

# Developing Business Incubators for Agriculture

A report to the Scottish Land Commission

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# 1 Executive Summary

The backdrop to this report is the ‘distressing shortage of new farmers’ identified by the European Commission and the recognised barriers to entry stifling the efforts of new entrants into farming [R13, R21]. The Scottish Land Commission (SLC) and others have developed thoughts on policies that may address these two issues and deliver more new entrants into farming whilst improving their prospects of building viable and growing farm businesses.

One area of policy being considered by SLC is business incubation. Business incubation is an established phenomenon in the wider business world and prevalent in the UK in domains such as life sciences, software, food production and social enterprise. In the US and France, farm incubation has emerged as a notable addition to the scope of business incubation and it is observations of activity there that has driven interest in its potential in Scotland.

However, business incubation covers a wide range of activities, and farming in the US and France provide very different contexts than would be the case in Scotland. Whilst there are lessons to be learned from the US and France, policy and implementation in Scotland should be defined by its very different needs.

This Report starts that process. Part 1 of the Report looks in some detail at business incubation generally to identify good practice and the business models that sustain it. Part 2 offers opinion on what business incubation may look like in farming in Scotland.

Critically, the Report does not present business incubation in farming as a way to resolve the systemic issues facing new entrants into the industry. Solutions for those will come from elsewhere and would be a paradigm shift that may change the whole context for business incubation in farming. Instead, the Report considers business incubation in farming as a tool that may deliver value now in spite of those systemic challenges by increasing the number of new farm businesses and improving their prospects.

The Report presents a model for business incubation in farming that has the potential to deliver an increase in the number of new entrants into farming and an improvement in the viability of early stage farm businesses formed as a result. Further, there appears to be scope to build programmes of farm business incubation that leverage existing resources and services in the public and third sectors, and to draw in participation from the private sector, in ways that would underpin a genuinely lean business model.

Business incubation is a compelling tool to drive business creation and growth in the wider economy with a track record of success in several domains. In farming in Scotland, it appears to offer real potential.

## 2 About the Author

Grant Wheeler is a well-recognised expert on business incubation, acceleration and company building in Scotland and UK-wide. A key USP is his first-hand experience building and managing successful business incubators. His work in this area at the University of Edinburgh was extensive, covering incubation policy and ecosystem integration through to design and implementation. During his tenure with the University, Grant led the emergence of one of the largest incubation services in the UK with a multidisciplinary offering, multiple sites and a range of incubatees from throughout the Scottish higher education ecosystem and beyond.

Grant's track-record of excellent performance in incubation is built on an experienced knowledge of what delivers success, which in turn is built on wide knowledge of incubation policy internationally, deep insight into the Scottish and UK policy context for incubation and an innovative approach working with some of the best practitioners in the field. These qualities have allowed Grant to drive incubation policy, design and implementation in domains as diverse as microelectronics, social enterprise, digital, biotechnology and the arts.

Incubating new entrants into farming would present many new challenges but the core principles of a successful incubation strategy are largely the same, regardless of domain. It is often tempting to focus on domain-specific features of incubation such as facilities, when designing a strategy. However, it is those core principles that underpin success.

As such, Grant's approach to developing farm business incubation in Scotland is to first address the issue as a business incubation challenge, with a view to designing a solution around the core principles of a successful incubation strategy and then using innovative approaches to build on the domain-specific features critical to the development of farming entrepreneurs and their businesses.

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### 3 Models of Business Incubation

The first task when approaching the subject of business incubation is nailing down exactly what the term means. The emergence of business incubators in the US during the 1960s and 1970s was very much an organic and market driven phenomenon. When governments took notice of business incubation, the term had already been coined by operators marketing a wide range of offerings. When trade bodies such as the National Business Incubator Association (now International Business Innovation Association, InBIA) and UK Business Incubation emerged, it was to represent already disparate memberships and it appears that their inclinations were to leave definitions wide, perhaps not to exclude (fee paying) members.

More recently, some common ground has emerged particularly amongst business incubators operating in the high-growth technology space [R1]. High-growth technology incubatees share many characteristics, challenges and needs and business incubators have developed interventions that proposit to resolve them in areas such as intellectual property, prototyping, industry partnering and raising finance. Whilst some of those interventions have broader relevance, there is a strong argument to regard high-growth technology incubation as a rather specialised space, substantially different from other forms of business incubation.

To form a meaningful definition of business incubation for the purposes of this report, it is necessary to strip business incubation back to its core essentials. Here, there is some useful insight provided by the trade bodies, particularly where they report on sector performance across areas of the economy. Further, there are some useful scholarly works that have considered business incubation models and case studies.

For instance, InBIA notes that business incubation should be ‘a catalyst for regional or national economic development, which has some obvious resonance with the focus of this report [R2]. Further, InBIA notes that the goal of all business incubators is ‘to produce viable graduate businesses’, whereas the Syndicate Room opined that business incubators should ‘encourage growth’ [R3]. Both are worthwhile observations on a basic level and as a basis for gauging effectiveness and value business incubation.

World Business Incubation notes that business incubation is a ‘risk reduction tool’ allowing incubatees to raise larger capital sums as a result [R4]. Their assertions are focused on high-growth technology incubation but remain valid more broadly.

The UK Science Park Association (UKSPA) notes that business incubators should be ‘safe havens’ and ‘intensive development environments’ for both businesses and entrepreneurs [R5]. Again, this has strong relevance to this Report. UKSPA also notes that most business incubators are a physical place and that as a result, they offer value as a meeting place for entrepreneurs at similar stages in their development.

A final comment of note from UKSPA is that business incubators should be selective – challenging for entrepreneurs to gain access. This tallies with InBIA's idea that business incubators should deliver growth and viable graduate businesses and is particularly relevant again to high-growth technology incubation. Where a valuable resource is limited, there is wisdom in committing that resource to where it is likely to deliver greatest value. Some level of selectivity seems a valid condition of business incubation broadly.

With this insight in mind, the following working definition of business incubation has been worded for the purposes of this Report...

***Business Incubation invites applications from entrepreneurs with nascent business ideas and selects the best opportunities to be provided with intensive programmes of personal and business development in a safe and supportive environment which derisks business challenges and facilitates growth of entrepreneurs and their businesses towards sustainability, financial sufficiency and business growth.***

## 4 Business Incubation Case Studies

Given the already noted range of activity purported to be business incubation, it is perhaps unsurprising that there are a large number of examples. According to InBIA, there are around 7,000 business incubators worldwide [R6]. The European Business and Innovation Network estimates that there are 1,000 in Europe [R7]. Selecting a meaningful group as case studies was therefore a challenge.

The schedule below identifies ten business incubators, mainly in from the UK, which shows both the variety and range, and offers some learning relevant to this Report. Short case studies of each business incubator is provided in Appendix 1.

- Y-Combinator, California and Massachusetts;
- Royal Society of Edinburgh Enterprise Fellowships, Edinburgh;
- College of Agriculture, Food and Rural Enterprise, Northern Ireland;
- CodeBase, Edinburgh and Stirling;
- JLab, London;
- Betaworks, New York;
- Hatch Enterprise, London;
- Entrepreneurial-Spark, originally Edinburgh and Glasgow;
- Allia Future Business Centres, South East England; and
- Incubator Without Walls Programme, Hudson, New York.

## 5 Contemporary Business Incubation Interventions

This assessment captures the main body of interventions provided by the exemplars identified in Chapter 4 and by others considered as good case studies. In principle, these interventions are sector-agnostic, although in many instances they are delivered by sector-specific business incubators. Fuller details of each intervention are provided in Appendix 2.

- Opportunity selection and progress review;
- Status of incubatees – self-employed, employee, customer, etc;
- Provision of premises;
- Charging of incubatees;
- Business advisory support;
- Business mentoring;
- Expert support;
- Advisory boards;
- Education programme;
- Networking opportunities;
- Marketing campaigns;
- Business administration services;
- Legal and regulatory support;
- Investor engagement and access to finance;
- Management team building; and
- Graduation planning.

### 5.1 Designing a Programme of Business Incubation Interventions

The interventions presented capture the range provided by the exemplars identified in Chapter 4 and by others considered as good case studies. They are the observed practice of many business incubators although, as a single schedule, represent what may be considered a complete service offering.

However, designing a schedule of interventions should involve greater thought than simply lifting practice from elsewhere. In fact, the starting point for that process should be an assessment of the barriers to entry and major business challenges facing prospective incubatees. These are often sector or market specific. Generally, business incubation interventions cannot resolve barriers to entry and major business challenges, but they can deliver business outcomes amongst incubatees that better prepare them when facing them. For instance, where an incubatee company will require a significant investment round in the near future, it is unlikely that the business incubator will deliver that capital. Rather, it will prepare the incubatee by helping to deliver improved leadership through education; to add expertise to board; to prove market traction through customer partnerships; etc.

Individual business outcomes may address more than one the barrier to entry and major business challenge and similarly an individual intervention may contribute to more than one business outcome.

By way of an example, a hypothetical business incubator in the machine learning and artificial intelligence space may identify the following barriers to entry and major business challenges for its incubatees.

- Lack of scale-up capital for seed-funded companies in sector;
- Leadership teams tend to be *techies* who founded companies;
- Scarcity of *real* large data sets for machine learning process;
- Busy sector means that message of small companies lost in the noise; and
- Difficulty in market traction with large corporations.

To address these barriers to entry and major business challenges, the business incubator should map them against a set of desirable business outcomes.

**Table 5.1: Mapping of barriers to entry and major business challenges with desirable business outcomes**

<b>Barriers and major challenges</b>	<b>Desirable business outcomes</b>
Lack of scale up capital	Improved visibility to scale-up investors Clear investment propositions Investor ready business plans Experienced and rounded leadership teams
Techies leading companies	Understanding of career routes for founders Experienced and rounded leadership teams
Availability of data sets	Links into corporates with large data sets Clear value proposition to corporates
Companies' message lost in noise	Relationships with individuals in key corporates Ability to create high impact messages
Lack of market traction with industry	Links into corporates with large data sets Experienced and rounded leadership teams Clear value proposition to corporates

Interventions can then be deployed to deliver these desirable business outcomes.

**Table 5.2: Mapping of desirable business outcomes with interventions**

<b>Desirable business outcome</b>	<b>Contributing intervention</b>
Improved visibility to scale-up investors	Business advisory support Education programme Networking opportunities Investor engagement and access to finance
Experienced and rounded leadership teams	Business mentoring Advisory board Education programme Networking opportunities Management team building

Whilst this approach to design may seem rather convoluted, it creates targeted programmes of interventions. It also provides insight into the necessary *detail* of interventions and how they should be tuned to meet the needs of incubatees.

## 6 Business Models for Contemporary Business Incubation

Any assessment of the business model for a typical contemporary business incubator has to make certain fundamental assumptions in order to normalise the basis for that assessment. For instance, it is assumed here that a typical contemporary business incubator operates as a discrete business itself. Further, it is assumed that state-backing is *earned* against particular outcomes and that the state is considered a stakeholder like any other. In most cases of significant government involvement in business incubators, autonomous special purpose vehicle (SPV) companies are used in which the state is a member, and the level of state-backing reflects the value delivered to it as a stakeholder.

### 6.1 A Standard Business Model

The table in Appendix 3 briefly represents the range of interventions discussed in Section 5 and allocates a cost category to each as well as comment on whether and how costs may be recovered.

In short, what might be regarded as core interventions such as opportunity selection, business advisory support, business mentoring, networking opportunities and investor engagement are generally not directly charged to incubatees. Further, despite an obvious opportunity to charge for them, normally at least some of a business incubator's activities in providing an education programme and access to an advisory board are also absorbed as overhead.

Expert support, marketing campaigns and legal and regulatory support are normally high value interventions bought-in by the business incubator for incubatees. It is normal for those costs to be recovered and more. However, these are likely to be infrequent and rare interventions.

Charging for the provision of premises presents an obvious opportunity to make a direct profit on the specific intervention but that is wholly dependent on the underlying property deal enjoyed by the business incubator. Further, during the initial stages, an incubatee might reasonably expect to pay a modest rental charge.

Some high-profile business incubators are able to charge incubatees a participation fees. Such fees are generally modest – necessarily so since incubatees are rarely cash-rich. Further, in many cases such fees are taken as equity in the incubatees or recorded as a business loan to the incubatees.

On the face of it, business models for contemporary business incubation struggle to make sense. Hence the need for state-backing in many cases. However, many business incubators use business incubation as a platform on which to build wider and more productive business models.

### 6.2 Realising *Secondary Value*

Wei Li, in the 2019 paper entitled 'The Four Fundamental Models of Incubators', offers up four drivers that underpin wider business models [R8]. **Agent Incubators** reach out to markets and so focus their interventions on graduating businesses that serve the varied interests of corporates, investors and government. Agent Incubators may capture and monetise that value by securing sponsorship from corporates, investors and government agencies that stand to benefit.

**Merchant Incubators** deliver incubation in order to build and grow companies that then consume their products and services on a commercial basis. Merchant Incubators may have software platforms or component products that are bought by graduate incubatees to deliver their own products or services. A different example of a Merchant Incubator is one with a premises offering for graduate incubatees, often charged at a premium.

**Teacher Incubators** typically take a stake in incubatees and their efforts to facilitate rapid growth in those incubatees through developing the entrepreneurs and their businesses delivers value in those stakes that may later be realised through exits.

Similarly, **Builder Incubators** effectively take ownership of incubatees and develop them as owners. Again, their efforts to facilitate rapid growth in their incubatees through *building* delivers value in their stakes that may later be realised through exits.

Wei Li's categories may be simplistic, but they do provide a useful reference for an analysis of the business model for a typical contemporary business incubator. In essence, a business model for business incubation *alone* is unlikely to deliver a viable return on investment. At best, it may cover operating costs. However, business incubation offers a platform for a range of business activities, described by Wie Li, which may provide significant potential upsides.

## 7 Definition of Mission-Led Business Incubation

The discussion of business incubation to this point has been broad in scope – looking at the generality of business incubators operating around the world. No particular focus has been applied in part because innovations in business incubation relevant to this Report may come from anywhere within the wider business incubation space.

Most of the case studies considered and the observations and opinions offered relate to business incubators operating on a wholly or largely commercial basis. These business incubators support entrepreneurs. They address barriers-to-entry and market disfunction and they facilitate and accelerate the development incubatees and improve their prospects of success after graduation. All of these things are laudable as they deliver economic and societal benefits. However, in most cases, those economic and societal benefits are not the strategic justification for those business incubators. For the most part, those business incubators create value so that they can capture and monetise it – in their own balance sheets or profit and loss accounts.

This paradigm goes some way to explaining why business incubation is not prevalent across the whole start-up ecosystem. It is most prevalent where there is potential for the value created by the business incubators to be high and where it can be readily captured by those business incubators – technology, digital, therapeutics and corporate supply chain development, for instance.

Mission-led business incubation can be characterised by the fact that it generates economic and societal benefits first and foremost [R9]. Incubatees may have the potential for significant value but it is often difficult to capture and monetise that value on a business incubator's balance sheet or profit and loss account.

Amongst the business incubator case studies there are three examples of mission-led business incubation. Hatch Enterprise's incubation of social and community-interest businesses generates little commercial value and the down-stream benefit cannot be captured or monetised by Hatch Enterprise. Instead, benefit align with the mission of Hatch Enterprises itself.

Similarly, the RSE Enterprise Fellowship and the Allia Future Business Centres can both be considered as mission-led. Some of the value they create could be captured and monetised but neither seeks to do so. Both are willing to see others in the enterprise ecosystem build on and benefit from the value their business incubation creates as the parallel economic and societal benefit delivered aligns with their respective missions.

In cases of mission-led business incubation, the business models deployed need to reflect the fact that the already marginal business models for business incubation will be stressed further. These three cases rely on state funds, corporate sponsorship or donations.

A mission focus may also impact on the range of interventions offered and how they are offered. In designing a programme of interventions, a mission-led business incubator should factor in its mission alongside considerations of the barriers to entry and major business challenges facing its prospective incubatees.

In general terms then, mission-led business incubation can, and should, deliver significant economic and societal benefits and significant value to the incubatees. However, a mission-led business incubator does not seek to capture and monetise the value created – instead realising that value in line with its own mission.

## 7.1 A Revised Definition of Business Incubation in a Mission-Led Context

This Report's ultimate concern is farm business incubation and the ambitions noted by the SLC reflect its mission in this area and the related missions of the Scottish Government and its agencies [R10]. As such, farm business incubation in Scotland is likely to be mission-led business incubation, reflecting the related missions of the SLC, Scottish Government and its agencies. That mission will focus on significant economic and societal benefit but not a conventional financial return on investment to the business incubator.

In light of this Report's context and ultimate focus on mission-led business incubation, it is perhaps worth adjusting the working definition of business incubation presented in Section 3. A new working definition reflects a mission to encourage and enable, and to resolve barriers-to-entry, etc.

***Mission-led business Incubation encourages applications from potential entrepreneurs with nascent business ambitions and selects promising opportunities to be provided with intensive programmes of personal and business development in a safe and supportive environment which derisks business challenges and facilitates growth of entrepreneurs and their businesses towards formation, sustainability, financial sufficiency and business growth.***

## 8 Business Models for Mission-Led Business Incubation

Whilst not exclusively so, mission-led business incubation is substantially about delivering societal and economic benefit. In that sense, it is a development tool that can deliver significant impact and that impact should be factored into any assessment of effective business models and return on investment.

The table in Appendix 4 considers the interventions presented in Section 5 and adds a note on how they may be evolved within a mission-led business incubator. What is apparent in this analysis is that scope for partnering, of various kinds, should allow mission-led business incubators to establish much lower operating costs. Contemporary business incubators may also see benefit from partnering, but a mission-focus makes for a more agreeable pitch for generous contributions from partners. A mission-focus typically better aligns with CSR strategies, college and university impact agendas and government agency objectives.

Where contemporary business incubators have an advantage over mission-led incubators is in their scope to deploy wider value-generating business models. These were looked at in Section 5. Opportunities such as downstream rental income, equity exits and product sales may be of huge value, justifying a business incubation play that perhaps breaks even. As noted in Section 7, incubatees of mission-led business incubators may have the potential for significant societal and economic value but it is difficult to capture and monetise that value on a business incubator's balance sheet or profit and loss account. As a result, the scope to deploy wider value-generating business models is limited.

There are though some potential exceptions. Some social investors secure investment returns via outcome payments from government. Mission-led business incubation might be considered in the same light with outcome payments from government dependent on the number of businesses formed that meet certain criteria. This would be an example of an Agent Incubator business model.

Similarly, an agreement with lenders may result in introduction fees payments being made to a mission-led business incubator if its graduate incubatees secure lending. This would also be an example of an Agent Incubator business model.

It is unlikely that any wider business model for mission-led business incubation will prove to be as financially rewarding as those for contemporary business incubation. As noted, contemporary business incubators work with businesses with value that can more readily be captured and monetised on a balance sheet or profit and loss account. But profit may not be a significant motivator in mission-led business incubation and innovative wider business models may deliver adequate and sustainable viability.

## 9 Management, Delivery and Partnering Opportunities

For the purposes of a brief review of management and delivery, this Report assumes that a mission-led business incubator delivers the full range of interventions listed in Appendix 4.

### 9.1 Management and Staffing Requirements

Fully-scoped business incubators are not straightforward undertakings and there are a range of key functional tasks requiring diverse skills and experience. Further, some client-facing functions demand a significant depth of experience, for the benefit of incubatees, and a good professional reputation, so that the wider ecosystem appreciates the value of the service provided.

Whilst the scale of a business incubator effectively sets the viable staffing level, there are number of critical functions to be covered by that capability.

**Table 9.1: Critical staff functions of business incubator**

Staff Function	Overview
Overall management	Programme and staff management function with board level and stakeholder engagement responsibilities as well as being the strategic-lead
Facilities management	Premises related responsibility particularly including maintenance of buildings, etc and oversight of data and communications provision
Incubatee advice and support	Experienced, normally with industry experience, capable of <i>owning</i> specific incubatee relationships and steering them through the incubation process
Event management	Responsible for the delivery of all cohort-based activities such as the Education Programme and Networking Opportunities
Internal business services	Experienced and able to support a range of businesses at different stages with different needs
Administration and reception	General support for incubation staff and visitor handling

The following sections identify challenges and opportunities in the management and delivery of business incubation.

## 9.2 Premises and Facilities

Clearly, premises and facilities represent a major capital and or revenue overhead cost to any business. Typically, business incubators will be *attractive* office facilities with high quality data and communications infrastructure and adequate meeting room capacity for incubated cohorts.

Many business incubators in the UK partner with public or third sector landlords to secure their premises and facilities at a reduced cost. This is particularly common with business incubators on university campuses but several local authorities have converted disused buildings for business incubation.

In many instances, the public or third sector landlord will become a partner in the business incubator – often a member of the SPV company [R11]. This often helps fix their commitment and encourage continued discounted charging for premises, facilities and related services.

## 9.3 Direct Delivery of Services

The principal agent for delivering value to an incubatee is a business advisor. They act as relationship managers, sign-posters, expert advisors and motivators and the first point of contact for incubatees throughout the business incubation process. In many cases, the overall manager of a business incubator will assume this role but will generally have additional support. That level of experience and depth of knowledge is relatively expensive.

In Scotland, a number of agencies employ similarly skilled and experienced people. Scottish Enterprise, Highlands and Islands Enterprise, South of Scotland Enterprise and the Business Gateway are obvious examples. However, other government agencies, charities and universities also employ business advisors, as do some smaller chartered accountancy firms and general business consultancies.

There are examples in Scotland where business incubators partner with one or some of these organisations to provide business advisory services. Some alignment of operating practices are agreed and the appropriate commitment may not be full time. However, the business incubation operator generally secures the business advisor resource at reduced cost.

## 9.4 Partnering Opportunities for Education Programmes

There are two major challenges for business incubators with regard to education programmes. Firstly, high quality content is required to ensure that incubatees benefit as required. Secondly, high quality training practitioners are required to deliver it. Any education programme is likely to make up a relatively modest part of business incubation – in terms of time. It may though be the highest value intervention for incubatees. Few business incubators retain staff to deliver education programmes.

An approach adopted by some business incubators is to partner with a local further education college or university. By doing so and establishing some sort of strategic alignment, the college or university may deliver an education programme to incubatees based on *tweaked* existing course material. Further, they may do so in their own lecture halls, perhaps during holiday periods or *out-of-hours*.

Another common partnering strategy is to build up relationships with local professionals firms – notably accountants, lawyers, marketing consultancies, HR firm, etc. As part of their own business development efforts, many such firms are willing to deliver short workshops to local entrepreneurs, generally at no cost. Each firm may only be willing to deliver two workshops per year, but a well maintained network should allow for a full programme of very practical business workshops.

## 9.5 Event Management

As noted, event management may encompass some of the delivery aspects of an education programme. However, business incubators host a range of events often focused on general networking, topic-specific Q&A or demonstrating incubatees' product and services.

Some business incubators partner with local business groups to host their events. Some of these events may be *closed-events* but others may allow incubatees to attend. Further, the *quid pro quo* may compel a local business group to add events substantially for the benefit of incubatees to their schedule.

## 9.6 Recruiting Contributors

Interventions such as opportunity selection, business mentoring and a business advisory board require people with a depth of knowledge and experience in a range of domains. Business incubators, and mission-led business incubators in particular, are generally seen in a positive light. Their societal and economic benefit is widely appreciated. As a result, they can be attractive to well-meaning experienced business people willing to devote time at no cost to a good cause.

With careful positioning, a business incubator should be able to maintain a cohort of business mentors to work with incubatees. Some candidates may also be appropriate member of selection panels and boards.

Some business incubators elect to recruit high profile contributors at a fee – to secure added *kudos* from their involvement. However, a wholly practical way to resolve this requirement and at little cost is to use local volunteers.

## 9.7 Industry Experts

A similar challenge exists with the need for expert support – often technical in nature. Such expert input is generally very expensive. The provision of expert support is

generally charged on at least at cost to incubatees but if that cost is too high, the support will not be taken, even if it is required.

Some level of partnering by business incubators with specific providers may result in more affordable rates being offered. Another route taken by business incubators is to *align* with a service provider or equipment supplier, somehow co-branding part of the delivery of business incubation. That approach may work where a partner recognises potential downstream value in relationships with incubatees.

This approach is trickier to manage as there is a danger that the brand value of the business incubator is harmed by such a deal. However, some level of partnering offers cost mitigation opportunities that can secure a greater range of Expert Support than might otherwise have been possible.

Partnering has the potential to reduce the staffing burden on a business incubator considerably. Outsourcing can resolve other operating and delivery requirements with further overhead savings. It may be possible, in the right circumstances, to contain staffing levels at around three – a manager, event manager and administrator.

## 10 Structure and Governance of Mission-Led Business Incubators

Considerations of structure and governance in mission-led business incubation should be driven by specific circumstances. However, most mission-led business incubators appear to arrive at ostensibly similar conclusions on the best choice of structure and the resultant governance arrangements.

### 10.1 Business Structure

Whilst there is no prescriptive rule on structure for mission-led businesses, a reasonable assumption to make about a *typical* example is that it will not make excessive profits and it will not seek to distribute profits to its shareholders.

Companies limited by guarantee provide the benefits of company status – a *person* in law and a contained business entity wholly controlled by a board. Further, as there are no shareholders, there is no basis for distributing profits or assets. Profits are therefore reserved or reinvested and assets remain on the balance sheet until they have no value. Importantly, the company limited by guarantee structure imposes an asset lock which often gives confidence to stakeholders and partners providing funds and or services on non-commercial terms.

### 10.2 Board of Directors

A company limited by guarantee, like any company, needs a board of directors and the duties and responsibilities of that board are common with all forms of company. In the UK, it is usual that the board is made up in part by local notables from the sector-focus of the business incubator and of representatives from the main stakeholders [R12]. This often includes representatives from government agencies, local government, the local chamber, etc. A chair is often selected from the non-stakeholder group.

There are examples where the Programme Manager is co-opted onto the board, but this is rare and there are good reasons to exclude that person, albeit to require attendance at all board meetings. Given that the board would otherwise be wholly non-executive, the Programme Manager's status would be very different from other directors. This can cause tensions.

### 10.3 Advisory Boards

A business incubator of any kind has business processes which should be transparent and *prima facie* independent. Convening advisory boards is a popular way of dealing with these demands. Examples of these less formal processes include the initial selection of incubatees; reviews of how incubatees are progressing and business mentor allocation. An advisory board may also consider a Programme Manager's plans ahead of their presentation to the corporate board, though critically with a view to adding value and with no authority.

## 11 Risk and Mission-Led Business Incubation

Many of the business risks associated with mission-led business incubators are associated with its business model. The tolerances around financial aspects and sustainability are likely to be modest. Thorough modelling and testing of any business model is a critical early step.

By any standards, a mission-led business incubator is likely to be a small business with significant overheads. As such there are a number of other notable business risks of significant magnitude that should be considered.

**Table 11.1: Risks associated with mission-led business incubation**

<b>Risk</b>	<b>Overview</b>
Cashflow risk	Given a relatively complex business model and tight financials, payments may not precede outgoings, leading to short-term issues
Financial risk	Similarly tight financial models and uncertain cashflows represent a risk to long term viability
Economic risk	Changes in the national or world economy may undermine a business incubator's offering if it is sector specific
Strategic risk	Specifically relating to the ability to deliver mission outcomes
Operational risk	Specifically, there is significant risk attached to the departure of key staff
<b>Risk</b>	<b>Overview</b>
Political Risk	For example, evolving societal or economic priorities may result in the value of outcome payments from government being reduced
Programme risk	Specifically, there is significant risk that a business incubator with set intakes will experience drop-outs and or exclusions from a particular intake that impacts on the outcome of that intake and cannot be resolved until the following intake
Project risk	Particular interventions may rely on third party participation which may not be forthcoming
Reputational risk	Given that a partnering approach may be a key part of a mission-

	led business model, the reputation of all of those partners may affect the reputation of the business incubator
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## 12 The Farming Business Challenge in Scotland

A key aim of this report is to examine whether business incubation might address the business challenges and barriers to entry faced by new entrants into farming. It would though be inappropriate to look at a narrowly defined farm operating model for this consideration. Modern farm businesses take many forms – often diversified businesses with varied operating models. As such, this Report assumes a wider perspective.

Three operating models have been identified – chosen because each is quite different from the others. These will allow a wider range of business incubation interventions to be examined as well as providing the SLC with more relevant insight. The three operating models identified are as follows.

***Farm-Only Business*** – a narrow operating model based on a modest range of crop growing and harvesting and or livestock production.

***Farm and Food Production Business*** – Farm-Only Business, as above, but with downstream operation preparing, processing and packaging the harvested crops from the farm and potentially from other local farms.

***Farm and Forestry Business*** – Farm-Only Business, as above, but with secondary operation in forestry.

### 12.1 Business Challenges and Barriers to Entry – Farm-Only Business

In the McKee et al (2018), a number of barriers to entry for new entrants to farming were identified and this list will form the basis for this assessment [R13]. However, a number of additional barriers to entry and more general business challenges have been identified in recent academic and policy papers [R14, R21]. Several of these have been added. As such, the business challenges and barriers to entry relating to a Farm-Only Business may be as follows.

- Availability and cost of land for farming;
- Lack of appropriate capital for land;
- Scale of plant and machinery requirements;
- Lack of appropriate capital for plant and machinery;
- Poor infrastructure on leased land;
- Access to working capital;
- Supply of good quality labour;
- Limited routes to markets;
- Access to housing in rural locations;
- Lack of entrepreneurial and business skills;
- Lack of technical agricultural knowledge;
- Inability to manage regulatory compliance adequately;
- Bureaucratic grants processes;
- Lack of peer group support in rural locations;

- Loss of industry knowledge and experience through retirement; and
- Concern of inadequate income generation potential.

## **12.2 Business Challenges and Barriers to Entry – Farm and Food Production Business**

Given the position of farming as a key part of the food value chain, it is unsurprising that diversified farm businesses often seek to generate more income by increasing participation in that value chain. Food production is therefore one of the most popular farm diversification choices [R15]. Business incubation can add real value in food production both in terms of education and operationally.

As well as the business challenges and barriers to entry listed in 12.1, research suggests that new entrants considering Farm and Food Production Businesses will face the following issues [R16].

- Availability and cost of farmland with existing / potential food production and storage facilities;
- Investment cost of new food production and storage facilities;
- Lack of appropriate capital for investment in food production and storage facilities;
- Minimum utility of food production and storage facilities to generate and return on investment;
- Reliability and seasonality of supply of raw materials;
- Regulatory standards and management of compliance;
- Additional time pressures from multifaceted business;
- Lack of marketing skills;
- Product differentiation and competition;
- Routes to market; and
- Tight profit margins.

## **12.3 Business Challenges and Barriers to Entry – Farm and Forestry Business**

Forestry as a farm diversification opportunity is, on the face of it, comparatively less challenging than food production and therefore it may be contended that the value that business incubation adds to those prospective businesses is limited. However, the *political* context of forestry and farms is significant and a prerogative exists to encourage more of it [R15,R17].

As well as the business challenges and barriers to entry listed in 12.1, general research suggest that new entrants considering Farm and Forestry Businesses will face the following issues [R18].

- Availability and cost of farmland with existing / potential areas for forestry planting;
- Investment cost of land preparation and planting;
- Relatively long term nature of financial model for forestry;

- Lack of appropriate capital for investment in forestry particularly to cover the initial period of no income;
- Perceived issue of economies of scale and minimum viable production;
- Lack of capability to undertake upfront business opportunity evaluation;
- Availability and sustainability of grants for forestry;
- Perceived reliance on additional diversification to generate income once forestry is in place;
- Perceived cost of harvesting and processing particularly where quality controls are critical; and
- Access to markets, particularly timber production where value opportunities are greatest.

#### **12.4 The Role of Business Incubation in Addressing the Farming Business Challenge in Scotland**

There are of course a number of other business challenges affecting farming generally and contributing to industry disfunction. Whilst these merit, and are receiving, policy attention, they are environmental, systemic and cultural issues that business incubation cannot address and have been excluded from consideration in this Report.

## 13 A Mission for Farm Business Incubation in Scotland

The research and analysis undertaken for this Report provides a sound basis for identifying the sort of interventions that may provide value in a Scottish setting. However, before any attempt is made to define these interventions, it is necessary to define the context.

### 13.1 A Case for Mission-led Farm Business Incubation

Based on specific and contextual comments from SLC, the Scottish Government and other actors in this area, a number of strategic ambitions have been identified for farming [R9].

- Increasing the economic, social and cultural value of Scotland's land;
- Facilitating generational change and attracting young people into farming;
- Changing models of financial support to become more strategically targeted;
- Improving the viability and resilience of farm businesses;
- Driving innovation in farming to improve business performance; and
- Improving environmental impact of farming.

These strategic ambitions establish a clear strategic context for discussions about farm business incubation in Scotland and it is reasonable to conclude that this context will underpin policy and implementation. By strong implication then, if it is pursued, farm business incubation in Scotland will be a mission-led endeavour. No other approach can be expected to effectively resolve those strategic ambitions.

### 13.2 A Definition of Mission-led Farm Business Incubation

The strategic ambitions presented above are by no means the only issues causing concern. They do though represent a good basis for a mission for farm business incubation in Scotland. Based on these strategic ambitions, a draft mission for farm business incubation might be as follows.

***To encourage and deliver a meaningful pipeline of new high quality farm businesses, run by next-generation farm entrepreneurs, capable of operating their farms in an environmentally sustainable, efficient and considerate way whilst deploying innovative business models critical for long term business sustainability and success; and to provide access to key land, resources, facilities, equipment, expertise and routes to market to enable those farm entrepreneurs to test, improve and prove their farm businesses in a low-cost and low-risk setting ahead of fully launching and repopulating the farm community in Scotland.***

This mission defines a clear dual focus for farm business incubation to deliver farm entrepreneurs capable of effectively managing a farm *and* running a successful farm

business. To that end, an effective programme of incubation interventions will draw on successful models of farm incubation and of business incubation from a wider context.

## 14 Farm Incubation Case Studies Overview

To briefly summarise a key point raised in Chapter 3, any discussion about business incubators is an awkward discussion because it means different things to different people. That is the case in the wider business world and in farming. On the face of it though, there appears to be two prevalent models of farm incubation, which for the purposes of this discussion will be referred to as the US Model and the French Model.

The US Model of farm incubation is notable for the *scale* of its land offering and for the emphasis on the strength of the business proposition – either as a prerequisite for participation or as a requirement to continue to receive support [R19]. US Model farm incubators are generally mission-led business incubators with a land offering and related specialist services. The mission focus of the US Model is almost exclusively to replenish and grow the number and sustainability of farms and to secure food production. Many farm incubators in the US involve industry players and business lenders, which may reflect the perceived *market* value of those resultant incubated farms.

On the face of it, the French Model of farm incubation appears to be driven by a similar mission to the US Model - replenishing and growing the number of farms and securing food production. However, the French Model appears to take a rather different approach [R20]. It appears to be more focused on *market garden* outcomes, offering small packets for land for *life-style* food production. Amongst some, there is recognition that some such resultant farms may evolve into bigger concerns but the farm incubation offering of the French Model is more often limited to making available those small packets of land, some plant and facilities, modest support and local market access. Business incubation interventions are often limited and support to scale-up from a market garden to a significant and sustainable farm business is generally not provided. The French Model appears to more about *better* land use and local environmentally sustainable food production. The French Model requires significant participation numbers (and farm incubator numbers) to deliver nationally significant impact.

There is of course variety amongst farm incubators in the US and in France. There are a few farm incubators in France which offer business support and encourage growth. It would be inappropriate to make pejorative comparisons between the US Model and French Model as they are clearly not set up to do the same thing. Instead, examples of both are worth examining as they offer some interesting insight and example interventions which may inform policy on farm business incubation in Scotland.

### 14.1 Summary Case Studies

Further details on these farm incubators is provided in Appendix 5.

### ***French Model***

- Le Germeir, Calais;
- Envols, Metz;
- La Combe de Saint Affrique;
- ETAL40, Bordeaux; and
- Agritest, Vaucluse.

### ***US Model***

- Intervale Centre, Vermont;
- New Entry Sustainable Farming Project, Massachusetts;
- Alba Organic Farm Incubator, California;
- Dirty Works Incubation Farm, South Carolina; and
- Headwaters Farm Incubation Programme, Oregon.

## **14.2 Concluding Comments**

Farm incubation is not the sole preserve of the US and France. Farm incubators and *test* farms are increasing in number in Europe with growth in Eastern Europe notable. There, the French Model seems prevalent, though third party education programmes and support seem common. A notable example further afield is in Melbourne, Australian where *pop-up* programmes utilise interim land availability and deliver a less formal range of education, support and mentoring.

## 15 Farm Business Incubation Interventions for Implementation in Scotland

The programme of business incubation interventions presented here is well-informed, but further research is required to inform a more detailed design process. However, by undertaking this exercise, the design process described in Chapter 5 is used to good effect in a farm context.

Three farm business models have been identified to be the focus of the *hypothetical* business incubator. These three reflect the wide scope of diversification common in farming – often essential for business viability.

Appendix 6 presents further details on the business incubation interventions identified for the three farm business models.

### 15.1 Business Incubation Interventions – Farm-Only Business

Appendix 7.1 presents the *design process* used to build a programme of business incubation interventions for a Farm-Only Business. In summary, the schedule below lists the business incubation interventions identified.

- Opportunity selection;
- Status of incubatees;
- Stage 1 farm education programme;
- Stage 2 farm education programme;
- Progress reviews;
- Provision of land and facilities;
- Provision of plant and equipment;
- Business advice and business planning support;
- Farm business mentoring;
- Industry mentoring;
- Investor engagement programme;
- Provision of business services;
- Grant management and support;
- Direct consumer sales platform;
- Trade business development and sales service;
- Graduation planning and support; and
- Land-matching service.

## 15.2 Business Incubation Interventions – Farm and Food Production Business

A similar process was undertaken for farm businesses diversified into food production. Appendix 7.2 presents that *design process* and the schedule below lists the *additional* business incubation interventions identified.

- Food production education programme;
- Food industry mentoring;
- Food production compliance support and management; and
- Centralised food production management.

## 15.3 Business Incubation Interventions – Farm and Forestry Business

A similar process was undertaken for farm businesses diversified into forestry. Appendix 7.3 presents that *design process* and the schedule below lists the *additional* business incubation interventions identified.

- Forestry education programme;
- Forestry mentoring;
- Centralised forestry harvesting management; and
- Quality control support for timber production.

## 15.4 Overview Evaluation of Business Incubation Interventions – Farm-Only Business

The programme of interventions presented in 15.1 in many ways is comparable some of the leading business incubators in the wider economy. Reflecting on that observation, it is likely that this programme would suit a fixed intake approach with a defined cohort receiving a period of intensive education and advisory support (perhaps over a 6 months period) ahead of a longer period (perhaps 2 to 3 years) of *classic* incubation, where businesses are hosted and services provided more selectively and or on demand.

### **Strengths**

- Comprehensive range of interventions for entrepreneurs and nascent farm businesses;
- Scope within range of interventions to address most barriers to entry and major business challenges;
- Scope within range of interventions to incubate entrepreneurs and nascent farm businesses over several years; and
- Would represent an attractive offering to potential participants.

### **Weaknesses**

- Conventional models for land provision, allocating areas from single site, unlikely to work;
- Range of plant and equipment likely to represent major cost;
- On the face of it, operating costs likely to be high; and

- Access to housing not specifically addressed.

#### **Opportunities**

- Potential for high value outcomes directly meets Scottish Government agenda;
- Education programmes may suit partnering approach with a college or university;
- Mission and quality of provision should be attractive to corporate partners; and
- Regional implementations may offer solution to land provision issues.

#### **Threats**

- Land and facilities availability for participants and graduates is key;
- Cost will be prohibitive to participants without subsidy and sponsorship; and
- Modest drop-out level would significantly impact value of outcomes.

### **15.5 Overview Evaluation of Business Incubation Interventions – Farm and Food Production Business**

The programme of business incubation interventions presented in 15.2 may be considered as an add-on provision to be delivered alongside the programme for farm-only businesses. This approach would provide flexibility in delivery – only part of a cohort may be planning a farm and food production business.

#### **Strengths**

- In-built flexibility of delivery model;
- Scope within range of interventions to address most barriers to entry and major business challenges; and
- Would represent an attractive offering to potential participants.

#### **Weaknesses**

- Food production facilities likely to be separate from incubatees' farmland;
- Utility of food production facilities will initially be well below optimal, reflecting build up of number of incubated cohorts;
- Range of plant and equipment likely to represent major cost; and
- On the face of it, operating costs likely to be high.

#### **Opportunities**

- Scope for partnering with catering college or catering company; and
- Availability of food production facilities likely to attract market demand.

#### **Threats**

- Finite capacity of food production facilities may be a barrier to growth for incubatees;
- Follow-on food production facilities for graduates may be a barrier to growth;
- Cost will be prohibitive to participants without subsidy and sponsorship; and
- Modest drop-out level would significantly impact on value of outcomes.

## **15.6 Overview Evaluation of Business Incubation Interventions – Farm and Forestry Business**

Again, the programme of business incubation interventions presented in 15.3 may be considered an add-on provision to be delivered alongside the programme for farm-only businesses.

### ***Strengths***

- In-built flexibility of delivery model;
- Scope within range of interventions to address most barriers to entry and major business challenges;
- Would represent an attractive offering to potential participants;
- Range of plan and equipment unlikely to be retained as capital assets; and
- On the face of it, operating costs could be contained.

### ***Weaknesses***

- Forestry land likely to be separate from incubatees' farmland; and
- Lengthy period before production realises value.

### ***Opportunities***

- Scope for providing incubatees with mature forestry land.

### ***Threats***

- Perceived low financial value of forestry business opportunity due to scale during incubation may result in neglect by incubatees.

## 16 Business Model Considerations for Farm Incubation in Scotland

Sections 6 and 8 of this Report highlight the *typical* approach to business models for contemporary and mission-led business incubators respectively. These overviews assume relatively conventional characteristics of business incubation, particularly in relation to the provision premises. Some of the characteristics of the business incubation programmes for farming laid out in Section 15 are similarly conventional. Aspects of their business models may therefore reflect *conventional* contemporary and mission-led business incubators. However, other characteristics are wholly different and some of those are fundamentally challenging. Here, innovation in the business model and delivery will be needed else they will become impractical as costs will be prohibitive.

### 16.1 Stand-Out Business Model Challenges for Farm Business Incubation in Scotland

When considering a business model for the business incubation programme for farming suggested in Section 15, the following exceptional characteristics must be accommodated.

- Key mission objective to encourage participation is likely to be at odds with convention of recovering costs from incubatees – charging may disincentivise participation;
- The provision of land represents a significant cost with a notable lead time before it will generate cash value for the incubatee;
- Significant investment is required to provide the necessary facilities, plant and equipment and utility of these resources may be limited until multiple cohorts are in place;
- The provision of land should be progressive, growing as an incubatee progresses in order that they experience farming at a reasonable scale ahead of graduating; and
- There may not be a single location for business incubation.

### 16.2 Partnering Opportunities

Partnering offers scope to significantly reduce sunk and recurrent costs and improve effectiveness of delivery by tapping into specific expertise. A number of partnering opportunities have been identified for the business incubation programme for farming suggested that may offer significant benefits. Details are provided in Appendix 8 with the schedule below providing a brief summary.

- Local landowners;
- Forestry and Land Scotland;
- Further education colleges and universities;
- Local professional and business services firms;

- Government economic development agencies;
- Local food production businesses;
- Larger agricultural plant and equipment companies;
- Impact investment managers; and
- Local business associations and Chamber of Commerce branches.

### 16.3 Charging of Incubatees

As noted in Section 14, given that encouraging participation would probably be a particularly strong aspect of the mission of the proposed farm business incubator, some care is needed here. Charging incubatees is the norm albeit the charging mechanisms differ between business incubators. But most business incubators are serving an established demand. In some cases, the demand for places in a business incubator is greater than capacity. The cost of participation is more readily accepted by incubatees when there is clear appreciation of the value added to their businesses.

In the first instance at least, demand for places on an intake of the suggested farm business incubator may have to be *stimulated* to generate sufficient interest to ensure places are filled by credible incubatees.

The design of the suggested farm business incubator is such that there would be an entry phase where education is the predominant feature and then there would be a follow-on phase where more conventional business incubation services kick in. It may be possible to secure funding for incubatees in that first stage from the Student Awards Agency for Scotland, considering that the Stage 1 Farm Education Programme is effectively a programme of full time education. If that were so, that initial phase of participation could be free of charge, on the face of it, to incubatees.

On completion of the Stage 1 Farm Education Programme, it is suggested that there would be a *gate* process, with the better incubatees progressing. At this point, incubatees farm businesses would start to take form. Charging for services at this stage would be less of a disincentive to incubatees. Further, the value of each intervention would be relatively straightforward to establish, providing a basis for charging.

That said, incubatees at this stage are not likely to be cash generative. There may be incubatees who can afford to cover business expenses from their own funds but others may already be financially stretched by covering their own living costs. Consideration should therefore be given to *loan accounts* for incubatees, whereby their *consumption* of interventions results in a loan balance accumulating, perhaps over a one year period. Repayment of this loan might then kick in at an appropriate future date. This approach would start to resolve the financial model, albeit its cash position would not be resolved at least in the medium term.

During the later stages, once incubatees are cash generative, a normal charging system might be introduced. Further, consideration may be given to *back-loading*

charges – discounted charging early balanced out by over-charging later. This model works well as long as the over-charging is not excessive. Further, that over-charging can incentivise the graduation of incubatees.

There is though a case for continuing to provide certain services at no cost to incubatees particularly where there is a clear link between a particular intervention and a mission outcome. Interventions such as business planning support, mentoring of various kinds, the investor engagement programme and even the stage 2 farm business education programme fall into that bracket. Further, many of these interventions may have no direct costs attached due to partnering arrangements and some may be cost-free to non-incubatees in the wider ecosystem.

More straightforward interventions to which charges could be attached include the provision of land and facilities, the provision of plant and equipment and the provision of business services. These too are likely to have significant direct costs attached.

#### **16.4 Opportunities for Realising *Secondary* Value**

As noted in Section 6, a paper by Wei Li in 2019 identified four models of business incubator according to how value is realised downstream [R8]. There would appear to be opportunities for the suggested farm business incubator to deploy Agent Incubator and Merchant Incubator strategies to generate *secondary* value and income.

Two interventions of note are the direct consumer sales platform and the trade business development and sales service. Both are focused on generating sales for incubatees. However, they represent a Merchant Incubator opportunity to generate commission income.

An Agent Incubator opportunity may exist with industry partners. Introduction fees may be charged if an industry partner's relationship with a graduate incubatees develops. Care is needed here to ensure that this cost to industry partners does not somehow undermine their willingness to commit time and resources to the farm business incubator at no charge.

Finally, there may also be an opportunity to seek outcome payments from the Scottish Government, again an Agent Incubator strategy. If there is not direct funding from the Scottish Government, there may be scope for it to *pay* for outcomes aligned with its strategic ambitions. This is a common approach in social investment.

## 17 Overview Risk Assessment

It should be noted here that because of the speculative nature of the design of the proposed farm business incubator, a thorough risk assessment would be premature. However, the overview assessment below provides some insight into the nature of risks and their mitigation.

**Table 17.1: Risk assessment of farm business incubator programme**

<b><i>Risk Descriptor</i></b>	<b><i>Type / Scale</i></b>	<b><i>Mitigation</i></b>
Insufficient number of applicants	Programme / high	Broad marketing strategy and strong offering
Inadequate quality of incubatees	Programme / medium	Clear selection criteria and review process
Lack of progression / drop out	Programme / medium	Effective and progressive service delivery
Partner disengagement	Programme and financial / high	Careful selection of partners, set clear expectations and careful relationship management
Inadequate financial model	Programme and financial / high	Careful financial modelling and sufficient term on stakeholder and partner commitments
Availability of land and facilities	Strategic, reputational and programme / high	Clarity on supply of land packets ahead of intake
<b><i>Risk Descriptor</i></b>	<b><i>Type / Scale</i></b>	<b><i>Mitigation</i></b>
Availability of plant and equipment	Strategic and programme / medium	Ensure initial supply arrangement with long term commitments
Incubatees not graduation-ready	Strategic, reputational and programme / high	Early engagement on graduation, high quality interventions and challenging review process
Availability of capital to graduates	Strategic and reputational / high	High quality interventions, close engagement with potential investors and investor input into farm businesses
Inability to secure farmland for graduates	Strategic and reputational / high	Early work to develop supply opportunities for known graduation

		dates, promote opportunities to landowners
Key stakeholder disengagement	Strategic and financial / medium	Build sustainability, and regularly and clearly communicate strategic impact
Inability to complete programme commitments	Strategic and programme / low	Appropriate contract terms with incubatees

The range and nature of risks identified here reflects the relatively complex stakeholder group and the fact that partner engagement would be key to bringing down the cost of delivery. During the first years of delivery, there would be some risks of a very *binary* nature. However, as the farm business incubator itself progresses, its sustainability would become more secure and its engagements with stakeholders may then evolve.

## 18 Management, Governance and Structure

This Section pulls together experience and known practice in mission-led incubation in the UK to present suggestions. This Section should not be considered a recommendation as such, given several significant factors pertaining to *ownership* and control of the farm business incubator are not clear. Rather, it represent a considered view on what might be done.

### 18.1 Management and Staffing

Based on a delivery model heavily reliant on partnering, the staff commitment from the farm business incubator itself could be modest. That team's principal function would be to manage the programme and how partner contributions are integrated. The main roles would be as follows.

**Programme Director** – an experienced business professional with some standing in farming and or agriculture. This person would be capable of engaging with incubatees on all aspect of their business plans and development and would have a broad understanding of wider aspects of farming. This person may have an accountancy or banking background with strong client facing skills, but also capable of leading engagement with stakeholder and partners. Whilst oversight would be a key function of this person, they would also be involved in direct provision of support and advice to incubatees, particularly around graduation planning and support.

**Events and Delivery Manager** – would be heavily involved in providing a platform for partner contributions to the farm business incubation programme, particularly around the stage 2 farm business education programme and mentoring and networking events. The role would require some level of partner relationship management, including *designing* partner contributions once a commitment has been made.

**Facilities Manager** – a role responsible for all land and facilities management functions as well as managing the plant and machinery resource. This person would also play a key functional role in land matching research for graduating incubatees.

**Marketing, Communications and Web** – a role focused on securing participation, promoting the success of incubatees and promoting the success of the programme. Further, the role would take functional responsibility for stakeholder reporting – at least the preparation of reports. Finally, the role would manage the direct consumer sales platform and the trade business development and sales services interventions.

**Administrator** – a role likely to combine general administrative duties and day to day financial control functions.

### 18.2 Overview of Possible Structure and Corporate Governance Arrangements

On the face of it, it is clear that this endeavour would require a SPV. As well as fulfilling a role in containing risks, this would provide a basis for stakeholder participation at a *corporate* level and would provide sound functionality for the operation itself. Staff could be attached to this entity on *market* terms and all trading would be through it.

The obvious route to go then would be to form a company limited by guarantee, with the guarantor being one of the main stakeholders, probably an agency of the Scottish Government or perhaps the academic institution delivering the stage 1 farm business education programme. The latter may be more compatible with future expansion beyond Scotland.

As with any company, its Board of Directors would assume oversight and ultimate responsibility. A Board made up of representatives from the key stakeholders appears feasible, but from the wider stakeholder base rather than just those involved in delivery. Consideration might also be given to including two independent directors from the industry but without specific interests. One may be chair. Normally with such a venture, director's fees would not be paid.

### **18.3 Incubation Advisory Board**

A separate and more functional group would be created to assume a level of oversight of operational matters and to contribute to aspects of delivery. The Incubation Advisory Board membership would be entirely separate from the Board of Directors and would be made up of those with practical knowledge and experience, capable of adding to the skills of the team. Engagement between the Board of Directors and the Incubation Advisory Board would also be limited though occasional attendance by the Chair of the Board of Directors at Incubation Advisory Board meetings may be appropriate. Critically though, the Programme Director would report to the Board of Directors and would be empowered to set aside the advice of the Incubation Advisory Board if they considered it inappropriate.

The role of the Incubation Advisory Board in aspects of delivery might relate to...

- Acting as the selection panel for new applicants;
- Acting as a panel considering progression from the Stage 1 Farm Business Education programme;
- Acting as a panel considering issues with incubatees' progress and whether they should continue to receive incubation support;
- Providing advice to the Programme Director on strategic matters such as partner engagement, investor engagement and land access; and
- Acting as the Advisory Board for incubatees.

## 19 Conclusions

It is clear from research, observations and experience that business incubation works. It is a tool that can deliver targeted business creation and improved business viability and growth opportunities. But that tool has to be fit for purpose particularly where there are specific economic and societal drivers, as there are for farming in Scotland.

International examples in farming offer some useful lessons and insight but this has to be properly qualified. In the US and France, where farm incubation is more prevalent, there are apparent similarities in approach but equally some major differences. In both countries, mission-led farm incubation is common but those missions differ. National and local policy are clear influencers of mission, but so is culture.

Defining farm business incubation in Scotland as mission-led is an important step and defining that mission is key too as it will *lock in* the economic and societal agenda. Best practice in business incubation and industry insight can then be applied to building effective programmes of farm business incubation.

What does seem clear is that farm business incubation offers genuine potential in Scotland and that mechanisms for delivering farm business incubation exist in part already within the public and third sectors in particular. Business incubation in the wider economy also provides insights into how the private sector might be involved in farm business incubation in a meaningful but cost-effective manner.

Strategies for reducing costs also help mitigate the scale of risks associated with farm business incubation. However, there are some notable risks in part due to the long term nature of the delivery of farm business incubation programmes. Such long timescales indirectly increase the risk of participant drop-outs and lengthen the lead times before impacts are seen.

However, business incubation is not the only tool at the disposal of SLC and its partners. It would represent a significant intervention in farming that would take some years to deliver real impact. As such, any commitment to farm business incubation would need to be a long term one. Once greater clarity exists around how farm business incubation could be delivered in Scotland, costs can be defined and a proper impact assessment would determine value for money and the likely return on investment.

## 20 Appendix 1 Business Incubation Case Studies

### A1.1 Y-Combinator, California and Massachusetts

Y-Combinator is perhaps the most celebrated and successful business incubator in the world. On the face of it, Y-Combinator is a highly-intensive Teacher Incubator focused on technology-focused companies. Incubatees from around the world are invited to 3-month programmes, normally in Silicone Valley. The business incubator relies heavily on challenging selection criteria to provide a motivated (and self-motivating) high-quality cohort. Those incubatees benefit from sector-specific education, advisory support and mentoring plus engagement with high-end local corporates, investors and executives. Open plan office space and facilities provide a base of incubatees and encourages cooperative and collective development. Y-Combinator does not charge incubatees but takes a stake in incubatee companies by virtue of a relatively small investment. It also has the capacity to make follow-on investments. The success of its investment portfolio sustains the business incubator.

A number of high-profile comparators exist, including Angel Pad, 500 Start-Ups and Techstars. Critically though, this approach relies on a *reliably* high-quality cohort and venture capital investment returns. In many ways, the business incubation serves as a selection process for that venture capital investment activity.

### A1.2 Royal Society of Edinburgh Enterprise Fellowships, Edinburgh

The Royal Society of Edinburgh (RSE) is Scotland's National Academy focused on social, cultural and economic wellbeing. Its Enterprise Fellowship programme allows entrepreneurs to be *hosted* by one of Scotland's universities for one year during which time they receive *technical* help on developing their businesses. At the same time, the RSE delivers a range of education, support, mentoring, networking and events culminating in a formal graduation when incubatees present their propositions to invited guests including investors and corporates. Various streams of the RSE Enterprise Fellowship programme have targeted different groups – most notably academic scientific entrepreneurs. However, a more recent cycle was funded by the Scottish Government's Can Do programme and was more widely available. Because of its funding model, the RSE Enterprise Fellowship can be considered an Agent Incubator, delivering value to its sponsors. It is very well liked by incubatees and well supported by the enterprise ecosystem in Edinburgh.

The RSE's incubation model is a well-tested one, having run in largely the same form for around twenty years. Similar programmes are run by other National Academies, universities and government departments. Until recently, the University of Edinburgh hosted incubatees through its EPIS programme which was based on a similar programme run at the University of Twente in the Netherlands. These comparators rely on the premise that the business incubation operator has access to *technical* skills

which enhance technology and knowledge based businesses. For the most part, the driver for these business incubators is Impact.

### **A1.3 College of Agriculture, Food and Rural Enterprise, Northern Ireland**

The College of Agriculture, Food and Rural Enterprise (CAFRE) is located in Cookstown and offers a range of educational programmes principally to the local population. However, CAFRE also runs a Food Business Incubation Centre which supports start-up companies in food production. The Centre provides incubatees with access to a full range of food production facilities including production areas, stores and dispatch areas all with appropriate cleaning systems, air handling and water and electricity supplies. The Centre also offers business facilities including offices, board rooms and meeting rooms as well as technical and environmental management assistance. Business support is provided by local and national government agencies as well as CAFRE's Food Enterprise Development Programme – an educational programme for prospective food producers. CAFRE's Food Business Incubation Centre is a good example of a non-technology incubator. Its offering includes some very high value facilities which would otherwise be unavailable to most entrepreneurs. However, whilst it appears on the face of it to be a Teacher Incubator, there are clear aspects of Merchant Incubator in its model – generating income against otherwise underutilised assets. Further, its reliance on third party business support reflects a less joined-up and non-holistic offering.

In the UK, few Further Education Colleges offer food production facilities in this way. Universities more commonly offer access to facilities as part of business incubator offerings, but generally these programmes are technology focused.

### **A1.4 CodeBase, Edinburgh and Stirling**

CodeBase in Edinburgh proports to be the largest business incubator in Europe. In most respects, it is a very simple Merchant Incubator. Incubatees rent office space in the facility on initially favourable rental terms. CodeBase organises a rolling programme of events focused on entrepreneurial skills, business growth, investor engagement and market development. Invitations to events are often extended to the wider enterprise ecosystem in Edinburgh. Whilst CodeBase claims to be a technology incubator, its business incubation activities are value-adding features *bolted on* to a commercial property play, generating income from rentals. As such, space utility is optimised and its selectivity of incubatees is *modest*. Its event are of a reasonable quality but there is little management of incubatees. Instead, they are relied upon to attend because it serves their interests – and many do. CodeBase has no strict graduation policy and tenancies appear open-ended.

There is some evidence that business incubators like CodeBase make up the majority of operators in the UK and abroad. Their comparatively low-spec and free-form business incubation provision is a cost-effective business development tool. Other examples include TechCube, MedTech Incubator and Tech Hub. However, these

business incubators serve a useful purpose and attract significant cohorts of businesses.

### **A1.5 JLab, London**

JLab is the corporate business incubator and accelerator run by the John Lewis Partnership and its Waitrose supermarket chain. JLab is a highly competitive intensive programme of business support, mentoring and testing of products and services within the John Lewis Partnership. Office space is provided and the John Lewis Partnership has scope to invest – as well as a relationship with True, a retail and consumer product investor. On the face of it, JLab is a Teacher Incubator as incubatees are not compelled to associate with the John Lewis Partnership after graduating. Instead, the John Lewis Partnership's strategic gain from JLab includes early and close relationships with supply-chain prospects and businesses that enhance its digital platforms. For instance, DigitalBridge was an early JLab incubatee. It developed an augmented reality platform for visualising furniture and fittings in rooms. The addition of the Waitrose supermarket chain to the JLab programme has increased the scope of business supported, which now includes food and lifestyle.

There has been a significant increase in corporate business incubators and accelerators in recent years. Many focus on their *parents'* supply-chain and some, in the technology space, appear to align with downstream business acquisition agendas. Others are straightforward Merchant Incubators, developing businesses that use the Amazon trading platform or Microsoft software, for instance. A number of major companies operate food-based incubators, including PepsiCo, Diageo and Virgin.

### **A1.6 Betaworks, New York**

Betaworks presents itself as a start-up studio – a new angle on business incubation where entrepreneurs effectively become part of a business team built around their idea. Betaworks is therefore an early example of a Builder Incubator. This approach differs from most business incubation models as it is less focused on developing the entrepreneur – although there are some interventions so-directed. The main focus however is the business itself. Experienced executives from Betaworks effectively take over incubatees and drive its development using their own skills, knowledge, networks, etc. Graduating businesses are then *transitioned* off the programme, with new executives recruited to drive the company forward post-graduation. The founding entrepreneur may be included in that new team, but they may not. The Betaworks model, in common with other Builder Incubators, is highly selective and highly intensive. It also relies on challenging assessments of progress – poorly performing incubatees are dropped from the programme. Betaworks's business model relies on it acquiring a shareholding in incubatees and then building their value towards a future exit. Betaworks is notionally sector-agnostic but is naturally drawn towards platform technology opportunities. There are though some interesting aspects to the Betaworks which could have relevance elsewhere.

Builder Incubators are a relatively new breed of business incubators. Seed Haus in Edinburgh is a less notable but local example, whilst US examples include Obvious Corp and Include Lab.

#### **A1.7 Hatch Enterprise, London**

Hatch Enterprise is a leading community enterprise charity with a mission to tackle social inequality. One of its functions is to run a business incubator for social and community-interest businesses. Hatch Enterprise's offering reflects other business incubators – education, mentoring, coaching and shared office space. Rental income part-funds the activity with Hatch Enterprise also benefiting from a number of major corporate supporters. The activity is a true Agent Incubator driven by a clear mission. However, it is a competitive programme, both in terms of its selection process and the progress it expects from its incubatees. Its performance is measured on its societal impact which ties in with the Corporate Social Responsibility interests of those corporate supporters. Hatch Enterprise is an excellent example of mission-led business incubation.

Another notable example of a social and community-interest business incubator is attached to the Judge Business School at the University of Cambridge. Similar programmes are run by a number of US universities, including Stanford.

#### **A1.8 Entrepreneurial-Spark, originally Edinburgh and Glasgow**

Entrepreneurial-Spark (E-Spark) claims to be the 'largest free business accelerator in the world'. It emerged in 2012 in part driven by the CSR agenda of the Royal Bank of Scotland after the 2008 financial crisis. It was originally set up as an autonomous social enterprise with donations from the likes of Sir Tom Hunter and Ann Gloag OBE. E-Spark's roll-out to other locations attracted sponsorship from local authorities and RDAs. The Scottish Government has also been a supporter. E-Spark's focus is to deliver societal and economic benefit and as such pitches itself as an Agent Incubator delivering outcomes that align with the mission and values of its sponsors and stakeholders. Given its rapid growth, it appears to be doing that well. The Royal Bank of Scotland is a key enabler of that growth and some of E-Spark's functions have been absorbed into it. Further, E-Spark's business incubators are co-located at RBS and Nat West facilities. Recently, E-Spark partnered with Glasgow Caledonian University to develop its educational offering. Its relationship with the Royal Bank of Scotland does tend to affect how it is viewed by the wider ecosystem and perhaps it suffers as a result. Some of its work with incubatees is not well regarded.

E-Spark is a notable example of a business incubator that has created a business model around a societal and economic mission and one that draws in substantial income from sponsors, etc. In that sense, it is exceptional particularly in the UK.

#### **A1.9 Allia Future Business Centres, South East England**

Allia is a charity and social finance *broker* with a long history of raising substantial fund rounds for charities, community interest companies and social enterprises through bond issues. In 2013, Allia opened its first business incubator in Cambridge to support *impact entrepreneurs*. Four of those business incubators now operate in Cambridge, Peterborough and London. Allia's Future Business Centres align with the strategic agenda of the *parent* and as such it appears to be an Agent Incubator – contributing to Allia's societal and economic impact. However, the Future Business Centres operate to a wider business model with rental income – so an aspect of the business model aligns with being a Merchant Accelerator. Future Business Centres promote incubation and acceleration programmes and offer a good range of support and mentoring.

Interestingly, its business incubators welcome *conventionally structured* businesses – not just social enterprises. As such, this is an example of a business with a mission aligned to its *parent*, rather than led by it. Other examples of this model include UnLtd in London.

#### **A1.10 Incubator Without Walls Programme, Hudson, New York**

The Hudson Valley Agribusiness Development Corporation has developed its Incubator Without Walls Programme in recognition of the growing competitive pressures on businesses in the global market. Selected incubatees access a range of support in business planning and analysis, marketing and finance as well as sector specific support in land access, certification and diversification. The Hudson Valley Agribusiness Development Corporation is an RDA with a specific focus on agriculture in the largely rural geography it serves. Its business incubator is a typical example of a *virtual* incubator – one without a premises offering and that delivers most of its support via an online platform. In principle, the Incubator Without Walls Programme could serve an *unlimited* cohort, but in many ways it follows the conventional business incubator model of selection and modest-sized cohorts. Incubatees pay a fee equivalent to around 25% of the cost of participation with the remainder funded by the RDA.

Virtual business incubation emerged in a big way in the 1990s, in part facilitated by online delivery platforms. There are a healthy number, including some corporate programmes. IBM and Cisco are examples alongside the likes of the Palo Alto Virtual Incubator, Youth Cities and Vincubator.

## **21 Appendix 2 Contemporary Business Incubation Interventions**

### **A2.1 Opportunity Selection and Progress Review**

Business incubation interventions are of high value and should be focused on incubatees capable to delivering a return on that investment, however that is measured. With that in mind, business incubators should implement an entry selection process. This may involve regular and frequent consideration of applications. A useful way of doing that is to recruit a selection committee and to invite the best applicants to present their business ideas. Alternatively, the selection process may be presented as a competition – typically a business ideas competition or a business plan competition. This approach can be a useful high-profile promotional tool enhancing the perceived value of the business incubation – the *prize*.

### **A2.2 Status of Incubatees**

The legal relationship between business incubators and incubatees is generally based around a lease agreement for premises or a contract for the delivery of services. In both instances, the incubatee is a customer, albeit with a lease they tend to assume additional rights and obligations. Where the relationship is based around a contract for the delivery of services, the provision of premises is either dealt with using a separate and parallel lease or by including a license for use in the contract for the delivery of services. This is an effective method as it clearly establishes the provision of premises as a part of the service.

### **A2.3 Provision of Premises**

The most successful models of business incubation involve a premises deal and the best examples involve co-location with other incubatees – the cohort. Specialist incubators should offer premises and facilities that reflect their focus – laboratory units, food production, engineering bays, etc. All should offer some form of office space and for most business incubators, office space is all that is offered. New incubatees can be accommodated in shared open-plan offices but, where office space is the primary premises, as incubatees progresses, larger self-contained offices will be required and the business incubator should have a mix of office facilities to meet that emerging demand.

### **A2.4 Charging of Incubatees**

A structured charging plan should also be implemented with consideration given to a rent-free period of perhaps three months followed by a nine month period at a sub-market rate. Subsequent charging bands can recover some or all initial loss-making by the business incubator. Crucially, the business incubator should make simple charges encompassing all premises-related costs including rates, networks, power, reception facilities, etc. Additional costs should also be clear and bundled where appropriate.

## **A2.5 Business Advisory Support**

Incubatees will generally be appointed a specific advisor from the management team of the business incubator. The advisor will provide a core level of support directly and will sign-post incubatees to other interventions perhaps provided by the local economic development agency. Further, the advisor will function as the relationship manager for incubatees, recording the progress, participation, etc.

## **A2.6 Business Mentoring**

Business advisory support and business mentoring are often conflated – inappropriately. The best business mentoring programmes place mentors with one or at most a small number of companies. Business mentors are recruited from outside the business incubation operator and have no direct interest in an incubatee's outcome. They should be free to share opinions and coach incubatees on any matter relating to their business, including their wellbeing. There is often a tension between business mentors and their *host* business incubator, but this is a necessary issue that can normally be adequately managed.

## **A2.7 Expert Support**

Where a business incubator has a sector focus or where it has access to expertise in a university or college, a package of expert support should be offered. Given the nature of that support, it is likely to be limited and available only at reasonable notice.

## **A2.8 Advisory Boards**

A useful though less frequent additional intervention alongside Business Advisory Support and Business Mentoring, is the provision of advisory boards. Again, these groups should be recruited from outside of the business incubation operator although they should be given a clear remit and guided so that they align with the *host's* agenda. Care should also be taken to ensure that Advisory Boards do not function as shadow boards to incubatees. Advisory Boards are excellent sounding-boards for business planning and sources of business contacts. Typically, an incubatee may attend an advisory board meeting every three months.

## **A2.9 Education Programme**

Arguably the key component of any business incubation offering is its education programme. This should have two foci. Firstly, to develop entrepreneurs – ensuring that they have the key skills to drive forward their businesses. Secondly, to develop incubatee businesses – providing their management with insights and skills needed to deliver growth. Many business incubators provide access to online education resources. In reality, this compromises the value of the intervention as it removes the benefit that incubatees get from engaging at *first hand* with fellow incubatees in the cohort, albeit reducing the cost of its delivery. Notably too, attendance, and therefore ongoing commitment, can be measured.

## **A2.10 Networking Opportunities**

Many business incubators run programmes of outreach events, drawing in attendees from the wider enterprise ecosystem and or local corporates. These events may be general interest seminars or panel events, or they may be demonstration days where incubatees present their products and services. The latter can be a very useful tool when engaging with local corporates and investors. Generally, business incubators will develop partnerships within their enterprise ecosystems through which their incubatees may be invited to external networking events.

## **A2.11 Marketing Campaigns**

Where a business incubator has a sector focus, there will be scope for it to offer marketing opportunities to incubatees. These may take the form of targeted corporate demonstration events run for corporate or delegations visiting the area. An alternative approach to marketing is evident in non-technology incubators, where the business incubator itself functions as a sales channel for incubatees.

## **A2.12 Business Administration Services**

As businesses mature, they will normally make their own arrangements for matters such as business administration, accountancy, tax and human resources matters. However, nascent businesses benefit from a wrap-around care offering from business incubators, removing the need to deal with these matters in-house or the expense of engaging a professional firm. Some business incubators partner with local professional firms but secure preferred fees by virtue of the volume and potential future value of incubatees.

## **A2.13 Legal and Regulatory Support**

Again, where an incubator has a sector focus, there may be scope to deliver regulatory support, for instance in food production, chemical hazards, intellectual property, etc. Often, there is in-house capability in the management team, although this comes with risks and additional cost of insurance. Again though, it may be possible for partnerships to be put in place with professional firms that deliver high-value services at a more modest cost.

## **A2.14 Investor Engagement and Access to Finance**

As noted in the Definition of Business Incubation, business growth should be a key objective. In many cases, supporting incubatees in their capital raising is key to delivering that growth. As well as engaging investors in networking events and demonstration days, a business incubator should maintain open channels of communications with relevant investors, keeping them informed about incubatees' progress and staying abreast of investing patterns and deals being done. In addition, the business incubator should be a source of current knowledge on grant and soft-loan programmes available through the local economic development agency and should

host awareness workshops on those programmes. Finally, workshops and support should ensure that incubatees are quickly investor-ready with a practiced investor pitch.

#### **A2.15 Management Team Building**

As incubatees mature, consideration should be given to building their management teams. The business incubator should be a focal point for engagement with potential candidates for roles with incubatees – both directly with those individuals and with agents and head-hunters. There have been some interesting programmes involving seconding experienced executives from local corporates, sometimes leading to permanent positions being offered. This can often serve the interests of the local corporates well, as it provides career opportunities for otherwise *static* senior management.

#### **A2.16 Graduation Planning**

A key service from any business incubator is supporting the departure of incubatees from the programme. This may be at the end of a defined period, after the completion of pre-specified business objectives or as a result of a more subjective judgement by a business advisor. Or it may be a remedial outcome from lack of performance. Regardless, the graduation of incubatees should be well planned and facilitated with support given to securing follow-on premises, addressing property related obligations such as rates, insurances, licences, etc and replacing any business services delivered by the business incubator. The business incubator should also provide mail and call forwarding for a period.

## 22 Appendix 3 Contemporary Business Incubation Interventions Cost Recovery

**Table A3.1: Business interventions, resources and costs recovery**

Intervention	Activity Profile	Resource and Cost Profile
Opportunity Selection	<p>Challenging and competitive, often with an assessment of individuals entrepreneurial qualities.</p> <p>Often an open call for applications to ensure the best opportunities are attracted.</p>	<p>Management team led</p> <p>Advisory board involvement</p> <p>Selection panel meeting</p> <p>Overhead cost allocation, 100%</p> <p>No direct recovery</p>
Progress Review	<p>Considers the development of incubatees against agreed objectives, with relatively binary outcomes.</p> <p>Reflects a need to fill every <i>place</i> in business incubator with high value opportunities.</p>	<p>Management team led</p> <p>Advisory board involvement</p> <p>Overhead cost allocation, 100%</p> <p>No direct recovery</p>
Status of Incubatees	<p>Normally, the incubatee will be a limited company and the entrepreneur a director of that company.</p> <p>Business activities are channelled through that company.</p>	NA
Provision of Premises	<p>Progressive rental bands reflecting ability of incubatee to pay.</p> <p>Opportunities for grow-on space with higher rental band to compensate for likely early discount.</p>	<p>Sunk cost to secure whole incubation facility</p> <p>Overhead cost allocation, 100%, assuming property is leased</p> <p>Recovery through rental charges</p>
Charging of Incubatees	<p>Participation fee often assumed to be an equity investment or loan.</p> <p>Generally non-core interventions charged at or near market levels.</p>	NA

<b>Intervention</b>	<b>Activity Profile</b>	<b>Resource and Cost Profile</b>
Business Advisory Support	Highly focused on delivering agreed business objectives.	Management team led Overhead cost allocation, 100% No direct recovery
Business Mentoring	Ideally high-profile industry-experienced recruit – often paid.	Management team led Mentor fees absorbed Overhead cost allocation, 100% No direct recovery
Expert Support	Bought in at favourable rates and charged on as required.	Outsourced service Direct cost allocation, 100% Direct recovery, 100%+
Advisory Board	High profile professional appointments, potentially sharing the business incubators' carried interests.	Management team led Overhead cost allocation, c25% Direct cost allocation, c75% Direct recover possible, c75% Consider partial or full cost absorb
Education Programme	Normally a rolling-programme of stand-alone modules focused on business development challenges.  Attendance is optional though non-attendance often seen negatively.	Outsourced service Development fees absorbed Overhead cost allocation, c25% Direct cost allocation, c75% Direct recover possible, c75% Consider partial or full cost absorb
Networking Opportunities	Maximised, with high-profile external attendees.  Largely based around topical seminars with free-form networking to follow.  Attendance is optional though non-attendance often seen negatively.	Management team led Overhead cost allocation, c25% Direct cost allocation, c75% Direct recover possible, c75% Consider partial or full cost absorb

<b>Intervention</b>	<b>Activity Profile</b>	<b>Resource and Cost Profile</b>
Marketing Campaigns	Often part of Networking Opportunities.  Consider delegations to strategic locations.  Platform offered to incubatees but they must take responsibility.	Management team led  Normally, in partnership with RDA  Overhead cost allocation, 20%  Direct cost allocation, 80%  Direct recovery, 100%+
Business Administration Services	Introductions provided to appropriate firms.	Outsourced service  Direct cost allocation, 100%  Direct recovery, 100%+
Legal and Regulatory Support	Introductions provided to appropriate firms.	Outsourced service  Direct cost allocation, 100%  Direct recovery, 100%+
Access to Finance	Sign-posting to available grants.	Management team led  Overhead cost allocation, 100%
Investor Engagement	Close engagement with in-house investor, if one exists.  Active engagement by business incubator with group of external investors, priming introductions to incubatees.  Otherwise, free engagement by incubatees encouraged.	Management team led  Overhead cost allocation, 100%
Management Team Building	Introductions of high-quality candidates made according to agreed business objectives.  Business incubator actively builds a network of potential executives.	Management team led  Overhead cost allocation, 100%
Graduation Planning	Progression of incubatees should gradually and naturally lessen their ties with business incubator.  Successful business incubation should mean graduation planning is primarily about alternative premises.	Management team led  Overhead cost allocation, 100%

## 23 Appendix 4 Mission-led Business Incubation Interventions

**Table A4.1: Mission-led business incubation interventions**

Intervention	Contemporary Model	Mission-Led Model
Opportunity Selection	<p>Challenging and competitive, often with an assessment of individuals entrepreneurial qualities.</p> <p>Often an open call for applications to ensure the best opportunities are attracted.</p>	<p>Encouraging and progressive, reflecting that many applications may be uncertain and lacking entrepreneurial experience.</p> <p>Likely to be fixed application dates that allow comparison between many applications.</p> <p>Ultimately, leading to a <i>hard</i> decision, but the aim to select a cohort capable of delivering the mission ambitions.</p>
Progress Review	<p>Considers the development of incubatees against agreed objectives, with relatively binary outcomes.</p> <p>Reflects a need to fill every <i>place</i> in business incubator with high value opportunities.</p>	<p>Generally reflects the development of the entrepreneur and their emerging ambitions.</p> <p>Later in the process, the emergence of the business proposition may be considered.</p>
Status of Incubatees	<p>Normally, the incubatee will be a limited company and the entrepreneur a director of that company.</p> <p>Business activities are channelled through that company.</p>	<p>Incubatee likely to be an individual.</p> <p>Consideration to be given to some form of employment.</p> <p>Business activities may be channelled through the business incubator.</p>
Provision of Premises	<p>Progressive rental bands reflecting ability of incubatee to pay.</p> <p>Opportunities for grow-on space with higher rental band to compensate for likely early discount.</p>	<p>Reflecting need rather than ability to pay.</p> <p>Consider progressive rental bands but levels set so that provision of premises is an enabler.</p>

<b>Intervention</b>	<b>Contemporary Model</b>	<b>Mission-Led Model</b>
Charging of Incubatees	Participation fee often assumed to be an equity investment or loan.  Generally non-core interventions charged at or near market levels.	Participation fee like to be a disincentive.  Early interventions likely to be core – focused on entrepreneur.  Consideration of subsidised pricing structure for business-related costs, ideally recovered from business income.
Business Advisory Support	Highly focused on delivering agreed business objectives.	More progressive, with initial focus on entrepreneur.  Nurturing approach, more challenging over time.
Business Mentoring	Ideally high-profile industry-experienced recruit – often paid.	Likely to be experienced local industry current figures – generally volunteers.
Expert Support	Bought in at favourable rates and charged on as required.	Sought from local industry operators – generally as a favour.
Advisory Board	High profile professional appointments, potentially sharing the business incubators' carried interests.	Experienced local industry retired figures – generally volunteers.
Education Programme	Normally a rolling-programme of stand-alone modules focused on business development challenges.  Attendance is optional though non-attendance often seen negatively.	Likely to be a scheduled formal programme of education focused on the development of the entrepreneur.  Followed by a less-formal series of business-focused workshops.  Attendance mandatory.
Networking Opportunities	Maximised, with high-profile external attendees.  Largely based around topical seminars with free-form networking to follow.  Attendance is optional though non-attendance often seen negatively.	Likely to be more managed with practically relevant external attendees invited to present or to meet small groups of entrepreneurs.  Follow-up may be actioned by business incubator.  Attendance mandatory.

<b>Intervention</b>	<b>Contemporary Model</b>	<b>Mission-Led Model</b>
Marketing Campaigns	Often part of Networking Opportunities.  Consider delegations to strategic locations.  Platform offered to incubatees but they must take responsibility.	Likely to be more managed.  Active promotion of incubatees' offerings to local markets.  Product sales may be channelled through the business incubator itself.
Business Administration Services	Introductions provided to appropriate firms.	Initially, undertaken by business incubator.  Aligned local firms may take on direct engagement with incubatees later in process, at agreed fees.
Legal and Regulatory Support	Introductions provided to appropriate firms.	Initially, undertaken by business incubator.  Aligned local firms may take on direct engagement with incubatees later in process, at agreed fees.
Access to Finance	Signposting to available grants.	Consider initial subsistence allowance
Investor Engagement	Close engagement with in-house investor, if one exists.  Active engagement by business incubator with group of external investors, priming introductions to incubatees.  Otherwise, free engagement by incubatees encouraged.	Likely to be managed by business incubator.  Known group of mission-aligned lenders invited to present or to meet small groups of entrepreneurs.
Management Team Building	Introductions of high-quality candidates made according to agreed business objectives.  Business incubator actively builds a network of potential executives.	Focus on developing the entrepreneur, given nature of businesses being incubated and their future development path.

<b>Intervention</b>	<b>Contemporary Model</b>	<b>Mission-Led Model</b>
Graduation Planning	<p>Progression of incubatees should gradually and naturally lessen their ties with business incubator.</p> <p>Successful business incubation should mean graduation planning is primarily about alternative premises.</p>	<p>Wrap-around nature of support requires more actively-planned disengagement.</p> <p>Business entity may need to be formed to become vehicle for trading – transferred from business incubator.</p> <p>Alternative business premises may be a major task and capital-intensive.</p>

## **24 Appendix 5 Farm Incubator Case Studies**

### **A5.1 Le Germeir, Calais**

Claims to be the first farm incubator in France. Provides small land packets for 3 to 4 years alongside farm support, general business support and mentoring. A range of equipment and crop storage is available to participant and Le Germeir provides office space to participants.

### **A5.2 Envols, Metz**

Provides small land packets and two cold tunnels to each participant as well as business support, mentoring, general farm support and a farm *tutor*. Offers shared plant, green house and crop storage facilities and shared business services including administrative and regulatory services. A *formal* programme offering 3 places per year.

### **A5.3 La Combe de Saint Affrique**

Provides modest sized land packets with features such as irrigation infrastructure. Has a range of plant and equipment for hire by participants. Farm support provided and business support through a local business support agency. Participants' product sales channelled through farm incubator – providing route to market and administration of sales process.

### **A5.4 ETAL40, Bordeaux**

A farm incubator with an established route to market as its main offering. Participation limited to those with some existing experience though some farm and business support, including mentoring, provided. Four places offered with reasonable land packet sizes but at a relatively high basic participation cost. ETAL40 sells its participants' produce, particularly to local caterers and restaurants.

### **A5.5 Agritest, Vaucluse**

Facilitates land access deals within region or supports participants who organise their own land access. Range of business and farm services modest and participants must be self-funded, both operating costs and living costs. Graduating participants *take land with them* with Agritest facilitating such deals.

### **A5.6 Intervale Centre, Vermont**

Operates with a community food sustainability vision. Encompasses 360 acres of land with core infrastructure. Provides business planning, mentoring and networking support and a web-based market hub for selling directly to local consumers.

### **A5.7 New Entry Sustainable Farming Project, Massachusetts**

Participants first take part in a business planning programme and are provided with support to develop their farm business plans. Participants then apply to proceed with

success based largely on their business plans. At that point, participants are provided with a small land packet with storage and greenhouse facilities and have access to plant, equipment and cold storage. Ongoing support is focused on farm management, production and business matters. Market access is provided through a wide ranging market hub. There is a particular focus on transitioning from the farm incubator, including farm and search.

#### **A5.8 Alba Organic Farm Incubator, California**

Farm incubator is offered to graduates of its one year Farmer Education Course, which provides a broad-scoped education programme. Farm incubator is a four year programme with initially small land packets provided but with scale-up potential included. Farm support and equipment are provided as part of a subsidised package as well as ongoing business support.

#### **A5.9 Dirty Works Incubation Farm, South Carolina**

A relatively limited US Model offering with a farm apprenticeship programme focused on those with some existing farm experience. As well as modest land packets, it provides so-called business toolkits and some farm and business support. The Dirty Works Incubation Farm does though have two notable features. Firstly, it encourages part time participation. Secondly, it matches participants with a partner food business as a way of developing the product offering with actual business customer input.

#### **A5.10 Headwaters Farm Incubation Programme, Oregon**

Core offering appears to be around land, plant, facilities and storage for those experienced in farming but without access to land and resources. That core offering is charged and a relatively low cost. The offering is for up to 5 years. Support appears relatively modest though participants are encouraged to attend local educational programmes, though this is not a formal programme. Some support is offered by Headwaters Farm Incubation Programme itself and the value of shared learning amongst the cohort of participants is important.

## 25 Appendix 6 Farm Business Incubation Interventions

### A6.1 Opportunity Selection

This intervention serves the mission of the farm business incubator rather than the incubatees. Clearly, the mission outcomes are more likely to be delivered if the *right sort* of incubatees are accepted onto farm business incubator. Once that *right sort* is somehow defined, the opportunity selection process should be shaped accordingly. Consideration should be given to character and aptitude testing and to geographic preferences. A regular fixed intake allows for the more formal programme delivery suggested here and helps create definable cohorts, which itself creates value. However, fixed intakes require greater upfront investment in delivery resources and may be challenging for certain interventions, for instance with the availability of land packets.

### A6.2 Status of Incubatees

It is notable that in France, participants in farm incubators may retain their status as unemployed, through the CAPE arrangement. On the other hand, incubatees on the Royal Society of Edinburgh Enterprise Fellowship become employees of the university *hosting* their business incubation. For the most part though, business incubation is a service delivered by a service provider, the business incubator, to a customer, the incubatee. A contract for services should define the scope, terms, duration, recourse, etc and both parties will be bound by the terms of that contract. In some cases, the customer or incubatee is an individual. Of course, in many instances, the business and the individual will be indistinguishable. In other cases, the customer or incubatee will be a business, in which case employees of that business may benefit directly from the services delivered.

Where business incubation is simply a *front* for a property play, the main contract between the business incubator and the incubatee may be a lease with a subsidiary contract for services. Mission-led incubators are much less likely to use such an approach as their mission outcomes are more important and more likely to be delivered as a result of the service delivery. A more appropriate way of establishing the contractual relationship alongside a property offering (including land and facilities) is to include a *license to use* provision in the contract for services. This establishes the provision of land and facilities as an inherent and equal part of farm business incubation and avoids the additional responsibilities on both sides of lease agreements.

As noted elsewhere, there may be scope for incubatees to be treated as students during the stage 1 farm business education programme. That status is useful to secure funding for incubatees from SAAS and would come to an end at the end of that part of the farm business incubation process.

### **A6.3 Stage 1 Progress Review**

Again, this intervention serves the mission of the farm business incubator primarily. In many ways, it is a *midterm* selection process. Consideration should be given to a selective graduation from the initial education programme to the more practical stage. The latter will involve a significant commitment of resources over a long period, and this should not be done without some confidence in the incubatees. Further, after the initial intensive farm business education programme, all incubatees should be able to elucidate their plans and ambitions. A presentation on their plans and ambitions may serve the process well, alongside a formal interview.

### **A6.4 Stage 1 Farm Business Education Programme**

An initial intensive farm business education programme will provide a necessary base-level understanding across a range of areas. This should be provided in a conventional learning environment to the whole cohort. Business and farming subjects should be covered ahead of the practical stage of the programme. This intervention will also help clarify the focus, expectations and requirements of incubatees ahead of that following stage. The duration of this phase of farm business incubation is unclear but there are examples in the US where this is done over a one year period.

### **A6.5 Stage 2 Farm Business Education Programme**

A less structured and less intensive programme of learning delivered alongside other interventions to multiple cohorts and focused on practical support. The range should be broad, encompassing farming and business topics. Typically, individual workshops may be delivered over half a day or a whole day, perhaps fortnightly or even monthly. Critically, follow-up should be led by a business advisor to ensure actions are being taken. Attendance may not be mandatory but would be expected.

### **A6.6 Food Production Education Programme**

As above, but with a food production focus. This may include formal training in food hygiene, etc.

### **A6.7 Forestry Education Programme**

As above, but with a forestry focus.

### **A6.8 Provision of Land and Facilities**

Setting aside the legal side of this intervention, which was discussed in A6.2, this provision should begin after the stage 1 farm business education programme. Ideally, the farm business incubator would *own* a plot of land sufficiently large to accommodate multiple incubatees in multiple cohorts and with installed infrastructure and adequate storage buildings. Several US farm incubators have hundreds of acres at their disposal which allows for incubatees to scale up their farm businesses *in situ*. A single site would also allow the farm business incubator team, etc to be co-located. The area of land needed for such an offering in Scotland is not yet clear.

A single site provision also helps to reinforce the cohesion of each cohort, which provides crucial peer group support. Farming is after all renowned as a rather lonely profession. But the cohort effect is a common aim of almost all business incubation. It enhances the learning and development experience considerably.

All that said, there are models of farm incubation that rely on ad hoc land availability, generally separate land packets identified for each incubatee. Operationally, this is perhaps more practical and may be better financially since land then becomes a direct cost. However, as well as losing cohort benefit, or at least much of it, this approach also makes interventions such as the Provision of Plant and Equipment far less practical.

Given that three farm models were considered, the provision of land and facilities should encompass forestry land and a food production unit. The latter may be better sourced from a local delivery partner – perhaps excess capacity at a local food production business. Areas of forestry land may be readily available alongside farmland, so may be part of a single site. However, scope to scale up forestry production may be dependent on securing additional plots, ideally near by.

One option to be considered may be multiple single sites – sites capable to hosting single cohorts. This would allow a *peripatetic* delivery which may serve the mission objective well.

In terms of the duration of this provision, it is again unclear at present. Good practice in wider business incubation typically sees incubatees hosted for two or three years. A three year deliver in the case of the suggested farm business incubator might see incubatees farm their land for only two years – given the initial stage 1 farm business education programme. In principle, incubatees should be given enough time to prepare their businesses to face the recognised barriers to entry and business challenges. If that takes longer than three years, the duration should be extended.

Note, no mention has been made of the provision of housing, which was identified as a barrier to entry for new entrants into farming. Further consideration of this is required as the practicalities and costs of a provision would be challenging. Amongst the international case studies considered, none provides housing.

#### **A6.9 Provision of Plant and Equipment**

On the fact of it, a relatively straightforward rental provision with *core* plant and equipment *owned* by the business incubator and a managed access process in place. Generally, in other farm incubators, access is charged and this seems reasonable. However, a tiered charging plan may provide new incubatees lower rates.

#### **A6.10 Provision of Business Services**

The notion here is to provide a wrap-around business service for new entrepreneurs where by they are able to focus on their farming and developing their businesses

during their early stages in incubation. It might be argued that this is rather an indulgence and that it creates an *unreal* experience for incubatees. Certainly any provision should be phased down so the businesses are more self-reliant quite quickly. The range of services may include bookkeeping services and financial management, staff and payroll services, banking and handling HMRC matters.

There is also a good case for the farm business incubator to have relationships with expert services providers, including lawyers and accountants, in order that incubatees can access those expert services at preferred rates as and when they require them. The range of experts may include food production and forestry advisors.

#### **A6.11 Food Production Compliance Management and Support**

A more specialist form of business services relates to food production regulations and compliance. Several food industry incubators assume a level of management and oversight of incubatees' production processes in order that regulations are complied with. This seems like a worthwhile provision although it is one that might be readily outsourced, particularly if a food production facility is provided by a delivery partner.

#### **A6.12 Quality Control Support for Timber Production**

Another specialist provision, this time specific to those on the farm business incubation for farm and forestry businesses. This would be an externally sourced service relevant to later stage incubatees and therefore charged on – effectively an extension of the provision of business services.

#### **A6.13 Direct Consumer Sales Platform**

This is a common offering from farm incubators in France and the US. Some have farm shops whilst others provide a web platform for sales to the local area. Both options are worth considering particularly to help early stage incubatees generate income from modest production levels. There may be scope to charge a small commission on sales through any platform.

#### **A6.14 Trade Business Development and Sales Services**

This intervention can be particularly relevant to more mature incubatees with larger volumes of consistent product to offer. The farm business incubator may aggregate supplies from incubatees to sell to larger customers. Alternatively, the farm business incubator may manage a number of trade relationships, such as restaurants, catering businesses and small grocers. In both cases, sales would be struck between the customer and the farm business incubator with supplies from incubatees. With modest volumes of business, this service should be deliverable without additional staffing.

#### **A6.15 Farm Business Mentoring**

Mentoring from those with directly relevant experience is an offering provided by nearly all business incubators. In this case, it would seem appropriate for a current or ex-farmer to be appointed with each incubatee. There are two very strong justifications

for this. Firstly, such mentors help *contextualise* the substantial volume of new knowledge being absorbed by incubatees. Secondly, and more importantly, the mentor should fulfil a more *personal* role reflecting the fact that the challenges of starting a new farm are challenges that they have faced. Any entrepreneurial endeavour is inherently isolating on many levels and having an *old hand* to hold can be critical to maintaining the commitment of incubatees, particularly during difficult times.

#### **A6.16 Industry Mentoring**

This may be seen as a range of interventions, rather than a single one. An interesting though seldom offered service in the case studies considered involved pairing incubatees with experienced members of staff of larger companies in their markets. In many ways, this reflects one of the services offered by corporate business incubators and it can offer major benefits, as long as the industry mentor adopts a fundamentally supportive role.

Whilst incubatees with farm only ambitions may be appointed a single mentor, it would be appropriate for additional mentor appointments to be made for those pursuing a diversified farm business – so a Food Production Mentor or a Forestry Mentor.

All should follow the same guideline – that the incubatees benefit from a range of support around industry specific matters. Actions from mentor meetings will often be discussed further with an incubatee’s business advisor in order that solutions might be delivered *through* the farm business incubator.

#### **A6.17 Business Advice and Business Planning Support**

General business advice will be crucial to incubatees in their early stages in part to ensure their learning from the education programmes is applied appropriately. A business advisor should also be the frontline relationship manager for incubatees, taking forward issues and making connections, etc. That role will also ensure that adequate and appropriate progress is being made by incubatees.

Early in the process, incubatees should be encouraged to start business planning. The education programmes should prepare them for this process, but the business advisor should deliver targeted support and feedback. A credible business plan will be crucial for a successful graduation from the farm business incubator. It should be a clear objective for incubatees and support offered should be up to scratch.

#### **A6.18 Investor Engagement Programme**

For the farm business incubator, this is likely to involve maintaining close relations with bank lenders and other private debt providers as well as government agencies that offer funding to farmers. Incubatees should be clear on what they have to do to secure the investment they require and investors should have early sight of incubatees in order that they can provide feedback on their progress. Preferred relationships with

investors are perhaps unlikely but decisions made by investors regarding deals with incubatees should not *surprise* the farm business incubator. There should be prior knowledge of likely decisions and remedial action taken ahead of time to resolve issues. This approach establishes confidence in the farm business incubator amongst investors, which may improve the prospects of incubatees looking for funds.

#### **A6.19 Grant Management and Support**

This is an additional business service that may be offered to earlier stage incubatees in order that the administrative burden of both applying for and managing agricultural and forestry grants, and the *technical* challenges therein, do not stifle their early development.

#### **A6.20 Networking Opportunities**

Hosting networking events is a staple provision by any business incubator. These may be more straightforward to deliver in urban areas but even modest sized *local* events offer value. Events often have a theme which may inform who is invited. However, there may be a list of local farmers and those from agricultural businesses that are invited to all events. Typically, events will run in the evenings, perhaps once a month, hosted by the farm business incubator.

#### **A6.21 Graduation Planning and Support**

This should primarily focus on ensuring key business engagements are progressively *handed over* to incubatees in the final year at the farm business incubator, particularly services earlier delivered as part of the programme.

#### **A6.22 Land-Matching Service**

Whilst a successful farm business incubator may in time drive change in the market for farmland, this will take time and is likely to be dependent on legislative change amongst other things. As such, the farm business incubator should act as a proactive intermediary for incubatees.

## 26 Appendix 7 Design Process of Farm Business Incubation Interventions

### A7.1 Farm-Only Business

The schedule of desirable business outcomes to address the known barriers to entry and major business challenges facing prospective incubatees and considering factors relating to the mission are as follows.

**Table A7.1: Mapping of barriers to entry and major business challenges with desirable business outcomes – farm-only business**

<b>Underpinning factors</b>	<b>Business outcome</b>
<u>Barriers to entry</u>	
Availability and cost of land	Supply of key resources for farm entrepreneurs
Poor infrastructure on leased land	Supply of key resources for farm entrepreneurs
Scale of plant and machinery requirements	Supply of key resources for farm entrepreneurs
Access to capital	Improved skills and knowledge Access to experienced advisors and mentors Preferred relationships with investors and lenders
Lack of entrepreneurial and business skills	Improved skills and knowledge Access to experienced advisors and mentors
Lack of technical agricultural knowledge	Improved skills and knowledge Access to experienced advisors and mentors
Access to housing in rural locations	Supply of key resources for farm entrepreneurs
Concern of inadequate income potential	Reduced start-up costs for period

<b>Underpinning factors</b>	<b>Business outcome</b>
<i><u>Major business challenges</u></i>	
Supply of good quality labour	Supply of key resources for farm entrepreneurs
Limited routes to market	Centralised marketing and sales activities
Inability to manage regulatory compliance	Centralised business services
Bureaucratic grants processes	Centralised business services
Lack of peer group support in rural locations	Access to experienced advisors and mentors
Loss of industry knowledge and experience	Access to experienced advisors and mentors
<i><u>Mission factors</u></i>	
Increase economic, social and cultural impact	Increase uptake of farming as a career
Facilitate generational change	Increase uptake of farming as a career Increase participation from younger age groups
Improve farm viability and resilience	Improved skills and knowledge Access to experienced advisors and mentors Reduced start-up costs for period Improved knowledge of diversification opportunities

<b>Underpinning factors</b>	<b>Business outcome</b>
Drive innovation and improve farm performance	Improved skills and knowledge Access to experienced advisors and mentors Reduced start-up costs for period Improved knowledge of diversification opportunities
Improve environmental impact	Improved skills and knowledge Access to experienced advisors and mentors

A programme of business incubation interventions can then be mapped from the identified desirable business outcomes.

**Table A7.2: Mapping of desirable business outcomes with interventions – farm-only business**

<b>Business outcome</b>	<b>Business incubation intervention</b>
Supply of key resources for farm entrepreneurs	Provision of land and facilities Provision of plant and equipment Investor engagement programme Land-matching service
Improved skills and knowledge	Stage 1 farm education programme Stage 2 farm education programme Farm business mentoring Industry mentoring Business advice and business planning support
Access to experienced advisors and mentors	Farm business mentoring Industry mentoring Business advice and business planning support

<b>Business outcome</b>	<b>Business incubation intervention</b>
Preferred relationships with investors and lenders	Investor engagement programme Stage 2 farm education programme Farm business mentoring Industry mentoring Business advice and business planning support
Reduced start-up costs for period	Provision of land and facilities Provision of plant and equipment
Centralised marketing and sales activities	Direct consumer sales platform Trade business development and sales service Industry mentoring
Centralised business services	Provision of business services Grant management and support
Increase uptake of farming as a career	Opportunity selection Status of incubatees Progress reviews
Increase participation from younger age groups	Opportunity selection Status of incubatees Progress reviews
Improved knowledge of diversification opportunities	Provision of land and facilities Provision of plant and equipment Investor engagement programme Stage 2 farm education programme Farm business mentoring Industry mentoring Business advice and business planning support Land-matching service

## A7.2 Farm and Food Production Business

The schedule of desirable business outcomes to address the known barriers to entry and major business challenges facing prospective incubatees and considering factors relating to the mission are as follows.

**Table A7.3: Mapping of barriers to entry and major business challenges with desirable business outcomes – farm and food production business**

<b>Underpinning factors</b>	<b>Business outcome</b>
<u><i>Barriers to entry</i></u>	
Availability and cost of land with facilities	Supply of key resources for farm entrepreneurs
Scale of plant and machinery requirements	Supply of key resources for farm entrepreneurs
Access to capital	Improved skills and knowledge Access to experienced advisors and mentors Preferred relationships with investors and lenders
Additional time pressures	Improved skills and knowledge Access to experienced advisors and mentors
<u><i>Major business challenges</i></u>	
Achieving minimum viable production levels	Supply of key resources for farm entrepreneurs Pooled production
Reliability of supply of raw materials	Pooled production
Inability to manage regulatory compliance	Centralised business services
Lack of marketing skills	Improved skills and knowledge Access to experienced advisors and mentors

<b>Underpinning factors</b>	<b>Business outcome</b>
Product differentiation and competition	Improved skills and knowledge Access to experienced advisors and mentors Centralised marketing and sales activities
Limited routes to market	Centralised marketing and sales activities
Tight profit margins	Pooled production Improved skills and knowledge Access to experienced advisors and mentors Reduced start-up costs for period

A programme of business incubation interventions can then be mapped from the identified desirable business outcomes.

**Table A7.4: Mapping of desirable business outcomes with interventions – farm and food production business**

<b>Business outcome</b>	<b>Business incubation intervention</b>
Improved skills and knowledge	Food production education programme
Access to experienced advisors and mentors	Food industry mentoring Food production compliance support and management
Pooled production	Centralised food production management
Centralised business services	Food production compliance support and management

### A7.3 Farm and Forestry Business

The schedule of desirable business outcomes to address the known barriers to entry and major business challenges facing prospective incubatees and considering factors relating to the mission are as follows.

**Table A7.5: Mapping of barriers to entry and major business challenges with desirable business outcomes – farm and forestry business**

<b>Underpinning factors</b>	<b>Business outcome</b>
<u><i>Barriers to entry</i></u>	
Availability of land with forestry potential	Supply of key resources for farm entrepreneurs
Scale of initial production investment	Supply of key resources for farm entrepreneurs
Access to capital	Improved skills and knowledge Access to experienced advisors and mentors Preferred relationships with investors and lenders
Long term nature of financial model	Improved skills and knowledge Access to experienced advisors and mentors Preferred relationships with investors and lenders Reduced start-up costs for period
<u><i>Major business challenges</i></u>	
Achieving minimum viable production levels	Pooled production Improved skills and knowledge Access to experienced advisors and mentors Reduced start-up costs for period

<b>Underpinning factors</b>	<b>Business outcome</b>
Lack of capability to evaluate opportunity	Improved skills and knowledge Access to experienced advisors and mentors Centralised business services
Perceived reliance on additional diversifications	Improved skills and knowledge Access to experienced advisors and mentors
Perceived cost of harvesting	Improved skills and knowledge Access to experienced advisors and mentors Reduced start-up costs for period
Access to higher value markets	Centralised marketing and sales activities Access to experienced advisors and mentors
Quality control standards for higher value markets	Improved skills and knowledge Access to experienced advisors and mentors Centralised business services

A programme of business incubation interventions can then be mapped from the identified desirable business outcomes.

**Table A7.6: Mapping of desirable business outcomes with interventions – farm and forestry business**

<b>Business outcome</b>	<b>Business incubation intervention</b>
Improved skills and knowledge	Forestry education programme
Access to experienced advisors and mentors	Forestry mentoring
Pooled production	Centralised forestry harvesting management
Centralised business services	Quality control support for timber production

## **27 Appendix 8 Partnering Opportunities for Farm Business Incubation**

### **A8.1 Local Landowners**

The notion of *acquiring* land from the state to resource the Provision of Land and Facilities has already been recognised by SLC. However, there may also be scope to engage local landowners. Further, the Provision of Land and Facilities to incubatees is likely to be the subject of a License to Use, as part of a wider Contract for the Delivery of Incubation Services, rather than a tenancy. By derisking the leasing process, appropriate packets of high value land with existing infrastructure may be available at a modest cost.

### **A8.2 Forestry and Land Scotland**

There may be value in negotiating access to Forestry and Land Scotland land partially pre-planted with mature or near mature stock. This would provide a more meaningful resource to manage for incubatees involved in the farm and forestry business incubation programme.

### **A8.3 Further Education Colleges and Universities**

The Phase 1 Education Programme is effectively a formal course, sitting ahead of what might be considered to be a business incubation programme. A reasonable strategy may be to partner with a local university or further education college, with the development and delivery of the programme material effectively outsourced.

### **A8.4 Local Professional and Business Services Firms**

Possible contributors to the Phase 2 Education Programme are local professional and business services firms. It is common practice for such firms to develop and deliver workshops on specific topics relevant to them. These are often *technical* workshops yet tend to be delivered at no charge. A key premise here is that no one firm is asked to do a lot, so relationships with several firms is critical. Firms tend to do this as part of a speculative business development exercise – building relationships with potential future clients. Some form of public recognition of a firm's contribution is often appreciated and helps maintain the relationship.

### **A8.5 Government Economic Development Agencies**

Entrepreneurial support is a staple service of Scottish Enterprise, Highland and Islands Enterprise, South of Scotland Enterprise and the Business Gateway. The farm business incubator suggested should deliver modest volumes of *high value* businesses. As such, those agencies may see the programme as a client pipeline. They could be approached to deliver business planning support to each incubate and to contribute resources, contacts and support to the provision of business services,

industry mentoring, the investor engagement programme, trade business development and graduation planning.

#### **A8.6 Local Food Production Businesses**

There may be opportunities to secure excess production capacity in local businesses to form part of production facilities available to incubatees on the Farm and Food Production Business incubation programme. Where there is some foresight in their availability, this arrangement could work well as any charges should be based on the marginal cost. Again, some form of public recognition of a business's contribution is often appreciated and helps maintain the relationship. These businesses may also contribute time to food industry mentoring.

#### **A8.7 Larger Agricultural Plant and Equipment Companies**

There may be scope to secure assets for the provision of plant and equipment from manufacturers and distributors. In some instances, written-down ex-demo or ex-lease units may be secured, at its balance sheet value or even less, plus the cost of an appropriate service. Again, the manufacturers and distributors may regard this exercise as speculative business development with the added benefit of public recognition of their contributions. These companies may also contribute time to Industry Mentoring.

#### **A8.8 Impact Investment Managers**

There may be scope to offer some sort of loan facility to incubatees, most notably to cover the early costs ahead of their farm businesses generating revenue. To do this, it is likely that an entity regulated by the Financial Conduct Authority would be needed. Impact investment managers would seem obvious candidates, such as Social Investment Scotland. They might manage a loan fund created with capital contributions from larger stakeholders.

#### **A8.9 Local Business Associations and Chamber of Commerce Branches**

These organisations provide a ready-made network of local business people generally willing to *give back* to the community. Some may be willing to contribute to the education programmes. Further, these organisations are often very well connected, so particularly useful for trade business development activities, industry engagement and the investor engagement programme.

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