

Maximizing the Success of Emerging Biotech Companies – The Incubator

By Patricia L. Larrabee

Business incubators are tools typically used by economic development groups to accelerate business growth in a region. Often these facilities focus on a particular industry that is predicted to undergo significant growth and development over the coming years. The recent demise of the dot-com industry and many of the incubators founded to capitalize on its entrepreneurial growth and success has created some concern about the incubator industry as a whole.

The biotechnology industry is now attracting renewed interest from economic development groups and others looking to accelerate their region's economic growth. A significant difference between the dot-com incubators of yesterday and biotech incubators is the ownership structure associated with the incubator itself.

Most dot-com incubators were for-profit ventures, which drew significant investment interest. Many of the companies who inhabited these incubators, as well as the incubators themselves, were founded on unrealistic expectations of potential returns and management teams and models that could not or never did produce. In contrast, the majority of biotech incubators are nonprofit entities that may be more willing to endure the greater investment of time and resources necessary to nurture growing biotech companies.

While this key distinction may be a predominant factor in driving the difference in ownership structures, it does not negate the potential to run a for-profit biotech incubator successfully. The single biggest predictor of incubator success is whether or not the incubator operation itself is based on a sustainable, efficient business operation and whether or not the services it provides constitute discernible value for its tenants.

Incubator managers often meet with tenants to assist them with contacts and other services necessary to build a business, yet they might be overlooking the need to do the same with the incubator operation itself. What better way to promote well-managed growth and the development of entrepreneurial ideas, than to provide a daily example of a well-run operation that strives to improve its services and capabilities? From the development of a business plan and operating budgets to establishing clear procedures for applications and reviews, the incubator manager should view his/her role as integral to the success and

satisfaction of the building occupants. How can an incubator measure its success rate?

Typically, a key indicator of incubator success is the graduation rate of its tenants as well as the performance of those tenants once in the marketplace. Some national studies indicate that four out of every five biotech company start-ups will fail within the first five years without access to business assistance and other services generally available at bioscience incubator facilities. Improving on this failure rate by even twenty percent can have a dramatic impact on the local economy. Achieving improvements on this failure rate and helping the incubator become an economic engine for the region can be accomplished by building the incubator service element in a manner that will add real-value to emerging companies.

The composition and involvement of an incubator's advisory board is critical to providing true value-added services and resources. A successful advisory board will be comprised of business professionals with demonstrated biotech industry experience in the following disciplines.

- Legal/Intellectual Property
- Accounting
- Marketing/Public Relations
- Regulatory Affairs
- Venture Capital/Investment Banking
- Biotech Devices Technical Experts
- Biotech Drug Discovery & Development Experts
- Bioinformatics/Data Mining Experts
- Clinical Trials Experts
- Recruitment/Retention/Compensation
- Real Estate/Operations

This advisory board should be assembled with the same care it would take to assemble a Board of Directors. All board members are expected to be actively involved in the review of tenant applications; the selection of new tenants, and perhaps most importantly, the management oversight and continual review of tenants' progress and ability to meet business development milestones.

The incubator manager facilitates and documents the outcome of all advisory board meetings and monitors the status of any pending action items. Tenant

companies are required to report on company progress twice a year and can seek specific advice from advisory board members as needed. The advisory board should serve as a supplement or bridge for early-stage companies acting as interim senior management. The board should provide one-on-one business consulting, serve as a sounding board or provide preliminary validation for new product ideas or business approaches, assist in business plan development, provide recruiting assistance, and lastly provide regional, state, national, and international networking opportunities.

This sounds like a substantial undertaking, and it is! Advisory board participants must be committed to the mission and objectives laid out by incubator management. These positions are for a limited term of two years and are on a volunteer basis. The rewards for well-conceived and well-managed advisory boards and an effectively run incubator may be years away, but the economic development benefits can be substantial.

While a well-run incubator may prevent someone from spending their life savings chasing a bad business idea, it will also identify and nurture those entrepreneurs, who are seeking to move a good idea from the mind to the marketplace.

*Originally published in the Spring 2002 volume of the "BioFacilities Bulletin."
A journal of biotech news published by Scheer Partners Inc., Biotech Services Group.*