not considered as a large part of the revenue stream to begin with. All planning and scenario analysis only expects this factor as a supplemental income. However, as the main focus of marketing efforts, is to attract a specific group of professional buyers, the possibility presents itself that the kind of traffic the web page attracts should be attractive to other counterparties looking for similar groups. An example of such counterparties might be; magazines, software developers, event planners etc.

Refer to the chapter "Marketing for sustained sales" for a detailed description of the above mentioned marketing efforts

Refer also to the chapter "Financial standards" for a detailed analysis of the financial aspects of the business

## Where we sell – www.furnyx.com



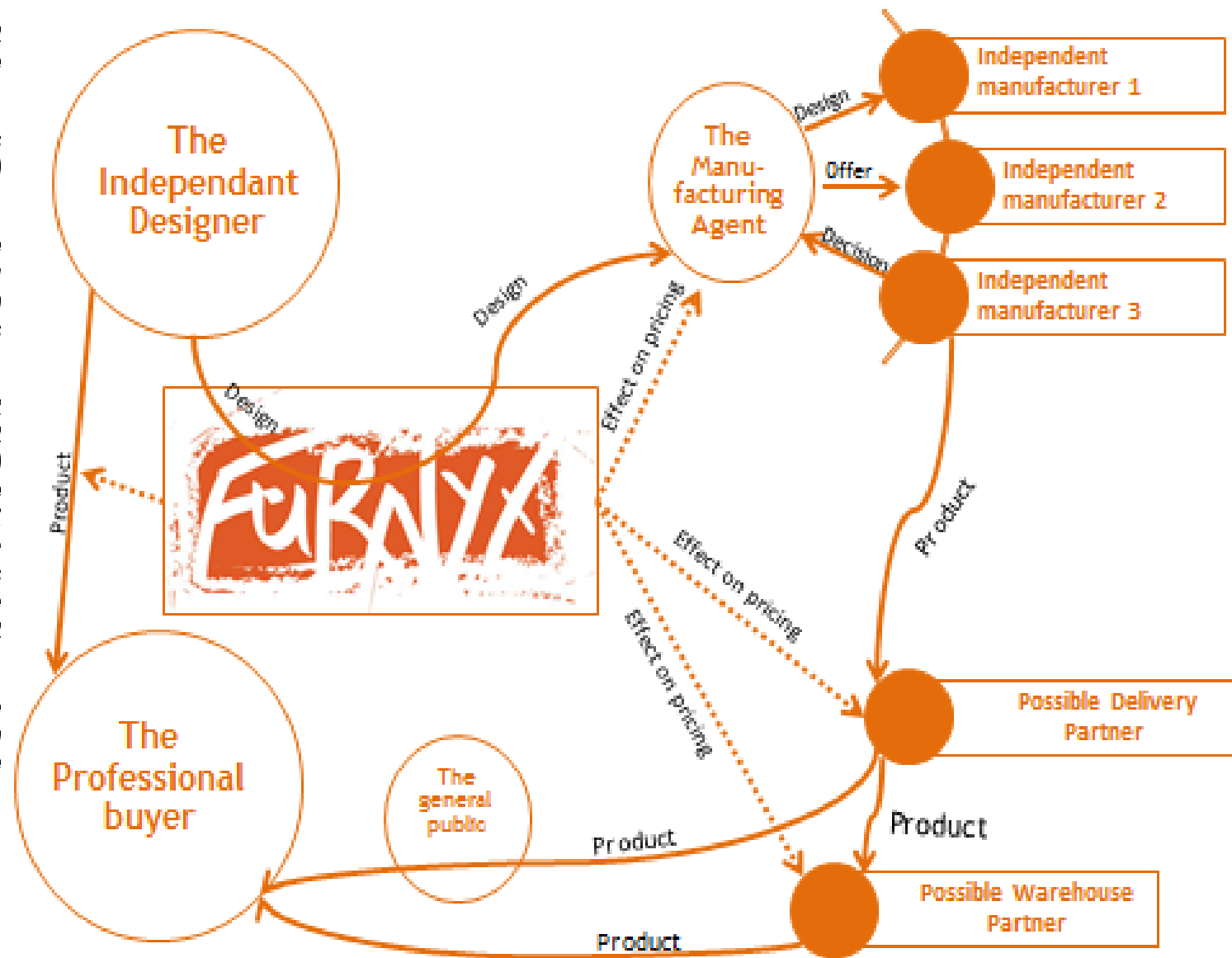
**Figure 3** - Showing the flow of product and ideas in the value chain that create the basis for pricing of services.

The selling product originates and is in all formal sense owned and controlled by the designers.

The role of FURNYX is to increase the designers' chances of getting recognized by actively marketing towards the target group identified as the „right one“.

FURNYX has the possibility to assist the designers in getting their product manufactured and delivered to the end customer and thereby affecting the pricing of products directly. FURNYX negotiates terms on the basis of size and thereby is able to affect the prices to either make it more appealing to the end customer or make the product more profitable for the designers.

FURNYX interests lie in maximizing the likelihood of sale through appealing pricing and thereby they lie with the interests of the designers

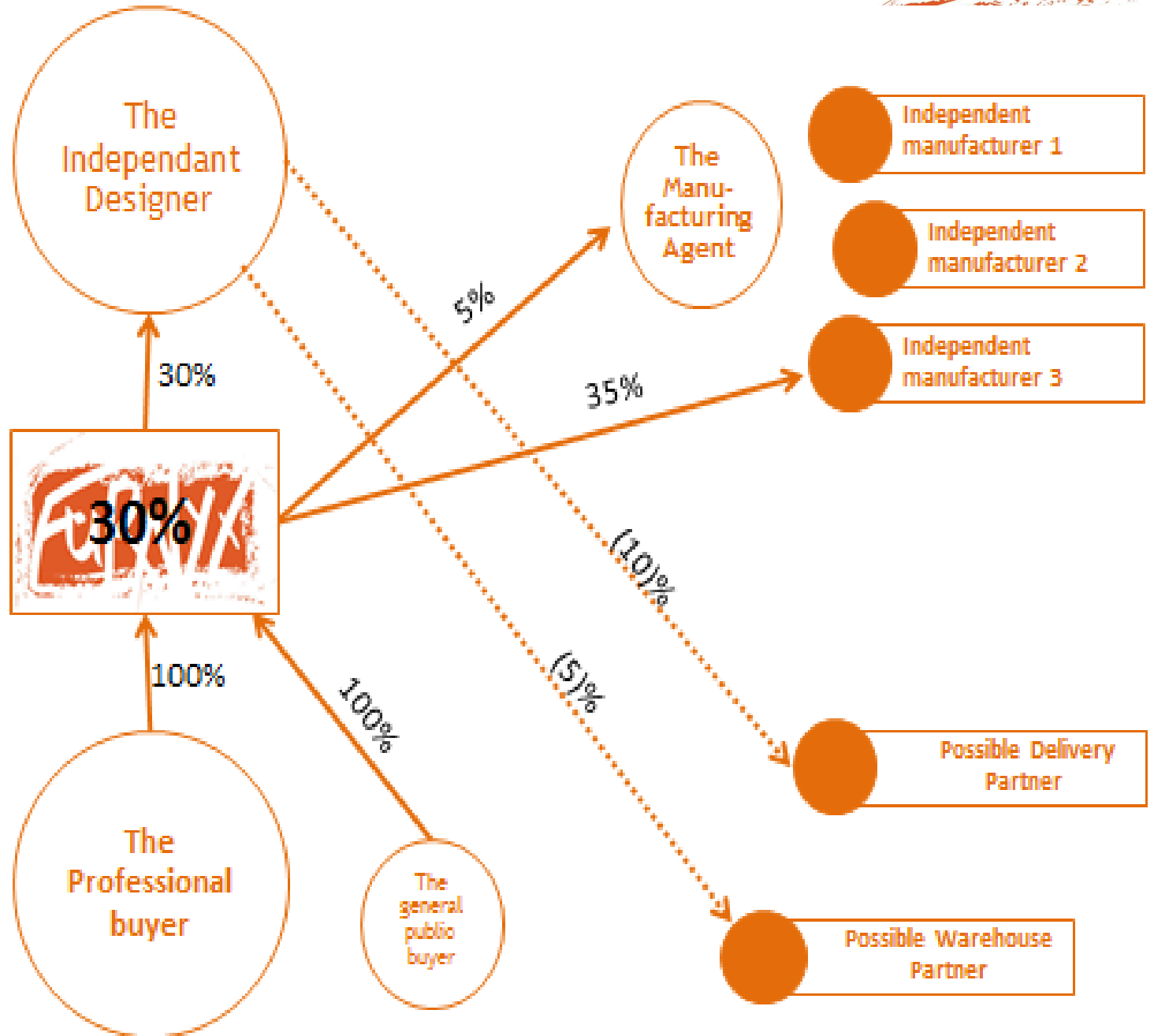


**Figure 4** - Showing the possible flow of funds within the value chain leaving all stakeholders with a value added. The figure specifically demonstrates the scenario where FURNYX acts as a facilitator to get the designer in contact with the „right“ manufacturer.

Average furniture mark up is estimated as 300%. That indicates that the manufacturing cost is around 35% of the final selling price. We estimate that a manufacturing agent that has the sole purpose of finding the appropriate manufacturing partner would take around 5%. Other possibly added costs incurred might be; delivery partners and warehouse partners.

The end buyer pays 100% of the price and FURNYX acts as a payment facilitator between counterparties. In the case of FURNYX taking 30% fee the designer is entitled to a net profit of similar amount (before taxes). FURNYX is likely to take fees closer to 20% or 25%, thereby leaving the designer with more value.

All estimations are considered to be conservative and inspired by the valued opinions of esteemed faculty members of the Ingvar Kamprad Design Center in Lund, Sweden.





# The furniture market

## The industry

The European furniture sector consists of around 150,000 companies, generates a turnover of almost €126 billion and an added value of €38 billion. It is characterized by many micro enterprises (86% have less than ten workers), but there are also some large manufacturers<sup>1</sup>.

The countries with the largest furniture industries in Europe are Italy, Spain, France, Poland and Germany, which together represent 64% of the total number of furniture manufacturing firms in Europe<sup>2</sup>.

The sector employs almost 1.5 million people Europe-wide, with Germany, Poland and Italy as the largest employers. Between 2000 and 2006 employment in the furniture sector increased marginally with 0.2% per year. Although two-thirds of employment in furniture is still in the EU-15, employment in the sector shifted gradually but consistently from Western to Central and Eastern Europe over the last decade<sup>3</sup>.

New trends including the use of new materials as an alternative to wood, the shift towards fair-trade and

environmentally sustainable wood are emerging and changing the furniture industry. Also new competition from outside Europe, mainly in China, has put pressure on competitiveness in the sector<sup>4</sup>.

### Industry opportunities

Developing new business models and customer relation systems

Increasing demand (in general and in high quality segment) with rising incomes

New products in line with lifestyle changes and eco-furniture trends

Mature and dynamic sector with high quality technology and design

Established markets within and outside of Europe

Prestigious image among designers

### Industry threats

Need to adapt to intense global competitive pressures

International outsourcing and, to a smaller degree, offshoring

However, protectionists tendencies

Ever tightening environmental and safety regulations

Increasing cost of raw materials

High labour costs in the EU-15 and growing labour costs in the NMS

Needed upgrade in training infrastructure

Ageing labour force and poor innovation levels

<sup>1</sup> AS seen on [https://ec.europa.eu/employment\\_social/anticipedia/xwiki/bin/view/Main/Furniture](https://ec.europa.eu/employment_social/anticipedia/xwiki/bin/view/Main/Furniture), 29th. 2012

<sup>2</sup> AS seen on [https://ec.europa.eu/employment\\_social/anticipedia/xwiki/bin/view/Main/Furniture](https://ec.europa.eu/employment_social/anticipedia/xwiki/bin/view/Main/Furniture), 29th. 2012

<sup>3</sup> AS seen on [https://ec.europa.eu/employment\\_social/anticipedia/xwiki/bin/view/Main/Furniture](https://ec.europa.eu/employment_social/anticipedia/xwiki/bin/view/Main/Furniture), 29th. 2012

<sup>4</sup> AS seen on [https://ec.europa.eu/employment\\_social/anticipedia/xwiki/bin/view/Main/Furniture](https://ec.europa.eu/employment_social/anticipedia/xwiki/bin/view/Main/Furniture), 29th. 2012



## Furniture industry key Drivers of Change

- Population growth (birth and migration)
- Income per capita and household
- Outsourcing and offshoring
- Increasing global competition
- Global and regional production networks (dispersed production locations, transport)
- Counter-trend regionalism/ protectionism
- Increasing market segmentation (tailor made production, mass customization)
- Innovation through application of new materials and design
- Availability and price of other natural resources
- Environmental regulation
- Security and safety regulation<sup>5</sup>

To give a closer view, the Swedish furniture industry is one of the European Union's biggest per capita with a size of over SEK 22 billions annually. The regular market is dominated by large players like IKEA, JYSK and MIO.<sup>6</sup>

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<sup>5</sup> AS seen on [https://ec.europa.eu/employment\\_social/anticipedia/xwiki/bin/view/Main/Furniture](https://ec.europa.eu/employment_social/anticipedia/xwiki/bin/view/Main/Furniture), January 29th. 2012

<sup>6</sup> The domestic furniture market in Sweden, CBI market survey, October 2009 <[www.cbi.eu](http://www.cbi.eu)>



## Competition

The furniture market is large, developed and highly competitive. Mass customization and co-creation have already become popular trends as companies try to better tailor their solutions to the needs and wants of their customers. The level of such customization can vary very much. In that same area, online purchasing behaviour has become more and more popular as it brings the customer closer to the companies and expands the market for each player in a highly competitive environment.

There is a growing demand for online purchasing with new generations. FURNYX competitors are many and various, everything from regular physical furniture stores to online stores to online market places. As FURNYX is an online market place, it should not be defined

as a store in it self even though it has a web store function as a service offering to users. Furnyx is an online market place that has the purpose of attracting the attention of specific group of buyers. In this category there is a number of direct competitors that have been identified. None of the available competitors have the same business model, but some come close. Here follow the competitors that we have identified as the most relevant and direct. They appear in order of “importance”

Figure 5 – Competitor analysis

Competitor	Origin of registered products and similarity to FURNYX	Web store functionality	Active marketing efforts towards a specific target group	Marketing towards similar target group as FURNYX	Pricing likely to be	Advertising revenues
<a href="http://www.designerpages.com">www.designerpages.com</a>	External / Different		x	x	Higher / lower	Limited or none
<a href="http://www.madeinschool.dk">www.madeinschool.dk</a>	External / Similar			x	Similar	Limited or none
<a href="http://www.portfolio.deviantart.com">www.portfolio.deviantart.com</a>	External / Similar			x	Higher	Limited
<a href="http://www.coroflot.com">www.coroflot.com</a>	External / Similar		x	x	Higher/similar	Limited
<a href="http://www.designorget.se">www.designorget.se</a>	External / Different	x	x		Lower	Limited or none
<a href="http://www.designmarket.com">www.designmarket.com</a>	External / Different	x	x		Similar	Limited or none
<a href="http://www.modernfurnitureclassics.com">www.modernfurnitureclassics.com</a>	External / Different	x			Higher	Limited
<a href="http://www.furnituredesign24.com">www.furnituredesign24.com</a>	Own / Different	x			Higher	Limited
<a href="http://www.look4design.co.uk">www.look4design.co.uk</a>	External / Different			x	N/A	Limited
<a href="http://www.busaccagallery.com">www.busaccagallery.com</a>	External / Different	x	x		Higher	Limited
<a href="http://www.made.com">http://www.made.com</a>	Own / Different	x	x		Lower / Similar	Limited or none

# Marketing

## Sustainable sales

We face three problems to solve to get our business up, running and profitable. We need to have enough numbers of products listed for the portal to be believable for web traffic and reputation. We also need to create enough web traffic from potential buyers for designers and product owners to be tempted to sell their products via our market place. Finally, we need to have in place partnership agreements with relevant manufacturers or developers to give designers more financially marginal reasons to go through the portal. In that same sense, the relevant partners need to be convinced that the agreement will bring them business in the future.

## The Base Case

Our business model relies on two interrelated things. We define our marketing tasks and goals based on these base cases:

1. Having enough designers list their products to sell, in order to attract web traffic
2. Having enough traffic from buyers to reach sustainable sales, in order for the site to be a believable option for sellers.

## 1. Marketing goal: Having enough designers/sellers register their products

[Redacted content]

[Redacted content]



[Redacted text block]

We will distinct ourselves in the eye of the designer in few ways to establish ourselves as a viable option.

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

**2. Marketing goal: Having enough credible traffic from buyers to reach sustainable sales**

[Redacted text block]



[Redacted text block]

**How will we create the FURNYX-brand as to become a trusted source of new furniture design**

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

**Where we start operating**

[Redacted text block]

[Redacted text block]



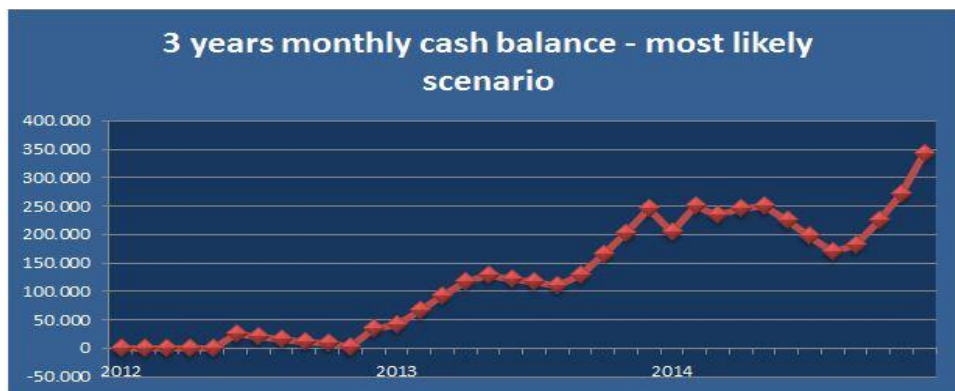
# Financial standards

Projections and scenarios presented in this chapter are the results of extensive calculations and experience in financial planning. Larger operational- and cash flow statements and scenario analysis can be found in appendices as well as more detailed information of the input variables that lead to the conclusions and scenarios. All numbers are in SEK.

## Financial analysis - Main results (quick read)

We expect the FURNYX operations to deliver balanced positive results from year two and forward. This also applies for the cash flow analysis. As is the nature of a venture with a low initial investment need and the possibility of a „joint“ expense account with the founders, a break-even point comes early. In our planning, we have compensated for every cash shortage with the financing options discussed later on in this part - grants or owners equity. The graph shows the development of cash balance for the first three years of operations.

Financial figure 2: Monthly cash balance



Financial figure 1: Numbers indicative of operations

	Year 2	5
Turnover - Sales	509.925	1.019.850
Operational cost	196.761	854.977
EBITDA	48%	16%
Earnings	184.989	123.655
Cash balance	280.775	1.021.861

We will pay salary from the beginning of year two in the form of performance fee based on percentage of operational EBIT. In the beginning of year 2014 we expect to be paying the one employee that will handle daily operations along with the founders. Preferably,

this employee will be a partial owner and stakeholder and be with the company from late year 2012 without salary. More detailed description of operations and cash flows of FURNYX follow. The employment level explains the drop in EBITDA levels in Financial figure 3.

## Financial analysis - Starting up and initial funding

FURNYX will not start up as a large company. One of the founding partnership main goals has been from the beginning to minimize the required capital and exclude external equity. As per the nature of the founder's cooperation, any unrelated ownership would be unappreciated if not accompanied by necessary added competences. We are actively seeking a partner with certain characteristics and competences and will be offering that certain someone a stake in the company to jump on board. The venture will start slow and work towards stable income.



Some equity is needed and has been identified as SEK 50.000. The owners have put aside this amount from personal funds but have also “Young entrepreneur”- grant from ALMI, both Skåne based start-up facilities. The total amount applied for is very close to the identified

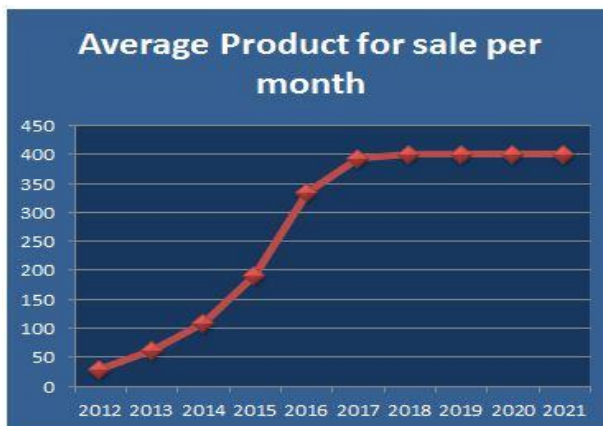
**Financial figure 3: Showing the net funding efforts**

	Amount	Date
Negative earnings 2012	-21 000	June to december 2012
Bought a list for direct marketing purposes	-25 000	July 2012
<b>Total outflow</b>	<b>-46 000</b>	
<b>Owner's equity</b>	<b>20 000</b>	<b>June 2012</b>
<b>ALMI Grant /Owner's equity</b>	<b>30 000</b>	<b>June 2012</b>
<b>Total funds</b>	<b>50 000</b>	
<b>Net funding</b>	<b>4 000</b>	

amount. The amount is needed in full in the start-up year 2012.

### Operations and cash balances – More detailed

Detailed income statement can be found in appendix. Operational costs and sales projections are considered to be on the safe side and conservative and demonstrate a business that needs to work for its existence.



The table below demonstrates the typical cost factors in a given month and the date at which it is expected to start affecting the operations. We will pay out salaries as a percentage of EBIT (50%) from the beginning of 2013 and we expect to start paying an employee in the beginning of 2014. Until then, most operational margins will be used within the business and thereby to further strengthen the build-up phase organically.

**Financial figure 4: Characterizing cost figures for FURNYX**

Monthly Cost	Fixed/Variable	Amount	Starts
Web Hosting	Fixed cost	100	1.3.2012
Internet connections	Fixed cost	500	1.1.2013
Rent - office	Fixed cost	0	1.1.2014
Phone	Variable cost	1.500	1.1.2013
Travelling	Fixed cost	2.000	1.1.2014
Book keeping	Fixed cost	500	1.12.2012
Fixed salary	Fixed cost	40.000	1.1.2014
Variable salary	Variable cost	11.450	1.1.2013
SEO	Fixed cost	1.500	1.6.2012
Other Advertising / Marketing	Fixed cost	2.500	1.6.2012
Paid freelance writers	Fixed cost	1.500	1.11.2012
Buffer - Overhead & One-off Cost	Variable cost	2.000	1.6.2013
<b>Average monthly cost of capital</b>	Fixed cost	<b>0</b>	





Scenario analysis of the FURNYX operational model reveals the findings presented here. The scenarios are based on Input figures and estimated levels of the number of products registered and its yearly growth until it reaches the recognized optimal level, the level of sales as a percentage of the number of registered products, FURNYX fees level, the operational cost factors recognized in financial figure 4, number of employees, corporate tax levels and yearly inflation (2,5%), etc. The specific input variables and input levels can be found in

sustain 100% employment modest sales. Advertising sales are important, but act primarily as supplementary income. Successful utilization of this revenue channel might be the platform for a very different scenario on the positive side.

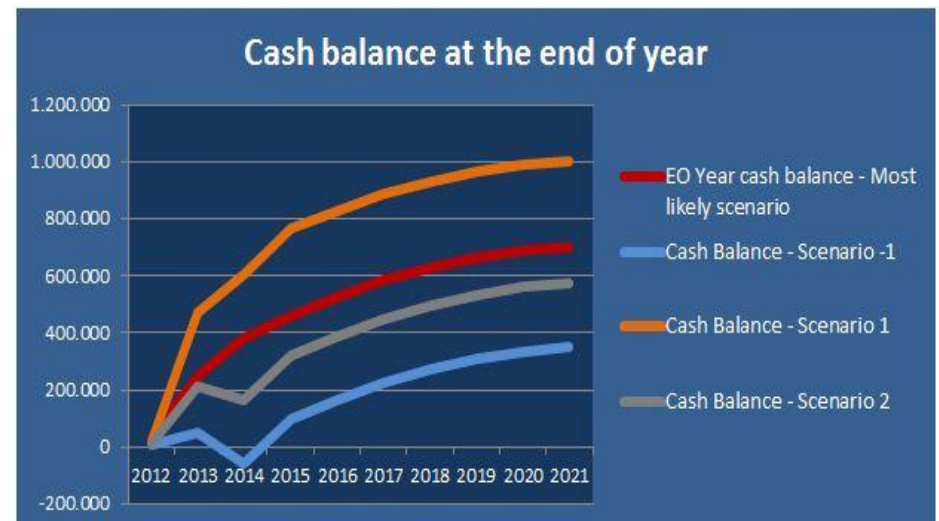
Financial figure 6: Earnings scenarios



appendix.

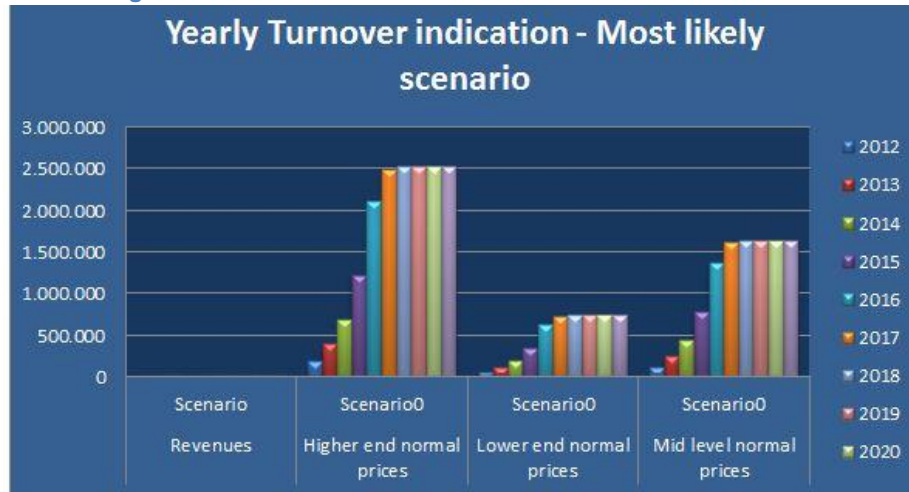
Scenario analysis showed that the FURNYX model is sensitive to the absolute level of registered products and more importantly the level growth of registered products. The model is also very sensitive to our pricing as is reveals our need to be able to collect at least 20%, and hopefully 25% of royalty fees. The model is also sensitive to the level of employment. Our plans do not try to anticipate the increase in sales when one employee is added, but demonstrate the models ability to

Financial figure 5: Cash balance scenarios





Financial figure 7: Estimated turnover



The table to the left shows the yearly indicative level of turnover. The graph clearly demonstrates the difference in price range from lower levels to the higher levels and the anticipation of sales becoming normative in the year 2017.

# Appendixes



## Detailed competitor descriptions

Refer to a table earlier in the text.

In order of relevance

- [www.designerpages.com](http://www.designerpages.com) – This is the page that is the closest to being a role model of FURNYX as it gathers sellers of furniture and actively markets its content toward a specific target group. The target group is the same as FURNYX'S – professional buyers. The difference lies in the fact that this site takes registration fees from the large retailers and brands that register their products. It does not have a web store function.
- [www.madeinschool.dk](http://www.madeinschool.dk) - A Danish based webpage where design students register their work to get recognized as they finish their education. Does not have a web store functional and does not market its content actively or towards a specific group and depends on the word of mouth. This site is one of the most direct competitors as the designers registered are similar to the ones FURNYX targets and the obvious purpose of the site is to target professional buyers.
- [www.portfolio.deviantart.com](http://www.portfolio.deviantart.com) - Is an example of many available online showrooms that offer unknown designers to get recognized. These showrooms are a direct competition as they may target similar designers to register their product (unknown/becoming). These sites seldom actively market their contents to a specific target group but might get noticed and start to fly through word of mouth.
- [www.designorget.se](http://www.designorget.se) – A Swedish based design center that offers designers to sell their product. It offers much wider variety of products than just furniture and markets specifically towards the general public. This site is one of the most direct competition to FURNYX as it is Scandinavian based and offers anyone the chance to register a product. Another similar site is [www.busaccagallery.com](http://www.busaccagallery.com) – Offers a wide range of registered design including furniture.
- [www.coroflot.com](http://www.coroflot.com) - A similar kind of site as the online showrooms but with the specific purpose of getting the registered designer a day-job by advertising their previous design work. This site does not have the web store functionality but is likely to be targeting a similar group of buyers as FURNYX.
- [www.designmarket.com](http://www.designmarket.com) – Swedish based web page that has the purpose to get the registered product recognized by the “right” target group. This is a similar business case to FURNYX, but different in a way that it does not offer web store functionality.
- [www.modernfurnitureclassics.com](http://www.modernfurnitureclassics.com) - A web page that sells own design, creates what the customer is after or finds it for him. “If you want something specific just call us and we will either find it or make it for you”
- [www.furnituredesign24.com](http://www.furnituredesign24.com) - functions as a marketing medium for designers, but does not offer any other service to the registered participants. It offers high end design furniture.
- [www.look4design.co.uk](http://www.look4design.co.uk) - A web page that offers the user to navigate through the contents of many pages. And thereby is an option for our target group to easily search design.
- <http://www.made.com/> - New European based furniture store that has similar functionality as FURNYX. It is not a market place as they sell their own products.



## Detailed projected income statement

### Income statement 2012 - 2021

	Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Income</b>											
Sales		31 672	443 413	886 826	886 826	886 826	886 826	886 826	886 826	886 826	886 826
Advertising sales		4 751	66 512	133 024	133 024	133 024	133 024	133 024	133 024	133 024	133 024
<b>Total income</b>		<b>36 423</b>	<b>509 925</b>	<b>1 019 850</b>	<b>1 019 850</b>	<b>1 019 850</b>	<b>1 019 850</b>	<b>1 019 850</b>	<b>1 019 850</b>	<b>1 019 850</b>	<b>1 019 850</b>
<b>Cost</b>											
Web Hosting		1 000	1 230	1 261	1 292	1 325	1 358	1 392	1 426	1 462	1 499
Internet connections		0	6 150	6 304	6 461	6 623	6 788	6 958	7 132	7 310	7 493
Rent - office		0	0	0	0	0	0	0	0	0	0
Phone		0	18 450	18 911	19 384	19 869	20 365	20 874	21 396	21 931	22 480
Travelling		0	0	25 215	25 845	26 492	27 154	27 833	28 528	29 242	29 973
Book keeping		500	6 150	6 304	6 461	6 623	6 788	6 958	7 132	7 310	7 493
Fixed salary		0	0	504 300	516 908	529 830	543 076	556 653	570 569	584 833	599 454
Variable salary		0	82 781	152 474	173 289	164 873	156 247	147 405	138 342	129 052	119 531
SEO		10 500	18 450	18 911	19 384	19 869	20 365	20 874	21 396	21 931	22 480
Advertising / Marketing		17 500	30 750	31 519	32 307	33 114	33 942	34 791	35 661	36 552	37 466
Paid freelance writers		3 000	18 450	18 911	19 384	19 869	20 365	20 874	21 396	21 931	22 480
Buffer - Overhead & One-off Cost		25 000	14 350	25 215	25 845	26 492	27 154	27 833	28 528	29 242	29 973
<b>Total cost</b>		<b>57 500</b>	<b>196 761</b>	<b>784 110</b>	<b>846 561</b>	<b>854 977</b>	<b>863 603</b>	<b>872 445</b>	<b>881 508</b>	<b>890 798</b>	<b>900 320</b>
<b>EBITDA</b>		<b>-21 077</b>	<b>246 652</b>	<b>210 526</b>	<b>173 289</b>	<b>164 873</b>	<b>156 247</b>	<b>147 405</b>	<b>138 342</b>	<b>129 052</b>	<b>119 531</b>
Asset Depreciation (Not finished)		0	0	0	0	0	0	0	0	0	0
<b>EBIT</b>		<b>-21 077</b>	<b>246 652</b>	<b>210 526</b>	<b>173 289</b>	<b>164 873</b>	<b>156 247</b>	<b>147 405</b>	<b>138 342</b>	<b>129 052</b>	<b>119 531</b>
Interest		0	0	0	0	0	0	0	0	0	0
<b>EBT</b>		<b>-21 077</b>	<b>246 652</b>	<b>210 526</b>	<b>173 289</b>	<b>164 873</b>	<b>156 247</b>	<b>147 405</b>	<b>138 342</b>	<b>129 052</b>	<b>119 531</b>
Revenue TAX		0	-61 663	-52 631	-43 322	-41 218	-39 062	-36 851	-34 585	-32 263	-29 883
Unused TAX losses from prev.years			0	0	0	0	0	0	0	0	0
<b>Earnings</b>		<b>-21 077</b>	<b>184 989</b>	<b>157 894</b>	<b>129 967</b>	<b>123 655</b>	<b>117 185</b>	<b>110 554</b>	<b>103 756</b>	<b>96 789</b>	<b>89 648</b>



## Detailed projected Cash flow statements

Cash Flows 2012 -2021	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>START cash balance</b> .....	<b>0</b>	<b>34 123</b>	<b>280 775</b>	<b>587 745</b>	<b>813 665</b>	<b>1 021 861</b>	<b>1 219 326</b>	<b>1 405 793</b>	<b>1 580 986</b>	<b>1 744 624</b>
<b>Operations</b>										
EBIT.....	-21 077	246 652	245 307	173 289	164 873	156 247	147 405	138 342	129 052	119 531
Depreciation.....	0	0	0	0	0	0	0	0	0	0
Change in accounts receivable.....	0	0	0	0	0	0	0	0	0	0
Change in accounts payable	0	0	0	0	0	0	0	0	0	0
Paid TAX.....	0	0	61 663	52 631	43 322	41 218	39 062	36 851	34 585	32 263
<b>Available cash, excluding interest</b> .....	<b>-21 077</b>	<b>246 652</b>	<b>306 970</b>	<b>225 921</b>	<b>208 196</b>	<b>197 465</b>	<b>186 467</b>	<b>175 193</b>	<b>163 638</b>	<b>151 794</b>
Interest.....	0	0	0	0	0	0	0	0	0	0
<b>Available cash from operations</b> .....	<b>-21 077</b>	<b>246 652</b>	<b>306 970</b>	<b>225 921</b>	<b>208 196</b>	<b>197 465</b>	<b>186 467</b>	<b>175 193</b>	<b>163 638</b>	<b>151 794</b>
<b>Investments</b> .....										
Investment	-1 253	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0
	<b>-1 253</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Financing</b> .....										
New loan	0	0	0	0	0	0	0	0	0	0
Loan capital repayment.....	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0
Divident	0	0	0	0	0	0	0	0	0	0
Owner's equity	56 453	0	0	0	0	0	0	0	0	0
	<b>56 453</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Change in cash balance.....	34 122	246 652	306 970	225 921	208 196	197 465	186 467	175 193	163 638	151 794
<b>END cash balance</b>	<b>34 123</b>	<b>280 775</b>	<b>587 745</b>	<b>813 665</b>	<b>1 021 861</b>	<b>1 219 326</b>	<b>1 405 793</b>	<b>1 580 986</b>	<b>1 744 624</b>	<b>1 896 418</b>







**LUND UNIVERSITY**  
School of Economics and Management

# **Reflective study: A personal viewpoint from within incubators**

Theoretical reflections as part of Lund University's Master Program in  
Entrepreneurship 2011-2012

**Author: Hreinn Þór Hauksson**  
**June 1<sup>st</sup> 2012**

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## Introduction

The author of this paper was a student of the Master's program in Entrepreneurship at Lund University 2011-2012. During this study period the author was exposed to different types and processes of incubators. Rice (2002), defines a business incubator, in collaboration with its surroundings, as a producer of business assistance programs and the incubatee to be a consumer of the outputs generated from co-production between the incubator and the incubatee. His definition is closest to describing the role of incubators as per the findings of this paper. In an auto ethnography style, this paper is the author's personal reflection on the effectiveness of incubation for new ventures and the support system needed within incubators for them to have effects and deliver positive results. It relates personal learning outcomes to theories regarding the existence of incubators and the effects incubation has on the success of incubated ventures.

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As per the role of incubators, Grimaldia & Grandia (2005) describe them as assisting new ventures and emerging businesses through a variety of support functions. Examples are: developing business and marketing plans, building management teams, obtaining capital, and access to a range of other more specialized professional services. They also provide shared operational space, shared equipment, and pool of administrative services. After an incubation period, graduating ventures are supposed to be independent and self-sustaining businesses. Most incubators have certain common services and activities but they also offer distinct services that reflect their own customer-base as well as the specific resources available to them. Grimaldia & Grandia (2005) then continue on to emphasize that these differences give rise to different incubating models.

To clarify: *Incubation* is the time and effort spent by a start-up venture within an incubator. The start-up venture is referred to as an *incubatee*. *Research on the subject is referred to as incubator-incubation*.

Small start-up firms contribute considerably to job creation, employment growth, and the development of innovative products and services (Fonseca, et al., 2001) and (European Commission, 2000).

An OECD study (2002) indicates that on average, one third of new European enterprises do not survive its first year of existence and that 50-60% do not survive its seventh year of existence. A report from The European Commission (2002) revealed that the survival rate of incubator tenants was significantly higher than the business success rate amongst the wider SME community, to the level that 80 to 90% still exists after five years. This demonstrates the usage implication of incubators as a tool for hatching out more new successful ventures than otherwise would be possible without support and to counter the high failure rate of the important small start-up companies, the European Commission (2000) suggested the nurturing of start-up firms in business incubators.

Primary research orientations in the field of incubation are studies centring on (1) incubator development, (2) the setup of incubators, (3) incubatee development, (4) the impact of Incubation on incubatees, and (5) theory regarding the dynamics of incubation (Hackett & Dilts, 2004a). This paper will mainly focus on the second, fourth and fifth orientation on how incubators are setup, what kind of effect they have on incubatees and incubator theory respectively.

The subject of this paper – incubators and their dynamics - serves the purpose of the author's longer term career expectations as a future incubator manager and therefor, the problem addressed is – *How should incubators be built up regarding their surroundings and services, to deliver results?*

This paper starts by reviewing the literature regarding incubation theory and research as chapter one starts by providing a short overview of the available types of incubators and offers different definitions. Chapter two gives examples of incubation theory and chapter three takes a more detailed view on the available literature regarding incubator performance. Chapter four is a reflective study based on my personal experience of sitting within different incubators over a period during my Master studies in Entrepreneurship within Lund University. The reflections address the same issues as introduced in the literature review and chapter five and six contain analysis and a discussion regarding my experience compared to previous available literature.

# 1. Frame of reference

The first three chapters introduce the theoretical aspects and available research on the field of incubation. First, I lay the ground, generally describing the findings of previous research and theory and emphasize one particular theory as the one identified by me as the most useful in explaining the whole incubation process. I then move on to literature that specifically addresses issues regarding the results of incubation and which attributes an incubation program should possess to deliver more positive results.

## 1.1. Defining the types of incubators

The concept incubator can be defined in several ways other than the one mentioned earlier by Rice (2002), who describes them as a producers of business assistance programs and the incubatee to be a consumer of the outputs generated and the process of incubation to be a co-production between the incubator and the incubatee in collaboration with their surroundings. Aernoudt (2004) uses the definition of The American Business Incubation Association (NBIA) when he defines the term incubation “...as a dynamic process of business enterprise development. The term refers to an interactive development process where the aim is to encourage people to start their own business and to support start-up companies in the development of innovative products.” Phan, et al., (2005, p. 166) define Science parks and business incubators “as property-based organizations with identifiable administrative centres focused on the mission of business acceleration through knowledge agglomeration and resource sharing.” Phan, et al., (2005, p. 180) also conclude that term incubation “can be a form of mentorship between the incubator managers and the entrepreneur or entrepreneurial team. It can be a discrete activity, an on-going process, or a context; all of which can be formal or informal, deliberate or emergent, rational or non-rational.” Furthermore, “a business incubator is a shared office space facility that seeks to provide its incubatees (i.e. “portfolio-” or “client-” or “tenant-companies”) with a strategic, value-adding intervention system (i.e. business incubation) of monitoring and business assistance. This system controls and links resources with the objective of facilitating the successful new venture development of the incubatees, while simultaneously containing the cost of their potential failure” (Hackett & Dilts, 2004a, p. 57).

Aernoudt (2004) defines 5 types of business incubators based on their apparent purpose: Mixed, Economic development, Technology, Social and Basic research incubators. The types of incubators can be found in Table 1 below describing the purpose and main objectives of each type and the sectors involved:



Type of incubator	Dealing with	Main objective	Secondary objective	Sectors involved
<b>Mixed Incubators</b>	Business gap	Create Start-ups	Employment creation	All sectors
<b>Economic development incubators</b>	Regional or local disparity gap	Regional development	Business creation	All sectors
<b>Technology incubators</b>	Entrepreneurial gap	Create entrepreneurship	Stimulate Innovation, technology Start-ups and graduates	Focus on technology recently targeted
<b>Social Incubators</b>	Social gap	Integration of social Categories	Employment creation	Non-profit sector
<b>Basic research Incubators</b>	Discovery gap	Blue-sky research	Spin-offs	High tech

Reference: (Aernoudt, 2004, p. 128)

As can be seen from the table, different types of incubators have different objectives, address different sectors and deal with different problems. Two types address “all sectors”, but the other three have a more specific sector targeted and are thereby not relevant for just any kind of venture (Aernoudt, 2004). Other literature may contain somewhat different types, which though can all fit within the matrix above. For example, Peters, et al., (2004) conduct their study on categories based on *Non-profit incubators*, *University-based incubators* and *for-profit incubators*. Grimaldia & Grandia (2005), divide different incubator models into *Business Innovation Centres*, *University Business Incubators*, *Independent Private Incubators*, and *Corporate Private Incubators*. The typology of incubation relates to the appropriateness of the incubators-incubation relationship discussed later in this paper. Different types of incubators give an indication towards different views on their purpose and setup and are somewhat likely to complicate comparison, such as performance.

## 1.2. Summary of previous relevant research

Hackett & Dilts (2004a) made a systematic and very comprehensive review of previous literature available on the subject of *incubation*. For the reader of this paper to get a quick look at their work, here follows a summary regarding the fields specifically addressed in this paper; the impact of Incubation on incubatees, theory regarding the dynamics of incubation and the setup of incubators.

The impact of Incubation on incubatees:

1. Selection is an important characteristic of incubatee success.
2. Incubator manager plays a central role in the incubation of new ventures.

3. Universities can provide a resource base and environment to foster the commercialization of university inventions.
4. Development and job creation via incubators are more cost effective than attracting existing firms to a new community.
5. Capacity to benchmark and evaluate incubators-incubation is important.
6. Reducing risk and improving survival rates and growth rates of incubatees is a more common outcome than job creation.

Theory regarding the dynamics of incubation theories:

1. From a Transaction cost economics and market failure perspective, incubators are a systematic approach to controlling resources and reducing costs during the early stages of a venture's development.
2. Incubator manager plays a central role in the incubation of new ventures. Incubator configuration must meet local needs and norms.
3. The process by which the incubation system is managed and created is collaborative effort between the incubator manager and the incubatee.
4. Network relationships and institutionalized knowledge transfers enhance the likelihood of incubation success.
5. Time and intensity of incubator manager intervention, coupled with the breath and readiness of incubatee manager, impact the success of the incubatee.

The setup of incubators:

1. Most incubators use a mix of factors, reflecting differing perspectives.
2. Incubators with an entrepreneurial environment, economies of scale and network access are more likely to have successful incubatees.

## 2. Incubation theory

### 2.1. Theory foundations

Many new ventures fail in their early stages of development (Watson, et al., 1998) and (Zacharakis, et al., 1999). Related to this, *evolutionary theorists* suggest that the forces of selection that eliminate uncompetitive firms are necessary phenomena that contribute to the maintenance of healthy populations of organizations (Aldrich, 1999) This indicates that those stronger will survive while the weak fail and raises the question if the weaker ones can be assisted in an efficient way without deteriorating other's situation.

Theoretical foundations of the literature on *incubators* and *incubation* are rooted in *market failure* arguments. Market failure might be associated with externalities, imperfect information, monopoly power, and public goods and so forth. Incubator-incubation researchers who follow market failure theory maintain that structures and strictures within the market decrease the options to successful development of entrepreneurial new ventures,

and that incubators-incubation are one approach to compensate for these market failures (Hackett & Dilts, 2004b). This indicates that incubators are viewed as assisting ventures in minimizing the effect of structures and strictures that otherwise would limit their options.

Hackett & Dilts (2004b), also identified *structural contingency theory*, *co-production of value theory* and *network theory*, as theoretical groundwork for incubator-incubation research. In his case-oriented study, Rice (2002) interpreted some of these foundations. According to him, *structural contingency theory* suggests that the configuration and structure of an incubator must be in coherence with its surroundings in order to achieve success. *Co-production of value theory* asserts that the incubation process is co-produced by the incubator manager–incubatee relationship. This implies that the incubator manager must strategically allocate his time spent and energy level towards assisting the incubatee and the incubatee must possess will and ability to receive and utilize the assistance and its results (Rice, 2002). *Network theory* suggests that an incubator’s added value to an incubatee is “*the set of institutionalized processes and norms that carefully structure and channel knowledge throughout the incubator network in order to create conditions that facilitate the development of incubates and the commercialization of their innovations*” (Hackett & Dilts, 2004b, p. 42). Co-production theory, as put forward by Rice (2002) seems to capture the relationship between an incubator and its incubatee in a comprehensive way and is in line with later findings in this paper.

## **2.2. Lack of systematic framework**

In a (2005) study, Phan, et al. concluded that there is no systematic framework to understand incubators and that current theory fails to understand their dynamic nature as well as that of the companies located on them. To Phan, et al (2005), no theory managed to explain the incubator-incubation process and relationship to a full extent. On a similar note, Hackett & Dilts (2004b) earlier reached a similar conclusion based on their own earlier studies, which incorporated an extensive systematic review of the available literature on incubators (Hackett & Dilts, 2004)(a). Their view is that the perspectives and literature on the incubator-incubation research area adequately describe why and in what configurations and contexts incubator facilities are operated. However, I agree with Hackett and Dilts (2004a) that these perspectives and literature do not provide a fully integrated, theoretically driven explanation of the factors that constitute the incubation process. Similarly, they do not account for the underlying dynamics of the factors, or explain how, why and in what context the factors are related

In their approach to develop a theory that successfully describes and incorporates the incubator-incubation process, relationship and dynamics, Hackett & Dilts (2004) reviewed alternative theoretical foundations. They reviewed *behavioural theories, economic theories, resource-based and knowledge-based views, dynamic capabilities theory, agency theory, institutional theory, structuration theory, scaffolding theory* and finally, *options theory* to try to find the one best suited. Their paper then reviews options theory extensively, leading to their “*real-option based theory*” on the incubation process described in the next section. Their review of different theoretical foundations clearly showed that many theories can explain some parts of the incubation process but have a limited range and fail to explain it from all aspects.

### **2.3. A real-option theory**

In my opinion the most comprehensive theory about the contents and dynamics of the incubator-incubation relationship and process can be found in Hackett & Dilts (2004) paper described in the previous section. They describe it as follows:

*“Business incubation performance—measured in terms of incubatee growth and financial performance at the time of incubator exit—is a function of the incubator’s ability, developed over time and with the accumulation of new venture development capabilities and resources, to create options through the selection of weak-but-promising intermediate potential firms for admission to the incubator, and to exercise those options through monitoring and counselling, and the infusion of resources while containing the cost of potential terminal option failure”* (Hackett & Dilts, 2004b, p. 48).

In a simplified view their theory suggests the following propositions:

1. Business incubation performance is positively related to selection performance.
2. Business incubation performance is positively related to intensity of monitoring and business assistance efforts.
3. Business incubation performance is positively related to resource munificence or generosity.

The *Real option based theory* (Hackett & Dilts, 2004) challenges previously stated fact that most new ventures must fail. From an options theoretic perspective, “*the incubator can be said to function as a laboratory for small- and medium-scale entrepreneurial adventures which are always kept to a boundedly rationally minimum investment cost*” (Hackett & Dilts, 2004b, p. 51). If the utilization of incubator resources are in accordance with the level of venture development, survival of the incubates is no longer the only indication of success,

but also if incubates cease operations as quickly (and as cheaply) as it becomes apparent that reduced feasibility of a venture no longer justifies continued investment or involvement.

## 3. Incubation performance

### 3.1. Positive performance indication

Small start-up firms contribute considerably to job creation, employment growth, and the development of innovative products and services (Fonseca, et al., 2001) and (European Commission, 2000). An OECD study (2002) indicates that on average, one third of new European enterprises does not survive its first year of existence and that 50-60% does not survive its seventh year of existence. A report from The European Commission (2002) revealed that the survival rate of incubator tenants was significantly higher than the business success rate amongst the wider SME community, to the level that 80 to 90% still exists after five years. Earlier, to counter the high failure rate of small start-up companies, the European Commission (2000) suggested the nurturing of start-up firms in business incubators.

Aernoudt (2004) differentiates post-graduation survival rates of three types of incubators in the United States. The highest survival rate of graduates of 90% was for technology incubators, followed by 87% for the mixed incubator type. The lowest post-graduation survival rate of 86% was for economic development incubators. This incubator type is more focused on regional development.

Results may not always be consistent, but research (cited in (Vanderstraeten & Matthyssens, 2010)) seems to confirm that start-up companies located in a business incubator have a higher survival rate (Ferguson & Olofsson, 2004) and (Sherman, 1999) and sales growth (Löfsten and P.Lindelof, 2001;2002), compared to similar start-up companies not located in a business incubator.

### 3.2. How results are measured

In its report, the European Commission (2002) emphasizes that survival rates are one indicator of the performance of incubators but that the extent to which incubators can contribute to the accelerated development of innovative, high-growth firms and their capacity to create new jobs are of more importance.

Phan, et al., (2005) concluded that there is a lack of clarity regarding the performance of science parks and incubators. This again is associated with non-existing consensus concerning incubator performance measurement. This is consistent with the findings of

Franco-Santos, et al. (2007), who maintain that business performance researchers, in their quest a balanced measurement systems did not yet reach definitive conclusions.

Even though it is likely that business incubators have different objectives, some studies and reports indicate that an incubator's logical goal should be incubatee survival (Aerts, et al., 2007) and (European Commission, 2002) and growth (Hackett & Dilts, 2008)). Furthermore, Schwartz (2009) states that if one of the primary objectives of business incubators is the promotion of survivability and the positive development of their tenant companies as concluded by Hannon (2005) and McAdam & Marlow (2007), it means that long-term survival is one of the most important indicators of incubator success and that survival rates alone, as any other indicator, are notable to provide a complete picture of an incubators performance.

Bergek & Norrman (2008), state that although previous researchers have been successful in identifying proper outcome indicators, their analysis has not included goal differences between incubators. Thereby, they have measured outcome rather than performance. They suggest that comparisons should only be made between incubators that have similar goals and that outcome indicators should be chosen carefully and in line with the goals (Bergek & Norrman, 2008). Reflecting on this surely emphasizes that it is logical to align measurement to identified goals. However, it seems as different incubators must be compared for continuous improvement of incubator model refinements as incubator managers must be aware of which models work on which do not. Only comparing similar incubators limits our learning possibilities.

### **3.3. What incubators need for positive impact**

Bergek and Norrman (2008, p. 21) summarized the services offered by incubators, as a view on previous literature:

1. Shared office space, which is rented under more or less favourable conditions to incubatees,
2. A pool of shared support services to reduce overhead costs,
3. Professional business support or advice (“coaching”), and
4. Network provision, internal and/or external”.

Further review in Bergek & Norrman (2008), conclude that selection, infrastructure, business support, mediation and graduation seem to be the most common components of incubator models. They suggest that infrastructure and graduation play a less significant role in the models since infrastructure may be seen as similar between incubators and that no substantial differences are to be found in the graduation principles of different incubators. They therefore suggest that selection, business support and mediation are the main

distinguishing components of incubator models. Selection refers to decisions concerning which ventures to accept for entry and which to reject. Business support is associated with coaching/training activities undertaken to develop the incubatees. Mediation refers to how the incubator connects the incubatees to each other and to the outside world. I agree with their notion of infrastructure being basically the same between incubators and thereby not relevant as a deciding factor in their success. I will not oppose to their observations that there is not a noticeable difference in the graduation principles of incubators, but I however think that such principles should be emphasized in incubators structure and play an important role in their process. I also think that such principle have a similar ring to them but when it comes to actually graduating, there will be a big difference in how the process is handled.

The success of an incubator depends on the performance of its tenants and thus an incubator benefits from limiting the tenant failure rate. One way of minimizing the number of tenant failures is to subject potential incubatees to an efficient screening process. Furthermore, entrepreneurial ventures established through an incubator are proposed to be directly affected by the services offered by the incubator and the screening process. The filter process is described as the selection processes carried out by incubator directors and allows the incubator to evaluate the presence of characteristics that are deemed essential to develop sound enterprises. When the objectives of the incubator match those of the tenants, there will be a higher number of graduates (Peters, et al., 2004) and (Hackett & Dilts, 2004a). This is very much in line with my own observations as articulated later in this paper.

Aerts, et al., (2007) established a cautious link between screening practices and performance, measured in terms of incubatee failure. They emphasize that most European incubators do not screen potential incubatees on a balanced set of factors, but concentrate either on the characteristics of the incubatee's market or on the characteristics of the incubatee's management team. However, they found that the incubatee survival rate is positively related to a more balanced screening profile. They conclude that balanced screening practices ought to be the main target of incubators instead of approximate data, for example business plans and the composition of the team. As a result of more balanced screening criteria the tenant failure will be lower as a consequence.

Bergek & Norrman (2008, p. 24) Described what they perceived to be available as different approaches to selection method. According to them all are likely to result in very different incubator portfolios of incubates. Figure 2 visually demonstrates the methods.



Figure 6: Different approaches to incubations selection (Bergek & Norrman, 2008, p. 24)

	Survival of the fittest	Picking the winners
Idea focused selection	<p>Survival-of-the-fittest and idea:</p> <p>The portfolio will presumably consist of a quite large number of idea owners (or upcoming entrepreneurs) with immature ideas related to a broad spectrum of fields.</p>	<p>Picking-the-winners and idea:</p> <p>Results in a highly niched portfolio of thoroughly screened ideas within a quite narrow technological area—often sprung from the research of highly ranked universities.</p>
Entrepreneur focused selection	<p>Survival-of-the-fittest and entrepreneur:</p> <p>The resulting portfolio will be diversified, and consist of entrepreneurs/teams with strong driving forces representing a broad set of ventures.</p>	<p>Picking-the-winners and entrepreneur:</p> <p>The portfolio consists of a few handpicked and carefully evaluated entrepreneurs, commonly with ideas coupled to the research areas of a nearby university.</p>

In this sense, it is beneficial for innovators and entrepreneurs starting a business, to be aware of the existence of different incubator clusters regarding screening practices. Entrepreneurs can better prepare their incubation application if the screening practices are known in advance and incubators with demanding screening process will be able to deliver a higher added value to the entrepreneur. Additionally, as per the relationship of a balanced set of screening factors to performance, they suggest that any entrepreneur performs a self-diagnosis using a balanced set of assessment criteria whether or not he is applying for incubation. (Aerts, et al., 2007)

Haapasalo and Ekholm (2004, cited in Vanderstraeten & Matthyssens, 2010), paint organized networking as to be the most important factor for incubator success and that only a strong network of experts and business contacts can help a start-up company launching and expanding its business.

In their literature review, Peters, et al., (2004) point out that past researches conclude that business incubators must accomplish five tasks well in order to succeed: (1) establish clear metrics for success, (2) provide entrepreneurial leadership, (3) develop and deliver value-added services to member companies, (4) develop a rational new-company selection process, and (5) ensure that member companies gain access to necessary human and financial resources. Their own study (Peters, et al., 2004) suggest that a combination of

infrastructure and personnel services offered, along with networking and coaching help in the entrepreneurial process. They conclude that “*a broad based, loosely connected network is of great importance to entrepreneurs*” (Peters, et al., 2004, p. 89). They also propose that incubators can be viewed as to be kind of a broker, as they facilitate links between persons who are not directly connected, which again supports the idea that a huge part of the value of the incubator is its role as an intermediary to a much larger set of networks. This is in line with one of my major observations and learning outcomes described later in this paper. Peters, et al., (2004) go on to conclude that the way incubator programs and managers deal with this factor is important in incubator success, that the types of ties and networks are important and that there are good and bad networks for entrepreneurial success. Peters, et al., (2004) propose that the entrepreneurial ventures established through an incubator are directly affected by the services offered by the incubator and the filter process and that when the objectives of the incubator match those of the incubatees, there will be a higher number of graduates. The filter process is described as the selection processes carried out by incubator directors and is an important task in the process of incubation. Colombo & Delmastro agree on this (2002, cited in Bergek & Norrman, 2008). In my opinion, it must be considered likely that a relation exist between the quality of incubator management towards the incubated ventures and performance. Also, just like people are likely to function better in an environment that they are familiar with, incubated ventures are likely to function better in an environment that suits them.

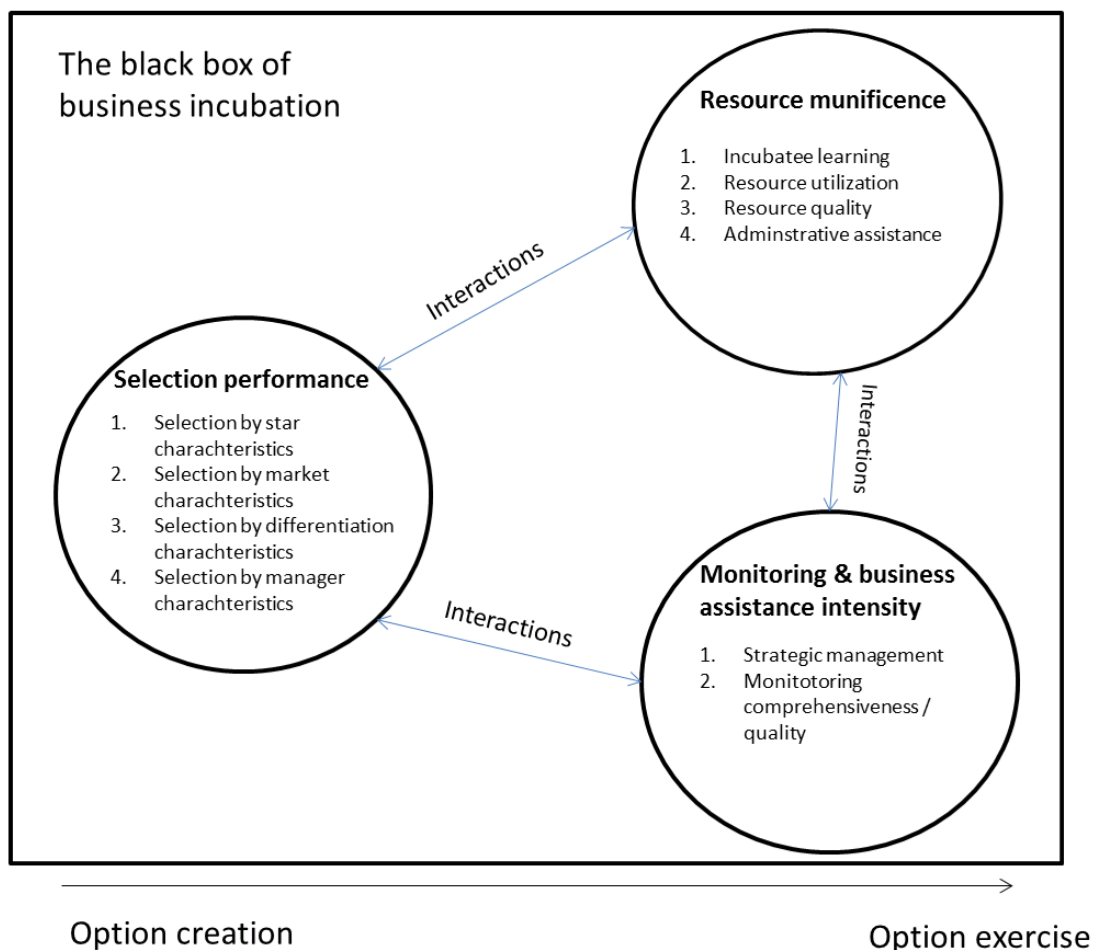
Grimaldia & Grandia (2005) emphasize the importance of a wider range of incubators that offer different services to satisfy different needs. Incubators need to be aware of their environment and their strategic position and also need to specialize in the services that they offer and must match their offering to the needs, demands and expectations of incubated ventures. In short, their services and activities appear to be better guided by incubated venture needs and available resources than standardized sets of offerings (Grimaldia & Grandia, 2005)). This is consistent with Hackett & Dilts (2004b), who stated that monitoring and understanding the needs of ventures facilitates the incubation process. They however also stated that the initial objectives of incubators are often not aligned with incubatee objectives (Hackett & Dilts, 2004)(a).

Hackett & Dilts (2008), conducted a scaling study with the aim to identify the process of business incubation and what happens within business incubators. They base their work on their hypothesized inner workings of what they call the *black box of incubators*, identified with their real-option based theory (Hackett & Dilts, 2004b) and investigate 56 American incubators. They claim their conclusion to be the first systematically developed evidence on

the incubator-incubation process. The conclusions suggest that figure 1 describes the process that happens within the incubator, starting with a pool of possible incubatees and resulting in a group of graduates. As to clarify, I have added information as compared to the original figure. All modifications originate from the original paper of Hackett & Dilts (2008). This model is in line with most of the literature described earlier as it emphasizes and interprets the selection process as a vital part of the incubation process and by identifying the munificence and intensity of resource allocation as key factor. Instead of just identifying static resources, they emphasize the method of- and magnitude of the available resources.

Bhabra-Remedios & Cornelius (2003), raised the issue that the success of incubator tenants is not only dependent on the nature of the available services, but also depends on the quality and how they are supplied.

Figure 7: The black box of business incubation (Hackett & Dilts, 2008, p. 441)



## 4. Reflective study: A personal viewpoint from within incubators

### 4.1. Method

In an auto ethnography style, this chapter is the author's personal reflection on the effectiveness of incubation for new ventures and the support system needed for and within incubators to have positive effects. It relates personal learning outcomes from the master's program in entrepreneurship at Lund University to theories regarding the existence of incubators and the effects incubation has on the success of incubated ventures. In this chapter I try to describe my observations during my incubation period within different incubators and try to describe how I perceived different methods of incubators.

The addressed research problem is:

**How should incubators be built up regarding their surroundings and services, to deliver results?**

Data used is experience and observational data, recorded over a period of ten months, from August 2011 to May 2012. Observed data includes my experience from operating within three different incubators connected to Lund University. The three different incubators are: Lund university Master program in entrepreneurship 2011-2012, The Ideon Innovation incubator in Lund and an externally triggered and specific competitive incubator approach within the Ideon Innovation incubator.

### 4.2. Where I sat

As per the purpose of this paper, I will interpret the Master program in Entrepreneurship (Lund University 2011-2012 in Sweden<sup>7</sup>) and the time of study as a period of incubation. The reasoning can be found below. I will. I also assume that the selection process of an incubator is part of the incubation process as put forward by Hackett & Dilts (2008) who identified the selection process, resource munificence and resource intensity as the vital parts of the incubation process.

One large part of the Master program curriculum is the delivery of a full scale business plan to a venture that either originates from the students themselves or from research or work

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<sup>7</sup> For further information, see Lund University's web page : [http://www.lunduniversity.lu.se/o.o.i.s?id=24725&lukas\\_id=EAGEN](http://www.lunduniversity.lu.se/o.o.i.s?id=24725&lukas_id=EAGEN)

from within Lund University. The whole study period then is sort of selection process for most business ideas, though depending on their status, that the program passively pushes towards a feasibility decision. Non feasible ideas should be logically dismissed through the interaction of students and projects and with the utilization of the university's resources. As part of the learning objectives of the program, students with feasible business ideas for new ventures, each had the right to an office space at the *Ideon Innovation* incubator facilities in Lund<sup>8</sup>. Additionally, the program seems to have a certain objective of demonstrating positive results through the number of established ventures at the end of the study period, indicating that the program defines itself to an extent as a hatcher of real ideas.

Some students have more developed ideas to a business when entering the program and their study period might then be interpreted as a later phase of the incubation period. Similarly, from a point of view it is unlikely that the resources available to the student ventures during the study/selection period would generally be available to ventures applying for incubation over the selective phase. In a general selection process, the resources become available to the ventures when accepted for incubation.<sup>9</sup>

The *Program incubator* can then be interpreted as a *mixed type of incubator* as defined by Aernoudt (2004), and a *university incubator* as defined by Peters, et al. (2004), as it is focused on dealing with business and entrepreneurial gap with the objective to create start-ups and entrepreneurship based on university work in any form, research or innovation.

I was exposed to a different incubator and its processes both from the master program and from an unrelated source. As stated earlier, the *Program incubator* gave access to joint office spaces at the facilities of *Ideon Innovation* in Lund, with the implication of access to the resources of a professional incubator. The purpose was to both facilitate the necessary work needed to start up new ventures and also to get the students introduced to the functionality and possibilities available to entrepreneurs within an established incubator. This part of my learning process is the one that best fits the description of being incubated after a selection process. The *Ideon Innovation* incubator is a mixed type of incubator, focused on dealing with business and regional disparity gaps with the objective to create start-ups and promote regional development as defined by Aernoudt (2004) previously in this paper. It also has ties with Lund University.<sup>10</sup>

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<sup>8</sup> For further information, see [www.ideoninnovation.se](http://www.ideoninnovation.se)

<sup>9</sup> In this paper, I will refer to this experience as the "Program incubator", as described in this paragraph

<sup>10</sup> In this paper, I will refer to this experience as the "Ideon incubator", as described in this paragraph

I also participated in an innovation competition unrelated to the previously mentioned Master's program or my own business idea. The competition originated from a large Swedish manufacturing company and was based on the experience and resources available within the *Ideon incubator*. As this process had a very different approach to a similar means, it provided a deeper insight to the functionality of an incubator and its resources and specially the selection process. The competition had the purpose of finding feasible business ideas and innovations that would be viable for incubation within the *Ideon incubator* with financing from the originating company. This whole process may be interpreted as a selection period, but as in the case of the program incubator, it is unlikely that the resources available to the participants during the selection period would generally be available to ventures applying for incubation over the selective phase. In a general selection process, the resources become available to the ventures when accepted for incubation. This incubator can be interpreted as an *Economic development incubator* as defined by Aernoudt (2004) and for *profit incubator* as defined by Peters, et al., (2004) and showcased previously in this paper.<sup>11</sup>

During my study period I had one business idea that I spent time on developing within the *Program incubator* and the *Ideon incubator* at the same time, delivering joint experience of a selection process and an incubation period. My experience from the competition part then adds to the whole as it provides a much different perspective. Here below I look further into how they differ and from now on the incubator provided by the Master program will be referred to as the *Program incubator* and the incubator that originated from the external company as the *Competition incubator*.

It seems obvious that there is a large difference between an educational program and a corporate sponsored competition from many perspectives. An educational program by definition has the purpose to engage its students on a learning journey that results in acquired abilities and more qualified professionals. For instance, the particular program used as an example in this paper, tried to *indirectly push* the student's entrepreneurial process by engaging them in work and educational tasks that at each time might be considered as a valuable add-on to the process of establishing a new venture. Thereby, the program wanted to enact entrepreneurial processes by giving related examples and emphasizing relevant theory at the appropriate time. This was somewhat successful as such, but lacked the pro-activeness in engaging the students in the university surrounding as a pool of useful resources. The lack of pro-activeness is discussed more thoroughly later in this paper and for

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<sup>11</sup> In this paper, I will refer to this experience as the "competition incubator", as described in his paragraph

purposes of addressing a particular subject, the educational program is not reflected upon as such, but as to contain parts of an incubation process. Those parts are reflected upon.

A corporate sponsored competition has the underlying purpose of creating value through monetary assets and results. By definition, the sponsorship in relation to bought services and the particular industry the sponsoring corporation operates in increases the focus of the whole process of creating and maintaining successful new ventures. Thereby, if interpreted as an incubator, such a competition has from start the advantage of a more specific goal. As such, it is easier to address the subject of appropriateness of ideas or ventures to the incubator. A corporate sponsored competition has the purpose of *pulling* the entrepreneurial process out of its participants and utilize the already present capabilities. This is a large underlying difference between the two processes reflected upon in this paper. This difference must be kept in mind when considering the differences in how the identified incubators act and operate. However, it is important to notice that the purpose of the comparison made in this paper is not to emphasize the difference between two distinct methods of enacting entrepreneurial process, but rather to identify which parts of different processes are relevant to incubatees and which deliver positive results to incubated ventures and thereby contribute to the performance of incubators. To effectively do this, I approach the subject by interpreting the two sources of different entrepreneurial enactment as incubation periods.

### **4.3. Different methods of selection**

By interpreting the *Program incubator* as a selection process and comparing it to the selection process of the *Competition incubator*, different approaches become apparent.

The *Program incubator* chooses its potential incubatees by the person applying for the program and values his or her ability to contribute to the entrepreneurial process of own idea or other ideas as a valuable source of experience, knowledge or talent. The Program incubator then engages the selected people in work related to establishing the feasibility of their ideas. Should an idea be discarded by such process, the people involved are urged to develop a new idea or different approach or participate in other projects, utilizing their particular and specific traits. The *Program incubator* is then limited to the number of people accepted for study, but in no way limited to a number or types of companies but through the entrepreneurial capacity of the students. Different ideas are to have access to the variable brain power and knowledge of other students and indirectly to the resources of Lund University. The *Program incubator* seems to select incubates based on the personality and entrepreneurial potential of the persons involved, but does not take into account the quality of ideas. The *Program incubator* thereby seems to depend on that the magnitude of ideas will generate an acceptable number of feasible and established ventures. It seems to follow the



“*Picking the winner and entrepreneur*” selection method when accepting students to the program but then switches focus over to “*survival of the fittest and idea*” as identified by Bergek & Norrman (2008) and previously described in this paper. The selection criterion was entirely based on the entrepreneur’s own learning about his business idea over the study time and the *Program incubator’s* approach was passive as to the offering of services and resources. This resulted in non-feasible ideas to be, in some cases, taken too far before being dismissed as not feasible.

On the other hand, the selecting process of the *Competition incubator*, originating from Ideon Innovation, was much more oriented on the quality of the business idea itself. However, it did not exclude the persons involved, as people were invited through specific channels to participate. The channels had been identified as to be likely to provide access to creative people and thereby it is possible to say that some criteria were applied to the selection of persons involved. However, there were no restrictions apparent as everyone with a viable idea could have participated and the selection process then was in whole based on picking the most viable ideas for incubation. The *Competition incubator* clearly followed the “*Picking the winners and idea*” selection method as identified by Bergek & Norrman (2008) and previously described in this paper. During the selection process, participants had access to the resources of the *Ideon incubator* as well as the resources of the large manufacturer itself. As stated before, the availability of resources blurs the distinction between the *Competition incubator* being a selection process or a short incubation period. The selection criterion was related to the demands of the large manufacturer and then the selection process was based on the availability of various experts, experienced in certain aspects of the particular business idea. Participants were actively encouraged to engage in an in depth conversation with the expert and reach a conclusion on the feasibility of a business idea. The *Competition incubator* very actively offered services and support as there were certain deadlines and goals to be made. They wanted to dismiss non feasible ideas as soon as possible and focus on the feasible ones and maybe even assign people whose ideas had been dismissed onto other ideas where their knowledge could be utilized.

It was apparent to me that the *Program incubator* did not have the same access to experience and professional resources as the *Competition incubator*. This was despite the fact that the *Program incubator* functions within a large university that should hold competences necessary to develop most ideas. From my point of view, the reasons for this can be found in the fact that the *Competition incubator* and its resources were much more focused and in accordance with the needs of the incubatees. The *Program incubator* has extensive resources in its surroundings, but not within grasp. The *Competition incubator* on the other hand has specific and focused resources within reach. From an incubator

perspective, this emphasizes an argument for resource availability to be strategically right and specific to the needs of incubatees. However, one has to take into account that the whole purpose of the *Competition incubator* was much more specific than the purpose of the *Program incubator*, as it was looking for feasible ventures within a certain area and had in beforehand access to the specific resources needed. On the negative side, the *Program incubator* did not demonstrate any activity towards proactively assisting the incubatees in finding the specific resources.

#### **4.4. Different approach to incubation**

Previously, for the purpose of this paper, I have interpreted the *Program incubator* as a selection process. However, as stated earlier, it can also be interpreted as a short incubation period (10 months) for ideas that were more formed when they entered the program and a very short incubation period (5 months) for the ideas developed over the first 5 months of study. Also, as stated earlier, it is unlikely that the resources available to the incubatees over the previously described selection process would have been available to ventures applying for incubation through regular processes. This also applies to the *Competition incubator*. The following text describes my experience of sitting in an office space within the *Ideon incubator* as part of my *Program incubation* period. I will compare it to the experience from and methods used in the *Competition incubator*.

Being appointed an office space at the Ideon incubator gave an indication of a more open road ahead in working on my business idea as from my point of view it would show me doors that I had not noticed yet. Over time however, it became apparent that the Ideon incubator had no stake or interest in actively and proactively offering its available service – it was only reactive.

As the *Program incubator* (now joint with the Ideon incubator) was only reactive in its resource and assistance allocation the incubatees needed to be more proactive themselves. This was not a problem with most of the incubatees and the resulting communication with the Ideon incubator was in most cases successful and valuable. However, from my point of view, getting someone to review your plans and make critical comments and suggestions towards which way to go is always a good step to start with. Four eyes are better than two. This was in my opinion missing in the *Program incubator*. If the incubatees are to be entirely proactive in their approach to reactive incubator assistance, the assistance will be limited to the things identified by the incubatees who may not see the whole spectrum of available assistance or lack the guidance of people more experienced with the development of business ideas. In general, a person can have a good idea and be experienced in most areas of running a business, but lacks focus in certain and more specific fields. In that case those fields are the

ones the incubator should compensate for with its available resources. This was successfully done in the *Competition incubator*, as participants had access to industry experts as well as experienced business coaches and actively informed the participants of the availability of different resources within different areas of expertise. This was apparent to me a bit too late in my incubation journey as I did not realize this aspect until I engaged in the *Competition incubator*, where I was actively pushed by the incubator to seek advice and contacts in order to get me ahead. Until then, I had only utilized the office spaces of the *Ideon incubator*. Through the incubators I had access to business coaches and advisors. As my background is a B.Sc. degree in business administration and many years of working within a bank, this aspect of the available resources was in beforehand not the one I was looking for. It turned out though that by engaging in a conversation with these professionals, they were able to get me in contact with other more specific professionals, such as lawyers and marketing experts and accountants. This proved valuable to me. On the other hand, I can imagine that the business counselling part of the service offering of an incubator would be very valuable to entrepreneurs that have different kind of background from mine. Entrepreneurs with a background specific to the product or idea and not connected to the business side of a venture are likely to need access to competent expert advice and guidance from a business point of view to successfully get their product recognized in the market. This part of the process was very well carried out in the *Competition incubator* as it actively engaged in a conversation with its participants to find out early enough, which resources were of most importance to different users. The *Program incubator* however was unsuccessful in this aspect as it was reactive in its approach and did not manage to guide a newcomer towards utilizing what I believe to be extensive network of a large University and especially in engaging the professional *Ideon incubator* in assisting the incubated ventures. As stated before regarding the selection process, this difference can probably be traced to the fact that the *Competition incubator* and its resources were much more focused and in accordance with the needs of the incubatees. The *Program incubator's* resources were hard to grasp, but the *Competition's resources* were within an arm's length. From an incubator perspective, this emphasizes an argument for resource availability to be strategically right and specific to the needs of incubatees.

## 5. Analysis

### 5.1. Extended possibilities in a controlled environment

Using the rear view mirror to reflect on my total experience of incubators, the single most valuable resource offered through the incubators was the network of relevant contacts that was unofficially handed to me. Instead of having to start from scratch and search for a network on my own, I only needed to utilize and get acquainted to the existing network. Unfortunately, not every contact is of value but the search for the right contact is usually a long and exhausting process. Afterwards, my feeling is that within an incubator I am very likely to find the right contact, either directly or indirectly as a reference. In my own case, such process usually takes me very long time to give results but the time was minimized through the controlled environment of the incubator and especially through the proactive methods of the *Competition incubator*. From my point of view, creating an effective contact network for incubated ventures to access is one of the key values an incubator has to offer. Efficiency of a network should then be measured in how relevant the contacts are to the incubated ventures. Different contacts are valuable to different ventures. In this sense, out of two otherwise different incubators, the one with the more relevant network is in my opinion far more likely to graduate a successful firm. This implies my reflective opinion that an incubator that has a specific purpose or field of expertise likely to have more relevant contact network for the specific ventures that.

### 5.2. Do incubators increase incubatee's survival chances

The question is does incubation increase the likelihood of success for the ventures involved? From my point of view, being accepted as an entity into such an environment puts positive pressure on the entrepreneur/s to work hard towards the previously identified goals of the start-up. This implies working somewhat harder, or at least faster than they would otherwise. They have gotten a positive recognition and taken on an obligation to deliver their best. Reasoning then indicates that this decreases the chance of early drop outs. Of course, one also has to take into consideration that ventures that get recognized in this way have already gone through a screening process that assesses their feasibility for future success compared to others. This implies that ventures that get selected for incubation are already somewhat more likely to succeed than those that do not get selected. Of course, selecting does not necessary lead to the best result but in this case the purpose of the incubation should in general provide incubated firms with better chances than none incubated firms, as they have access to the incubators resources. In worst case they get cheaper office spaces. It is

apparent in my experience that out of two identical new ventures, the one that gets to start up within the protected environment of an incubator is much more likely to survive.

### **5.3. Two way incubator-incubatee relationship**

It is necessary for an incubated venture to realize that the incubator-incubatee relationship is two way. When reflecting on my two phased experience within the Program / Competition incubator, I can see the possibility to sit in an incubator with a feasible business idea and gain nothing. I tried sitting in the incubator with my own business idea and waited for the incubator to deliver me some value. I also tried sitting in the incubator working on other ideas as part of a competition, where I was actively pushed towards seeking the right resources needed to get ahead, clearly demonstrating the power of the incubator service. This showed me that an incubatee cannot sit and wait for the incubator-incubatee relationship to show its relevance, but needs to actively show his relevance to the incubator and seek the desired service. The incubator also needs to be proactive, if not only in making the incubatees realize that they have to be proactive themselves.

### **5.4. Feeling full**

I can see the scenario where an entrepreneur has an idea that he believes is feasible for further work. The entrepreneur spends time working on the idea and at a point recognizes the option to apply for a space at an incubator as the next big step. Then he takes on the process of getting his venture into the incubator which hopefully and probably is very beneficial to his whole concept as it has been described previously in this paper. When receiving a positive answer to his incubation request and then actually getting his appointed office space, it is somewhat likely that this recognition of his concept might give him a false sense of closure. The entrepreneur has been working hard towards a specific goal and then ultimately succeeds. This might result in a period of false establishment as the entrepreneur relaxes his efforts. At this time the entrepreneur really needs to keep up his spirits and drive his concept full ahead but might be feeling full and satisfied without realizing it. In this scenario the acceptance of incubation might switch the entrepreneur's focus and make him somewhat lose his path towards what might be vital achievements in the start-up process of his new venture. Of course, such a scenario is different for each entrepreneur. Reflecting on my own professional history, this is something that I would need to be very much aware of. Here comes in the quality and functionality of the incubator which needs to be proactive in assisting the entrepreneur in his journey and actively push the incubators resources towards the entrepreneur.

### **5.5. Sitting idle**

I will also argue from my experience that it is entirely possible that an incubation acceptance, followed by an incubation time, might create a false sense of security for the incubatee. If the incubatee does not actively seek the appropriateness and quality of the offered services as his expectations dictate, he might end up with a meaningless relationship. The incubatee must realize that the relationship is two way and that the incubator manager does not always know what the incubatee needs at a given time. As stated earlier, this was apparent to me a bit too late in my incubation journey as I did not realize this aspect until I started the competition mentioned earlier, where I was actively pushed by the incubator to seek advice and contacts in order to get me ahead. Until then, I had only utilized the office spaces of the incubator.

## **6. Discussion**

From my point of view, the screening selecting process of incubators is very important for the incubator to be able to deliver results. The process of selecting requires applicants to review their business idea and model to at least the level of feasibility. Thereby, all ideas that proceed after going through the selecting process can be considered better off, whether or not they were selected for incubation in the end since they have been thought further through. In general, it is not at all right to say that all good or successful ideas are well thought through from the beginning. However, one might rationalize that for an idea that can be considered to be within the “normal range” of ideas should benefit from more thorough scrutiny. Abnormal ideas are then the ones that, for the nature of the underlying product, will work no matter the quality of the preparation. This is in line with literature previously described in this paper as Hackett & Dilts (2004), Bergek & Normann (2008), Aerts et al. (2007) all emphasize this point. Additionally, Aerts et al. (2007) emphasize the necessity of balanced and planned methods of selection for increased quality and encourage all entrepreneurs to engage in a selection process of some sort for all business concepts as surviving concepts should always be better off. This was my experience also.

After being exposed to different approaches to selection, it is my opinion that the screening process should be specific and focused on the underlying purpose and goal to deliver the most efficient end result. That implies that it needs to be thought through and follow a plan. It also needs to be active in introducing the applying parties to the goals and purpose and thereby find out if the incubator can be of assistance towards positive results. It is entirely

possible that an incubator is unable to assist a very feasible idea if the resources of the incubator do not match the needs of the idea or if the goals of the idea do not match the purpose or goals of the incubator. This view supports previously identified literature such as Hackett & Dilts (2004a) and Peters, et al. (2004), who claim that when the objectives of the incubator match those of the incubatees there will be a higher number of graduates. Grimaldi & Grandia (2005) also support this view as they point out that incubators services and activities appear to be better guided by incubated venture needs and available resources than of standardized sets of offering and thereby incubators need to match their offering to the apparent demand.

Rice (2002) comes close to the truth in my opinion when he claims the incubator process and its positive or negative outcome to be a co-production between the incubation management and the incubatee. Thereby he agrees with my experience of the necessity of both incubatees and incubators (their managers) to be proactive towards finding the matching resources and reach an early feasibility conclusion. Both incubatees and incubators must be aware that to establish efficient relationship between them, communication and expectations must be both ways. This is also in line with Hackett & Dilts (2008) findings that the level of resource offerings and the intensity level of business assistance need to be high for an incubator to deliver positive results to the incubatee and for the level to be able to be high, the incubatee must possess the ability to receive what he is handed.

My findings were consistent with the work and notice of Hackett & Dilts (2004) who stated that an incubator can be seen as a kind of broker, facilitating links between persons or parties not directly linked and function as an opening into a much larger network than otherwise possible. My experience also leads me to agree with Peters, et al. (2004), Haapasalo & Ekholm (2004) cited in (Vanderstraeten & Matthyssens, 2010), that the network available from an incubator to an incubatee is of great importance in the future success. Peters et al. (2004), also agree with my findings that there are both good and bad networks for different incubatees, depending on their goals and relevance.

## **7. Conclusion and future implications**

In general, having the opportunity to sit in an incubator gives a feeling of belonging and support. It is an opportunity to focus your efforts towards an identified goal within a more controlled environment and the assistance of professionally structured support. Your new venture seems to be much further ahead and established than it actually is, as it has an address and office space – a place to work and belong. In most cases, your venture has



gone through a scrutiny that should have established the incubator's as well as your own believe in its future promise and feasibility. That should increase the commitment and define the stakes of everyone involved. It comes with expectation of success and hard work, from yourself and the incubator.

The process of incubation from initial idea until graduation from the incubator is ever changing and somewhat different between ventures and entrepreneurs. In most cases, the incubation period should do much more positive than negative. In general, I have a hard time imagining such a period having a negative effect on myself except for maybe in a very short term. As per the time after graduation, I can imagine getting a bit of a survival shock losing the valuable and comforting surroundings of the incubator and need to stand entirely on my own. From my point of view, this should only be a very short period as the incubator should not graduate ventures until they are ready. That on the other hand raises the question that if the ventures cannot survive on their own after a reasonable incubation period, should they not have been dismissed earlier?

As one aspect of entrepreneurial education is to directly train and get students introduced to the process of entrepreneurial behaviour, this paper holds value towards such progression as it introduces and emphasizes the difference in efficiency between a *non-profit educational program* and a *for profit corporate sponsored competition*. Furthermore, current literature and research seems to focus its efforts on the process of incubation as seen from the incubator's and the incubator manager's perspective. Possibilities lie in approaching the issues of incubator performance and effect by studying the incubatee during his incubation time and also on regular intervals after graduation or cancellation. Thereby it is possible to get a viewpoint on the subject from the people currently using and that have used the services of an incubator. A relevant question towards a currently incubated venture might be - *what aspect of incubation service do you think is effecting your venture the most and what would you need to make the most out of you incubation time?* Similarly, a relevant question towards a previously incubated venture might be - *What aspect of incubation service do you think effected your venture the most and what would you have needed to make the most out of you incubation time?* Both question sound like a service level query or a poll for an established business, but would be interesting to see as a research material. Future research towards the fit between an incubator and its incubatee from perspective of firstly the type of company vs. type of incubator and secondly from personal characteristics of the employees of incubatees vs the level of proactiveness on behalf of an incubator, as described in this paper.

All suggested research here is oriented as more qualitative than quantitative, as the subject can be considered to be different between each single incubatee. Thereby it is valuable to see cumulated reflective accounts from people involved in the process of incubation as it happens and after it happens. The rear view mirror is sometimes valuable.

## 8. Summary

Literature review revealed that there is a lack of systematic framework for incubation theory (Hackett & Dilts, 2004a:b) and (Rice, 2002), and that there is a need to develop clarity and consistency regarding performance measurements for it to be relevant (Phan, et al., 2005). A Real option driven theory (Hackett & Dilts, 2004) comes close to explaining the whole process and dynamics of incubation and most models identify and emphasize the selection process, the quality of the available network and the quality and method of applying available resources in coherence with the needs of incubated ventures, as the vital for an incubation process to impact positively (See for example (Bergek & Norrman, 2008 : Hackett & Dilts, 2004:2008 : Grimaldia & Grandia, 2005 : Peters, et al., 2004)

The reflective study revealed that the author's experience of the different incubation processes was in line with the literature as it recognizes that incubators are likely to do more good than bad and offer better results through a controlled environment. The study emphasised the importance of the network as vital aspect in the offering of incubators and the importance of the incubator's offered services and resources to be consistent with the needs of the incubated ventures. The quality and method of incubator's resources is important but they must co-exist with the needs and goals of the incubatee. If not, resources of very high standard can be useless. The study also maintains the importance of a two way relationship between incubators and their incubatees as both need to be proactive in engaging the other in a conversation to maximize the result of their cooperation. Neither party can sit idle. The study demonstrated the different approaches of different incubators towards both the selection process and the incubation period after the selection process. The selection process was identified as vital in the total success rate of incubators as it identifies the weak links and strengthens most ideas as they evolve over the process of thorough scrutiny.

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