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Incubate or Accelerate: Creating Jobs by Creating Businesses

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Never heard of an incubator, accelerator or entrepreneur center? You're not alone. They have popped up in towns small and large across the entire country. But you can easily miss them if you are not a budding entrepreneur or business owner.

They have a variety of objectives, but typically support entrepreneurs in their quest to build the next great company. Some of these entities are for-profit. Of those, some have well-aligned incentives with the success of the entrepreneurs they serve, while others are simply selling a support product or tool to that community. Other entities are not-for-profit, and typically have a primary goal of "doing good" by helping to create opportunities for individuals to make it on their own.

Not all young companies fit the mold that you see sensationalized in movies or other pop culture outlets. In fact, most of them are not these idealized stereotypes; they're just regular businesses started by normal people to do something that the market needs. They are not in a wildly unknown field, or creating a new market. This means that they have a wide variety of needs and as a result, need a wide variety of programs to support the various types of companies that are in their infancy.

The majority of young companies start a business with a reasonably well-understood business model. There are other businesses around (whether locally, regionally or nationally) that are substantially similar. These types of businesses include HVAC/plumbing/electrical companies, restaurants, retailers, medical/dental practices, traditional marketing companies, software development firms and a wide range of franchise businesses, just to name a few. Ultimately, they are not reinventing the wheel, but are drafting off of others that have gone before them and figured out how a particular business model works. They may have a minor tweak to the process or price, or deliver their product or service differently, or provide a higher level of customer service than is typical, but the core business model is known.

On the other hand, you have the more traditional idea of a startup. The term "startup" typically refers to new companies that are in a "new business model" category where the product or service is meeting a new need, or solving a problem in a substantially new way. The common element is that the underlying business model – knowing if you will have enough customers willing to pay for what you provide so you can make a reasonable profit – is not well understood.

In this situation, the business owner has to do everything that the owner of a more understood business model has to do in order to get started. But, prior to most of that, they also have to determine if they have a viable business model or not. If they do not, they need to adjust (also know as "pivoting") one or more components of their business model until they have converted their understanding from unknown to known. The additional work required to launch a business with an unknown business model requires more support. This expanded need is where programs such as incubators and accelerators can thrive.

Incubator and accelerator programs can guide the company founder through a process to validate their business model before investing significant time and capital in a business that's likely to fail. The process also serves as a test for someone that would like to start a business. The fantasy of starting your own business so that you can "call the shots" and set your own schedule are often replaced with harsh realities, leading some to reconsider their decision to start a business at all.

The term "accelerator" has come to represent a wide variety of programs that support "early stage" entrepreneurs. These programs focus on entrepreneurs that are just taking the first steps. In some cases, they have jumped in full-time, but many are doing it as a "side hustle" while holding down a day job. The goal of an accelerator program is to provide education and focus on breaking through the first significant milestone – initial validation of a business model. It should help the entrepreneur focus on the things that matter the most and not get distracted by things that are easy or that they are comfortable doing that may prevent the business from moving forward.

For more mature startups, accelerator programs focused on entrepreneurs that have gotten over the first (of several) key milestones are available. These companies are referred to as "early scaling." They likely have the basics of a business model proven, albeit with only modest hard proof. They need another layer of education and re-focusing on a new short list of the things that matter to scale the business. They may also need the support of specialized mentors and connectors who can make introductions to customers, channel partners and investors that could be instrumental in the future of the business.

Incubators are programs or facilities that are usually less programmatic and more facility-based. They provide infrastructure and support services while the entrepreneur is executing their business model. Entrepreneurs in incubators can be at virtually any stage of development, and the services are usually provided for a below-market fee.

When an entrepreneur starts a company, it could be for any number of reasons. But for a community, the reason to support entrepreneurs is clear: job creation.

All of these programs directly and indirectly support local job creation, most often in the form of small businesses. A key statistic that is hard to overlook is that young companies create nearly all net-new jobs.[1] To restate that from a different perspective, if we rely upon mature companies, there will be virtually no job growth, only jobs shifting between companies as some grow, some shrink or die and others introduce automation.

So, while it is important for communities to support mature companies in maintaining the base of jobs for their citizens, they must also embrace the creation and nurturing of young companies if they seek overall expansion of the jobs market over the long term.

At the end of the day, the whole startup ecosystem is designed to help entrepreneurs start something new... whatever it might be. And the most successful ecosystems have a variety of programs that allow the entrepreneur to be at any stage in their journey, at any level of experience, with a range of available resources. Ultimately, the ecosystem needs to be there when, where and how the entrepreneur needs support, because the long-term success of a growing economy is dependent on young companies to create jobs as America's newest small businesses.

ABOUT THE AUTHOR

TONY SCHY is a Vistage Chair and leads CEOs and senior business leaders in monthly confidential peer advisory board meetings to get unbiased input about the challenges they face and to maximize potential opportunities. He also provides private executive coaching tailored to meet individual needs. Prior to his current role, Tony was the Co-Founder and COO of SimCave, a digital gaming arena offering custom video game experiences in an immersive social setting. He is an active Angel Investor investing in both start-up companies and real estate. Tony graduated with a B.S. in Mechanical Engineering from the Rose-Hulman Institute of Technology and currently lives in Sellersburg, Indiana with his lovely wife and two wonderful kids.

ABOUT THE BOOK

This article first appeared in **CRA at 40: Views on the Present and Future of Community Reinvestment**, published by findCRA in November 2017. The book was created in celebration of the 40th anniversary of the Community Reinvestment Act. It tells the stories of community development, from the perspective of those working in our communities who bring their knowledge and passion to bear every day in confronting the most critical problems facing communities in need. The book is about real-world experiences told in plain language by those who live them to provide a lens for readers to see CRA at work, ideas for its future and most importantly, what it means in people's lives. To access the full text or order copies of the book, please visit www.findCRA.com/CRAat40.

[1] Jason Wiens and Chris Jackson, " The Importance of Young Firms for Economic Growth," Ewing Marion Kauffman Foundation, September 13, 2015, available at http://www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/the-importance-of-young-firms-for-economic-growth