Creating Sustainable Corporate Startup Incubators: 4 Lessons From Canada's Federal Programs

The strong emphasis on bringing more incubators and business accelerators to life will only last if Canada's businesses are willing to learn from experiments in the public federal level.

Business accelerators and start up incubators have been a major funding initiative of the Canadian government through multiple recent administrations. On the private sector side, too, multiple entities and a number of corporations have also been undertaking their own incubators. However, for every major success there are even more stall outs, disappointments, and flops.

Within federal structures, such as the recently concluded Canadian Incubator and Accelerator Program (CAIP), a certain amount of this can be absorbed without unsettling the "parent company" in play. For individual corporations undertaking an incubator, steep losses are a dangerous risk. As a result, some of the biggest lessons from the $100 million CAD CAIP experience will be discussed.

Take the funding estimate and double it

The CAIP had a five-year plan and a $100 million budget. Yet by the time the program wrapped, the group had spent double what they expected.

Explanations for the overrun were pointed to a variety of causes, including an overconfidence that the original budget plans were on target. This is something that corporate incubators should keep in mind. While it may be easy to imagine that a private organization could be more capital efficient than a large government program, it is equally easy to imagine unexpected costs and overlooked financial needs as the incubator nurtures its member businesses.

If the idea of double the costs is frightening or completely unsustainable, one solution is to bring in additional funding partners. Research hubs, public/private alliances, grants and more can help add fiscal resiliency to the unpredictable, yet practically guaranteed, extra expenses of a corporate incubator.

Streamline reporting and data collection as much as possible

A major complaint within the CAIP experience – but one hardly unique to CAIP – was that the amount of reporting and data asks required to continue in the program were a burden to participants. In a few cases, participants noted that if they had properly understood the time, expense, and stress of the reporting burden, they would have looked elsewhere for funding and support.

This is a particular point of nuance for private corporate incubators. The space *is* competitive. Many federal program participants were working with multiple other incubators and accelerators. Those perceived as too controlling or too full of "micro management" were dropped or blamed for holding back the start up's success.

Of course, few corporations are comfortable with a complete blank check and totally hands off approach. Exchange of data and insights is a large part of what makes such programs successful and enjoyable for participants and sponsors alike. However, to capture the potential upside of the combination of startup agility and large firm resources, program managers will want to carefully consider which types of reporting (and when) offer the optimum amounts of insight exchange and reasonable capital oversight.

Find a balance in leaning on and leaning away from the incubator network

Within an incubator network, start-ups can feel like they have ready access to the advisors and resources they need to make amazing innovations a reality. So, they get cozy within that world. It can make success come faster and easier than it otherwise would… but critics note that it can also shield certain businesses from the real-world lessons they need to experience to survive once they "graduate" from the incubation program.

This is a delicate balance for corporate incubators. Often, in ways that temporary federal programs are shielded from experiencing, corporate reputations are on the line. A string of failures from a particular incubation system isn't a good look for the sponsoring firm. However, neither do firms want to be the perpetual sponsoring financier of firms unable to fully thrive in the open market.

In this case, firms will have to work out a balance based on the data being received from early buyers and the relationship with the start-ups themselves. Where can test adventures be sponsored that will illustrate the likely ongoing success/failure before graduation day? Which start-up will never make it outside of the program, and how can they be blended into peers or sunset gracefully? Having some plan in place before the incubator is underway will help manage these situations as they arrive.

Be mindful of community shifts

A final note for firms who are working on building (or continuing) their accelerators/incubators in a sustainable way is to be mindful of shifts in the community funding environment that will happen as a result of the existence of the incubator itself. In some cases, talent flocking to one incubator can reduce the robustness of the local start-up scene. In other cases, robust VC-sponsored incubators can distort funding and market realities, leading to overfunding for minimally viable concepts and losses for public and private incubators alike.

In this case, what firms will want to do is carefully evaluate the cultural goals of the program along with the economic plans. Many Canadian startups, for example, think of themselves as "global born" and aim for an international market almost to the exclusion of the domestic markets. This isn't in alignment with many localized economic development goals, where the end goal is a more robust and resilient regional innovation culture. As a result, in light of each lesson discussed here, before seriously committing funding, time, and resources to a corporate incubator or business accelerator program, firms will want to carefully consider their near-term and long-term goals to see if a sustainable path forward is possible.

Resources:

https://nrc.canada.ca/en/corporate/planning-reporting/evaluation-canada-accelerator-incubator-program-caip-0

https://albertainnovates.ca/wp-content/uploads/2021/03/AI-Incubator-and-Accelerator-FINAL-Report-01-05-19.pdf

https://munkschool.utoronto.ca/ipl/files/2018/08/Accelerating-Growth_-Canadian-Funding-Policy-for-Innovation-Intermediaries-AU2018.pdf

https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03045.html