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IN DEPTH: STARTUPS

Popular incubators help hatch fledgling firms

Kate Reynolds
Contributing Writer

In the race to get fledgling companies profitable and self-sufficient, incubators are becoming more popular as a strategy to boost startup successes.

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And everybody--from law firms and universities to cities and states--has an interest in staking startups to a turbo boost. Why? Sometimes for equity.

But incubators also benefit a community by fostering emerging technologies, increasing tax revenue and adding jobs. They also encourage bright minds to stay home.

Even in such a high-risk industry, incubators multiply at a ferocious rate. There are nearly 3,000 incubators worldwide with at least 750 in North America. More than half have opened since 1992. Not counting in-house spin-offs and university-incubated ventures, there are 38 stand-alone incubators in the combined Bay Area.

As the name suggests, incubator programs provide a controlled environment to fortify and nurture a company in its earliest and most vulnerable stage. The relationship usually continues for two or three years.

Even with the recent stock market slump, money isn't the issue; it's

marketplace savvy that's essential. Incubators provide more than office space. They supply a deep management expertise, supplemental management and usually an impressive Rolodex that can reduce time-to-market by stocking fledgling companies with an established network and technology resources that might not otherwise be available.

An incubated company also gains instant credibility when it seeks further funding--after all, the business plan has already been vetted and the senior management endorsed.

Typically, incubators offer more hand-holding than VCs because incubators become involved at an earlier stage. But the line between VCs and incubators has increasingly blurred.

"Incubators are entering a high growth period," said Jim Robbins, president of Business Cluster Development, based in Menlo Park. Robbins has 20 years experience in the business formation field and 11 incubators to his credit.

Mr. Robbins said incubators should evaluate prospective startups based on three characteristics.

- Look first at the personalities on the startup team. Are they energetic and confident?
- Then examine the technology itself. The team must have something new and compelling to demonstrate, even if it's only in beta.
- Last, incubators should consider the business model of the startup. Not the business plan necessarily--that may need work--but the model itself.

"Competition is fierce, and without all three elements in place, it's time to look further," Mr. Robbins said.

Tyler Orion, executive director of Pacific Incubation Network, agrees. PIN, based in San Jose, is a nonprofit organization devoted to helping communities develop incubators.

"There is a rich base of talent in the Silicon Valley, but at the point of launch, a startup needs strength and a great basket of resources," said Ms. Orion. "Incubators put resources on the table that quicken the time to market. Incubated companies won't necessarily make fewer mistakes, but they will recover more quickly."

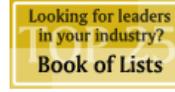
The International Business Incubator, a nonprofit organization located in San Jose and sponsored by a collaboration of business, government and academic organizations, is a home for international businesses expanding to the United States for the first time. Rick Ellinger, a consultant to IBI, says Silicon Valley is more "astute" about what ventures deserve backing.

"Some companies think they will get financial backing no matter what, but those startups miss the importance of customer value and solid returns," said Mr. Ellinger. "That's why they come here: to earn the cachet of the Silicon Valley, but also to learn the balance necessary to succeed. Success must come before the IPO and keep growing from there. For a sustainable growing business, continued value is essential."

Atomic Tangerine in Menlo Park--itself a spin-off from Stanford Research Institute--is an Internet e-business consulting firm. Its mission is to apply venture capital and strategic consulting to innovative technology with the purpose of incubating category killers. On May 9, Atomic Tangerine announced the launch of its first spin-off, SecurityPortal, an online security resource and service provider.

"Our goal is to spin off three to five businesses each year," said Kathleen Archaibeau, director of corporate communications at Atomic Tangerine. "But before we even think of helping a startup, they must have an excellent business model designed to deliver a real product or service with a quantifiable benefit or value. We marry a brilliant concept with the marketing experience that, together, catapults a company into the limelight."

Ms. Reynolds is a Palo Alto-based freelance writer. Contact her at kate@waldenpond.com.



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