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ROUND TABLE

The future of incubation

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Abstract Incubators play an instrumental role in nurturing startups and creating a vibrant ecosystem. But as the ecosystem evolves, incubators also need to reinvent themselves to stay relevant. Against a burgeoning startup ecosystem in India, this roundtable deliberates on the future of incubation. The experts discuss what services incubators should offer, how they should measure their impact and how they can become financially sustainable.

Academic perspective

Introduction

Incubators are organisations that support the establishment and growth of startups by providing them with tangible and intangible resources (Hausberg & Korreck, 2020). Incubators are an integral part of startup ecosystems around the world and have been accepted as an important and effective intermediary that promote and nurture new ventures (Bruneel, Ratinho, Clarysse, & Groen, 2012; Tsai, Hsieh, Fang, & Lin, 2009). They act as an interface between the broader business ecosystem and startups, providing an array of support and services such as technology, capital and know-how (Grimaldi & Grandi, 2005) that help ventures overcome their liabilities of newness and achieve growth. Thus, incubators contribute to business growth, and consequently, to regional development and economic growth (Tsai et al., 2009).

There is a great deal of heterogeneity among incubators (Barbero, Casillas, Wright, & Garcia, 2014; Bergek & Norrman, 2008; Grimaldi & Grandi, 2005). Incubators can be classified into three broad types depending on their strategic objective and the bouquet of services they offer to startups (Pauwels, Clarysse, Wright, & Van Hove, 2016). First are business innovation centers, whose objective is to promote regional economic development. They are open to startups from all sectors, provide generic business support services, and aim to support a large number of startups from a region (Barbero et al., 2014). A second type is university incubators that are focused on commercialising technology and innovation developed in their laboratories. They focus on supporting a small number of technology startups that originate from their labs to commercialise the scientific and technological knowledge from the universities (Pauwels et al., 2016). A third type of incubator are private incubators that might be either independently operated or under the

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umbrella of a corporation. They seek to identify high-growth ventures and support them with capital, know-how and networks (Grimaldi & Grandi, 2005). Depending on the incubator type and the nature of the ventures they support, incubators differ in terms of their selection criteria, the bouquet of services they offer, and the ecosystem connections they provide to the ventures (Bergek & Norrman, 2008). However, all of them offer some combination of the following services – access to physical resources, business support services, access to capital, process support and networking services (Pauwels et al., 2016).

Regardless of how incubators were originally conceived to operate, they all have an imperative to adapt to the changes in the ecosystem in order to stay relevant (Bruneel et al., 2012; Grimaldi & Grandi, 2005; Pauwels et al., 2016; Robinson, 2010). Early on, incubation models focused largely on providing real estate and other infrastructure in exchange for a small rental fee (Pauwels et al., 2016). In the nineties and at the turn of the century, incubation models focused on providing a broader range of intangible resources and entrepreneurial finance either for a fee or in exchange for equity. More recently, the emerging model is focused on injecting highly specialised expertise in a compressed timeframe to catalyse the growth of the venture, in exchange for equity. These are also called 'Accelerators' (Pauwels et al., 2016; Woolley & MacGregor, 2022). In sum, the evolving ecosystem challenges incubators to continuously evaluate their value proposition and change their offerings. This challenge is manifold when the ecosystem is changing rapidly, as is the case in India.

The Indian startup ecosystem has witnessed a meteoric rise over the past decade. Today, there are almost 120,000 registered startups in the country (Invest India, 2023). This number is expected to double in the next few years. In tandem, we have seen the emergence of more than 950 incubators across the country to support this rapid rise in startups. More than 40 percent of these incubators were founded after 2016 (YNOS, 2023), following the launch of 'Startup India', an initiative by the Government of India to support startups. Going by global benchmarks, the growth of incubators is also expected to continue in the coming years. For example, the number of business incubators seen in China or the US was more than 11,800 (China Banking News, 2019) and 2,300, respectively (Tracxn, 2022).

Apart from the sheer numbers, there is also a qualitative change unfolding in the ecosystem. First, knowledge about venture building is more widespread, and even first-time entrepreneurs are more aware than they used to be, say a decade ago. Second, resources are available to any entrepreneur with a great idea and the drive to execute. There is a surge in the number of investors (individual as well as institutional) who are willing to invest in ventures. In other words, venture creation has been democratised and plentiful resources are chasing good ventures. Third, startups have gained legitimacy. The Government has recognised startups as an important constituent of the economy and formulated policies targeted to nurture them. There is also extensive coverage of startups and their founders in the business press and social media, raising their general awareness and acceptability in society. All these changes indicate a rapidly maturing startup ecosystem in the country.

Given the changes unfolding in the ecosystem, it is important for incubators to reflect on their journey thus far and deliberate on the future of incubation since the raison d'etre for incubators is no longer the same as what it was a decade ago. This Round Table discussion stimulates that conversation. Specifically, the discussion is focused on the following aspects: (1) support provided to startups by incubators; (2) assessing the performance of incubators; and (3) financial sustainability of incubators.

Support provided to startups by incubators

In recent years, information about startup formation has been widely available, thanks to various policy initiatives and dissemination being done by the government as well as the private sector. Generative AI tools such as ChatGPT, have become do-it-yourself toolkits and have expanded the repertoire of resources available for startups. Mentoring and entrepreneur networks have considerably expanded, which has increased the options for startup founders to access knowledge and expertise. In sum, the range of resources that startup founders have access to outside of the incubation system has substantially improved. Increasingly, it has also been felt that the support requirement for startups varies across sectors, and therefore focus and specialisation of incubators would help increase the effectiveness of incubation support. Against this backdrop, we ask – What types of support do incubators provide and does it meet the emerging needs of the startups? How can incubators continue to create value for startups?

Assessing the performance of incubators

The incubators cater to the needs of startups in their formative period. While there are about 12,000 startups incubated in 918 different incubators in India, more than 600 incubators have less than 10 startups under incubation (YNOS Incubators, 2023). Policymakers might be interested in incubation capacity (number of incubators and the number of startups supported in these incubators) in the short term, but in the long term, the focus will shift to whether the incubators are creating demonstrable value for entrepreneurs and ventures. Over time, there will also be competition among incubators to attract the best ventures and what will set an incubator apart is its track record. Therefore, incubators need to think about how they measure their performance over time. In this context, we ask – How should incubators assess their performance? Should it be based on the success of the startups they incubate? What would be an appropriate success measure in such a case?

Financial sustainability of incubators

As the incubator capacity in the ecosystem increases, government grants to incubators are likely to dry up. There will be increasing pressure on incubators to perform well and 'earn their existence'. There are many operating models that incubators could adopt in their pursuit of financial sustainability. They may choose to charge a fee for their services, raise money from other sources (e.g., CSR funds), or

take an equity position in the startups they incubate. Each model has its pros and cons. We explore this aspect by asking — How should incubators approach the financial sustainability of operations? What are the pros and cons of the different models?

The future of incubation: Panel discussion[1]

Panellists

Anand Sri Ganesh, Chief Executive Officer, NSRCEL, IIM Bangalore

Ganapathy Venugopal, Co-Founder & CEO, Axilor Ventures

Sridhar Ramanathan, Senior Vice President, IKP Knowledge Park, and CEO, IKP EDEN

Moderators

Professor Srivardhini K. Jha, IIM Bangalore

Professor Thillai Rajan A., IIT Madras

About the panellists

Anand Sri Ganesh is the CEO of NSRCEL at IIM Bangalore. He has over 25 years of experience in business leadership roles in technology and consumer industries with Pepsico, HP, Manthan, and BRIDGEi2i. He is a graduate of IIT Madras with a Postgraduate Degree in Management from IIM Ahmedabad.

Ganapathy Venugopal (VG) is the Co-Founder & CEO of Axilor Ventures. He spent 15 years in leadership roles helping large corporates manage and mitigate risk. Prior to co-founding Axilor Ventures, he was the Head of Strategy & Planning at Infosys. At Axilor, he helps founders build successful businesses. VG serves on the boards of several companies and advisory bodies. He is an active writer on issues relating to startups. VG holds a Bachelor's Degree in engineering and a Postgraduate Degree in Management from IIM Lucknow.

Sridhar Ramanathan is currently the Senior Vice President of IKP Knowledge Park and the CEO of IKP EDEN. He has served in leadership roles across startup organisations including Jana Care, Niramai Health Analytix, and HealthCubed where he managed product development and regulatory strategies. He managed the transition of the technology and team of ReaMetrix into Beckman Coulter Life Sciences. Sridhar holds a Ph.D. in Analytical Chemistry from the University of Kentucky, Lexington, USA, and a Bachelor's Degree in Instrumentation Engineering from the Birla Institute of Technology and Science, Pilani, India.

[1] The panel discussion was part of the Masterclass on The Future of Incubation, SummitUp 2023, the flagship entrepreneurship conference hosted by the N S Raghavan Centre for Entrepreneurial Learning (NSRCEL) at IIM Bangalore, on 5th and 6th May 2023. This part of the article consists of edited excerpts of the presentations made at the panel discussion. The views expressed by the panellists are personal and not necessarily the views of their organisations. The discussion took place in an academic context with the audience largely being management students, faculty, and working professionals from the industry.

Support provided to startups by incubator

Srivardhini Jha

Q: What types of support do incubators provide and does it meet the emerging needs of the startups? How can incubators continue to create value for startups?

Anand Sri Ganesh

One of the principal roles of an incubator is to create an environment with a bundle of capabilities, which would help the startups build specific competencies or provide access to resources that they might otherwise lack. In doing so, the incubators try to reduce the mortality of startups and increase the probability of their survival. Second, knowing that the entrepreneurial journey is sinusoidal and unpredictable, the founding team needs to develop strong learnability skills to be able to respond to changing market and organisational dynamics. The ability of the founding team to navigate the different stages of their startup lifecycle through their learning capabilities, and the ability to translate that to their organisation's capabilities is critical. If the incubator provides the environment, capability, infrastructure, and facilities to accelerate that learning, there is a chance that it will drive a more resilient scalable venture. The primary role of the incubator is to unpack the unknowns in the minds of the founding team (see Figure 1). The support expected from the incubator by the startup founders, what I call 'asks', can be broadly classified into two: First could be classified as areas where the founding team or the entrepreneur have experience, either intrinsically or intuitively. For instance — a deep tech venture, would need access to large computing capability. In today's context, this would be a fairly straightforward ask from an incubator. The second would be supported in areas that are unknown to founders. For example, a deep tech founder would need to confront various issues where he or she does not have any experience whatsoever. Examples include the kind of go-to-market models, understanding the nature of the technology and innovation adoption, co-selling opportunities with partners in platforms and so on. It is in supporting the asks in the second category that incubators, given their experience and access to resources, can play an important role.

For instance, a business incubator like NSRCEL may not be able to claim strong expertise in deep tech. However, if that expertise is critical to the startup, the onus is on the incubator to bring in partners who can enable that capability. And

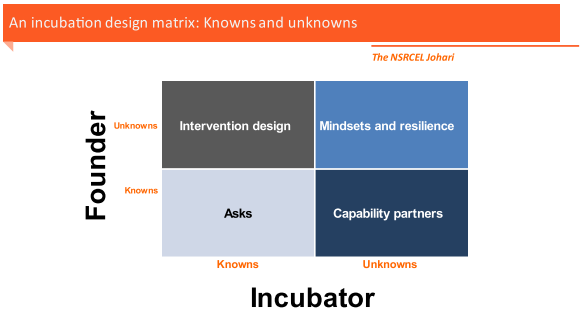

Figure 1 An incubation design matrix

then there are many unknowns for both the parties, such as economy, geopolitics, policy, competition, markets and so on, which have to be dealt with as the situation unfolds. The way the incubator enables mindsets and resilience is fundamental to reducing mortality and accelerating learning journeys. This requires multiple capabilities and multiple kinds of incubation partnerships to come together on various fronts: deep technology, corporate networks, business models, contextual or conceptual mentorship, and funding networks. Each in isolation is insufficient, and when they come together it is very powerful. This also means that we, as incubators, need to find ways to build that network.

However, what the founder would attach importance to is the lifecycle stage of their startup and the enabling factors needed in that stage. It is important to understand that these enabling factors are not linear. It would be oversimplifying to say 'I will do opportunity identification, and I will do product-market fit, then I will do minimum viable product (MVP) and then I will scale up'. The journey of a startup does not necessarily go in such a linear progression! There would be lots of experimentation, reiteration and pivoting. If the MVP is not good enough, then one has to back to opportunity identification. If the early customer traction is not as per expectation, then one has to go back to redefining the product or the market. These journeys, in my mind, are asynchronous. A startup founder would like to call upon resources depending on their need at different stages. Can the incubator or partner provide such capabilities on demand? Can the incubator continue to support the startup across different stages of its lifecycle, and be able to meet its requirements? If the startup has to back to ground zero after several months, would the incubator continue to enable it? Or would the support end along with the cohort? This is a very different way of thinking about incubation from the perspective of the founder. I believe incubators need to create large digital platforms or networks of networks where founders can come in through their journeys and find there is capability that can be extracted on demand and there are capabilities and opportunities that can be delivered at the right point on the journey. There is an opportunity to reimagine the way incubators operate.

Ganapathy Venugopal

Unlike five to seven years ago, when entrepreneurship in India was just taking off, today things have accelerated quite a bit, thanks to COVID. First, the kind of founders coming into the ecosystem is very diverse: they have worked in startups or large enterprises, sold large deals; and built enterprises and great products. Second, in terms of access to funds, they have improved significantly. The number of people available in the ecosystem to do angel funding now has grown manifold. So has been the case with seed funds. In 2022, for example, more than 300 new funds got a license from SEBI for making VC investments. When I started Axilor in 2014, the number of seed funds was very few and the seed funding or angel ecosystem was not quite deep. Founders today are more knowledgeable, have larger networks, and have a lot more clarity on what kind of venture they want to build.

When interacting with such founders, and assuming that founders are the primary customers for an incubator, there are questions for which we need strong answers: for instance, what are the one or two things that the incubator can offer, that the founders will find very difficult to get elsewhere? When we started out in 2014 there were not many incubators. However, incubators today have really scaled, and have engagement models that founders love. Many incubators have become so large that they have become institutions in themselves. For example, the IIT Madras Incubation Cell and the adjoining Research Park have been able to create a world-class academia-industry ecosystem. The reason that the IIT Madras incubation ecosystem is attracting a large number of founders is because they have scaled in numbers and the ventures are doing well. We go back to the question — What is it that the incubator can offer, that nobody else can offer? Every single startup that goes to an incubator should be able to benefit something from the intellectual capability that the institution has. Let us take, for instance, two of the leading incubators in life sciences — CCAMP and IKP. They have infrastructure that is very difficult for any biotech founder to find elsewhere. The specific answers could be different, but the incubators need to have a very strong answer for what are the one or two things that the incubator is better at than anybody else, which is very important for a founder.

It would also be a good idea to reframe the question. Instead of 'What should the incubators do?' it should be 'Why should a founder go to an incubator?' There are different ways to answer this question. For instance: Most of the startup activity is concentrated in a few cities, and even within those two cities account for about 80 percent of the startup activity. For founders who are from remote locations and not exposed to the startup environment, the incubator can be the bridge that will offer that exposure. Seen from this perspective, the incubators should leverage their following strengths: having a large institution as a host gives access to the intellectual capabilities of the faculty members and researchers; the host institution has some specialised infrastructure such as laboratory equipment that is very difficult to find elsewhere; or the institution has partnerships with some corporates which are very valuable. This could be leveraged to attract founders who are looking for such capabilities and resources, which they will find difficult to get elsewhere. But whichever way we look at it, it is very important to have very definitive answers to the question: 'Why should a founder go to an incubator?'

Sridhar Ramanathan

IKP Knowledge Park has made a significant impact in terms of incubation, and I would like to explore the question of our own thought process as to what our journey is. People like me who have been part of the journey at IKP, are asking the question — what next? We started off with infrastructure, just like CCAMP, with state-of-the-art infrastructure for biotech. There is also the Bangalore Bioinnovation Centre (BBC) with excellent infrastructure. As a part of my own induction into the incubation space, I visited them to see what they do. When we started with our life science company, in 2006 or so, we managed all our infrastructure ourselves.

So, we created significant infrastructure capacity that also included instrumentation. However, we have now come to realise that creating instrumentation is not adequate since neither the incubator staff nor the startups have an awareness of how to use the facilities. We have therefore started providing services on instrumentation and equipment so that startups need not be handicapped by their inability to use the facilities but can directly get the answers they are seeking through our services.

We keep asking ourselves what is the value-add that we can actually provide. Can incubators use their enormous resources to look at neglected areas? At IKP we are doing something called One Health – we are taking a holistic view of health and bridging the gaps between human, animal and environmental health. One of the areas we are working on as a part of this theme is antimicrobial resistance (AMR). We are creating evidence labs. We have also launched One PRIZE, to catalyse disruptive innovations in the space.

We realise that we cannot provide all the infrastructure a venture needs because their requirements keep changing. Therefore, we have also been working on other areas that can help a company grow. In the life sciences sector, Regulatory Affairs is a very important component. So, we started to look at developing capabilities in managing the regulatory processes so that we could help our startups. For instance, when we did a seminar on regulation for medical devices, we found out that software as a medical device is a huge area of interest. There are a lot of companies focused in that area. Therefore, we decided to focus on that area too. Today, we are providing parenting support. We are also in the process of identifying digital tools that can help in managing the regulatory processes. We are constantly grappling with thoughts on what we should be doing to make our startups more efficient.

I also acknowledge the question that Ganapathy Venugopal has posed on why should a startup go to an incubator. It is very important for an incubator to have defined core competencies. If the incubators try to stretch themselves too much, their credibility drops. For example, at IKP we want to offer support in the area of quality and regulation for startups. Do we have that competency yet? No. But all startups invariably ask that question. So, we have taken baby steps, creating partnerships with regulatory agencies and also advisers who can take us forward in that area. Therefore, it is very important for an incubator to identify and focus on its areas of strength.

Anand Sri Ganesh

One concern is that, at this point, demand for incubation outstrips supply. There is a larger number of talented founders across the country looking for a competent, safe space to iterate and come up with meaningful business models. Incubators can provide founders with such an environment. However, because of supply constraints, not all founders are able to access high-quality incubators. For example, at NSRCEL we cannot exceed our current selection rate of five to seven percent because of capacity constraints.

The upside potential to creating economic or societal impact from incubators is so large that, in my mind, we should not be optimising, but maximising the number of incubators being created. Incubators need not be searching for a unique value proposition. Given the demand, it is even enough if the incubators provide some value to the founders in the search for a unique value proposition; we are creating a situation where many founders do not get incubation support.

Impact of generative AI on Incubation

Thillai Rajan

Q: How do you expect generative AI to impact incubation?

From an incubator perspective, what is the role of generative AI? Is it going to be helpful? In what way can it be made helpful for the sustenance and success of incubators? Some of the things that a founder was earlier seeking from an incubator is now easily accessible through ChatGPT or other such tools. How is that going to affect the operating model of the incubator?

Anand Sri Ganesh

One of the things we do a lot with some of our early stage, or idea stage incubation, is design thinking. The theory of design thinking could be learned through ChatGPT or any other generative AI. However, such Generative AI may fall short when it comes to actually meeting customers, doing focus group conversations, identifying the real pain point, mapping the initial customer profile, and estimating the total addressable market (TAM) and the total serviceable market.

We can encapsulate all the knowledge that exists in, for instance, in IKP, IIT Madras, T-hub and NSRCEL, and that knowledge in some form can be codified. And the consumption layer is something like a generative AI. There is an entrepreneur sitting somewhere in the country with an idea that he wants to validate, how does he validate the idea? One way to validate the idea is a framework called design thinking. The fundamentals of design thinking, the templates, and ways to approach it are available. It is a wonderful consumption layer, and it is in demand. Startup founders can use it anytime in their journey. I think it has a powerful role to play. Incubators can also use a consumption layer like a Generative AI to codify their knowledge and make it available for the benefit of startups.

Ganapathy Venugopal

If Generative AI can offer answers to the questions that founders would have otherwise depended on incubators, then it is a good thing. It is important for us to go back to the question 'What are the one or two things that an incubator needs to be good at from a founder's perspective that startups cannot get elsewhere?' Today it is Generative AI, three years ago it was just AI without the generative part, 10 years ago it would have been software as a service. But finally, it comes to the fundamental question, how will I stay relevant to my customer, viz., the startup founder?

Sridhar Ramanathan

If ChatGPT can do the job of an incubator, then it should — because then we would become irrelevant and would have to reinvent ourselves. If incubators become aware of what ChatGPT can and cannot do, then they can suggest that startup founders reach out to incubators for questions that ChatGPT does not have answers for. I think, like with any other new technology, incubators have to evolve with the arrival of Generative AI, and it needs to be figured out how Generative AI can be a friend and not a foe.

This discussion above brings out several interesting insights about how incubators can continue to add value and remain relevant. The key takeaways are:

- Be the best in class for a few things. It can be deep technical expertise, a sectoral focus, business model knowledge or some other. Identifying and developing this core capability is key to attracting high-quality founders to the incubator.
- It is also important to recognise that the environment is changing rapidly, and with that, the needs of the founders. Therefore, incubators must continuously reinvent themselves and find ways to leverage the changing conditions to their advantage.
- Finally, a web of partnerships will be key to providing a comprehensive support system for ventures.

Assessing the performance of incubator

Srivardhini Jha

Q: How should incubators assess their performance? Should it be based on the success of the startups they incubate? What would be an appropriate success measure in such a case?

Ganapathy Venugopal

We are all businesses that need to earn our right to continue to exist, which means we have to be very clear about how we measure success. It is important for incubators to have very objective, evidence-based measures for identifying the impact they have been able to create.

If, assuming, in the general ecosystem, the startup failure rate is about 90%, for a startup that is being supported by an incubator or accelerator, does the failure rate become, say, 45%? Then the incubator has been able to double the odds of success for a founder when the startup gets incubated. Less than 20% of the startups that are seed-funded move to Series A. And less than 5% of the startups actually get seed funded. Does this ratio improve as a result of incubation? It is such metrics that can help us to assess the performance of an incubator.

I don't think we should be defensive when it comes to the performance of incubators. If we have to be really honest about it, let us consider this for a moment: on average there are about 225 Series A that happen every year in India. The seed funding to Series A funding conversion is about 18 percent. So, for the 225 Series A that happens, there should be about 1200 seed funding rounds happening. The question to ask is how many of those 1200 seed-funded companies in a year are coming out of an incubator? In how many of those cases have the founders given a net promoter score (NPS) of 8 or above saying that the incubator has made a difference to the fund-raising journey? These are the only questions that matter. We also have a choice of answering this question in a devious way and coming out with all kinds of qualitative metrics. The choice is in front of us.

On the question of whether it is all number-driven, or whether fundraising is the only measure of success for incubators, my response is that we need to look at metrics that go beyond the financials. Financial metrics are, however, lag metrics. As somebody said, 'Life is not about who is right, it is about who is left!' So, when one is left behind the only thing that matters is numbers. A very good non-financial metric for all of us is to measure founder NPS. If they are happy and they are willing to give a testimonial that working with an incubator has made a difference in the journey, what else do we need?

Anand Sri Ganesh

One of the things that we are grappling with is — and it is a hypothesis — that if the founding team has what it takes, the probability of the venture making it is much higher. Which means can an incubator, disproportionately invest in developing the mindsets of the founders and equipping them with a set of capabilities? Can the incubator make the founding team more sophisticated, more rigorous, and more considered in their risk-taking ability, their ability to deal with ambiguity, and the ability to take big bets and see the big bets through – these being input metrics? These capabilities could then lead to an output which is the outcome metrics we are for looking such as revenues, employment creation, fundability, and so on.

The input metrics need to be identified, which are – Can the incubators create stronger founding team mindsets and through that, capabilities within the organisation? As a result of incubation, is the founder able to make confident decisions, such as opening a new office in a different city? Is the founder more assured when pitching to investors? Do the founders have the self-confidence in their IP and reach out to a large corporation for a co-selling opportunity? If these capabilities are stronger, maybe more sophisticated founder development metrics can be achieved which may result in the venture outcomes that we seek.

Sridhar Ramanathan

One of the challenges that incubators should try and handle is not to get caught up in metrics that solely focus on fundraising. Today, there are several startups that are associated with more than one incubator. When an incubated startup completes fundraising, it is usual that all the incubators claim credit for the successful fundraising. While one can sit and laugh about such market practices, it has become the need of the hour. Startup founders are compelled to do actions that keep them constantly in the limelight, such as issuing press releases at regular intervals.

Incubators should look at various dimensions of how they can help startups grow, even if it involves reaching out for collaboration with other incubators or components of the

ecosystem so that the probability of success of the venture can become better.

Metrics are very important. What is measured can be managed. The key takeaways emerging from this discussion are:

- Ventures often seek support from multiple incubators, accelerators and other entities. Therefore, their eventual success or failure is difficult to attribute to any one entity.
- Rather than focus exclusively on funds raised or other outcome metrics, which gives a partial view, incubators need to consider both input and outcome metrics.
- Financial metrics have universal appeal. However, qualitative metrics such as Net Promoter Score (NPS) are also very useful for incubators to assess if they are adding value.

Financial sustainability of incubator

Srivardhini Jha

Q: How should incubators approach the financial sustainability of their operations? What are the pros and cons of the different models?

Anand Sri Ganesh

I can tell you what the options are for creating a sustainable model. With reference to the equity model, there is at least anecdotal evidence of incubators that have taken an equity model and done very well. The IIT Madras Incubation Center is a good example of that model that has worked. There is at least anecdotal evidence that that model works in some pockets. There might be multiple sources to create a sustainable business model and there are multiple ways to do it. NSRCEL, for example, is a not-for-profit organisation and relies heavily on CSR, government grants, or philanthropy. However incubation and entrepreneurship, in general, are low priorities for CSR and philanthropy.

Then there are multiple other business models. The real estate model works, where startups have to pay for the workspace they get in an incubator. There are also models where startups are charged for incubation services. The model works in many contexts, and we have seen it, anecdotally. To quote the T-Hub example, they have a fantastic hybrid model. They help corporations set up corporate accelerators. The income generated from such activities is used to fund their non-profit activities that support classical entrepreneurship. This is a fascinating example of a hybrid model. They have real estate capability. They have a huge technical infrastructure capability that they have set up. They are working out a hybrid method of sustaining the business models. The truth, maybe, lies somewhere here.

Ganapathy Venugopal

On the question of equity models: If a startup founder is going to find the service that is being offered by an incubator to be adding value and difficult to find, then there would not be any reluctance to pay for the same. It does not really matter to the founder whether it is paying for services or whether it is giving equity, as long as the incubator is offering something of value and the founder believes there is value. The problem with the equity model, however, is that it is not going to solve the liquidity problem or meet the operating expenses of the incubator. Therefore, it is important to have a balance if the incubator is going to be compensated by the startup only by equity.

Sridhar Ramanathan

Most startups do not have much cash power during the seed and pre-seed phases. The startups in India therefore have not reached the stage where they have the capacity to pay for all the services that they get from an incubator. Somebody has to pay. So, it is friends and family, and one needs to have reasonably good friends and family to get that right! Otherwise, it is difficult. It is a challenge to navigate the initial phase, till the startup gets the Seed or Series A funding. At IKP, we have tried different business models in the technology sector. Not that any one model is successful, but we try to see how we can give the best combination to startups.

As the ecosystem matures, government grants for incubators will dry up. They will need to find other ways of sustaining their operations. The key takeaways from this discussion pasture are:

- Incubators generally work on two models: Getting equity in the startups or through the 'pay for use' model. Incubators need to experiment to find a business model that works best for them.
- With equity-based models, the challenge for incubators is to manage short-term liquidity. However, the 'pay for use' model would be difficult for startup founders because of their resource constraints.
- Hybrid models combining equity with service fees or philanthropy-based models may be most suitable.

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