Nesta...

GOOD INCUBATION

The craft of supporting early-stage social ventures

Paul Miller and Jessica Stacey

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“Do not compute the totality of your poultry population until all the manifestations of incubation have been entirely completed.”

William Jennings Brown (1860–1925)

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EXECUTIVE SUMMARY

Social ventures are increasingly seen as an important way of solving the social and environmental challenges of our age. The world of social (or social impact) investing has developed to finance and support these ventures, taking them to scale when they have a proven and measurable social impact and revenue model.

However, the impact investment world has struggled thus far to develop a reliable 'pipeline' of early–stage potential investments commensurate with the growing amount of capital that is available for later–stage ventures. To fill this gap 'social venture incubation' has grown as a set of techniques to help founders develop ventures that are investable propositions.

'Incubation' is a collection of techniques that can be used to prove an idea, develop a team and de–risk ventures for later–stage investors. Incubation happens in accelerator programmes, co–working spaces, social venture academies and learning programmes, competitions and through the work of very early–stage investors. Over the past five years all of these types of programme have increased in number around the world.

This report charts the rise of social venture incubation with a particular focus on what can be learned by this burgeoning sector from programmes around the world. It is intended for people and organisations wanting to support social ventures either as policymakers, investors or people running incubation programmes, to ensure that ventures have the best support.

Early–stage startups have particular needs in order to grow. But even within that group there is great variation. In this report we differentiate between startups not just based on their age, scale or sector, but by what support they need:

1. **Team formers –** need support finding co–founders or early employees.
2. **Proposition seekers –** need help refining the combination of problem to solve, idea and potential customer.
3. **Customer hunters –** need help with access to potential customers.
4. **Model fixers –** companies with revenues that have found limits in the scale of their business model.
5. **Scalers –** need marketing support as well as recruitment and other services associated with rapid growth.

There are five models of incubation that have emerged to support early–stage social ventures:

1. **Co–working spaces –** offering work space and opportunities for founders to access co–founders, networks and, increasingly, training.
2. **Social venture academies –** offer training for social venture founders and access to mentoring.
3. **Impact accelerators –** offer finance, training, access to networks and usually office space.
4. **Social venture prizes and competitions –** offer finance, profile, mentoring and often access to expertise and staff of larger organisations.
5. **Impact angel investor networks –** offer finance, mentoring and access to growth expertise.

As a field, social incubation is still very young, with most programmes being less than five years old. However, there are lessons to be learned from trends in the way that programmes have changed over time:

- **Vertical specialisation –** specialising in a particular industry or on a particular social or environmental problem, such as health or energy saving technologies, and so being able to focus on connecting ventures to a smaller group of more relevant investors.

- **Domain specialisation –** providing one particular type of support to a level over and above other similar programmes, for example by having world-beating design expertise in-house that is able to push forward ventures in a particular way.

- **Educating customers and investors –** finding ways to encourage large organisations to become customers of ventures in their early stages. This involves changing the attitudes of angel investors, demonstrating that there are financial gains to be made among social ventures, and changing the attitudes of philanthropists to show that they may have more impact by investing their money rather than giving it away. This can take the form of lobbying and campaigning for better procurement rules through to developing ongoing relationships with particular organisations that will work with a number of incubated startups.

- **Diversification –** some incubators are expanding into other geographic areas, or diversifying their offering to support ventures at different stages of their scaling journey.

- **Opening up data –** as programmes develop track records, they are making more data public about their performance which enables founders and investors to make comparisons.

The report ends by highlighting some of the perceived risks and downsides of social incubation and suggests some principles for social investment ecosystem development. It looks at how supply and demand can be best matched and makes recommendations for ensuring that the sector continues to learn and improve, and that it meets the needs of founders and the impact investment world.

PART I

Chapter 1

THE OPPORTUNITY

Introduction

Creating and growing a social venture is hard. It takes dedication, perseverance, finance and not an insignificant amount of luck. You have to find customers, hire the right people and deal with the burden of administration and regulation as well as proving that you are having a positive impact. So perhaps it's no surprise that social venture founders go looking for support to help them get started and grow. A new sector has started to emerge to provide that support – social incubation.

This report is for policymakers, investors and those running incubation programmes who want to ensure that social ventures have the best support possible. It attempts to draw lessons from incubation programmes around the world.

What are social ventures?

Throughout this report we use the phrase 'social venture' to denote an organisation that is trying to achieve a social or environmental impact through business principles. Specifically, this report focuses on social ventures that aim to achieve impact at a large scale. In our experience, social ventures that are aiming to achieve large scale, rapid growth need a different sort of support from those that aim to stay smaller or grow more slowly.

Social ventures can have any legal form but in the UK, those that are trying to scale up their impact quickly often opt to be companies limited by shares. This is because companies limited by shares can issue equity, and the finance requirements of high-growth organisations are best suited to equity investing – equity investment provides 'patient' capital that entrepreneurs can use to build their business without being burdened by repayments in the short term.

What is incubation?

'Incubation' is a collection of techniques that can be used to prove an idea, develop a team and de-risk ventures for later stage investors. In researching this report, we found a rich variety of methods and techniques for supporting early-stage social ventures being adopted in a range of different contexts.

In fact, we rarely use the word 'incubator' in this report as we've found that it can mean all kinds of different things to different people. Instead we've tried to research and write about specific types of social incubation, differentiating between accelerators, co-working spaces, academies, angel networks and competitions and describing them separately. Over the past five years all of these types of programme have increased in number around the world.

The funding gap

There's a widespread belief amongst policymakers across the world that social entrepreneurs can tackle some of the pressing problems we face – if only we can get them operating at scale.[1]

But if social ventures are to grow, they require finance. Recognising this, organisations across the public, private and charitable sectors have started to promote 'social investment'. More commonly known as 'impact investment' in the US, social investment aims to generate social returns alongside (or, for some investors, instead of) financial returns. For governments, social investment is often seen as a way to promote economic growth, support public service delivery and encourage social innovation.[2] For charitable foundations it can be a way to further their mission[3] and for large private companies, to make good on their commitments to corporate social responsibility.[4]

The UK Government, for example, has pledged £400 million of capital from dormant bank accounts towards Big Society Capital, which has been matched by £200 million from the main UK banks.[5] The European Investment Fund has recently launched the Social Investment Accelerator 'fund of funds' to help grow the market for impact investing in Europe.[6] The initial fund is €60 million but is expected to grow rapidly.

Government intervention combined with private sector interest has led to a dramatic growth in the number of impact funds. A recent report found 380 impact funds with a total of over $40 billion under management and showed that we are in the midst of a rapid rise.[7]

At the moment though, by their own admission, many social investors are having trouble finding enough high quality ventures to invest in. This is largely because in general, these funds set a high threshold for their investments – for example, they seek to invest in social ventures that are revenue generating, have a proven business model, measurable social impact and a management team with a strong track record. And because of the high transaction costs of making social investment deals, most social investors look for ventures that have capital requirements of more than £150,000. A recent survey of impact investors by JP Morgan and the Global Impact Investing Network found that only 18 per cent of investors look at seed or startup-stage companies.[8]

The majority of new social ventures are unlikely to meet these criteria. As Omidyar Network put it, based on their work around the world, *"...we noticed lots of new investors piling into the impact investing arena, many with the expectation of finding a steady stream of relatively mature businesses offering both social impact and risk-adjusted returns. We have found a real shortage of such deals."*[9]

While there is money available for early-stage ventures and projects through government and charitable grants, this funding often comes with constraints or is ring-fenced for particular activities and doesn't prepare ventures for very high scale nor to be investable by later-stage investors. Compared to other entrepreneurial domains, the flow of new ventures – sometimes known as the social investment pipeline – seems to have a kink at the tap.

In part, the rise of social incubation is a response to this gap in the social investment pipeline. For example, in July 2012, the UK Cabinet Office created a £10 million scheme called the Social Incubator Fund specifically to *"increase the finance available at early stages of enterprise"* and *"offer a portfolio of intensive support"* in order to *"improve the quality and quantity of early–stage social ventures going on to seek financial support"* from other social investors.[10]

The increase in available investment is matched by increasing interest in social entrepreneurship. A recent survey of business schools in Europe and the US found that many of the top programmes (including Harvard Business School, INSEAD, Yale and UC Berkeley) had increased the content in their courses relating to social entrepreneurship by 100 per cent or more over the past decade due to demand from students.[11]

What's more, there appears to be no shortage of people wanting to start the type of social ventures that impact investors would like to support. When Bethnal Green Ventures and Wayra UnLtd launched in the UK, it wasn't clear whether there would be demand for incubation for social entrepreneurs willing to set up companies limited by shares and take on equity investment – but neither accelerator found problems in attracting this type of venture.[12, 13] Perhaps, as technology commentator and adviser Tim O'Reilly remarked at the Code for America Demo Day, *"it's becoming cool to want to make a difference".*

Our research

This report is based on interviews with over 20 managers and advisers to incubation programmes from around the world as well as founders of ventures supported by those programmes, undertaken in 2013 and 2014. We also visited programmes to see first–hand some of the techniques they use.

However, it's important to note we're not entirely detached researchers. We're also deeply involved in this field. Paul Miller helps run Bethnal Green Ventures in the UK and at Nesta we've supported several social incubation programmes – including some mentioned in this report. Many of the insights come from our own experience of working with social ventures directly and testing different approaches.

This report isn't intended as a comprehensive or definitive survey of the field – we recognise that it is still very early in the development of social incubation and it is a rapidly changing sector. Our intention is to start a conversation about the techniques available to social incubation programmes and how they can be best used to support social ventures.

UK snapshot: EXAMPLES OF SOCIAL VENTURE INCUBATION

Bethnal Green Ventures – supported by the Cabinet Office's Social Incubator Fund, Nominet Trust and Nesta, Bethnal Green Ventures offers £15,000 investment, office space and a three-month programme of support to early-stage 'Tech for Good' ventures.

ClearlySo Angels – the UK's first angel investor network specifically for social ventures was launched in London in 2012. The network provides investment and mentoring to selected ventures.

Emerge Venture Lab – first opened in 2011, Emerge Venture has its origins in the Said Business School and Hub Ventures in Oxford. The team has now focused solely on education startups and launch their first sector-specific accelerator programme in London in 2014.

Healthbox London – developed in Chicago in the US by Sandbox, Healthbox has now expanded to run a health technology startup accelerator programme in London. The first UK programme was in 2012 supporting early-stage ventures with investment, education and mentoring. Under a new name of the 'Health Social Innovators Fund' it is one of the recipients of the second wave of the Cabinet Office's Social Incubator Fund.

Hub Launchpad – funded by the Cabinet Office's Social Incubator Fund and Accord Housing Group, Hub Launchpad was initiated by the Impact Hub in Westminster, London. They run a shorter pre-accelerator education and ideation programme followed by three-month accelerator programmes in London or Birmingham focusing on particular themes including public service innovation and open civic innovation.

Impact Hub – with locations in Islington, King's Cross and Westminster and a planned space in Birmingham, Impact Hub (previously known as 'The Hub') is a network of co-working spaces for individuals and ventures interested in social innovation. They host events, provide office space and run programmes to support social ventures.

Social Incubator North – successful applicants from the East Midlands and North of England receive a £25,000 interest-free investment loan as well as tailored one-to-one business support and access to business premises. They are supported by the Cabinet Office's Social Incubator Fund.

The Young Foundation Accelerator – based on a series of workshops, the Young Foundation provide support to promising social ventures in London and Wales. As well as workshops the programme includes one-to-one mentoring and coaching as well as a 'critical friend' for selected ventures. Under the name of 'The Young Academy' it is one of the recipients of the second wave of the Cabinet Office's Social Incubator Fund. Working alongside partners Esmée Fairbairn, Bank of America Merrill Lynch, Metropolitan Housing Trust and UBS it will focus on ventures that tackle inequality in education.

UnLtd Big Venture Challenge – specifically designed to help social ventures and enterprises gain impact investment, the Big Venture Challenge provides selected ventures with education, profile and connections to impact investors. The finance provided is tied to meeting goals and securing match investment of between £50,000 and £250,000. The programme is *"agnostic on legal structure, and open-minded on the use of profits."*

Wayra UnLtd – launched in 2013, Wayra UnLtd adapts the successful accelerator programme model used by telecoms giant Telefonica in supporting commercial technology startups in South America and Europe and applies it to social ventures in the UK. It's supported by the Cabinet Office's Social Incubator Fund, Telefonica and UnLtd.

What social ventures need

As we have met hundreds of founders over the course of our research and through the work of Bethnal Green Ventures, we've found that there are eight most cited 'needs' mentioned by early-stage social innovators. These are the things that they know they require to get to the point where they have the traction, evidence, resources and systems in place to attract further investment.

1. **People to work with**
   Finding co-founders and early employees with complementary skills is perhaps the most important thing you can do as a very early stage social venture founder. Most later-stage investors will say *"It's all about the team"* and having the right people working in the venture will be a big part of their decision. Proving that the right management team is in place is especially important for first time founders.

2. **A proposition to test**
   All social ventures should start from a clear understanding of an important social or environmental problem and then an idea about how they can improve the situation. It's got to be something they care about – big enough to motivate the team but small enough that they can make a difference. Showing later-stage investors the evidence from these tests will be one of the most compelling pieces of information.

3. **Potential (and actual) customers**
   Even before a venture has built anything, come up with a name or written a business plan, they should find somebody who wants to pay for what they want to offer – Steve Blank calls it 'customer development' and the problem of not being able to find a paying customer is an important risk to eliminate for later-stage investors.

4. **A source of advice about the basics**
   There are a huge number of tasks that every new organisation has to do and first time founders can save a lot of time by finding a person or organisation that they can ask basic questions. How do you set up a bank account? How do you register for taxes? How do you best set up email? Later-stage investors will want to know that there are no surprises lurking because the venture has been set up incorrectly.

5. **A source of trusted strategic advice**
   Beyond these administrative basics, a new venture doesn't come with its own strategy guide, so a trusted strategic adviser can be a huge help in navigating all of the possibilities and opportunities. This could be a long-term mentor, an angel investor or a non-executive board member. Later-stage investors will be more comfortable when a venture has access to someone who's done it before, who can help them think through choices.

6. **Money**
   It's easy to get fixated on the funding before you've actually got the other basics right, but early-stage finance is a vital step for most founders. Some may have the resources to support themselves but others will require external finance. With some early-stage ventures it's unlikely that they will have large capital requirements for anything other than founder salaries, whereas others may be more capital intensive from the very minute they need to trial something.

7. **Somewhere to work**
   You can start a social venture anywhere but it can be exhausting after a while if you don't have a dedicated space to work together or meet. It might not be your own dedicated office but somewhere you identify as 'the place you work' definitely seems to help early-stage ventures.

8. **Emotional support and mentorship**
   The emotional strain of starting something new is incredibly important, but often underestimated. Too many founders feel the weight of the world on their shoulders and don't find a way of sharing it around. Startups that have a supportive network reduce the risks of burnout and making simple mistakes for later-stage investors.

There are many ways that each of these needs can be met. Sometimes founders work it out on their own, sometimes they reach out for help, sometimes they find others who offer help freely.

The partners at Bethnal Green Ventures have noticed there are some important characteristics of teams that help define the type of support they require. They've developed a set of archetypes of early-stage ventures that help both incubators and the ventures themselves decide what kind of support they might benefit from the most:

1. **Team formers –** need support finding co-founders or early employees.

2. **Proposition seekers –** need help refining the combination of problem to solve, idea and potential customer.

3. **Customer hunters –** need help with access to potential customers

4. **Model fixers –** companies with revenues that have found limits in the scale of their business model.

5. **Scalers –** need marketing support as well as recruitment and other services associated with rapid growth.

A detailed breakdown of these archetypes and their incubation needs has been included as an appendix on page 41. The next two chapters further describe the models and techniques of incubation that have emerged to meet these needs.

Chapter 2

MODELS OF SOCIAL VENTURE INCUBATION

In the economics and business literature, 'incubators' are recognised as a way to support businesses at an early stage. For decades, they have been used by the public and private sectors as a tool to stimulate innovation and business growth.

In 2004 Hackett and Dilts described business incubation as a shared office space alongside a strategic system of monitoring and advice.[14] However, Nesta's review of incubation literature *Incubation for Growth* (2011) found that over time, many different types of incubation have emerged with very different business models.[15] Yet there are still very few studies that capture the full impact of incubation and show what really works.

In the social sector, 'incubation' is a much more recent term and has become a vibrant area with a great deal of innovation and different models flowering around the world. It's perhaps best to think of incubation as a phase rather than as a defined model in itself. The frameworks of support that have emerged seem to fall into groups, and, although no typology will be perfect, we've developed a basic categorisation. Some are formally constituted organisations while some are programmes within other organisations. These groups are:

- **•Impact accelerators.**
- **•Social venture co-working spaces.**
- **•Social venture academies.**
- **•Impact angel networks.**
- **•Social innovation prizes.**

We've only included frameworks that support external ventures rather than those that develop ideas in-house and then spin them out. These organisations (such as Participle, the Young Foundation and Sidekick Studios in the UK, or Ideo.org in the US) have also grown rapidly in the last five years and achieved a great deal but deserve a research project all to themselves.

The founders' view: SOCIAL VENTURE INCUBATION STORIES

Adebayo Adegbembo, founder of Genii Games and Asa

www.geniigames.com

In 2012 Adebayo (Bayo) Adegbembo entered Co-Creation Hub (CcHUB) Nigeria's 'Tech in Education' hackathon and came runner-up, receiving $2,000 for Asa, a series of apps to teach children about their cultural heritage in Africa.

"It's about cultural identity amongst kids," explains Bayo. *"We know they are fast losing their culture, they know nothing about their roots, and we want to bring them back in connection with that. We want to develop tools so kids can learn and develop these cultural skills."*

The profile and money from the hackathon was useful, but the introduction into the CcHUB community has proved to be the real prize. After the hackathon Bayo started renting a desk in the CcHUB co-working space, paying membership on a quarterly basis and gaining access to his own work space, office facilities, mentorship and business support.

The venture developed quickly once Bayo joined the hub. *"We entered CcHUB in February 2012 and the app came out in July 2012,"* said Bayo. *"In the 24 months since then, we've seen user growth from around 3,000 at launch to over 10,000 registered users with over $30,000 in direct revenue."*

According to Bayo, the CcHUB community played a really important role in the early-stage development of the business.*"CcHub is like a family. It's like a one stop shop… everything we needed to develop Asa is here! Illustration, content, development, finance.. it's a great community"* he said.

Bayo now has a place on the CcHUB incubator programme, receiving space and incubation services and an investment into his venture. He's working with two employees and he's aiming towards profitability by the end of 2014, so he can move out of the hub and expand.

Before entering the hackathon competition Bayo had been struggling for three years to make it as an entrepreneur. *"If it weren't for CcHUB I would not be where I am today,"* he said. *"My story is I tried to make things on my own, and when I stumbled upon CcHUB it just had the whole package – HR, finance, networks, mentors.. there's a whole lot of value in that. I'm proud to be part of it."*

Laura Orestano, director at SocialFare and founder of Tam-Tam-Work

www.tamtam-work.org

When Laura Orestano heard about the European Social Innovation Competition in November 2013, she recognised the opportunity to give life to a social innovation idea that had been brewing in her head for some time.

Laura is Director of SocialFare, a Centre for Social Innovation based in Torino in Italy, but prior to this she worked for a large multinational group where she was in charge of new business development and product innovation. It was here that she realised that while packaging is key to conveying information about the product, it can also be put to social use.

"When the challenge prize came up I thought now's the time to drive forward this idea," said Laura. *"Daily packaging can be used as a medium to address social challenges, and the first one we decided to focus on was job opportunities and work."*

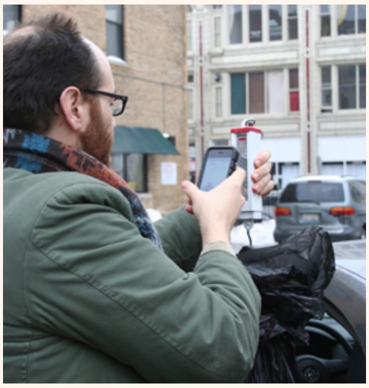
Laura and her colleagues at SocialFare worked up the idea and entered Tam-Tam-Work into the competition. They were selected as a semi-finalist and were invited to attend a social innovation academy workshop in Amsterdam. They then became a finalist and developed a one-minute pitch to compete for the final prize.

While the prize went to another venture, the profile from the event threw the team in the path of interested investors. *"We were approached by a big investor soon after the awards event"*, explains Laura, *"But we only had a proof of concept at this stage. We stayed in contact with the investor and as soon as I got home we started working with different parties and the team at SocialFare to design and test the idea and come up with a more refined and powerful framework. We're doing our first test launch in April this year. If the test works then we'll set up a startup and go from there."*

Laura says that while they didn't win the prize, it still acted as an important catalyst for Tam-Tam-Work. *"We didn't pick the right angle for the final pitch, but that was part of the lesson. The exposure and reputation we gained has been useful, and we've built some good relationships with other participants. I'm convinced this is an idea that can really generate a change,"* she said.

Raj Karmani, CEO and co-founder at Zero Percent

www.zeropercent.us



It's a week after demo day and Raj Karmani is still buzzing with energy as his time on the Impact Engine accelerator wraps up in Chicago.

He and his three team members have spent the past 16 weeks with seven other teams going through an intensive period of mentoring and support to develop their startup Zero Percent, an online food donation marketplace that helps businesses move surplus edible food to nearby soup kitchens and shelters, reducing both hunger and waste.

Raj explains that the idea started when he was doing his PhD in computer science. *"There was a bagel store between home and grad school, and they baked fresh every day, but this led to a lot of waste because they couldn't always predict demand. They were just throwing the food out. So I created an app that would allow the owner to say what the food surplus was, how much and when it needed picking up. It allowed you to post a donation and on the other side it connected with six charities needing food."*

Raj developed this idea further by testing it in the dining halls at the University of Illinois, which was the biggest food service operation in the area, and the app proved a big success. Realising he was onto something, Raj joined the university incubator to learn more about entrepreneurship, and it's during this time that he connected with his team mates and heard about Impact Engine.

"We applied to the programme. I think from a list of 300 teams 30 were interviewed, and then eight were selected," explains Raj. *"On the first day we entered this big room, and it was like a school programme. Everyone was at the same stage of development. This was different from my experience in the incubator and I think it's very important.*

"Over the next eight to ten weeks each week would have a theme or topic, and they'd get different speakers in. It really opened our horizons. You realise there's things that you didn't know that you need to know, and the whole learning process is accelerated.

"The app we have now is not the app that we had when entering the programme, it's completely different. We learnt to do lean experiments, lean design and lean user testing. User testing was hard as our four months on the programme ran into the holiday season, so the charities we wanted to target were really busy. So we rented a Zipcar every day to do the food pick ups – this was a type of lean user research. You have to be open to try new things to try and make things work."

At demo day the Zero Percent team were asking for $300,000 to scale up their operations 15–20 times, and then to be able to replicate the model in other areas. At the time of writing Raj couldn't announce any funding deals, but his smile revealed enough.

Getting investment and delivering profitable returns alongside social returns is important to the team. *"We're serious about being a for-profit company. Food rescue is traditionally done by charities, and if it were just about tech and volunteerism we could have started another non-profit. But I believe our model can really create substantial value for everyone. We want to grow through investment and we want to build that success story."*

IMPACT ACCELERATORS

As the 2011 Nesta report *The Startup Factories* showed, the growth of accelerator programmes in the tech world has been astonishing.[16] Since Paul Graham and his co-founders opened the doors of Y Combinator in 2005 in Boston (and later Silicon Valley) their model of investing small amounts into cohorts of early-stage startups has been replicated all over the US and the rest of the world. Seed-DB, which charts their performance, now lists 136 programmes worldwide. Between them, these programmes have accelerated 2,038 companies that have in turn gone on to raise over $1.5 billion in further investment.[17]

In 2010 a number of 'impact accelerators' began extending the model into areas of social and environmental benefit – Hub Ventures (now Better Ventures), Greenstart and Rock Health in California, and Bethnal Green Ventures in the UK. At the time of writing we found over 50 such programmes worldwide.

Following the criteria set out in *The Startup Factories* report, impact accelerators share these defining features:

- Open application process; anyone with an idea can apply.
- Accelerator invests in companies, typically in exchange for equity, at pre-seed or seed stage.
- Cohorts or 'classes' of startups; not an on-demand resource.
- Programme of support for the cohorts, including events and company mentoring.
- Focus on teams, and not just individual entrepreneurs.

The business models of accelerator programmes vary. Options range from being:

- Entirely grant funded.
- Set up as a venture capital-like investment fund with associated management fees.
- Supported by corporate sponsorship.

It's still too early to tell whether the investment based business model will deliver actual financial returns. Even the most lucrative of commercial accelerators – Y Combinator – only started to be profitable after five years of operation.

Examples: IMPACT ACCELERATORS

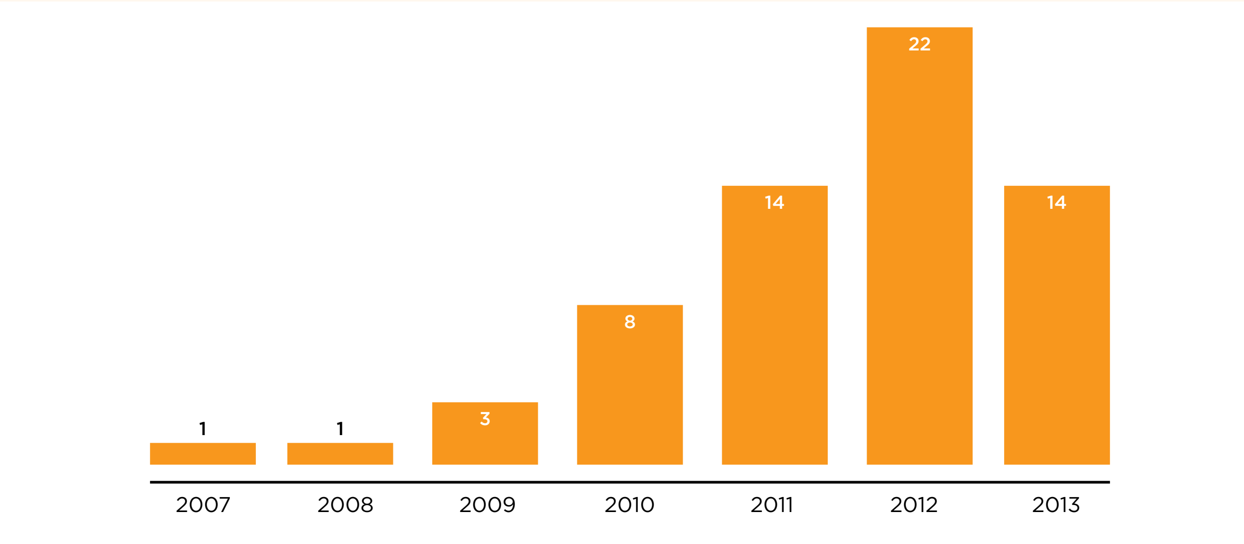
Impact Engine launched in 2012 in Chicago and now provides a 16-week accelerator programme to support for-profit businesses addressing social and environmental challenges. They provide $25,000 of upfront investment in exchange for 7 per cent equity in companies.
theimpactengine.com

Fledge, based in Seattle, describes itself as a 'conscious company' accelerator, helping companies bring products and services to consumers conscious of the environment, health or consumption itself. They invest in 7–8 new companies twice per year investing $15,000 in return for 6 per cent equity.
fledge.co

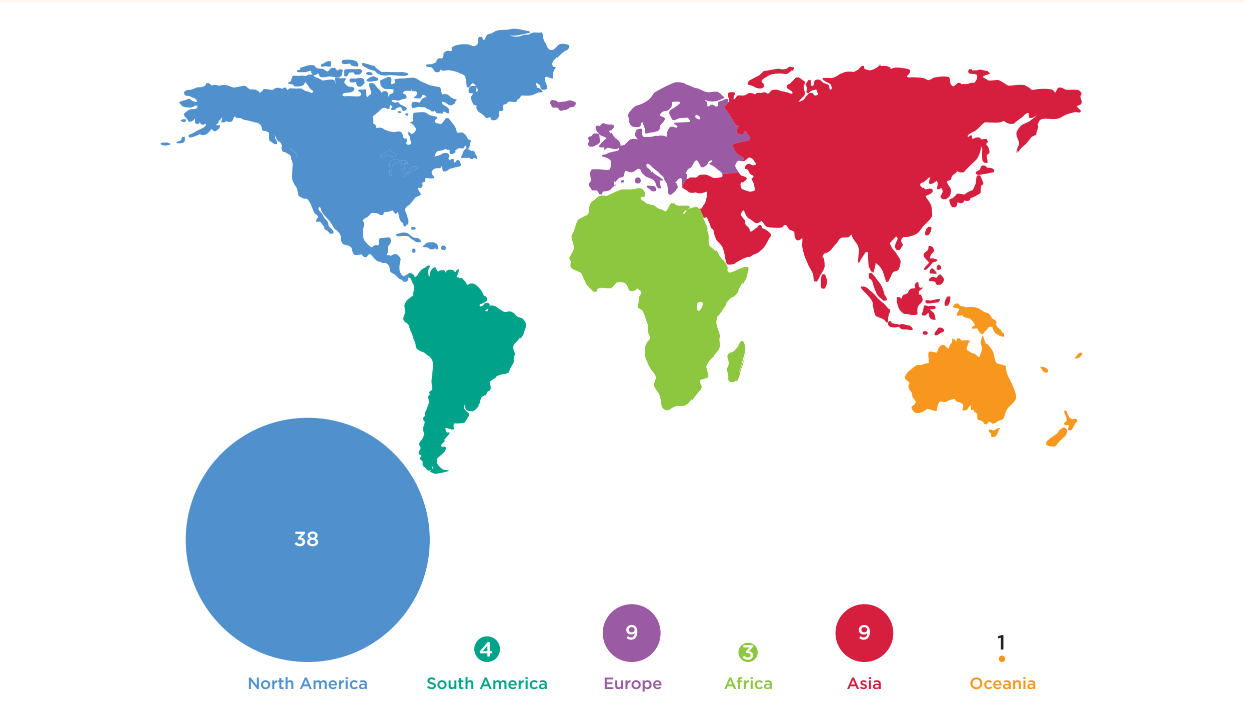
Better Ventures first opened its doors as 'Hub Ventures' at the Impact Hub in the SoMa district of San Francisco in 2011. The first cohort used a 'Village Capital' model where founders of the selected ventures decided amongst themselves which of the ventures was most deserving of investment. The programme then went on to run a more straightforward investment model and become part of the Techstars Global Accelerator Network where it selected ten ventures each year and provided them with up to $20,000 of investment and a 12-week programme in return for a 6 per cent stake in each company. The programme is now morphing into a seed investment fund with rolling applications.
www.better.vc

Pipa in Rio de Janeiro, Brazil supports cohorts of 'mission-driven' companies with up to $100,000 of investment in return for a 10 per cent equity stake. The organisation was created by two Brazilian design firms (Cria and Tatil) with support from a range of technology firms, investors and public agencies.
pipa.vc/en

Impact accelerators founded each year 2007–2013



Impact accelerators per continent



Most impact accelerators were founded after 2009, with a visible drop in new programmes in 2013. Though there may be more out there that we have not yet uncovered.

These programmes are concentrated in North America (USA – 38 programmes), Asia (India – six programmes) and Europe (UK – six programmes).

SOCIAL VENTURE CO-WORKING SPACES

In 2005, as Paul Graham was setting up Y Combinator in the US, Jonathan Robinson and friends were solving another problem facing people starting social ventures in London. At the time, office space for freelancers and small companies was expensive and more importantly, inflexible. Companies often had to sign up for a minimum of a year and occupy the whole of the space – subletting was often against the terms of leases so sharing facilities wasn't an option.

Jonathan saw that a lot of interesting social innovators were choosing to work from home or from coffee shops, in less than ideal working environments. He also recognised the opportunity loss created by the lack of space for serendipitous meeting and collaboration. So in the loft of a disused warehouse in a back street in Islington, he and his friends opened a co-working space. It wasn't office space in the conventional sense – instead it was more of a membership organisation which just happened to come with desk space as and when a venture needed it. And it just happened that all the people who joined the organisation were committed to solving social and environmental problems.

It soon took off and the Hub Islington began helping other people in other cities open Hubs of their own. The whole network rebranded in 2013 as 'Impact Hubs'. At the time of writing there are over 60 around the world (from Cape Town to San Francisco to Melbourne) and plans to open at least 20 more. Each Impact Hub is an autonomous member of the global network paying for core services, like websites and advice about the best ways of doing everything from furniture design through to connecting members with outside resources.

There are many other co-working spaces focusing on supporting social ventures. In San Francisco, Mission Social hosts for-profit and not-for-profit startups and in Chicago, Panzanzee does likewise. Models vary and there are also many co-working spaces that – while they don't explicitly focus on social ventures – have become home to many.

In general co-working spaces offer:

- Flexible desk and meeting space.
- Opportunities to meet other ventures or entrepreneurs.
- A programme of events or learning to support ventures.
- Primarily focused on hosting social or environmental ventures.

Co-working space business models range from:

- Charging a monthly membership fee to founders or startups based on level of usage – this could be per desk per month or provide a certain number of hours usage per month.
- Charging for use of events spaces or organised events.
- Charging for or taking a commission on food and drink or catering.
- Grant funding or social investment to fund initial development.

Examples: SOCIAL VENTURE CO-WORKING SPACES

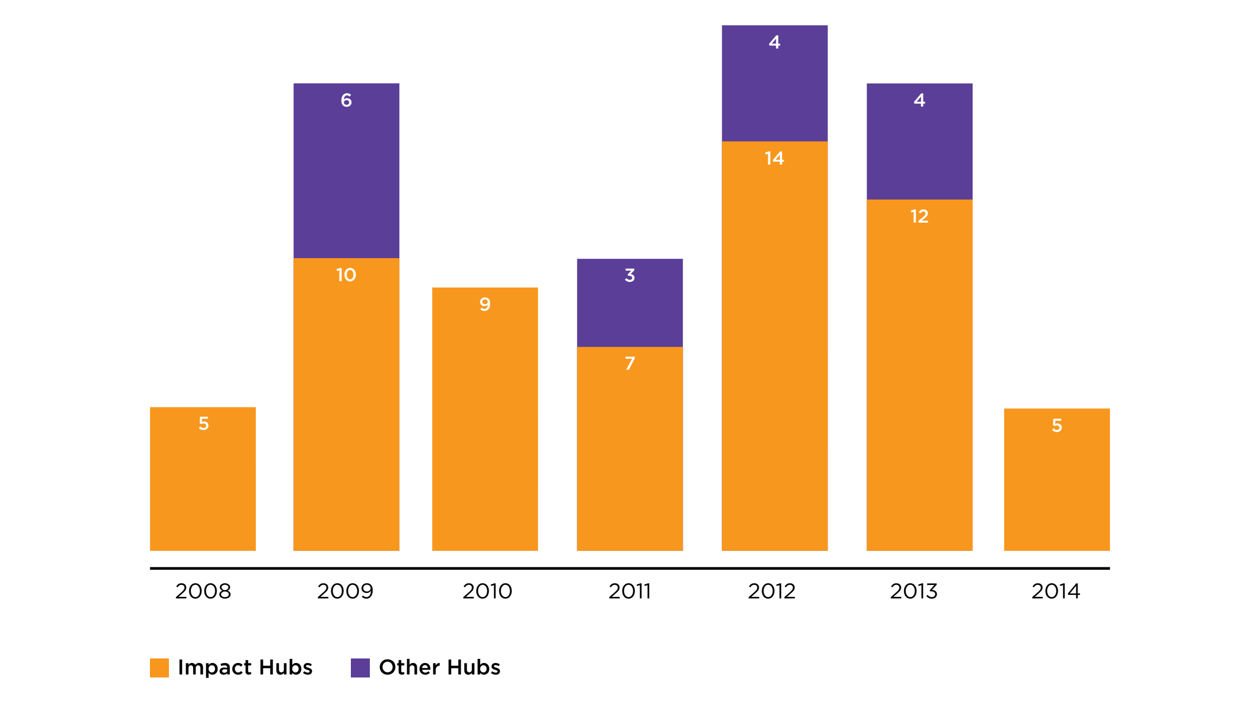
Bombay Connect is Mumbai's first co-working space for social ventures. It offers affordable office space, workshops and learning opportunities and connections to potential investors and experts. It was founded by UnLtd India.
bombay-connect.com

CcHUB brings together a diverse group of stakeholders – from technologist to members of government – in and around Lagos to work on new solutions to social problems in Nigeria.
cchubnigeria.com

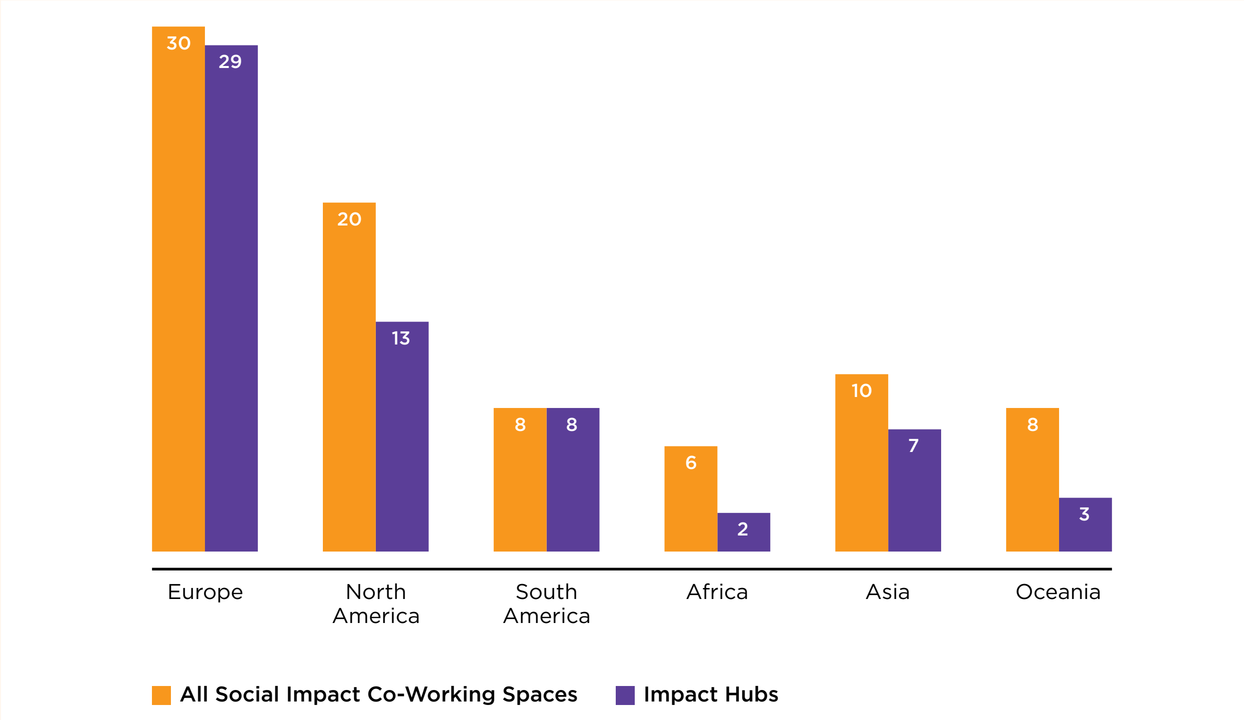
Panzanzee is Chicago's social venture co-working space and community. The organisation provides support around business strategy and development through peer-to-peer support, events, networking and office space, as well as links to financing.
panzanzee.com

Xindanwei means 'New Work Unit' in Mandarin and is a co-working space based in Shanghai. They provide desk space, host events and provide access to networking opportunities for social ventures.
xindanwei.com

Social impact co-working spaces founded per year 2008–2014



Social impact co-working space per continent



We found 82 social venture co-working spaces; however, only 17 organisations are behind these (e.g. The Impact Hub has 62 co-working spaces worldwide). Similar to impact accelerators, most co-working spaces were funded starting in 2009, and there is a similar decreasing trend for new programmes started in 2013.

Social venture co-working spaces have a wide geographical presence, with most spread across Europe and the US.

SOCIAL VENTURE ACADEMIES

The original social venture academy is the School for Social Entrepreneurs (SSE), founded in 1997 by Michael Young in London. SSE has now spread across the UK and to Australia and Canada. It's not a school in the conventional sense. As SSE put it,

> *"There are no exams, no qualifications and applications are based on attitude, not academic results. Our programmes are based on action learning, because entrepreneurs learn best by doing, and they learn best from their peers and practitioners in the field."*

Social venture academies are programmes that help accelerate the learning of social ventures and entrepreneurs, whether they're already working on their venture or just in the planning stages. Programmes can include individual classes or longer courses, sometimes delivered virtually, but more usually face-to-face. They can be part of formal academic institutions but are more often specialist organisations or programmes set up to meet the needs of social ventures specifically.

In the tech space the need for more flexible and focused education targeted at founders of startups was pioneered by General Assembly, originally in New York but now in multiple cities. The Hub in San Francisco is also starting a similar programme called Workbench.

Typically, social venture academies have the following features:

- Classes are specifically aimed at social entrepreneurs or ventures.
- Learning is not part of a wider qualification.

Business models for social venture academies include:

- Charging for classes or courses.
- Sponsorship of classes or courses.
- Offering training or consultancy to corporate clients to subsidise offering to social ventures and founders.

Examples: SOCIAL VENTURE ACADEMIES

Impact Hub Workbench in California's Bay Area (a similar programme runs at Impact Hub Boulder, Colorado) offers classes and courses for social entrepreneurs, founders and activists in everything from technology to business skills or startup psychology. Classes start at $10 per session and the aim is:

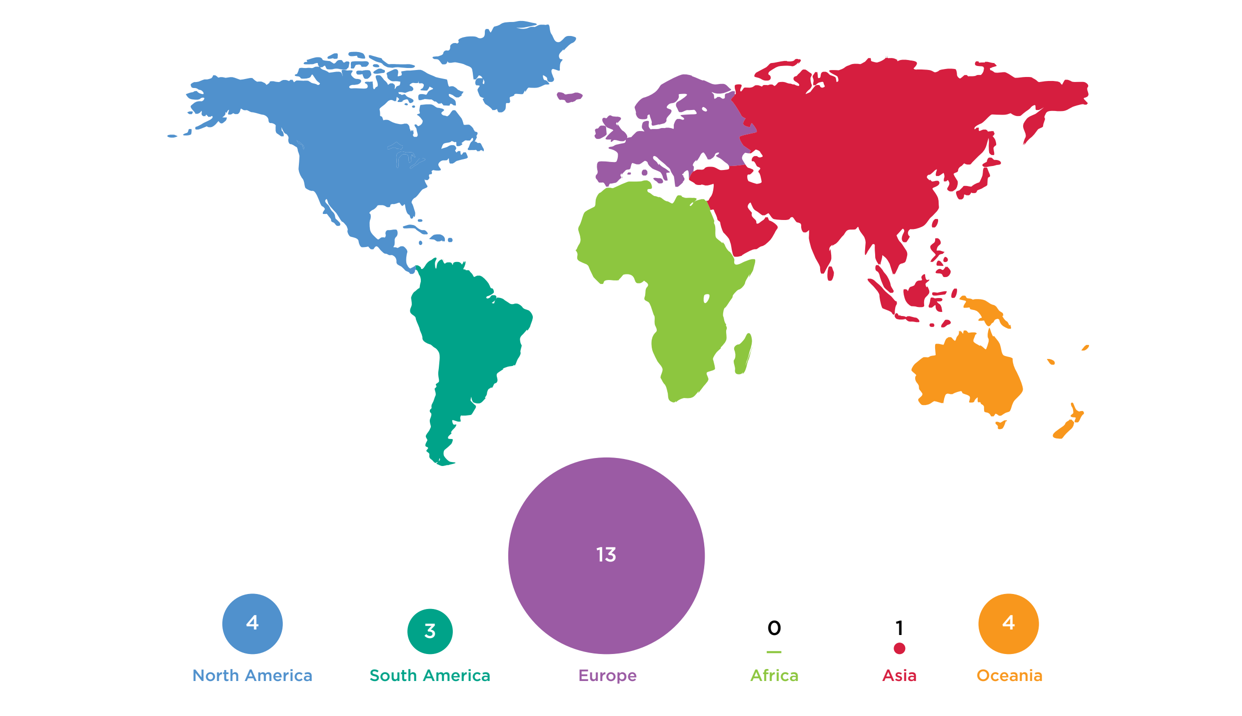
> *"...learning skills that build immediate organizational and leadership capacity. We're not just seeking teachers to deliver information; we expect attendees to come away understanding how to apply these lessons in their organization immediately. Sessions should be fun, interactive and participatory."*

www.impacthubboulder.com/hub-workbench

The School for Social Entrepreneurs is based on a 'learning by doing' approach where students gain practical business and life skills that they can apply directly to their ventures. Courses vary from 'Social Change 101', offering basic support to local entrepreneurs, to the SSE 'Accelerator Programme' which is a more intensive four-month experience. Entrepreneurs pay for the programme, rather than receiving investment.
www.the-sse.org

The Investment Ready Program in Vienna aims to advance social entrepreneurship through capacity building and education in Central and Eastern Europe (CEE). Investment Ready was created by Social Impact International and the Impact Hub Vienna in 2011. The programme brings investors together to help them source, mentor and support participating ventures. Investment Ready offers classes, coaching and peer-to-peer learning for startups and ends with the CEE Impact Day. When the programme first started, this was the first gathering of impact investors looking at the CEE region.
investment-ready.org

Social venture academies per continent



We uncovered 25 social venture academies, with the dominant player being the School for Social Entrepreneurs with programmes in 15 locations in the UK, Australia and Canada.

IMPACT ANGEL NETWORKS

Angel investors are individuals, typically very wealthy, with skills and experience of building and growing a business. Angels invest their own capital into private businesses – usually small or growing ones. Over the past 20 years, angel investing has grown in the US to become responsible for $20 billion of new investments each year. While much of this activity is done individually, it's also common for angel investors to create networks, sometimes by pooling their resources and decision making formally or sometimes informally, to share the risks and rewards of investing. These angel networks are common in the US and UK at a national and local level.

As impact investing has grown as a category there has also been a growth in the number of 'impact angels' looking to invest in ventures that have the potential for a financial and social return. These often mirror the patterns seen in commercial angel investing with some networks being national (or even international) and others local. Examples in the US include Toniic (international) and Investors Circle as well as local groups such as the Impact Angel Group (Colorado). In general, angel networks get involved in ventures at a later stage than accelerators, co-working spaces or academies.

Defining features of impact angel networks include:

- A group of high net worth individuals investing in early-stage social ventures.
- Sharing the costs and processes of search and due diligence.
- Could be a formally constituted or more informal group.
- Offering mentoring, support and connections beyond their initial investment.

Impact Angel Networks business models range from:

- A (typically annual) membership fee for members to cover the costs of due diligence.
- A commission on investment raised (typically 5 per cent).
- Paid events, charging either investors, founders or both.

Examples: IMPACT ANGEL NETWORKS

Intellecap Impact Investment Network (I3N) is India's first angel network of high net worth individuals and institutional investors seeking investments in early-stage social enterprises and ventures.
www.i3n.co.in

Toniic is a global network of impact angel investors which is currently increasing its operations in Europe. It tends to work through local affiliates such as Impact Invest Scandinavia (http://impactinvest.se/) in Sweden or ClearlySo in London, who help select and vet dealflow for investors.
www.toniic.com

Investors Circle members have invested $172 million plus $4 billion in follow-on investment into 271 social ventures over the last 20 years. Most investment takes place in the US with regular events called 'Beyond the Pitch' in cities across the country.
www.investorscircle.net

Name of Network	City	Country	Year Founded
Investors' Circle	San Francisco, Philadelphia, Durham, New York	US	1992
Angels Initiatives	Kampala	Uganda	2009
ClearlySO Angels	London	UK	2009
Toniic	San Francisco	US	2010
Intellecap Impact Investment Network	Mumbai	India	2011
i2i Angels	Lahore	Pakistan	2012
Impact Angel Group	Boulder	US	2012
Impact Invest Scandinavia	Stockholm	Sweden	2012
Indian Angel Network Impact	New Delhi	India	2013

Impact angel networks are still relatively few worldwide. Most of the networks we discovered invest in impact startups from all over the world, rather than a specific country.

SOCIAL INNOVATION PRIZES AND CHALLENGES

A number of prizes have been created specifically to stimulate social innovation and encourage social ventures to tackle particular problems. Most involve a cash prize to be used by the ventures to further their business – usually in the form of a grant but occasionally as equity investment. They differ from simple awards in that they offer a great deal of support over and above recognition and money.

Typical features of a competition include:

- Widespread publicity for the prize and its aims.
- An online application process.
- Shortlisting by the competition organisers.
- A pitch or face-to-face 'final' where ventures meet a group of judges.
- Follow-up support and publicity for the winners.

The business model behind most social venture competitions is based on sponsorship – either to raise the profile of the sponsoring organisation or to raise the profile of a particular issue where the sponsoring organisation wishes to see more innovative solutions.

Examples: SOCIAL INNOVATION PRIZES AND CHALLENGES

The European Social Innovation Competition was launched by the European Commission in memory of social innovation campaigner Diogo Vasconcelos, the aim of this programme is to find the best social innovation solutions to help people move towards work or into new types of work in Europe. The competition makes three awards of €30,000 and provides mentoring, connections and profile to the winners. There have been two rounds of the prize to date. It is run by the Nesta Centre for Challenge Prizes.
socialinnovationcompetition.eu

Nesta's Centre for Challenge Prizes runs a number of competitions to stimulate innovative solutions to some of the big challenges we face. As well as the European Social Innovation Competition mentioned above, they have run prizes on a wide range of issues, from bike theft, to waste reduction, open data, to renewable energy in Bosnia and Herzegovina. They have also developed a guide to running challenge prizes:
www.nesta.org.uk/develop-your-skills/challenge-prizes

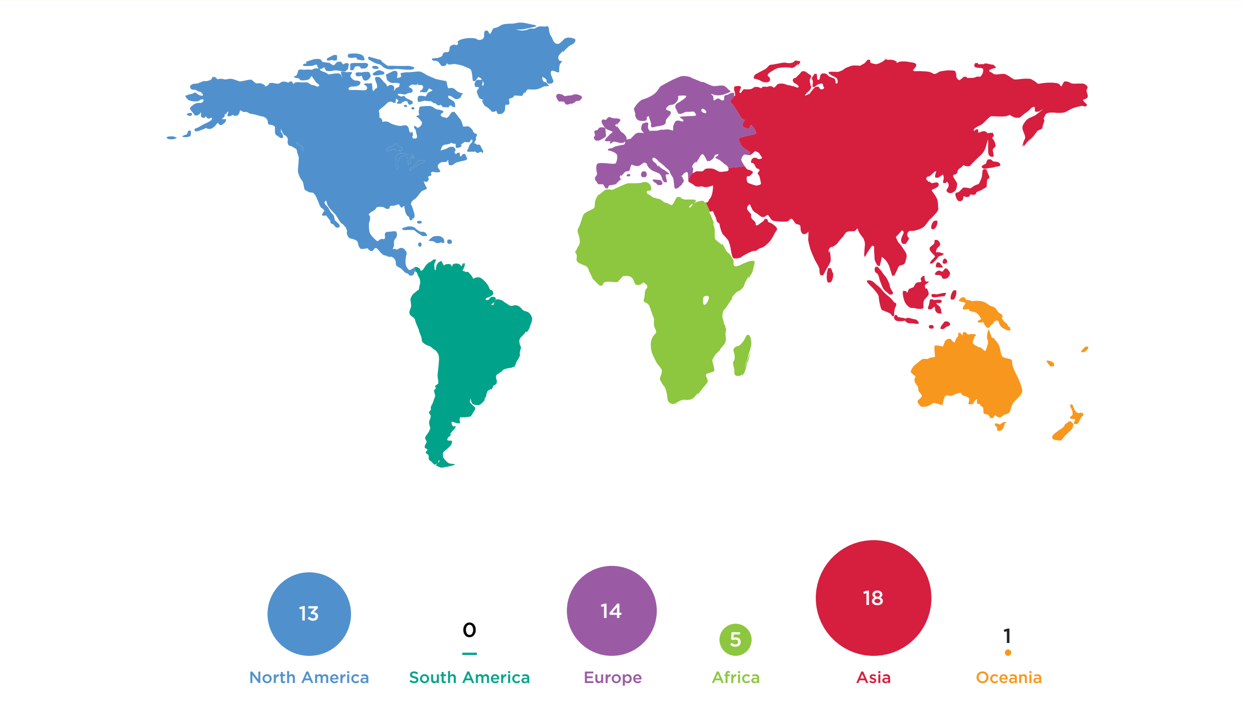
The Global Social Venture Competition (GSVC) provides students with mentoring, exposure, and $50,000 in prizes to turn their ideas into ventures that will have positive real world impact. In 2013, GSVC received 650 entries from nearly 40 countries. Previous years' finalists include Husk Power, Revolution Foods, and d.light design.
www.gsvc.org

HAE Accelerator is actually a competition for health startups, despite being called an accelerator, and it is run by a strategic alliance between the biomedical clusters Cambridge (UK), Leuven (Belgium) and Heidelberg (Germany). After a competition phase, innovative startup teams in the three regions are put in touch with international VC investors. In 2013 the competition was funded by the German Federal Ministry of Education and Research (BMBF).
accelerator.health-axis.eu

The Dell Social Innovation Challenge is sponsored by Dell but coordinated by the University of Texas at Austin. DSIC offers prizes to student entrepreneur teams from around the world who develop social innovation solutions. Since launch, more than 15,000 students from 105 countries have proposed more than 4,500 ideas. DSIC has awarded more than $450,000 to over 50 student teams.
www.dellchallenge.org

The Hult Prize was founded in 2010 as a global competition for student-led social impact business ideas. Teams compete in regional heats with finalists coming together for a six-week programme of intensive training hosted by Hult International Business School. The winning team receive $1 million in seed capital, as well as mentorship and advice from the international business community. In 2013 the competition was won by a team from McGill University in Canada using insect protein as food.
www.hultprize.org

Number of social venture competitions per continent



We uncovered 51 different occurrences of social innovation challenges and prizes worldwide. Most were concentrated in Asia, Europe and the US.

Chapter 3

METHODS OF SOCIAL VENTURE INCUBATION

While the model of incubation tells you what support is given by particular programmes or organisations, it doesn't tell you how that support will be provided – whether that's the way that they select ventures to support, or the way that they offer finance or mentoring.

Some methods are used in a variety of types of incubator. Mentoring, for example, is often part of accelerator programmes, academies, competitions and angel networks. Co-location is used in co-working spaces and often in accelerators. In this chapter we take a more granular look at these methods. The methods we consider here aren't an exhaustive list, but were the most commonly provided services that incubation programmes provided. They are:

- Talent spotting and selection.
- Mentoring.
- Focus on impact.
- Access to networks.
- Co-location.
- Finance.

TALENT SPOTTING AND SELECTION

One of the most important roles of incubation is filtering people and ideas. Later-stage investors often cited this as their primary reason for engaging with incubation programmes – and the better the filtering, the more interesting the programme is for them. There are different selection methods used by different types of incubator. They are also often used in combination.

Interestingly, few of the incubators we interviewed used business plans as part of their selection process. They didn't find these particularly useful in assessing very young startups, because when a venture is pre-revenue, pre-customer and often without a central proposition, any numbers are at best simply guesses. Incubators preferred to judge ventures on the quality of the team, rather than 'imaginary' future income.

Method	Description	Usage
Online forms	Forms are commonly used to filter applications from open calls, assessing them on the quality of their idea and their experience and knowledge of the problem. This primary filtering stage can be done by a wide range of assessors, from mentors to alumni. The people we spoke to recommended making forms startup friendly – i.e. not asking for five-year projections or complex Gantt charts. Online application platforms specifically geared towards incubation include F6S.com, Fundacity, Angel.co and Gust.	Probably the most common starting point for incubation programme selection – used by accelerators, competitions and angel networks.

Interviews	Interviews are often used to assess the team behind the idea. They can range from an hour long grilling to a 20 minute informal chat, depending on the information being sought. Interviews can be useful for spotting signs of chemistry between founders – do they interrupt each other? Do they know what each person in the team is meant to be doing? These can be early warning signs of potential problems, as later-stage investors will look for a team that gels.	Often used by impact accelerators to narrow down the shortlist of applicants.
Pitches	Competitions often use pitch-based selection, getting teams to pitch against each other in rounds, with one finalist getting the prize of money or support. Pitches are good for showing how well ventures can articulate their ideas and convince others of their importance. However, pitching can be intimidating, so risks narrowing the pool of potential talent. Some incubators see pitching as more appropriate for later-stage ventures.	Most commonly used by impact angel networks to select investees following screening using an online form. They often form part of accelerator programmes but usually at the end of the programme rather than during selection.

Getting the right fit

San Francisco-based sustainability programme Greenstart has changed the way that they select startups since their first intake in 2010. Now, rather than looking at hundreds of applications and selecting through short interviews, they go one step further, screening down until they're ready for a full half-day workshop with teams to check whether they're the type of startup they want to work with.

MENTORING

Mentoring has become an important element of many incubation programmes, helping first time founders with advice, motivation and connections and enabling them to access otherwise out-of-reach opportunities. Mentoring tends to be an on going relationship that can last beyond the period of incubation, sometimes developing into more formal advisory, investment or governance roles. It's often informally organised and it's usual for the mentor to be more experienced and qualified than the mentee.

Method	Description	Usage
Speed dating	Mentor 'speed dating' enables teams and mentors to quickly find out if there is any chemistry between them. Incubators using this method tend to bring everyone together in a room and divide mentors into groups that circulate around the different teams. These groups then have ten minutes to pitch what they do to each other, before moving on. While this can sometimes become a bit chaotic, it also adds levity to the occasionally dull job of repeatedly pitching and networking.	Often seen during the early part of accelerator programmes. Offered by some academies, prizes and co-working spaces.
Office hours	A large network of mentors with varied skills can be difficult for early-stage ventures to navigate. So programmes will often offer open sessions with mentors, which startups can sign up to as and when they need. These are sometimes held at the mentor's place of work and sometimes at the programme venue.	Regularly used by accelerator programmes. Co-working spaces often offer legal and accounting surgeries using a similar format.
Peer mentoring	Often the most valuable advice for a startup comes from those who are just a couple of weeks, rather than ten years, ahead. This is a huge benefit of incubating ventures in cohorts – since they are going through the same problems, they can help each other out, on everything from how to hire their first employee to solving complex coding problems.	A key part of many impact accelerators which are organised in cohorts.

Setting expectations

While it wasn't specifically designed for impact incubation, Techstars' Mentor Manifesto,[18] created by David Cohen, is a good example of a popular approach to managing mentor networks – helping to set mentors' and mentees' expectations in advance.

The Mentor Manifesto

- Be Socratic.
- Expect nothing in return (you'll be delighted with what you do get back).
- Be authentic/practice what you preach.
- Be direct. Tell the truth, however hard.
- Listen too.
- The best mentor relationships eventually become two-way.
- Be responsive.
- Adopt at least one company every single year. Experience counts.
- Clearly separate opinion from fact.
- Hold information in confidence.
- Clearly commit to mentor or do not. Either is fine.
- Know what you don't know. Say I don't know when you don't know. *"I don't know"* is preferable to bravado.
- Guide, don't control. Teams must make their own decisions. Guide but never tell them what to do. Understand that it's their company, not yours.
- Accept and communicate with other mentors that get involved.
- Be optimistic.
- Provide specific actionable advice, don't be vague.
- Be challenging/robust but never destructive.
- Have empathy. Remember that startups are hard.

FOCUS ON IMPACT

Although it sounds obvious it's important not to underestimate the biggest difference between impact incubation and more general incubation – the social or environmental impact that the ventures aim to have. Impact measurement is still an emerging field with different schools of thought about how ventures should measure the outputs and outcomes of their work. There is added complexity with the early-stage ventures that most incubation programmes support because their impact is often hypothetical – they're at such an early point in their history that their impact is, as yet, very small and the way they measure it may change with scale.

Method	Description	Usage
Selecting for impact	Most impact incubation programmes that we came across ensured that they were working with social ventures with the potential for social impact through their selection process. By being clear that the programme or co-working space is for ventures aiming for social impact, they could filter accordingly. This doesn't ensure achieving impact though.	Almost all programmes.
Teaching and training	One of the biggest differences between impact incubation programmes and conventional ones is the focus on teaching founders about different frameworks for measuring impact. This can be done through training sessions, workshops or more intensive frameworks.	Almost all programmes.

Monitoring	By telling ventures that they are going to be asked to update the programme managers on their impact over time, ventures get into the habit of measuring and reporting.	Most common with programmes where there is a long-term relationship – such as those where there is an equity investment.

ACCESS TO NETWORKS

For any new social venture, finding the right people, customers and resources is critical. So in order to be effective, incubation programmes need to be linked into the right types of networks. Access to the right types of networks can help startups through any number of day-to-day challenges, from recruiting the right staff quickly to exploring options for their business model. Some incubators select ventures in part based on whether they think that they can support them because they have access to networks that offer the right kind of resources.

Method	Description	Usage
Customer and user networks	One of the most difficult tasks for new ventures, particularly social ventures, is in accessing potential customers and users of their products. Schools, governments, and healthcare companies tend to be the most in need of the products and services of these ventures, but can be difficult to engage with because of complicated and lengthy budgeting and procurement cycles. Successful incubation programmes have, or can create, access into key customer networks.	Most common in impact accelerators. For example Rock Health has developed 'Rock Health Partners', a network of health and pharmaceutical companies, medical and research hospitals and universities. Imagine K-12 has an 'educators network' of schools, teachers and educational leaders.
Investor networks	The investment landscape for early-stage social ventures is complicated and ventures often struggle to access the right sort of finance. Incubation programmes often work to cultivate strong networks with investors, not simply as providers of capital, but as the right kinds of investors, who understand the landscape of investment and who will participate in their investments in the right way.	Almost all incubation programmes make some attempt to connect with investors.
Investor Demo Days	While it's rare for investors to write cheques at events, they play an important role in preparing ventures for investment at a later date. Even if investors don't want to immediately invest they can often be a really useful source of advice and connections for the startups involved. Investor demo days often use an interactive format, such as mini board meetings or speed dating, as a way of getting the startups used to talking to investors, while enabling the investors themselves to get a better feeling for the team.	Most accelerator programmes. Some co-working spaces also offer similar opportunities to their members.
Public Demo Days	Demo days are often large public affairs that focus more on celebrating ventures' achievements and getting the word out than on raising investment. They can be a good way to access customer networks and attract media attention.	Some accelerator programmes. – for example Impact Engine runs a 'Community Demo Day' as a way to link startups to their peers and the ecosystems that support them. Prizes often run public events to help ventures gather support.

Beyond the pitch

The Unreasonable Institute was one of a number of programmes that expressed frustration with the Demo Day format of connecting ventures with investors. For them pitching is only part of fundraising. In the early days the Institute used a fairly standard Demo Day format, spending their energy on helping teams develop their pitches to a room full of investors: *"We spent so much time preparing our entrepreneurs to pitch in our first two years, and very little time helping to build real businesses and to make the most from the one-on-one conversations with investors that might eventually lead to capital."* And so in 2012 they changed the format with short introductions by the teams followed by more in-depth 'Board meeting' style sessions where they would ask for advice from potential investors. It worked – as angel investor Elizabeth Kraus says of the revamped format: *"I learned more in the three days I spent there, than I've learned in the last three months, and I think it was incredibly valuable for both the entrepreneurs and the investors."*[19]

CO-LOCATION

The benefits of offering a shared space to ventures can be seen in many accelerators and co-working spaces. Ventures based in shared spaces particularly value the peer networks they create. Space is not usually offered by angel networks or competitions and prizes.

There are two different philosophies about whether incubators should offer ventures they support free or subsidised office space. The first is that it offers opportunities for collaboration and serendipity that can't be recreated any other way. The second is that startups should have a chance to create their own culture, especially at an early stage. Imagine K-12 don't house any of their teams for example – they only come in to the office twice a week. While the startups miss out on the immediate benefits of the peer support described above, this does take a lot of workload off the incubators, freeing up their time to focus on helping ventures make connections with investors and customers. The other benefit is that startups are not shielded from the real world in quite the same way – leaving the nurturing environment of an accelerator space can be quite a shock for startups.

Method	Description	Usage
Shared office space	Giving startups a desk to work from means they don't have to worry about the practicalities of finding and maintaining an office. It can be hugely valuable for startups to be in the same room as others going through the same processes – from setting up a payroll to fixing bugs – it's always useful to have teams that are a couple of weeks ahead.	Shared office space is offered by most impact accelerators and all co-working spaces.
Event and training space	Even if programmes can't offer permanent office space, there are opportunities created by bringing ventures together for events or training.	*Academies, prizes and impact angel networks often bring together the ventures they are supporting more intermittently.*

FINANCE

Finance tends to be offered by accelerators, angel networks and competitions while co-working spaces and academies will usually charge for the support they offer. Some incubation programmes offer a single type of finance while others combine different types. It's not unusual for ventures to combine finance from another source (such as a grant or their own finances) with that offered by incubation programmes.

Method	Description	Usage
Grants	Since incubation programmes operate at such an early stage, it maybe that grants are preferred over investment by their funders or managers.	Some accelerator programmes – usually those that are publicly funded.
Equity investing	Equity investing in social ventures has become more common in recent years, with the growth of the impact investing sector more broadly.	All impact angel networks. Most impact accelerator programmes (including Rock Health which also offers small grants) now offer equity investment or a similar model of finance.
Peer selected investment	Village Capital was created by Ross Baird and Bob Pattillo of Gray Ghost Ventures in 2009. The concept was inspired by the 'village bank' idea common in microfinance, where groups of women in developing countries would enable small loans through a peer-review structure. A unique feature of Village Capital programmes is that ventures select which team of their peers should receive a pre-committed investment (usually a grant of approximately $50,000).	Village Capital partners with a large number of organisations to deliver incubation programmes worldwide, such as the Pearson Education 'Edupreneurs' programme in India, and the Growth Africa programme in Kenya.
Crowd-funding	Crowdfunding has become an increasingly popular mechanism for financing early-stage ventures, with over $2.7 billion raised from crowdfunders globally in 2012, financing more than one million campaigns.[20] Several social incubators have started using crowdfunding platforms as a means of raising finance for their ventures.	Dutch social innovation studio Enviu piloted an equity based crowdfunding site for social ventures in 2013. Of the four ventures selected for the pilot, two reached their funding target. The team is currently reviewing their strategy before relaunching in 2014. Equity crowdfunding platform Angellist (http://angel.co) gives accredited investors in the US the ability to invest in cohorts from accelerators and incubators including Rock Health.

Combining crowdfunding and team selection

When they first started accepting applications, the Unreasonable Institute team would shortlist ventures, who would then have to raise money through the 'Unreasonable Marketplace' crowdfunding platform in order to be accepted onto the programme. However, the team eventually decided this was unfair as it made it harder for applicants from countries where it was more difficult to find sponsors to get into the programme. Now teams use the platform to raise funds after they have been selected.

EXAMPLES OF FINANCE OFFERED BY INCUBATION PROGRAMMES

Programme	Location	Investment offered US$	Typical terms
Pipa	Brasil	$100,000	10% equity
Imagine K-12	Palo Alto	$14,000-20,000 $80,000	6-7% convertible note
Rock Health	San Francisco	$10-20k $100k	grant convertible note
UnLtd India	Mumbai	$1,000 $3,000 $30,000	grant grant unsecured loan

The incubators' view: SOCIAL VENTURE INCUBATION STORIES

Artemisia

Founded: **2004**

Location: **Sao Paulo and Rio de Janeiro**

Type of programme: **Artemisia runs a number of different programmes aimed at educating and supporting social entrepreneurs and social ventures, including their own impact accelerator.**

www.artemisia.org.br

Back in 2008 no one knew what was meant by social ventures in Brazil. If you'd asked around you would have found good understanding of the phrases 'civil society' and 'corporate social responsibility' but people were suspicious of social enterprise and social investment.

But over the past few years there has been a big change. In 2010 Artemisia mapped the sector and found they were the only accelerator programme focusing on social ventures. Following government sponsorship for social enterprises and international investment from players such as Omidyar Network, there are now six impact investment funds and a far stronger 'scene' for people who want to start social ventures.

Since 2007 Artemisia has supported 51 social startups that target the 'base of the pyramid'. Ninety per cent of these still exist and 53 per cent have gone on to secure further capital. The main areas they target are health, education and housing.

They work with traditional funds, impact investors and philanthropists to raise finance for the programme. Some investors pre-commit funding and Artemisia decides how it is invested, others invest directly into the ventures themselves.

Support offered is focused around peer-to-peer learning and mentorship – focusing on capacity building, meetings, individual mentoring and investment. They have a structured training programme which lasts for six months, during which each business is teamed with an 'investor' (mentor) from Artemesia, that works with them throughout.

The Artemisia programmes funded by Village Capital have $50,000 to offer to two startups as convertible loans. This is awarded during the course of the programme and the cohort makes a group decision on who it goes to, the objective is to get them to think like an investor.

Programme director Maure Pessanha said that despite progress there are still huge challenges for startups in Brazil. Human capital is really hard to source – there is a lack of skills, especially around the process of starting a business. There is also a lack of pre-seed finance for early-stage social investment in Brazil. And activity is centred around a small number of hubs. In the future Artemisia would like to grow in other geographic areas outside of Sao Paolo and Rio de Janeiro.

Imagine K–12

Founded: **2011**

Location: **Palo Alto, California**

Type of programme: **Impact accelerator**

www.imaginek12.com

Imagine K–12 is an accelerator programme for education technology startups founded by Tim Brady and Geoff Ralston in 2011. Ralston is also a partner at Y Combinator and so Imagine K–12 is possibly the only other accelerator programme in the world that has the blessing of Paul Graham – so much so that he has invested in Imagine K–12's 'Start Fund' which offers a convertible note worth $80,000 to every startup the programme supports. Brady was the first employee at Yahoo! after the two founders and was Chief Product Officer during what some would consider the company's heyday from 1995–2003.

Imagine K–12 is unusual among accelerators in that while they offer pre-seed capital and advice, they don't offer office space. Brady says that's quite deliberate, *"We think it's really important that startups develop their own culture. Startup success seems to correlate with those teams that have a strong internal identity and their own way of doing things."* It's a belief that Imagine K–12 share with Y Combinator who also only bring the teams together once a week during their programme. Teams are very welcome to come in and meet with the partners for office hours but they're generally expected to work from their own offices or apartments.

Brady says that one of their explicit goals with Imagine K–12 was to galvanise the Silicon Valley investment community to back technology startups working on solving important problems. In the case of education, the change has been relatively quick – 'edutech' has gone from a minority interest for venture capitalists to one of the hottest categories in just two years. Brady doesn't claim to be solely responsible for that, but says that being vertically focussed has helped them a great deal – founders, investors, customers, mentors all know where to come if they want to get involved in early-stage startups using technology to improve education.

Code for America

Founded: **2009**

Location: **Various states across the US. The Fellows programme is based in San Francisco**

Type of programme: **Academy and accelerator programme**

codeforamerica.org

When Jennifer Pahlka first started talking about technology startups having a role in improving the way that government services in the US were delivered, she mainly got blank looks. At the time, government was thinking very differently about technology – if it did purchase IT systems, it would do so from one of the large systems integrator companies rather than by working with startups. Pahlka didn't give up and instead founded Code for America as a way of educating city, state and the national government that the kind of technology developed by 'civic startups' could have a positive effect – engaging citizens, improving services and saving money.

CfA's first step was to create its Fellows programme, placing highly skilled technologists and engineers in public agencies across the country to work on projects alongside civil servants and public officials. As case studies and success stories started to emerge, other cities signed up and alongside their practical programmes CfA were also publicly raising the profile of technology's role in improving public services. Both Pahlka and adviser Tim O'Reilly spoke widely about the potential of their approach and lobbied The White House for support. It was only then, once they had developed a network of potential willing customers who could see the value of working with technology startups, that Code for America launched its Accelerator programme.

The programme itself is also modelled with customers in mind. Teams on the Accelerator don't move to San Francisco full time. They remain based near their customers in the home city or state so they can work with them closely and come to Code for America for one week every month. The idea is to retain deep connections with customers while also getting the best advice that the Silicon Valley investment and startup world can offer.

Greenstart

Founded: **2011**

Location: **San Francisco, California**

Type of programme: **Greenstart has transitioned from an impact accelerator into a venture design studio**

greenstart.com

On the 11th floor of an art deco office block in downtown San Francisco, people are starting to gather. The 'antique' elevators are causing a few problems getting the 300 or so investors up from the street level to the Greenstart office where Demo Day is about to begin. The large high-ceilinged space is usually home to the four environmental startups in the current cohort as well as the Greenstart team which has grown rapidly over the previous few months but today the desks and comfy chairs are cleared away and a large black stage, studio lights and hundreds of rented chairs have turned the space into a theatre.

As the pumping music fades away a video starts playing of a pair of feet walking their way through startup life. Mitch Lowe takes to the stage as the audience applaud and starts to build up the event – he can't help but enthuse about the 'awesome', 'amazing', 'really cool' startups we're about to see. And then a surprise guest, Mayor of San Francisco, Edwin Lee, steps up to say how important environmental startups are going to be to the city and how he's doing everything he can to make the city (as opposed to Silicon Valley 30 miles south) the most startup friendly environment in the world. He's proposing changing the tax code to make it easier for startups to afford city rents (two weeks later his proposal is passed) and setting up a new scheme to offer city properties as test beds for new technologies developed by cleantech startups.

Greenstart partner Daniel Goldfarb explains that they've recently shifted away from a classic accelerator model. He says they find it easier to work with startups that are slightly more developed than those you might find applying to accelerator programmes like Y Combinator or Techstars. They look for evidence of revenue before investing, but when they do invest they like to get very involved in the startups they support. The initial equity investment of $20,000 is accompanied by a $100,000 convertible note and then support valued at another $100,000 from the team Greenstart have assembled to work with the startups.

They've found that their competitive advantage over other investors is their design background and skills. The design team is led by David Merkoski, formerly head of Frog Design in San Francisco and the mentors they introduce to the startups are also often designers.

They provide each startup with one 'matched' mentor who is likely to be very involved in the development of the startup during the programme and afterwards. These are typically former entrepreneurs or investors who are looking to give more time and Greenstart have 20–30 of these on their books. They also help startups meet 'subject' mentors who have more specific expertise – perhaps in particular markets or skills (such as recruiting) that startups might need. They have 60 of this type of mentor available.

Shift

Founded: **2012**

Location: **Stockholm, Sweden**

Type of programme: **Impact accelerator, now offering courses and co-working space**

www.shifts.se

Housed in Stockholm's Resilience Centre, the Shift accelerator was founded in 2012 with the aim of nurturing resilience thinking and social and ecological innovations in the Baltic Sea area. Its first batch of startups came from Latvia, Estonia, Lithuania and Sweden and comprised ideas ranging from vertical wind power and water cleaning for industrial applications, to tropical weather forecasting and fair trade forestry products.

In 2013, Shift organised Switched on Nature, a half-day seminar leading into a hackathon aimed at exploring the of value of technologies and innovation for resilient urban systems. In 2014, Shift is aiming to develop this strand of education to launch several courses for entrepreneurs on resilience and system change and open a lab within the Stockholm Resilience Centre where programmers, entrepreneurs, academics, policymakers, business representatives, designers, writers and artists can discuss and co-create solutions to urgent sustainability challenges.

Having gone from an accelerator to a lab with courses on systemic change, Shift represents a new model of social incubation, ready to adapt to the evolving needs of society and local entrepreneurs.

Jardin de Innovaçion – Smart Impact programme

Founded: **2013**

Location: **Mexico City**

Type of programme: **Impact accelerator**

www.sjardindeinnovacion.org

After working in Europe for several years, Oscar Velazquez returned home to Mexico determined to help get the social entrepreneurial ecosystem going. His first step was to set up the Mexico City branch of the Founder Institute but he found that the 'generic startup' nature of the franchised programme – which is run from California – wasn't right for Mexico. Oscar wanted to do something for impact so in 2013 started the Smart Impact programme as part of the Jardin de Innovacion.

Before starting out on his own he did his homework and undertook a global benchmarking exercise – researching all the programmes he could find. His time working at Netherlands-based business incubator Utrecht Inc for two years also helped him decide what he thought would work and what wouldn't. He took inspiration from Enviu's Wow Lab, Rock Health in California, Pipa in Brasil and the Nike Accelerator run by Techstars. He didn't want to just compare his idea to impact programmes but to be among the best tech accelerators in the world.

He also ran a series of workshops with entrepreneurs which helped refine the way the programme would work – he was keen not just to work with social entrepreneurs who had a mindset that they just wanted philanthropy. He wanted to work with investable high growth ventures.

After self-funding the development of the project Oscar and his team applied for support from the Mexican National Ministry for Economics network of accelerators and incubators. They were selected as one of 15 'high impact programmes' and were offered a $150,000 initial grant with the potential for follow-on support.

Smart Impact 2014 will be a four-month, part-time programme for 20 social ventures. They will be offered office space, mentors, workshops and the ability to draw on staff to increase their capacity at key moments – such as around product launches or investment opportunities.

Smart Impact will also have a deliberate strategy to support teams to raise money through a crowdfunding platform for pre-sales and prove they have 'market validation' before going out to use the accelerator's connections to impact investors in the region.

Chapter 4

LOOKING AHEAD

In this chapter we draw out some trends we've noticed in social incubation worldwide and the lessons we think are most pressing for programme managers, investors, policymakers and social venture founders as the impact incubation sector begins to grow.

TRENDS WITHIN SOCIAL VENTURE INCUBATION

Since it is very early days for the social incubation field there is still a great deal of development and flux. However, during our research we noticed several distinct trends, both in the way that established programmes were adapting their offerings and in the methods adopted by new programmes created more recently.

Vertical specialisation

While the number of programmes for social ventures in general is increasing rapidly, many of the new programmes focus on a particular sector or social or environmental problem. This is as much the case in the UK as in other countries. This could be health or education (see Health XL in Dublin or Imagine K–12 in Palo Alto) or an even more specific problem such as the Future of Fish which works globally helping startups that are trying to improve the sustainability of fish in our food systems.

Domain specialisation

The other type of specialisation we saw was programmes deepening their expertise into a particular approach. A good example is Greenstart whose support for ventures is dominated by the design support they can offer. Another would be VE Transfer (http://vetransfer.org/) or Revolution Labs (http://revolutionlabs.co/) – both managed by the Global Entrepreneurship Collective in Milwaukee – which specialise in the approach to 'customer development' as popularised by entrepreneur and academic Steve Blank. The team behind the accelerators have undertaken extensive training in the approach.

Educating customers and investors

It appears that having access to investors isn't enough for social ventures in some locations. Impact Engine was in fact founded in 2011 in Chicago by a small group of impact investors who wanted to build an ecosystem of social ventures in the city – supporting local startups and attracting founders from elsewhere to relocate. However, while the investors found that capital was available from philanthropists and more commercially minded angels, the group of actual 'impact angels' was small.

A number of programmes told us a similar story about customers. It wasn't just that they needed to find customers for the social ventures they supported, but they also needed to educate them about how to work with startups (see Code for America for example).

Diversification

We often heard that incubation is a very difficult thing to make work financially – from co-working spaces through to angel networks. The response to this is often for programmes to diversify their offering. For example, Pipa are looking at becoming a seed investor as well as an accelerator. Co-working spaces such as Impact Hub Bay Area have developed educational offerings such as Workbench or started accelerator programmes.

Another type of diversification and expansion is exemplified by the Unreasonable Institute. Over the past four years, 82 ventures from 37 countries have attended the Unreasonable Institute's five-week summer programme in Boulder, Colorado. They've gone on to raise $30 million of further capital. While it's had a global outlook from the outset, the Unreasonable Institute has now decided to go to the entrepreneurs rather than expecting them to come to them in Colorado. The Institute is opening new programmes in Mexico and East Africa in an attempt to replicate the early-stage ecosystem that exists in Boulder. And Mexico and East Africa are just the beginning – the plan is to expand over the coming years to offer acceleration programmes in other parts of the world alongside their experiment in taking the ventures around the world in a boat.

Unreasonable also took 11 ventures on a three-month global tour that visited Japan, China, India, South Africa amongst other places through their 'Unreasonable at Sea' programme. The idea was for the ventures to explore the local economies of the 13 countries, taking their technology to market and meeting top government officials, foundations, venture capitalists, and serial entrepreneurs. The mentors came too, with 20 world-class serial entrepreneurs and innovators joining the social venture founders on the ship.

Opening up – better measurement and evaluation

As more and more incubation programmes and platforms open up, there is a push towards transparency. This comes from a demand from ventures who might be comparing programmes as well as from existing and potential funders and investors who want to see the track record of programmes before offering their support. Put bluntly – social venture incubation is becoming a much more competitive field.

As yet though, there is no agreed framework for measuring the performance or impact of incubation programmes. Common metrics collected and published so far include:

- Number of applications to programmes.
- Number of ventures supported.
- Follow-on investment raised by ventures.
- Survival rate of ventures.
- Number of employees of ventures.
- Gender balance of applicants and supported founders.

An example would be the way that Investors Circle publish their track record (http://www.investorscircle.net/impact-metrics) or the way that the Unreasonable Institute publish theirs, both by cohort and for their overall portfolio. Although they are now very open about their metrics, they admit that it wasn't a priority in the early days and took them a while to settle on the right things to measure. *"What we really care about when it comes to measuring impact is the number of lives that our entrepreneurs have meaningfully changed and how the planet is better off thanks to their efforts. That data is a lot harder for us to obtain and measure effectively."*

This data on the impact of the ventures themselves is both difficult to obtain and to attribute. While schemes such as IRIS from the Global Impact Investing Network (GIIN) and Social Return on Investment (SROI) attempt to do this, it can be a struggle for early-stage ventures to find the time or money to develop sophisticated measurement tools. It's also unlikely that all the ventures backed by a particular programme will measure the same social outputs or outcomes, which leaves incubation programmes with an eclectic and not always easy to understand mix of indicators.

A more fundamental question being asked by some researchers is 'do accelerators or incubation programmes work at all?' The ANDE network for example has begun work on a longitudinal study following social ventures that do and don't accept support from social incubation programmes.[21] This is one of many academic studies into the efficacy of social venture incubation – none of which have yet had enough time or volume of ventures to track and collect meaningful data.

THE RISKS OF SOCIAL VENTURE INCUBATION

In the heat of the dot-com boom of the turn of the century, incubators were all the rage. But as the bubble popped they soon went out of fashion, with some of them even being labelled 'incinerators' of startups. We need to be cautious of overpromising what incubation can offer both to individual social ventures and to the impact investment ecosystem as a whole. In this next section we touch on some of the pitfalls and criticisms of social venture incubation.

It's all a waste of public money

There is an argument that some forms of incubation merely act as life support, keeping afloat ventures that are not sustainable in the long run and would benefit more from failing fast. It could also be argued that some of the ventures that do succeed would be likely to be successful in the long term anyway (albeit at a much slower pace) through bootstrapping and revenue growth. With this in mind, public funding for incubation programmes should always be discerning about which incubation programmes it supports and measure their performance over time.

Mind the gap

We've previously acknowledged the funding gap for early-stage innovators. This means a lot of ventures coming out of incubation programmes will still need a lot of nurturing in order to become a viable proposition for later-stage impact investors. Supply and demand in matching social ventures to social investment is uneven at present.

Where's the longevity?

Incubation models are yet to be proven financially sustainable in the long term. Programmes that rely heavily on grants or sponsorship can be at the mercy of funding cycles in the public sector, and there is a risk that cash will run out before they become self-sustaining. Prizes, which are predominantly funded by sponsorship, tend to be short term and the value of winning a prize in the long term has also been under-studied to date.

How do you ensure a focus on social impact?

Some programmes do not ask for evidence of social impact before offering support and investing, so there's no way of ensuring the ventures stay true to their social mission in the long term. There is also an argument that equity investment can distract a venture from its social or environmental mission, depending on the balance of social versus financial return expected from the investor.

Disconnection from final beneficiaries

The social ventures supported by incubation programmes tackle a wide range of issues, such as financial and social exclusion, education, health and wellbeing, but some programmes can be seen as disconnected from the final beneficiaries of these initiatives. There is an argument that some incubation processes (such as selection and competition) only serve to reinforce this gap.

Startup burnout

Social entrepreneurs come in all shapes and sizes, and not everyone is suited to being in a high-growth social venture. The process of social venture incubation is aimed at helping ventures with the potential to rapidly achieve scale, and entrepreneurs with more modest ambitions might not benefit from this environment.

Mentor whiplash (and burnout)

Many programmes claim to be mentor-led. However, with a wide variety of mentors available to teams they often find themselves getting conflicting advice and are confused about which direction to take. The Unreasonable Institute has noted this and is now:

- Helping entrepreneurs and mentors to 'date' before committing to working together.
- Helping entrepreneurs build 'Mentor Teams' rather than getting advice from lots of individuals.
- Training entrepreneurs how to better engage with mentors.
- Start training mentors as well.

Another criticism is that mentors can find themselves asked to mentor by too many programmes too often, and start to disengage as they find the time taken up by helping programmes is too much of a drain.

RECOMMENDATIONS – DEVELOPING AN ECOSYSTEM

Social incubation is beginning to play an important role in the emerging ecosystem of impact investment. Even taking into account some of the risks above, we believe it is helping to reduce the risks for later-stage investors by helping ventures improve their teams, products and business models as well as signposting opportunities for funding and customers.

While the field of social venture incubation is still in its infancy and a lot of best practice remains unproven, we have uncovered a number of clear lessons for UK programme managers, investors and policymakers involved in developing the impact investment ecosystem.

Remember that some social ventures and enterprises are different

Social ventures with high-growth potential need very different support and incubation from those which might have more modest ambitions for scale. It's important to design policy and programmes for each type of organisation differently. When looking at successful programmes around the world, it was clear that the best often focused on one or the other but didn't attempt to do both.

Better understanding of business models for social incubation

As the sector develops it will become more important to understand the long-term business models of incubation. While some types of incubation seem relatively straightforward (co-working spaces or academies for example) others are much longer term. Equity-based accelerator or angel network business models have yet to be proven, and it will be some time before we have the longitudinal data needed to demonstrate their viability. Better research is needed on this to help government and other organisations supporting the incubation ecosystem answer the question 'does incubation require grant funding in the long term?' and does it represent good value for the taxpayer.

Help incubators standardise their impact metrics

Measuring the impact of incubation is difficult but, as it becomes a more common approach, all the more important. Those organisations and individuals funding programmes need to be able to know how their funding is having an effect, and those applying for and taking part in programmes need to know which type of programmes are most suitable or effective.

Create better ways to help founders choose the right programme

As the choice of types of incubation grows in the UK, so might the confusion of founders about which programme is right for them. We need new ways of helping founders recognise the stage they're at and their needs as well as ways to signpost ventures to relevant opportunities.

Help close the post-incubation gap

In the UK, there is a notable gap for social ventures with high-growth potential between many of the incubation programmes available and the later-stage social investment that has been stimulated by the creation of Big Society Capital. This is typically for investment of £50,000-£150,000 which still has a very high tolerance of risk and doesn't require a long track record or security. We think this is a gap that should be addressed by government and later-stage investors working together to develop both financial and non-financial support.

CONCLUSION

Social ventures have the potential to tackle some of the major social and environmental challenges facing us both today and in the future. Social impact investment has emerged as the most promising route to financing and supporting ventures, once they have shown that they can be successful both financially and in terms of their impact.

However, as we've shown, there's a gap between early-stage social ventures and the later-stage investment that is increasingly available. Before ventures can access social investment, there are a number of things they need to demonstrate. Incubation has grown as a field to help ventures to prove an idea, develop a team and accelerate their progress before accessing more substantial finance. This is still a relatively new and emerging field, and while in this report we have described one framework for the type of models and methods being used, we recognise this is constantly changing as programmes learn and develop.

This report has been an attempt to cover some of the lessons learned by programmes around the world and share those with the growing UK social incubation sector. We recognise that this report is just a start and there's a need to develop insights based on robust evidence of what works, and to create opportunities for programmes to come together and share. We hope that there will be a willingness to develop this over the coming years.

PART II Appendix

TYPES OF EARLY-STAGE SOCIAL VENTURE

During the course of delivering an impact accelerator over the past two years, the team at Bethnal Green Ventures have developed a set of archetypes of early-stage ventures that help them and the ventures themselves decide what kind of support they might benefit from most.

Traditionally, organisations that support early stage social ventures categorise them according to a few easy to measure metrics:

- Age of the venture.
- Number of employees.
- Number of customers.
- Level of revenue.
- Scale of impact to date.
- Previous investment raised.

While these are useful, they don't really tell us much about what kind of support a venture might need. There are some important characteristics of the status of teams that better define the kind of support that they require.

The five archetypes we use are:

- TEAM FORMERS
- MODEL CLARIFIERS
- PROPOSITION SEEKERS
- SCALERS
- CUSTOMER HUNTERS

TEAM FORMERS

Description

This is often a highly-motivated individual who has identified a problem and potential solution but has not yet found a team to work with, or it could be a small group of people who have knowledge of the problem but have not yet found a technical co-founder to help them build a solution, or likewise a technical team who need help with design or strategy. They are most relevant to co-working spaces and pre-incubation programmes such as hack weekends, or they may apply to incubation programmes but be turned down.

Typical incubation journey

There isn't necessarily a typical incubation journey for Team Formers as they vary widely in their needs and tend to be one stage too early for most incubation programmes. However, one common path is a founder taking an idea to a hack day or weekend, meeting other people who are interested in developing the idea with them, building a prototype and then applying it to an accelerator programme.

Pitfalls

- Building a product or service too soon without proper information about what potential customers or users want.
- Team issues – a lack of trust or clarity about who is going to do what.
- Confusion around basics of company formation and legal issues.
- Misunderstanding the needs of investors.

Incubation needs

- Opportunities to meet co-founders and to get to know them over time.
- Access to space for meetings.
- Introductions to the legal and administration basics.

PROPOSITION SEEKERS

Description

These are teams that have spotted an opportunity to create value and have an initial idea or technology that they think can do that, but have not yet turned this into a full proposition. The difference between a proposition and an idea is that a proposition details:

- A defined target group.
- The specific aspect of the problem being solved.
- Those benefits that are of greatest interest to the target group.
- The core functions of the product/service that deliver those benefits.

Proposition Seekers may have a good understanding of one aspect of the context, but need to learn more to pin down their proposition. For example they may have good understanding of:

- The problem they set out to solve, but not who would use/buy a solution and why.
- The users/customers but not what specific issue motivates them.
- The technology, but not how it will create value when applied to the issue.
- The needs of the different stakeholders but not what 'role' their venture should play in that ecosystem.

Many technology-driven ventures start out as Proposition Seekers if they have a technological innovation in search of a purpose and need to identify which users or customers will find value in it.

Proposition Seekers may have their potential customer on board already as a development partner – a local council, a hospital, a school – and are looking for the right fit between what they can offer to the end user and what the partner wants to achieve.

A typical incubation journey

Proposition Seekers tend to go through cycles of iteration until they hit the right proposition, and then develop their product ready to become a Customer Hunter. The main risk for Proposition Seekers is too much time spent unable to see the wood for the trees or differentiating between promising leads and dead ends. Their path to a good proposition can be sped up by helping them undertake better user needs research and learning how to undertake a structured design process.

Ideally during this stage Proposition Seekers get to know their users through informal interviews and observations with a range of potential user types, best done in the context in which people will experience the product or service. Insight from this is turned into use-cases, scenarios and more detailed propositions, which can then be tested in focus groups or in simple online tests. Teams can use this insight to determine which user groups are most important to target, and which are likely to be their early adopters.

If their proposition resonates, teams can move onto building rapid prototypes that allow them to test key underlying hypotheses, either through paper mock-ups of sites, staging off-line activities supported by off-the-shelf technology or through simple technology builds. Alternatively, teams may build a product with very basic functionality that can be given to users for a period of time to allow them to determine themselves what use they put it to. This latter approach is particularly effective with emergent technologies.

As the proposition and therefore the design of the product or service evolves, the nature of user engagement moves from being about gathering insight to validating choices and improving the user journey through more structured user experience testing.

The expectation is not that Proposition Seekers should hit on the ‘right’ proposition immediately – the space to devise and reject ideas is a necessary part of good creative process – but the aim is to structure the process so that the learning is rapid and rigorous and ‘failures’ happen early.

During this time the target group – or target market – may change. For example, a product to support stroke victims may change from being aimed at the stroke sufferer themselves to their carer. It may switch from a domestic market (home consumers) to a professional market (rehabilitation units). The primary function or benefit of the product/service may then change accordingly, for example from being about tracking progress, to training physical movement.

What is being provided by the venture team may also change, for example from product to service, or from system to consultancy.

Pitfalls

- Getting stuck on the original idea – some teams hang onto their original concept when the response from users or customers is pointing elsewhere. This often happens with (but is not by any means restricted to) lone or highly charismatic founders who lack challenge from team members, or founders who have deep personal experience of the problem and have designed a solution that fits their needs but not necessarily those of others.
- Not getting their hands dirty – teams – especially those with a technology background – can lack confidence in approaching and working with the people who will use their product. They may rely instead on a more arm’s length means of gaining information, such as market research data and online surveys. However, these approaches are largely redundant early on as teams do not yet have the insight needed to ask the right questions, nor a detailed enough proposition to gain any meaningful validation.

- Building too much too soon – teams with strong execution capability can sink too much development time in areas that turn out not to be relevant to their end users. This higher investment means it is harder to change tack and represents a double pitfall as end users are less likely to give honest feedback on a product that feels too 'finished'.
- False assumptions and overconfidence – some teams may initially overestimate their understanding of their target groups, and therefore underestimate the work and time needed to get the insight required for a good proposition. A good team is a learning team – but some teams may need to experience a failure of some sort before becoming open to learning. The question is how to accelerate this process during incubation.
- Masking a weak proposition – where teams have good sales skills and good knowledge of a sector can mask underlying weaknesses in the proposition – they may have got further than they should have without the right challenge.

Incubation needs

- Design support – help with techniques to understand customer need, proposition testing, rapid prototyping.
- Contact with end users – encouragement to 'get out there' early and talk to real users and customers. Relationships with organisations that can act as a safe testing ground and/or validate problem definitions.
- Structure – a good structure within which to progress the idea and learn from feedback, with clear definition points, and an expectation of early prototyping. Constructive challenge from the core team and mentors on their approach.
- Other team members – pairing team members with missing skills or roles that can open up their perspective.

CUSTOMER HUNTERS

Description

Customer Hunters are teams that have a working product or service – albeit with limited features or at an early stage – and are looking for their first paying customers. They can be recognised in the following situations:

- Teams have an obvious first customer but haven't engaged that first customer yet, either through a lack of networks or skills.
- Teams have both business-to-business and consumer facing propositions for their product and need more feedback from potential customers to decide which to prioritise.
- Teams have a feasible solution that either depends on landing a big partnership to get started, for example breaking into a heavily regulated or dominated market, or a respected partner to create proof of concept or validate the approach (e.g. medical services).

Typical incubation journey

During the incubation period, Customer Hunters ideally identify and engage their first customers, and further develop their product. The main risk is the length of time to making the first sale, which can be reduced by good networks and sales skills, and learning from structured marketing experiments.

The journey for Customer Hunters is about testing and refining their sales approach. In contrast to Proposition Seekers, in this iterative process it is not the core proposition that changes but the approach to selling it. For teams with business-to-business propositions, this happens through meetings with potential customers and for those with consumer-facing propositions by running controlled experiments on marketing and pricing. Both can be accelerated with the right tools, skills and contacts.

Customer Hunters with a business-to-business proposition need to learn how their market operates: is there a particular business cycle they have to fit into, who is the best contact inside the purchasing organisation, which budget is it coming from, what else will they need to have in place to be considered? By talking to people who know that market well, and to other startups in the same space, they learn how best to shape their approach. If their first approaches are successful, they can return to further developing the product/service. If not, they continue to iterate the sales approach, learning from feedback what will make it easier for purchasers to say yes. For some ventures external validation helps the sales process. For these ventures landing a validation partner can be as important as their first paying customer.

Ventures with consumer-facing propositions need to learn the most effective ways of reaching individual customers, what makes them buy and the right price point. In contrast to earlier proposition tests, where online sign ups can validate interest, the key at this stage is a commitment of payment. Ventures may choose to offer pre-sales as a 'safe' way of testing the market, or they may offer different payment options to prospective groups to compare take-up.

For ventures with multi-sided platforms this process is more complex. A multi-sided platform has to create value for different groups of customers with different motivations and buying patterns. Teams have to learn about all of these at the same time. However, this understanding – and a proposition with many stakeholders signed up – also makes it a more defensible business.

Some Customer Hunters have propositions that are potentially highly disruptive in their market, are entering markets heavily dominated by a few major players or even have to create new markets. Alongside the approaches above, these teams need to invest in creating alliances, campaigning or movement building, educating the market, brokering major partnerships and collaborating on the development of new standards.

Pitfalls

Not getting 'out of the office' fast enough – even when the first customer is obvious and easily accessible, teams can delay meeting with them and getting to know their needs, through a desire to polish the product.

- Sales cycles – long sales cycles can mean the pace of customer development is slower than the incubation period. Many social and public sector markets fall into this category. This then creates a tension between sales and product development: does the team have the capacity to do both in parallel?
- Conversely when the solution has to be tailored to the context there may be little advantage to developing it further in isolation of the first sale, rendering some team members redundant.
- Critical mass – marketplaces face a specific crunch point at this stage when sales on one side are dependent on seeing demand/provision on the other side: does the team have capacity to continue to develop both sides at once? Some startups get around this issue by 'seeding' initial use themselves to stimulate exchanges to flow.
- Credibility – potential customers may want the product but be wary of the startup's ability to deliver it – especially if used to buying from established suppliers. Getting to a 'yes' in public markets such as health and education can be a slow process as having the product or service validated, or having evidence of its effectiveness is a common means of reducing risk. Here, the sales cycle is mainly about building credibility.
- Finally, teams may receive feedback from the market that means they have to rethink their proposition, effectively becoming a Proposition Seeker. The danger comes if this is not recognised early enough, with wasted effort going into building relationships with a weak or undefined proposition.

Incubation needs

- Making contacts – introductions to people who know the market, and help to get those crucial customer meetings to happen quickly. The brand value of the incubation programme can be an asset here, alongside the strength of their networks. Contact with other startups who have broken into the same market is valuable. Existing relationships with willing academic or validation partners can put ventures at a significant advantage.
- Sales skills – help with techniques that will allow team members to progress a sales conversation and close deals. Some incubators have a core team with these skills that ventures can access.
- Preparing for the meetings – ventures need practice to get their pitch right, and help to understand the expected form or meeting and negotiations.
- Customer education – attending customer meetings alongside the venture teams to provide credibility and reassurance to wary customers.
- Payment planning – discussions about pricing and differential pricing.
- Marketing – help with strategies to reach individual consumers and access to tools that can help with marketing activity early on: growth hacking techniques, product testing, collecting user feedback. Connections to other drive sales is mutually beneficial.

MODEL CLARIFIERS

Description

Model Clarifiers are ventures that have done something successful in a limited context but have yet to work out their model for growth. They need the right technology platform, partnership model or operational model to get to the next stage. They remain risky prospects for institutional investors as their route to scale is still hypothetical.

- Have a successful service in operation with one customer, location or a small user base. They need to work out the best way of adapting their solution for multiple contexts, and the best model for doing it – for example licensing or franchising.
- Be a primarily face-to-face service or have launched with offline components supported by off-the-peg technology solutions. Although their off-line service may be running in several locations they need to develop the right technology platform and operational model to support both on- and off-line activities at scale.
- Have one partner acting as their main distribution partner or gatekeeper to their end user base. They need to work out whether to grow with that partner or build new relationships.
- Be successfully selling direct to end consumers but have partnerships in mind that would expand their reach.
- Have the option to become a ‘platform’ business – by enabling other players to create content, applications or services using their technology or infrastructure.

Typical incubation journey

Model Clarifiers are at a stage where they need to find and demonstrate a viable route to scale. They need to build and test components that will help them get there, be that technology platforms, new roles, marketing approaches, partnerships or operational processes and they may need investment to help demonstrate that approach.

Their first step is often to analyse current activity to find out what is actually happening, rather than what is just due to force of willpower from the team. This involves collecting objective data about use of their service.

With this information teams can begin to model and understand what will happen at scale: what is actually cost effective, what is the underlying pattern and how does that change at different sizes, locations, settings? Determining the right model for growth then comes into play.

Teams may consider licensing or franchising, white labelling, diversifying into other parts of the value chain, significant partnerships and collaborations or new applications of the same product/process. Teams may also consider different international markets, although at this early stage it can create false hope for a more receptive ‘promised land’.

The business proposition may also change at this stage as the real value is uncovered: the venture may become a platform business, move from offering a product to a product-consultancy hybrid, or realise additional propositions such as finding that their service generates valuable data.

Social businesses must design ways to evaluate impact into their operational model. Teams need to look at what meaningful data can be collected without overburdening the operations.

For some Model Clarifiers this journey is also one of establishing a new identity – suddenly seeing themselves differently and their role in the ecosystem in a new way as the ‘right’ model emerges. A name or brand change can often mark this transition.

Pitfalls

- Maintaining a live service while developing a new approach – teams must overcome the tensions of combining strategy and research with an operational mindset. Retreating to familiar ground is a danger – ventures that already have a working offline service for example, may find themselves further developing that in preference to new technology components which they are less familiar with.
- Competition – at the early stage, Model Clarifiers can become distracted by similar services which look like they might be doing better and question the route they have chosen.
- Ambition – founders can become overwhelmed by the reality of scaling up or the challenges that lie ahead.
- Social mission versus revenue – this stage is the first at which the tension between what creates greatest social impact and what creates greatest revenue comes into play. Funders start to ask questions about impact metrics and how the business will remain loyal to its social mission. Teams must walk a difficult line in designing the next stage of growth.

Incubation needs

- Strategic business model advice – the right tight-knit group of advisors can significantly speed things up with their own experience of taking businesses to scale. This could be experienced executives who can give ‘that’s not going to work’ advice quickly.
- Education around different approaches to IP and licensing or franchising options – especially combined with examples of which models other startups chose to employ and why.
- People who have experience of sales or business development partnerships become useful for ventures in this situation.
- Financing advice – by taking a look at the state of play, teams can make smarter decisions about what type of investors to approach and when.
- Working capital – in the form of a follow-on fund – the initial incubation period de-risks startup ventures for private investment but for institutional investors demonstrating the potential for scale is most important.

SCALERS

Description

Scalers are ventures with a working service whose basic business model is sound and unlikely to change drastically as they grow. Their challenge is how to operate at scale rather than rethink the model. Scalers are facing the practical realities of implementing growth strategies.

Scalers usually:

- Have a working product or service with good processes and a strong initial user base but need to grow that user base fast to demonstrate the right rate of growth for investors.
- Have a strong idea but need to scale immediately for it to work and realise its full value. This is often the case with marketplaces or services that are dependent on having many different types of user.
- Be in a position to make a sudden jump to scale, e.g. number of units shipped, number of sites managed, that requires significant changes in infrastructure and management.
- A clue that a venture is a Scaler is exponential rather than linear weekly or monthly growth.

Typical incubation journey

Scalers need to put in place the operations needed to deliver at scale and find the team and finance to enable it to happen at the right pace.

In practical terms this means building the technology and human capacity to handle larger volumes of relationships, transactions and products. The venture may grow from three to 15 people at this stage, with the user base growing tenfold. Typical things Scalers need to put in place are customer support functions, server capacity, manuals for key processes, accounting, marketing automation, training, regulatory compliance, management and impact reporting. Teams are looking for technical and management advice to prepare the capacity they need.

Scalers are often hiring at this stage, and putting together a Board that can help them to create the organisation that can handle this growth. They may be raising investment to enable scaling to happen more rapidly.

Ventures that depend on a critical mass of users – marketplaces, multi-sided platforms – are typical Scalers, as a large user base is necessary for the business to have real value. The investment case is different for these ventures because they must demonstrate fast and exponential growth to gain first mover advantage, as in general the pattern is of one player 'owning' the marketplace.

Pitfalls

Scalers are arguably in a more precarious position – they have more invested in relationships and more customers to potentially let down. They may face the following challenges:

- Sudden growth hikes – teams can be caught out by unexpected surges in take-up or use if their service suddenly takes off virally, or a lucky piece of publicity brings them a huge number of new users. If unprepared this can cause human and technology systems to fail dramatically.
- Culture clash – as they grow, teams may experience a clash between the entrepreneurial, fast-learning culture of startups where there is a high tolerance for uncertainty, and the desire for certainty experienced by team members employed to deliver repeated processes and improve quality.
- Strained team relationships – unused to sharing the stresses and strains, founders may find this more difficult as they take on employees.
- Lack of advisory support – particularly for teams that have not yet set up appropriate governance arrangements such as a Board.

Incubation needs

- Help with investor relationships – incubation programmes can act as valuable mediators between startups and later-stage investors. As it is in the interests of investors to maintain good relationships with incubators, they are in a good position to defend the interests of the startup and make it a positive transition. They can also help startups by offering comparisons with the kinds of deals other startups they've worked with have received.
- Legal support – whilst all early-stage ventures require legal support it is significant for Scalers as they tackle new areas such as investment agreements, tax planning and human resources.
- Flexible office space – an uncertain growth rate can make work space needs difficult to manage efficiently.
- Optimisation – access to expertise in applying analytical techniques to increase impact.
- Recruitment advice – as teams need to grow to meet demand.

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