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Incubator Options

VENTURE ACCELERATORS

Four years ago, Paul Graham, the co-founder of Viaweb, realized that the costs of starting an Internet company are negligible: High-speed Internet access and the right entrepreneur are about all you need. There were a lot of successful entrepreneurs eager to share their wisdom. And it was possible, Graham says, "to apply mass production techniques to the founding of a startup"—or at least to Web startups.

Such was the genesis of Y Combinator, a for-profit incubator in Mountain View, Calif., founded by Graham and three partners in 2005. The incubator—Graham prefers "venture accelerator"—enrolls about 10 Web startups into its three-month program, giving each $15,000 (those with multiple founders get a bit more) in exchange for a 6% equity stake. Entrepreneurs work at the Y Combinator offices and get weekly dinners with a startup expert and regular meetings with Graham and other founders, plus other consultations. In Week 10, each team pitches to investors.

Since Graham's brainstorm, venture accelerators have sprung up in cities such as Philadelphia, Phoenix, and Atlanta, all loosely based on Graham's model. But there also are significant differences among them. For example, TechStars, based in Boulder, Colo., and Boston, takes a more hands-on approach. Each company gets 5 to 10 mentors, and the focus is more on business model and strategy rather than technical development. That's also true of LaunchBox Digital in Reston, Va., which was started in June 2008. SproutBox, in Bloomington, Ind., accepts only one startup at a time.

For many entrepreneurs, the best part of being in such an environment is the opportunity to learn from like-minded company founders. That was certainly the case for Christi Scovel and Tina Cannon, who joined Austin's Capital Factory this summer. The pair want to start a Web site for pet owners and veterinarians. But neither Scovel, a former veterinary consultant, nor Cannon, a former business consultant, is particularly tech-savvy. So they were delighted when the founders of another Capital Factory startup offered to develop the infrastructure to schedule vet appointments online. The companies will share revenues brought in by that line of business. "You get to know the other companies really well, working so closely together," says Scovel. "They realized we needed help with something they could build easily." Scovel and Cannon launched the site, called PetMD, in September.

GETTING IN

Who should apply: Usually, venture accelerators are for Web and software startups, and teams need to include at least one technical expert. But Scovel and Cannon got in on the strength of their idea, their background, and the fact that their business wasn't too technically demanding. Graham is more interested in personal characteristics—determination, a penchant for going above and beyond, and technical savvy—than in a particular business idea. Typically, entrepreneurs have to fill out a brief online application, followed by an in-person interview.

Pros: You get access to about 20 experienced company founders, as well as free legal, accounting, and marketing advice. The constant contact among colleagues encourages a creative environment in which entrepreneurs can share ideas and give each other advice.

Cons: You'll give up some equity. Plus, three months or so simply may not be enough time for you to develop your product or fine-tune your business plan. And you might not appreciate having all those fellow entrepreneurs wandering into your workspace all the time.

SOCIAL VENTURE INCUBATORS

The roughly 40,000 entrepreneurs who run so-called double- or triple-bottom-line businesses (those that seek to create explicit social or environmental benefits, or both) encounter unique challenges, such as measuring progress toward ambitious social goals or setting up employee ownership plans early in a company's life.

Enter the social business incubator. One of the first, the Global Social Benefit Incubator, launched in 2003 out of Santa Clara University. It targets entrepreneurs based in developing countries who spend two weeks at the university, then continue to work with MBA students and mentors remotely.

The Business Accelerator for Sustainable Entrepreneurship (BASE), at the University of North Carolina at Chapel Hill's Kenan-Flagler Business School, is more representative. Launched in January, it serves 21 local triple- bottom-line startups. Entrepreneurs pay $600 for the one-year program. BASE doesn't provide office space, but companies get advice from a 13-person advisory board, as well as a network of lawyers, accountants, and other professionals. MBA students work as consultants. Regular lunches cover such subjects as marketing and locating financing for triple-bottom-line companies.

Through BASE, Tiffany Elder, owner of Legacy Green in Durham, N.C., was able to meet with representatives of Self-Help Credit Union, which serves low-income borrowers. Legacy Green will build housing to LEED standards, mostly in low-income areas. Now the credit union may finance some of Elder's development. "I doubt I would have been introduced to this resource if I weren't part of a triple-bottom-line incubator," Elder says.

The nonprofit New Jersey Meadowlands Business Accelerator in Lyndhurst, N.J., takes a different approach. Founded in October 2008, it has 31,000 square feet for green startups, with cubicle space going for as little as $250 a month. (Offices start at $275.) Startups can use laboratory and greenhouse resources at 14 other incubators and 8 universities.

Then there's Philadelphia-based GoodCompany Ventures, a nonprofit backed by Murex Investments, a social venture capital firm, and Resources for Human Development, a Philadelphia nonprofit. GoodCompany launched its first 10-week program this summer with 10 startups. It offers free office space and assigns each company interns from the University of Pennsylvania's Wharton School. GoodCompany doesn't take an equity stake, nor does it charge fees. On Thursdays experts speak on various topics; Fridays see the companies collaborating to apply the week's theme to their business. Then each startup makes a brief presentation on the topic. The goal: for each company to create a 15-slide presentation to use at a pitch session for investors.

GETTING IN

Who should apply: Entrepreneurs with double- or triple-bottom-line startups. Beyond that, requirements vary. BASE will consider entrepreneurs in business for up to two years and is looking for transformative business models that can serve as models for other sustainable businesses. But at GoodCompany, most of the startups are pre-revenue.

Pros: Advice is tailored to the unique needs of social entrepreneurs.

Cons: You might prefer to focus entirely on traditional business issues.

LONG-DISTANCE INCUBATION

Several programs operate either partly or entirely online. The San Francisco-based Founder Institute, launched in June 2009, serves about 20 entrepreneurs over four months. Participants receive access to mentors and potential investors. The curriculum features four-hour weekly classes on such topics as intellectual property and accounting, led by successful entrepreneurs. There are also twice-weekly meetings to work on assignments, such as deriving 10 company names by describing the qualities the name should convey.

San Francisco-based Astia, founded in 2001, runs six-day programs in San Francisco, London, and Bangalore. Founders then continue to work with a network of advisers online. All companies must have at least one woman with a "significant equity position" in a leadership role, says CEO Sharon Vosmek.

In both cases, entrepreneurs are spared having to camp out at the incubators' offices. The institute's program is available online, and entrepreneurs can participate full-time or as little as 10 hours a week. So it's possible to keep a day job, or, as BeeHive Media's Shander discovered, continue running an existing company. "Why should we expect people to drop everything they're doing and pursue an idea when it's not fully fleshed out?" asks Adeo Ressi, founder of the institute.

The institute takes 3.5% of each company in the form of warrants, which become part of a bonus pool that startups, mentors, and the incubator share. A portion of the mentors' share is determined by how well startups rate them.

GETTING IN

Who should apply: The institute wants only technology startups. The business idea isn't particularly important, but applicants have to take IQ and personality tests; they're also required to complete a series of steps Ressi says are critical for getting a company going, such as setting up a LinkedIn profile. Astia recruits high-growth companies with at least one woman in a senior management, and ownership, role.

Pros: You get access to experienced advisers and investors. And you can participate remotely or part-time.

Cons: You personally will give up some equity. Online participants won't get as much out of it as those on site.

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