Networked Incubators
Hothouses of the New Economy

by Morten T. Hansen, Henry W. Chesbrough, Nitin Nohria, and Donald N. Sull
Most business incubators provide office space, funding, and basic services. The better ones also offer an extensive network of powerful business connections, enabling fledgling start-ups to beat their competitors to market.

Business incubators are a booming industry. Dubbed “business accelerators,” “campuses,” “econets,” and “Internet keiretsus,” these organizations have become the hot new way to nurture and grow start-ups in the Internet economy. They offer fledgling companies a number of benefits—office space, funding, and basic services such as recruiting, accounting, and legal—usually in exchange for equity stakes. Among the more famous and prolific incubators are Hotbank, CMGi, Internet Capital Group, and Idealab!

But are incubators a fleeting phenomenon, born of an overexuberant stock market, or are they truly a valuable and enduring way of bringing start-ups to fruition? Although some people contend the latter, we have found that many incubators offer little more than a place to set up shop. Such organizations will hardly be able to deliver superior value to start-ups and investors; in fact, many of them are likely to fail, especially in a less-forgiving stock market where such incubators will find it harder to take their start-ups public. But based on our research, including in-depth analyses of leading-edge incubators and a telephone survey of 169 incubators (see the sidebar “Our Research”), we have identified one type of organization—we call it the networked incubator—that stands apart and is likely to be more successful than the others.
Networked Incubators: Hothouses of the New Economy

The distinguishing feature of a networked incubator is that it has mechanisms to foster partnerships among start-up teams and other successful Internet-oriented firms, thus facilitating the flow of knowledge and talent across companies and the forging of marketing and technology relationships between them. With the help of such an incubator, start-ups can network to obtain resources and partner with others quickly, allowing them to establish themselves in the marketplace ahead of competitors. It is often said that the new economy is a network economy; these incubators exploit networking by providing fledgling companies with preferential access to potential partners and advisers.

When properly designed, networked incubators combine the best of two worlds – the scale and scope of large, established corporations and the entrepreneurial spirit of small venture-capital firms – all while providing unique networking benefits. Because of this combination, we believe that networked incubators represent a fundamentally new organizational model that is especially well suited for creating value and wealth in the new economy.

Networked Incubators Defined

Only recently has the word “incubator” become synonymous with for-profit organizations that develop Internet-related ventures. Ever since pioneer Bill Gross founded the Los Angeles–based Idealab! in 1996, more than 350 for-profit incubators have set up shop worldwide. They vary in many ways, but the better ones typically share certain characteristics.

First, well-designed incubators maintain a spirit of entrepreneurship. To encourage that, they allow founding teams to retain significant ownership of their firms – usually 60% to 70%. In addition, they ensure that incubatees are free from the strategic, bureaucratic, and organizational impediments that often prevent established enterprises from pursuing risky opportunities.

Second, incubators offer preferred rates and terms from top-tier service providers, enabling member companies to enjoy certain economies of scale. Although the Internet (through such sites as Onvia.com) has made it easier for individual start-ups to procure their own services at competitive rates, entrepreneurial teams still face large opportunity costs in the form of hours spent finding, negotiating, and contracting for such services. Many start-up managers report spending upwards of half their time in the first six to nine months setting up the basic infrastructure to run their businesses. Incubators can cut down the time, cost, and hassles of getting up and running.

In addition to an entrepreneurial environment and economies of scale, we have identified a third important characteristic: preferential access to a network of companies. In fact, in our survey of nearly 170 incubators, an organized network was the differentiating factor. Although the vast majority of incubators offered the basic benefits of office space, coaching, funding, and common services, only one in four provided a significant level of organized networking. (See the exhibit "What Incubators Offer." For this type of organization, we use the term “networked incubator.”

Perhaps the best way to define a networked incubator is to describe one in action. Consider Hotbank, the Mountain View, California, incubator managed by Softbank Venture Capital (SBVC). On a typical day at Hotbank’s 30,000-square-foot facility, several executive teams are busy getting their start-ups off the ground. Each group consists of about five managers, all pursuing a big idea and developing a viable business plan for it. People from the different teams gather around an oval-shaped bar, talking and sipping virgin margaritas as they learn from one another. The eight SBVC partners also have offices in the building, enabling them to interact informally with the start-up teams.

SBVC leases the office space, funds the incubatees, and provides basic services: information technology systems, public relations, recruitment, legal counsel, insurance, employee benefits, and accounting. By pooling resource needs from the various start-ups, SBVC is able to obtain better deals from top-tier service providers. The incubatees are free to decline the services, but many find they can save a significant amount of time if they take advantage of them. SBVC also coaches the start-ups and provides them with access to the illustrious Softbank portfolio of companies, which includes Yahoo!, E*Trade, and Buy.com, among many others. In return for all these

Our Research

Although the business press has written much about Internet-related incubators, little is known about the shape of this nascent industry. To help fill the knowledge gap, we studied several leading incubators in depth and conducted a large-scale survey identifying more than 350 incubators worldwide that have been publicly announced in the last two years. To gain a representative sampling, we interviewed executives at 169 of these incubators over the telephone. The findings from the telephone survey are documented in the report “The State of the Incubator Marketspace,” available at www.hbsp.harvard.edu/hbr/incubator.

Morten T. Hansen, Henry W. Chesbrough, and Donald N. Sull are assistant professors at Harvard Business School in Boston. Nitin Nohria is the P. Chapman Professor of Business Administration at Harvard Business School.
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services, SBVC takes an equity stake in the ventures, usually ranging from 20% to 40%.

The first Hotbank incubatee was Model E, a start-up formed in September 1999 that offers build-to-order vehicles and a Web-based comprehensive service packet, including vehicle registration, finance, insurance, and delivery scheduling. George Kim, Model E founder and chief business development officer, says the bundle of benefits obtained from Softbank and its incubator enabled his company to accelerate its business development. For instance, within just four months, Model E attracted more than 50 highly qualified employees with the help of Hotbank’s recruitment services, which include the on-site expertise of Jana Rich of Korn/Ferry, a leading executive search firm. William Santana Li, a former Ford Motor Company executive and now president and CEO of Model E, says, “At my last start-up, top managers spent almost all of their time raising capital and messing around with back-office stuff like ‘Why doesn’t the fax machine work today?’ Here in the Hotbank incubator, we can focus entirely on the business issues at hand. I’ve made three years’ worth of decisions in three months.”

Through its relationship with Hotbank, Model E also received invaluable advice on its business plan. When the Model E executives were planning their launch strategy, for example, the Hotbank environment enabled them to quickly set up meetings with several Softbank venture capital partners, associates, entrepreneurs, and portfolio company executives. Traditional venture capital investors offer some of the same benefits, but Hotbank greatly facilitated the process. According to Kim, “Sitting in the same building as all the Softbank partners and employees made it easier for us to maintain a relationship with them. We had a lot of brief, informal discussions throughout the day and did not need to make appointments every time we had a question. The result for us has been faster and better decision making.”

The final and most important benefit was network access. Indeed, the real power of Hotbank resides in the network of Softbank family members. In the United States, that amounts to more than 150 Internet companies. When Model E assembled its advisory board and board of directors, for instance, Scott Russell, SBVC principal man-

WHAT INCUBATORS OFFER

The vast majority of business incubators offer office space, coaching, funding, and various basic services. Only 26%, however, provide organized networking that enables start-ups to obtain resources and partner with others quickly.
into. These differences aside, the one common ingredient that all networked incubators have is an extensive web of resources that can be leveraged.

**Networking at Work**

If networked incubators offer such compelling advantages, why are they emerging only now? The answer reflects a subtle aspect of the new economy: While there are tens of thousands of business plans and partnership proposals floating around, people have less time to consider and evaluate them all. A successful company like Yahoo! is inundated with business proposals from hopeful start-ups. When there is a wealth of opportunities, there is a poverty of access because so many entrepreneurs are chasing so few potential partners, all of whom are extremely busy. Networked incubators have sprung up now because of the critical need for access: the Internet economy is very much a network economy in which access and connections can help quickly launch businesses, increase the traffic at Web sites, and speed the diffusion of new technologies.

A networked incubator can provide tremendous value to a start-up team through connections that help forge crucial strategic partnerships, recruit highly talented people, and obtain important advice from outside experts. Consider three examples of start-ups that gained valuable networking benefits through networked incubators.

The first is Brainshark.com, a year-old company that got started in a Boston-based incubator called Reach Internet Incubator. A year ago, founders Joe Gustafson and Mark Yacovone faced the challenge of designing the architecture of Brainshark's Web platform for the company's business-to-business Web communications services. They wanted to move quickly to outsource the project, but first they desperately needed critical advice on the architecture of the platform. Fortunately, Reach Internet Incubator had an advisory board of external technology experts, one of whom was able to help them. Gustafson and Yacovone obtained the advice they needed without having to conduct a time-consuming search and without having to negotiate a contract up front. (Reach had already contracted with the expert to help the incubatees.)

Another example is CarOrder.com, an on-line auto seller that began in Trilogy Software's corporate incubator. (See the sidebar "The Value of Corporate Incubators") According to CarOrder.com founder Brian Stafford, the critical benefit that Trilogy provided was rapid access to world-class human capital. "Before joining Trilogy, I started two companies," Stafford says, "but lack of talented people starved them both." The situation was dramatically different with CarOrder.com, which was able to hire approximately two-thirds of its technical employees through Trilogy's on-campus recruiting process, widely acknowledged as one of the most effective systems for finding elite technical graduates. In addition, CarOrder.com made use of CollegeHire.com, a Trilogy portfolio company that provides a sophisticated on-line service to place high-tech college graduates.

E-Loan's worldwide expansion represents a third case for the value of networked incubators. When E-Loan...
executives wanted to launch international operations quickly, they relied on Softbank’s worldwide operations, which include incubators in Japan, France, the United Kingdom, Germany, Australia, and New Zealand. For example, E-Loan looked to @Viso, Softbank’s European incubator, to help it forge a marketing deal with Canal Plus, the leading pay television company in France.

These examples highlight two critical characteristics of networked incubators. First, networking is institutionalized, meaning that the incubator has mechanisms in place that foster networking. Reach Internet Incubator established an advisory board of external experts committed to helping incubatees. Softbank partnered with strong local companies in various countries, allowing the newly formed E-Loan operations to use those connections to forge marketing deals. The mechanisms existed before the incubatees actually needed them, allowing the start-ups to take advantage of them quickly.

Second, the networking leads to preferential access, not preferential treatment—a subtle but crucial distinction. Preferential access means being able to call a meeting and receive the full attention of busy people. By contrast, preferential treatment means being guaranteed results from the meeting, such as a partnership deal. While E-Loan executives in Europe got a chance to pitch a business proposal to Yahoo!’s site in the United Kingdom, they did not get special treatment: Yahoo! executives first turned down the proposal, forcing E-Loan to come back with a better deal. Creating preferential access does not mean forging subpar deals; rather, it allows marketplace efficiencies to dictate decisions.

By institutionalizing networking, an incubator achieves scalability of networking benefits. Networking no longer depends on the personal connections of a few people and can be scaled up to include many mechanisms and managers networking on behalf of numerous companies. This advantage is important when comparing networked incubators with venture capital firms. A huge influx of cash in VC funds—$48 billion in the United States in 1999 versus $7 billion in 1997, according to the National Venture Capital Association—has attracted thousands of business plans. This sheer volume of funds to be invested and plans to be evaluated has strained the capacity of even the best venture capitalists. The same constraints apply when these VCs attempt to make introductions that would help a start-up. Silicon Valley legend John Doerr of Kleiner Perkins Caufield & Byers may have the most valuable personal Rolodex in the world, but he still has only 24 hours in a day to use it. In contrast, the institutionalized mechanisms of a properly designed incubator transcend any individual’s capacity to network.

To summarize, networked incubators provide value through preferential network access while fostering entrepreneurial drive and offering economies of scale. Neither large established corporations nor venture capitalists consistently provide all three characteristics. (See the exhibit “The Advantages of Networked Incubators.”) The chief distinction between a networked incubator and an established company is the difference in entrepreneurial drive. The key differences between a networked incubator and a VC fund are the presence of an organized network and the bene-
THE ADVANTAGES OF NETWORKED INCUBATORS

Networked incubators combine the benefits of two diverse worlds—the scale and scope of large established corporations and the entrepreneurial drive of small venture-capitalist firms. To this mix, networked incubators add enhanced network access to key business partners, making such organizations especially effective for growing start-ups in the new economy.

<table>
<thead>
<tr>
<th>Scale and Scope</th>
<th>Established Companies</th>
<th>Venture Capitalists</th>
<th>Networked Incubators</th>
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<tr>
<td>• leveraging size and reach in order to lower costs by pooling resources and spreading them across units</td>
<td>High</td>
<td>Low VC-backed start-ups are left alone to obtain services and buy supplies.</td>
<td>Medium</td>
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<td>Entrepreneurial Drive</td>
<td>Low</td>
<td>High</td>
<td>High</td>
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<tr>
<td>• stimulating individuals to pursue risky and disruptive innovations</td>
<td>Red tape hinders new ventures; entrepreneurs are not rewarded.</td>
<td>Entrepreneurs are free to pursue ventures and own large equity stakes.</td>
<td>Entrepreneurs are free of red tape and own equity in ventures.</td>
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<tr>
<td>Network Access</td>
<td>Medium</td>
<td>Low A VC partner may have an excellent personal network, but it doesn’t go beyond the individual partner.</td>
<td>High Organized and active networking among portfolio companies and strategic partners.</td>
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<tr>
<td>• forging partnerships, obtaining advice, and recruiting people</td>
<td>Many established companies have some, but not extensive, contacts with Internet companies.</td>
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fights of scale. For these reasons, well-designed networked incubators are uniquely poised to nurture and grow fledgling Internet businesses.

Avoiding the Pitfalls

But networked incubators can easily follow the road to ruin: networking becomes a slogan rather than a reality; the incubator saps the entrepreneurial drive of start-up teams by taking too much equity and imposing stringent rules; efforts to create scale economies lead to mandatary and bureaucratic programs. Based on our research, we have identified a handful of organizational practices that will help executives avoid these pitfalls. The practices fall into two broad categories: portfolio strategy and network design.

Portfolio Strategy. A high-performing networked incubator creates a portfolio of companies and advisers that incubatees can leverage. Incubator executives can assemble participants by investing in portfolio firms and by enlisting a set of strategic partners.

When investing, networked incubators do so in related businesses, because the benefit from being linked together or from sharing resources is greatest when the portfolio companies are related to one another. In contrast, incubators that assemble a highly diversified portfolio of companies are likely to suffer from the same problems that traditional conglomerates do. The whole will not be greater than the sum of the parts.

The practices of CMGI, a networked incubator based in Andover, Massachusetts, highlight the benefits of investing in related businesses. With a strategy for exploiting synergy within and across its numerous businesses, CMGI has organized its portfolio of some 50 companies into five business segments: interactive marketing, portals, bandwidth/hosting, enabling technologies, and B2B verticals. Each segment affords rich opportunities for partnerships and connections between the component companies.

Consider the interactive-marketing segment, where the most prominent member is Engage, a major player in the on-line advertising market. It competes directly with companies like DoubleClick and 24/7 Media to help marketers identify, understand, and target their Web audiences. CMGI’s interactive-marketing segment also includes AdForce, the second-largest advertising-
management company in the world. AdForce offers a central server-based system that manages ads for Web publishers (the sellers of ad space) and advertisers and their agencies (the buyers). AdForce provides technical solutions for the on-line advertising campaigns that a company like Engage designs. They refer customers to each other, and innovations and growth at one company stimulate demand for services of the other. This synergy is but one of many; the CMGI interactive-marketing segment also contains a number of other companies, including AdSmart, AdTech, and Flycast.

But incubators that adopt too broad a definition of relatedness do so at their own peril. For example, defining the boundaries as broadly as “B2B” runs the risk of an unfocused strategy. Networked incubators must avoid the temptation to imagine synergies that are more fantasy than reality; otherwise, they could repeat the mistakes of airlines that viewed themselves as “hospitality” companies, mistakenly leading them to buy hotels and resorts.

While it takes time to build an investment portfolio of related businesses, executives at networked incubators can move quickly to enlist strategic partners, including experts who can provide advice and companies that can form marketing partnerships with incubatees. Consider the approach taken by Digital Media Campus (the Campus), a networked incubator based in Los Angeles that specializes in sports, music, and digital entertainment. When founder Leonard Armato started the Campus last year, he had no investment portfolio he could leverage. To fill this gap, he creatively entered into strategic partnerships with both individual experts and companies in his targeted industries. For example, he enlisted Quincy Jones, the renowned music producer, as an external adviser to meet regularly with incubatees. He also made arrangements with senior executives from companies such as CBS SportsLine, Broadband Sports, and Chiat/Day. The external advisers receive equity stakes in the Campus in return for the time they spend with the start-up teams, in addition to the stakes they hold as individual investors. The setup enables a new incubatee to obtain advice and forge partnerships quickly, because Armato has already created the initial connections.

It is important to note that the Campus has enlisted stars like International Creative Management (ICM) and Excite@Home in its portfolio of strategic partners and advisers. These companies are leaders in their markets. Having stars in a network portfolio is crucial because they can help generate buzz about a start-up and increase traffic to its Web site. By striking a partnership with Yahoo!, for example, a start-up can quickly become a major player in its field. Furthermore, a good network portfolio has multiple stars to prevent any bottlenecks in the system, because each incubatee will

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Questions Every Entrepreneur Should Ask

Networked incubators are not for everyone. For example, corporate managers who are used to receiving guaranteed business from other divisions within the same company may quickly become dissatisfied when they discover the free-market dynamics inside a networked incubator. And entrepreneurs who prefer doing everything themselves might easily become frustrated in an organization that expects networking. Furthermore, a start-up in a business that doesn’t favor speed of execution may have no need for a networked incubator. And neither might an entrepreneur who already has strong personal connections to the right industry players.

But if you are an entrepreneur whose start-up could thrive in a networked incubator, finding the right one might be the most important thing you do. The goal is to obtain sufficient benefits—particularly those obtained from networking—to justify relinquishing an equity stake that typically ranges from 25% to 50%. Looking at the track record and reputation of a prospective incubator and its execs will help you determine whether the organization is being managed by experienced pros. If it is, you should also ask several questions to gauge whether the incubator will provide the necessary networking advantages for your start-up:

1. Are the companies in the incubator’s portfolio related to one another either by industry or by technology, and is that focus consistent with yours?

2. How strong is the portfolio of companies, strategic partners, and external advisers? Specifically, does the incubator have any stars—a popular portal or a top-three company in a market—that could help your business?

3. How exactly do the companies network with one another? Does the incubator have organized mechanisms in place to facilitate cooperation, or does networking mainly depend on personal connections? What are concrete examples of how the incubator helped a start-up gain critical resources quickly?

4. What relationships exist with outside strategic partners, and how much access to them will you have? What are concrete examples of how member companies leveraged those relationships to gain competitive advantage?
obviously want to partner with a star. At Softbank, there are several stars, including Yahoo!, Buy.com, E*Trade, and TheStreet.com. The ideal portfolio contains heavily visited portals (for example, Yahoo! and Alta Vista), the top-three Internet players in relevant B2C or B2B segments (E*Trade and Buy.com), and key established companies in an industry (CBS SportsLine).

To create long-lasting networking benefits for new incubatees, networked incubators retain significant equity stakes in important portfolio companies and remain active in them by sitting on their boards or continuing as their advisers. In other words, they build to hold and not to liquidate their investments. This principle contrasts starkly with the traditional venture capitalist approach, in which a VC seeks to exit from a company soon after its IPO. After all, at that point the VC firm has added much of the value it hopes to add, so it wants to be free to identify and grow the next deal. Moreover, the structure of a VC fund frequently requires that a portion of the portfolio be liquidated and the proceeds distributed to the limited-partner investors. This can cause the VC firm to sever its equity ties with the most valuable portions of its portfolio. When that happens, the VC firm loses the ability to leverage its access to star companies for the benefit of the next round of start-ups.

In contrast, a networked incubator can add even more value after the IPO, both to the star companies in the portfolio and to the incubatees. For the star companies, the incubator serves as a filter, screening potential partnerships and selecting only those that offer genuine mutual benefit. By fostering connections and observing their results, the incubator learns much about the market, about each of the portfolio companies, and about the potential value of new incubatees. Start-ups, in turn, refresh and stimulate the portfolio: the prospect of striking deals with promising new businesses provides a continuing reason for the stars to remain actively engaged in the incubator.

**Network Design.** Assembling portfolio companies is just the beginning. The next step is to implement mechanisms that will institutionalize networking. The goal is to establish connections and relationships that are anchored more to the incubator than to particular individuals. There are various ways to do that:

- **Create formal links with external experts.** Campsix, an incubator based in San Francisco, has enlisted a range of outsiders to fill its advisory board, including marketing and technology experts like Harry Morris, AOL's chief Internet architect. Morris was attracted to Campsix by one of its founders, Dan Aronson, whom he worked with at AOL. In return for stock, Morris attends advisory board meetings where he assists the incubator with its strategy and helps individual companies with specific issues.

- **Bring outside experts on site.** The Digital Media Campus has contracted with companies like Loudcloud, an information technology service provider, to place their people in offices inside the incubator, so that incubatees have quick and easy access to technology experts.

- **Schedule occasional— but regular—meetings.** A senior partner of Hotbank meets every month with Tim Koogle, CEO of Yahoo!, to discuss potential deals between Hotbank incubatees and Yahoo!. Softbank and Hotbank also host annual conferences for the CEOs of all 150 companies in the Softbank portfolio.

- **Establish processes for exchanging information and know-how across companies.** One way is to have executives from the portfolio companies sit on one another's boards, as David Riker, the founder of Softbank-backed eCoverage does for Model E. Another method uses information-technology systems, such as the database that Fusion Ventures in North Carolina created specifically for its incubatees so that they can share leads on business development and funding.

- **Implement economic incentives.** At ideaEdge Ventures in San Diego, every member holds a financial stake in a portfolio of the incubatees. Employees thus have an incentive to network for the best interests of the overall incubator as well as for their individual companies.

- **Hire specialized deal brokers.** The most compelling example is the role of the nettatsu development officer (NDO) at Hotbank. Each general partner in Hotbank is assigned an NDO—a person whose full-time job is to network on behalf of the incubator companies that the partner oversees. The NDO finds mutually beneficial partnerships between incubatees and portfolio companies. The NDO also coaches the start-ups, providing insights into the needs of the star companies and advice on how best to present opportunities to them. While this places the onus on incubatees, it greatly increases the chances that a start-up will meet with a star and that the result will be a mutually attractive deal.

On the other hand, too much networking can quickly derail an incubator. One warning sign is portfolio companies networking not because it makes sense but because they feel they must. The result is that the networked incubator starts to resemble the old keiretsus of Japan, which failed because they lacked focus, forced members to make subpar deals, and discouraged partnering with outsiders.

The trick, then, is to prevent counterproductive networking. That's obviously easier said than done, but several mechanisms will help. The most important is to insist that participation in common services, pooled purchasing, networking activities, and other programs is voluntary: every company should be free to decide if it wants to participate. At Divine InterVentures, each company can pursue any outside options it chooses for services like public relations. Maintaining a system of...
A History of Organizational Models

Different eras have witnessed new types of institutions that have generated economic wealth and value. Networked incubators are the latest such organizational model.

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<th>First Achieved Prominence</th>
<th>Mass Production</th>
<th>Multidivisional Companies</th>
<th>Conglomerate Companies</th>
<th>Leveraged Buyouts</th>
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<td>Henry Ford at Ford Motor Company</td>
<td>Alfred Sloan at General Motors</td>
<td>Harold Geneen at ITT</td>
<td>Henry Kravis at KKR</td>
<td>John Doerr at Kleiner Perkins Caufield &amp; Byers</td>
<td>Masayoshi Son at Softbank</td>
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<td>Scale</td>
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voluntary participation eliminates the threat that mandatory programs and reporting pose to the entrepreneurial spirit.

Another effective mechanism is for the incubator to refrain from taking majority equity stakes in incubatees and portfolio companies. Significant but minority equity stakes will ensure that the incubator and the associated investors have influence— but not authority— over companies.

For brokers at an incubator, a self-correcting mechanism helps ensure efficiency. Brokers who waste people’s time pitching unsatisfactory proposals will eventually find their phone calls being ignored. According to Hotbank NDO Ellen Levy, “I want to be the one... who gets high-priority attention from corporate business development officers. In order to do that, I feel that I need to get a 75% ‘hit rate’ of start-up companies that would be of legitimate interest to those business development officers.”

A New Era

Every era in the history of business has witnessed the emergence of new organizational models that have powered the creation of value and wealth. Examples include the mass-production system pioneered by Henry Ford, the multidivisional organization developed by Alfred Sloan, the conglomerates most closely identified with Harold Geneen at ITT, the leveraged-buyout (LBO) model in the 1980s, and the venture capitalists of the 1990s. (See the exhibit “A History of Organizational Models.”) Each model was well suited for the period in which it emerged, and some models, like the multidivisional company structure, have remained effective for decades. Today, we are witnessing the rapid growth of another organizational model: the networked incubator.

The promise of networked incubators lies in their potential to surpass existing organizational structures in creating and growing new businesses. They combine the benefits of large corporations with those of VC-backed start-ups, and they enhance access to key partners. Networked incubators are designed to launch a greater number of ventures more quickly than an established company can, and their ability to connect those start-ups surpasses that of an independent VC.

But whether today’s leading networked incubators such as CMGI and Softbank’s Hotbank will reach their full potential remains to be seen. Furthermore, although we contend that networked incubators have advantages over other organizational structures, we don’t believe they are superior for all kinds of business activities, such as running large global manufacturing operations.

Nevertheless, we believe that organizational models that exploit entrepreneurial drive and network access while preserving the benefits of scale and scope will be the most potent models for long-term success in the new economy. Networked incubators are one such emerging form, and others are likely to follow. Obviously, because the phenomenon is so new, uncertainty exists about the future success of networked incubators. What is undeniable, though, is the compelling economic logic of such organizations.

1. This segment draws on a Goldman Sachs Global Equity Research report on CMGI, by Vik Mehta, Michael Parekh, and Jason Jones (March 24, 2000).

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