

# InCompass Study Visit Rotterdam 2-3 May 2012

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**In**  **compass**  
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# 1 Introduction to the project

An incubator is a type of business support infrastructure that assists new, usually young promising entrepreneurs for a limited period of time to grow from the birth of an idea for an innovative product to a starting business that can stand on its own feet. Most incubators of start-ups in creative industries are public and non-profit organizations. Therefore, it is often taken for granted that they are strongly supported financially by national, regional or local authorities. Besides, it is very common that these authorities provide physical infrastructure (buildings, land) for their establishment. In the past few years since the start of the global financial turmoil and economic slowdown however, these business support institutions face growing difficulties for public funding due to austerity policies.

It cannot be taken for granted that public funding of creative incubators will be re-established in the way and to the extent as before the current austerity policies, irrespective of any recovery of public finance. Therefore, the EU-subsidized project InCompass (in full: Financially Sustainable Creative Incubator Units) aims to support the financial self-sustainability of creative incubator units by developing innovative methods to move away from a financial dependence on public funding towards financial self-sustainability. To that aim, it will undertake a program of transnational research and analysis of existing and emerging innovative financial practices by means of study visits to incubators in several partner cities in InCompass. The experiences and conclusions of each visit will be reported to Regional Implementation Groups in all cities and regions that are official partner in the project.

In the next chapter, this report presents some background information on the main themes of InCompass. These themes are subdivided into three Work Groups. The chapters 3 and 4 are dedicated to a short characterization of Rotterdam as the urban and policy context in which the visited incubators are situated, as well as a characterization of these incubators as such. The main part of the report is constituted by the chapters 5, 6 and 7, each one presenting how the incubators earn income by ways that fit in each of the three Work Groups. The report concludes with some final remarks, including a table that overviews the findings from the chapters 5 to 7 and some indications of opportunities and threats in the near future on their way to more financial self-sustainability.

## 2 Themes of the project

### 2.1 Introduction

Self-sustainable financial independence of creative incubators from government support depends on their continuous profitability. Taking into account their particular output -trained entrepreneurs in the creative industries and new companies that survived infancy -,they invest primarily in programs to coach starting (young) entrepreneurs and to facilitate the growth of their businesses. Fees for obtained services and facilities and the rent of working spaces are the sources of income of creative incubators that first come in mind. However, these payments are in most cases a rather limited and insecure contribution to financing of the incubator. In addition, they also leave potential sources of earnings out of consideration. In order to diversify and extend their sources of income, incubators may also direct to a variety of opportunities to generate income from sources outside the incubator.

InCompass recognizes quite a broad spectrum of possible strategies to generate income that also involves external actors and partners. These strategies are grouped together as commercial

contextualisation, social contextualization, and tiers of support, networks and partnerships. For each theme, a Work Group that is composed of partners in InCompass is responsible to collect data during the Study Visits and model the data as input for the Study Visit Report. Below, the three Work Groups (WGs) are specified into some detail, mainly by means of a few examples of possible ways of earning money that fit into their label. As some of these examples show, the three types of income-generating strategies may to some extent overlap in practice.

## 2.2 Commercial contextualisation (WG1)

The aim of WG1 is to identify commercial ways for creative incubators to become more financial self-sustainability. These are first and foremost the above mentioned fees for services (e.g. workshops, master classes), facilities (from broadband internet to kitchen), and spaces (e.g. working spaces, rehearsal or meeting rooms) by start-ups that participate in the incubation programs. Economies of scale can be achieved by shared use of services, facilities and spaces by these incubatees.

In addition to these fees, there are other commercial ways to earn money. On the one hand, income may be generated from the building and the organisation of the incubator, for instance by

- making use of spaces for developing other activities (e.g. hotel, catering, conference tourism) on own account;
- renting out facilities and unused spaces in the incubator to commercial parties for activities that have little business with the incubation process but are attracted by the building;
- supplying specialised services (e.g. consultancy services) to external companies.
- charging fees to featured supplier companies

Regarding fees and rents, it is recommendable to keep them low for starting companies in an infant stage and increase these gradually with their survival and growth, i.e. with their increasing financial capacity. A well-considered selection of entries to the incubation program lays a favourable foundation for such successful entrepreneurs.

Income might also be generated from 'alumni', successful start-ups that have grown and left the incubator. This may be achieved by giving the incubator a share in the start-ups it supports. This model may be less known in Europe. An example of this is the Y-Combinator<sup>1</sup> in the US. This model stimulates the implementation of strict selection criteria for start-ups that apply for support, since the success of start-ups is directly linked to the future income of the incubator.

## 2.3 Social contextualization (WG2)

Social activity as labelled in the title of this WG includes mediation activities that connect incubatees both to each other and to partners and actors in the outside world. The main aims of these connections are stimulation of informal learning by exchanging new knowledge, information and best practices, and networking activities that may result in forms of co-creation. This entails stimulating networking between incubatees within the incubator, and between incubatees and potential partners or associates outside the incubator. The internal networks can be built up for example by

- organising social meetings in the incubator (e.g. 'Friday afternoon' and 'eat & meet' get-togethers);
- creating places in the incubator which encourage spontaneous encounters between incubates.

In addition, networking may also go beyond the incubator itself. This may include

- opening up the incubator, physically and socially, towards the surrounding urban area to discover and possibly advance resident creative talent and creative activities;

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<sup>1</sup> See <http://ycombinator.com>.



- testing creative concepts and products in the surrounding district as a learning stage in concept and product development (open lab). If fees are received for this, social and commercial contextualisation may overlap.

By and large, social contextualization contributes to successful progress of start-up companies in the incubator rather than to a sound financial position of the incubator as an enterprise in itself. Still, the more successful incubatees are, the higher their financial capacity to contribute to covering the expenses of the incubator to provide and maintain services, facilities and spaces.

## 2.4 Tiers of support, networks and partnerships (WG3)

The topics of interest for WG3 include all sorts of more or less planned and organized forms of support, networks and partnerships, in particular with partners from outside the incubators. These partners can represent a diversity of firms and institutions, including industrial companies, consultancy agencies, banks and insurance companies, and education and knowledge institutes. The contribution of tiers of support to a solid financial position of incubators can be both direct and indirect, i.e. through contributing to the successes of incubatees. These include for instance:

- subsidies and sponsoring, the latter for instance in exchange for exposure as privileged partner on the website or the wall of the incubator;
- contribution to incubation programs by means of tutoring, lecturing and coaching of incubatees in both management and entrepreneurial skills and product development.

Usually, tiers of support, networks and partnerships involve mutual benefits: public and semi-public institutions and private companies enter into such arrangements with incubators in exchange for some types of contributions to their own objectives.

## 3 Local context

### 3.1 The city of Rotterdam

On the eve of World War II, Rotterdam performed economically well as a transit port between overseas markets and the industrial German hinterland. In addition, it was a thriving city that had an international reputation for its port-related entertainment and nightlife as well as a city of modern architecture. This all came to an abrupt end with the devastating bombing of the inner city on 14 May 1940 and the subsequent destruction of the port by acts of war.

After the war, local and national governments, in close cooperation with the business community, worked towards large-scale reconstruction and further expansion of manufacturing industry and more in particular of the port as major economic motors. The port had expanded into the world's largest seaport in the 1970s. Since then, it has descended again in the global ranking to the number 4 position in size of transshipment, but it is still by far Europe's largest. In fact, the reconstruction of the port had absolute priority over reconstruction of the city's residential and cultural functions. Reconstruction of the city itself has given way to a strong tradition in modernist architecture and urban planning. The inner city was rebuilt as a central business district according to modernist principles, including wide boulevards for motorized traffic. Both the bombing and the subsequent rebuilding of the city have been indelibly printed in the identity of the city.

In the course of the post-war decades, the operational port has become increasingly more large-scale and capital-intensive - a tendency that has led to both a quantitative loss of jobs and an upgrading of skill levels of the remaining jobs - and has moved away from the city towards the North Sea.

Furthermore, Rotterdam lost most of jobs in manufacturing in the 1960s and 1970s due to the process of deindustrialisation that hit most western cities. Attempting to restructure its traditional economy after the decline of its industrial sector, Rotterdam has implemented a variety of different policies to develop services, tourism, cultural events and creative industries as important new economic sectors. Its economy has indeed transformed towards a post-industrial profile: almost two-thirds of today's 324,000 jobs in the city are in the public administration, which is relatively large in the Dutch context, and in education, health care, and finance and business services.

The reconstruction of the seaport and the manufacturing sector attracted new influxes of migrant workers from right after the war onwards, initially from peripheral parts of the Netherlands and later from Mediterranean countries. This has been followed since the 1980s by increasing globalisation of migration. Today, the urban population of 617,000 consists of some 160 nationalities and for about 50 per cent of non-western origin. Not in the last place as a consequence of the sizeable migrant population with a non-western background, the local labour force has relatively low levels of education and skills and is therefore characterised by - in general - high unemployment rates (13 per cent in 2011, about twice the national average)<sup>2</sup> and low incomes (in 2009 €29,400 per household, against a national average of €34,300)<sup>3</sup>. Many of the medium- and high-skilled jobs in the service economy in the city are carried out by suburban commuters. Over the decades, much has been done to improve the skill-levels of the resident population of the city. Nevertheless, although the city now counts 55,000 students enrolled in higher education, i.e. almost 10 per cent of the total population, there is still a long way to go, starting with more success in retaining graduated students in the city.

### 3.2 Creative industries policy up to 2010

Rotterdam set out an active policy to stimulate growth of creative industries in 1996. One of the first initiatives in this respect was the establishment of the Rotterdam Film Fund in that same year. The main objective of this new policy was growth of employment in this type of industries, to be achieved in particular by supporting entrepreneurship and facilitating business environments. Besides, considerable investments in order to achieve this growth have been done in re-developing obsolete industrial and office buildings, either stand-alone (e.g. Creative Factory, Van Nelle Factory) or in clusters (e.g. Lloyd Quarter and Schieblock) into shared working spaces. Further, the image of Rotterdam as a creative city has been built up and branded by an extended festivals and events calendar (e.g. International Film Festival Rotterdam, Cultural Capital of Europe in 2001, Architecture Biennale since 2001, North Sea Jazz since 2006). The city has been awarded as the No. 1 Dutch Festival City several times.

In 2004, the creative industry was defined as one of the three priority clusters for economic development policy - next to the clusters of medical care and port-bound industries. Further, in 2006, a Creative Industries Team was set up within the economic policy department OBR with the task to seek interdisciplinary cross-overs in order to build up a complete range of creative industries. These cross-overs were both within the creative industries sector itself and between creative industries and other economic sectors.

Over all, the range of creative industries in Rotterdam is indeed quite broad. It entails arts and culture, entertainment and creative business services (22.5, 27.1 and 50.3 per cent in 2006, respectively); the three main components of the standard definition of creative industries in the

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<sup>2</sup> [http://www.rotterdam.nl/COS/publicaties/MOR/003\\_per\\_cent20Economische\\_per\\_cent20Verkenning\\_per\\_cent20Rotterdam\\_per\\_cent202011\\_per\\_cent20samenvatting.pdf](http://www.rotterdam.nl/COS/publicaties/MOR/003_per_cent20Economische_per_cent20Verkenning_per_cent20Rotterdam_per_cent202011_per_cent20samenvatting.pdf)

<sup>3</sup> [http://www.rotterdam.nl/COS/publicaties/Vanaf\\_per\\_cent202005/11-3497\\_2.Feitenkaart\\_per\\_cent20RIO\\_per\\_cent20Rotterdam\\_per\\_cent20en\\_per\\_cent20regio\\_per\\_cent202009.pdf](http://www.rotterdam.nl/COS/publicaties/Vanaf_per_cent202005/11-3497_2.Feitenkaart_per_cent20RIO_per_cent20Rotterdam_per_cent20en_per_cent20regio_per_cent202009.pdf)

Netherlands. However, this range is far from complete: Rotterdam has in fact specialised in a very few branches, in particular modern architecture and urban planning. This has its background in the post-war reconstruction of the city, and is reflected in top knowledge institutions such as the Netherlands Institution of Architecture, the Architecture Institute Rotterdam and the Berlage Institute (moved in 2012 to the Faculty of Architecture of the University of Technology in the nearby town of Delft), top architect bureaus such as OMA and MVRDV, and major events like the Architecture Biennale since 2001 and the 2007 thematic year 'Rotterdam City of Architecture'. Further, as the *alma mater* of many architects, the Faculty of Architecture in Delft has played a major role in the current strong international position and reputation of Rotterdam as a city of architecture. Altogether, knowledge institutions and firms in both cities have developed rather strong interrelations, and not only in the field of architecture. Medical Delta for instance, is a regional knowledge-based innovative network in medical care that consists of universities and firms in these two cities and in the university city of Leiden.

### 3.3 Policy shift regarding creative economy

In 2012, the priority objective of creative industry policy has shifted in order to make Rotterdam a more attractive city to work, live, visit and relax. This implies essentially a shift from creative industry to creative city policy. Remarkably, together with this shift, part of the creative city policy now lies with the municipal department of Art & Culture as opposed to the economic policy department. The marketing of the 'attractive city' is the work of Rotterdam Marketing Ltd.

One year earlier, in 2011, a relevant initiative in current local policy that also involves creative industry development was the founding of the Rotterdam Innovation Agenda (RIA). The main objective of the RIA is to enhance the innovative capacity of the economy of the city and its region. Innovations remain to be developed by businesses; the role of local government is to create conditions for innovation by facilitating and coordinating these efforts. In general, this implies the development of an integrated vision and strategy for innovation, including improvement of the valorisation of knowledge and intensifying of the cooperation between knowledge institutes, government bodies and the business community. Major aims of this cooperation are talent development – training the required qualified labour force – and entrepreneurship development, in particular among (graduated) students. Prior to the aim to increase entrepreneurship is a program to retain graduates in the city in the first place, indeed is a long-standing problem in Rotterdam. The 'attractive city' shift of local economic policy definitely aims to contribute to this.

The efforts to upgrade the innovativeness of both the urban and the regional economies are project-oriented and sector-specific. Next to medical and health care and clean tech chemical industries, priority sectors in creative industries are architecture and industrial design. The current financial turmoil has focused priorities on retaining existing business as opposed to creating new ones. One of the first 'things to do' of RIA was to bring together – in the so-called Valorisation Program - already existing programs and activities with regard to innovation and valorisation in the key sectors with high potentialities for innovation; many new developments were, and still are taking place in the city and the region, but it was acknowledged that a general lack of coordination and cooperation existed. The overall crucial question in these days of budget cuts is what local government can actually do to enhance the coordination and building of business clusters. For the creative industries, this will be investigated by involved municipal departments in the summer of 2012.

On the whole, about 15 years of efforts by the city of Rotterdam to create a friendly climate for creative and cultural activities have not resulted in impressive growth rates of creative industries. Initially, in the period 1997 – 2002, the number of jobs rose from 7,000 to 11,000, but since 2002 it has fluctuated. In 2010 employment in the creative industries in Rotterdam was still 10,000, only a

small share of the total of 324,000 jobs in the city. The number of firms in creative industries developed in a more steady way: from about 1,200 in 1997 to about 2,100 in 2012<sup>4</sup>. This indicates a gradually decreasing average size of firms in the creative industry in the past decade.

### 3.4 Incubator policy

Rotterdam policy makers are in the process of developing a regional innovation policy framework which encompasses measures for incubators as active agents in the smooth operation of a regional innovation system (RIS). However, it seems that they are dealing with the whole business environment in the city and that individual initiatives for incubators are not their priority. In fact, Rotterdam has no explicit incubator policy.

Insofar the municipality has played a role in incubator development, this has been primarily by buying obsolete buildings that were left vacant by disappeared industrial owners, refurbishing these buildings, and trying to find opportunities to recover the costs. The implicit assumption is that incubators like industrial heritage to settle, most in particular if located in urban spaces that are lively also after working hours. Incubator development is only one of these possible opportunities. The municipality is quite willing to cooperate with other stakeholders who show interest in these buildings and it is prepared to be flexible in relation to planning regulations in order to facilitate new functions for these buildings, if convenient. Regarding the real estate where the two incubators that were visited by the InCompass consortium and discussed in the next section are established, the municipality took the lead in refurbishing the Maassilo. The other one, the RDM shipyard was refurbished by the Port of Rotterdam, a public limited company since 2004, in association with two educational institutions. In other cases, private parties took the lead, for instance in the redevelopment of the Schieblock, a post-war complex of 18 office buildings at the margin of the large-scale Central District urban regeneration project, after almost a decade of use by underground discotheques and dance clubs.

Quite a few old industrial buildings have been refurbished by the municipality to create working spaces for creative industries, including incubator development. On the whole however, the major objective was contributing to regeneration of these buildings' urban surrounding environment: creative industries as catalyst for urban regeneration. This type of regeneration fits in with the area-based approach as a principal policy instrument for urban development that was introduced in the past decade. Of the two creative incubators discussed below, the Creative Factory in the former Maassilo and DNAMO on the former RDM shipyard, this was most explicitly the case with the first.

Opportunities for explicit local incubator development policy seem even less since the start of the rather severe austerity policy a few years ago. The municipality takes less initiatives to buy and redevelop old buildings into spaces for creative industries, including incubators. On the contrary, it now attempts to relieve the pressure on its coffer by selling real estate. The Rotterdam local government has not developed any clear policy ideas about alternative ways to make incubator development financially self-sustainable, the central issue of InCompass, let alone that it has an elaborated strategy for that. Creative initiatives to raise incomes from non-public sources creative alternatives to decreasing public funding could be expected in this city.

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<sup>4</sup> These figures are based on the standard definition of the creative industry in the Netherlands, consisting of arts, media and entertainment, and creative business services.



## 4 The visited incubators

### 4.1 Creative Factory

The Creative Factory started in May 2008 in an obsolete grain silo – the “Maassilo” - located along one of the old harbour basins in Rotterdam South. In 2003, the building was bought by the municipality of Rotterdam with the intention to demolish it in order to make space available for new developments. However, when it became clear that tearing it down would cost 16 Million euros, the municipality decided to invest 6 million in refurbishing the building, among other things by placing windows in the entire building to make it suitable for new functions. Part of the expenses to the refurbishing of the building were covered by the national subsidy program *Kansenzones* aiming to revitalize deprived urban zones.

After having bought the building, the municipality first rented out space to a dance club (Now & Wow). At the time that the Club had to close its doors again after a shooting incident in 2007, one of its exploiters had the idea to expand the program of the building with a breeding ground that offers a stage towards entrepreneurship of young people in the surrounding neighbourhoods<sup>5</sup>. When it became clear that the function of just a breeding ground for entrepreneurship in the surrounding area would not have much potential for profit-making and growth, a more self-sustainable business case had to be elaborated. This eventually resulted in the lease arrangement for 3 – 5 years, in 2008, with a private entrepreneur in order to turn the abandoned place into an incubator for creative businesses. The hence established Creative Factory rents from the municipality 2,500 sq m of working space for creative incubatees on six floors. The highest floor is reserved for the biggest companies and for joint activities and meeting rooms. The current staff of the Factory consists of a director, full time general manager, fulltime facility manager and part time functions for coaching, cleaning, maintenance, reception and real estate management. The total staff consists of 5 people, supplemented with 10 interns for the reception, . The municipality granted some seed money to get the incubator started. In addition, the agreement with the municipality includes an annual grant of € 25,000 to the Creative Factory, in spite of the involuntary municipal austerity policy that has turned increasingly strict since the year (2008) of its foundation. The Creative Factory pays a relatively low rent, 40 euros per m<sup>2</sup>, but takes the risk for vacancy of space itself and commits itself to charging low rents to its incubatees.

The program of the Creative Factory supports young entrepreneurs right from the early stage of ‘having an idea but not knowing where to start’. According to its Business Plan 2010-2012, the mission of the Creative Factory is to be a ‘turbo’ for the development of young creative entrepreneurs, by increasing their creative capacity and commercial skills. This is being realised by offering accommodation and a whole array of shared services, business support improving entrepreneurial skills by means of consultations, workshops and coaching, and matchmaking both within the incubator and with external enterprises and institutions. Business support now entails 2-4 hours per week of consultancy by external experts. One of the ‘physical services’ is high-speed broadband internet. In total, the Creative Factory has hosted over 200 companies since the start in 2008, and now hosts 75 in different stages of development. During the term of the *Kansenzone* program until 2011, new incubatees in the Creative Factory could lay claim to a start-up subsidy from this program to cover 40 – 50 per cent of their investments, mostly the size of 3,000 – 8,000 euro.

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<sup>5</sup> Nijkamp, J. (2011) Thick description of the Creative Factory. Hogeschool Rotterdam, program Everybody on Board.

## 4.2 RDM Campus: a new knowledge cluster, including the sustainability incubator DNAMO

RDM Campus is located in premises of the former shipbuilding and dry dock company RDM (Rotterdam Dry dock Company), founded in 1902 on the south bank of the river *Nieuwe Maas* (New Maas). In the pre-war decades, the company built the garden village Heijplaat adjacent to the shipyard to house employees. After the post-war 'golden decade' of shipbuilding in the Rotterdam, the 1960s with a peak of about 7,000 jobs at RDM, decades of mergers, nationalization, re-privatization, and specializations in niche markets (e.g. high-tech military systems, submarines) finally resulted in official bankruptcy in 2001. Included in these attempts to rescue the company, it sold its housing stock of Heijplaat to a housing corporation in the 1980s.

In 2002, the Port of Rotterdam authority (PoR) – then a public body - bought the shipyard in a very run-down condition and made it available to the Foundation *Stadshavens* (City Ports), a body responsible for a large scale redevelopment project of 1600 ha. of mostly harbour basins and port-related activities located at both banks of the river. When the role of Stadshavens in the project changed In 2007, PoR also took full responsibility to redevelop the site. Started that same year, it has invested a large sum in thoroughly refurbishing and transforming the yard into RDM Campus. The Campus was opened officially in 2009.

Overall, the RDM Campus is an innovative regeneration project of a brownfield area of about 33,000 m<sup>2</sup>. Industrial heritage has been transformed into a cluster that brings together - largely under one roof - institutions for secondary and tertiary technical education, both academic and vocational, and companies in an open environment. The objective is to encourage collaboration and knowledge exchange to achieve innovative and sustainable solutions in the market areas of building, moving, energy and increasingly maritime technology. The RDM Campus Innovation Network provides businesses, knowledge and research institutions and, in addition, governments with a platform to share new knowledge, exchange best practices and to perform networking activities. Referring to the key activities of the Campus, the abbreviation RDM now stands for Research, Design & Manufacturing.

Administratively, the Campus is a partnership of PoR and two educational institutions – Albeda College (AC; secondary) and Rotterdam University of Applied Sciences (HR; tertiary<sup>6</sup>). AC took over the old RDM vocational school in the machinery hall already in 2002. For HR, participation in RDM Campus offered the opportunity to expand to the south bank of the river and to take into use larger buildings it needed for practical classes of some of its technical studies, for example automotive engineering. Practical classes and entrepreneurs' activities take place in the new Innovation Dock, a large open former shipbuilding hall with very high roofs that has been subdivided into working space units in greenhouses that have been built indoors and simply by lines marked on the floor.

The buildings of the shipyard have been restored, as much as possible in their original state because some are a national monument, and equipped for practical training and enterprising. Furthermore, new facilities have been added, for instance the Dock Café for students and young entrepreneurs, but also for visitors of the campus and for inhabitants of Heijplaat. The Campus now includes three new spaces: the Innovation Dock (working space for, currently, 30 innovative firms and 800 students); the Dry Dock (the project office of RDM Campus, Rotterdam Academy of Architecture & Urban Design, a café, conference rooms and last but not least the expertise and knowledge centre of HR that clusters practice-based research by its professors and research assistants with a focus on cooperation with enterprises and aimed at sustainable innovations, and Dock Port (jetty for fast ferry

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<sup>6</sup> HR is an institution for higher vocational education, not to be confused with the academic university Erasmus University Rotterdam (EUR).

to the city centre of Rotterdam as well as prototypes of 'water houses' and a floating island). PoR is the owner of these buildings and earns returns on investments by renting out space to educational institutes and firms. Because the transition of the obsolete shipyard into the Campus has been a showcase for PoR, it has taken for granted lower profit rates, and in the first years since the start of the refurbishment even losses of this project. To appreciate this policy, it should be realized that PoR became a public limited company in 2004.

RDM Campus develops the concept of the campus where professors and students of AC and HR co-create innovations together with the companies in the Innovation Dock. Attracting new stakeholders to make the concept a success has been one of its main efforts. Thereto, it receives financial contributions from these two educational institutions and from PoR which still considers the concept a show case. The schools and companies pay rents for co-creation space to PoR as owner of the buildings on the campus. The rent paid by companies amount to € 55 per sq m per month, with an additional €25 for services like light and heating. The rental period is between a minimum of 6 months and a maximum of 3 years. Further, RDM Campus Ltd. has established a bureau that organises meetings and conferences, exhibitions, festivals and events. The rent of spaces for these activities is again paid to PoR. Three notable examples are the Submarine Hall, still largely in its original state, is rented by the museum Boijmans Van Beuningen for special exhibitions that require larger space than available in its own premises in the city centre; a yacht building company that makes use of the available space to build larger ships than it can build on its home yard; and the restored Boardrooms of RDM shipyard in the Dry Dock for conferences and meetings.

RDM Campus is not an incubator itself. However, based on the experiences and portfolio of the RDM Campus Innovation Network and the 'model' of the Yes!Delft high-tech incubator in Delft, the incubator DNAMO was established in 2009. Its office is located in a smaller outhouse on the campus site, but will move soon to the Innovation Dock, the large open hall where its incubates already have their working spaces. The mission statement of DNAMO is to 'empower tomorrow's innovative firms in sustainability'. This focus on sustainability makes it a high-tech incubator rather than a typical incubator for creative industries. Nevertheless, its high-tech incubatees can be considered creative for their approach to environmental issues and their emphasis, besides sustainability, on a design.

The mission statement of DNAMO was formulated by its six 'founding fathers'. In addition to HR and PoR, these are Delft University of Technology and its incubator YES!Delft ('Building tomorrow's innovative firms'), Rabobank, and last but not least Enviu ('Innovators in sustainability'). Enviu is an organization rooted in Rotterdam that contributes to developing solutions for social and environmental challenges and starting companies that bring these solutions on the market. These six founders are partners in the Board of DNAMO with a long term commitment. Next to the Board, the daily management of DNAMO is in the hands of a Director and a team of 4 young professionals working part-time and 2 student assistants. DNAMO was founded as a project of Enviu that is doing for instance most of its administrative work, so there is no need and no opportunities to use management facilities at RDM Campus. In 2012 however, it will become an independent legal entity.

DNAMO runs both a pre-incubation and an incubation program. Since its start in 2009, it has supported respectively over 40 pre-start-ups and 10 start-ups. The pre-incubation program is a 100 days program to elaborate the business idea, after assessment and approval by a DNAMO panel, into a business plan. By making use of the present DNAMO facilities of meeting rooms, ICT and office facilities, but also by consulting more established successful entrepreneurs and DNAMO's network of external stakeholder, this program includes workshops and coaching to learn the basic principles of setting up a business. In addition, DNAMO offers entry to the business network in regional sustainability industries it builds up. The incubation program is a 3 year support program to implement a business plan, again after evaluation and selection. This program involves continued coaching; master classes – high-valued and therefore quite costly; workshops and standard access to

DNAMO facilities. In accordance with its mission statement, DNAMO only supports start-ups that are innovative and offer solutions to sustainability-related problems. Its preference lays with business ideas that offer scalable solutions, usually products, but it also supports starting consultancy firms providing services. Given their very different business cases, the supporting programs of DNAMO explicitly distinguish between these two types of start-ups.

## 5 Commercial contextualization (WG1)

### 5.1 Creative Factory

The management of the Factory put in a great effort to ensure financial self-sustainability with involvement of business and social partners to attract financial and other indirect support both to the Creative Factory itself and to incubatee business units. The business model is based on revenues from the following sources: rents by incubatee firms, partners' contributions and events. In 2012, these amount to approximately €137,000, € 100,000 and € 80,000. Although the foundation of the Creative Factory as an enterprise is a good example of combined public and private initiatives, it does not receive subsidy. In exchange for the annual grant of € 25,000 it provides various services to the municipality (see 6.1). About 50 per cent of these incomes are returned to the city as an owner of the building as rent € 85,000) and service charges (€ 64,000).

Rental income fits in our definition of commercial contextualization. The rents to be paid by companies in the Creative Factory is charged per working place. Not all working places are of the same rent, but the margin between the cheapest and the most expensive one is narrow: ca. €230 to €270 per month, including service charges and VAT. The rent does not increase as incubatee companies pass review moments to a further stage of the incubation program but as they require more working space. Hence, as companies tend to grow they reach a break-even point beyond which it pays off to leave the Factory and move to cheaper spaces in other premises. Typically the break-even point is reached when a firm requires more than 3 or 4 working spaces, although alternative spaces tend to become cheaper due to the economic downturn, in particular in Rotterdam where vacancy rate of office buildings is quite high. An notable exception to this rental model is that companies can provide interns with space for free, encouraging them to provide opportunities to talented students to develop their creative ideas. In addition, business units can also rent a flex desk for € 111,11 per month (excluding VAT, service costs do not apply), a 'crazy price' that somehow acts as a marketing instrument.

Another commercial activity to generate income is renting out spaces for events like workshops and other kinds of meeting to external parties. The large open space for joint activities of the incubatees is also used to host groups of external visitors. To host these groups, the Factory supplies a variety of services and facilities, including conducted tours through the building, ICT use and catering. This space has its own bar, and the Creative Factory has some sort of partnership with the social enterprise *Wijkkeuken* (Neighbourhood Kitchen) to take care of the catering for visiting groups, although other catering services are used as well.

Next to the Creative Factory, club activities has continued in the Maassilo. Next to the Creative Factory workspace, another 1,500 sq m of event space was created in the Creative Factory Event Halls. In addition to clubbing, companies working in the Factory can present the results of their work, for example a fashion show, record release party, network event or product launch. The rental income from the event space is collected by the municipality as owner of the building.



## 5.2 DNAMO

The intended outcome of the incubation program that DNAMO provides is to get the business ideas of incubatees to the market. It is the conviction of the management of DNAMO that it is crucial for the success of its business start-ups that they take the entire programs. Pre-incubatees are charged a fixed rate of €750. The incubatee master classes are for 75 per cent funded by DNAMO and only for 25 per cent by the incubatees themselves. DNAMO has a dual objective to charge incubatees and even pre-incubatees: not only recovering expenditures but also making these entrepreneurs conscious that each service to make their idea work has its price. Further, some income is generated from rent for working spaces by incubatees. These rents are conform market standards, which indicates that the benefit for start-ups to be in the incubator is mainly found in the support program, rather than in cheap working spaces. These sources of income from commercial contextualisation are, for now, far from sufficient to recover the current budget of DNAMO, not in the last place because of the still limited number of pre-startups and start-ups that take part in its programs. This budget amounts to approximately €300,000 per annum, and is being spent on rent for office space for itself and work and meeting space for its incubatees to pay to PoR as owner of the buildings on the Campus, on incubation programs, on salaries and on events. Over all, achieving a name and reputation in the Rotterdam region is a very important objective, directly and indirectly, of expenditures of DNAMO.

DNAMO has in mind to set up a regional Innovation Support System. Innovation in the manufacturing industry in the Rotterdam area - still an important sector of its economy - lacks mutual coherence and cooperation. Some bigger companies have their own innovation program and support officer, but many have not, and most companies do things on their own. An 'overarching' system to bring ideas and activities together is lacking. DNAMO intends to act like a 'meeting place' where





established companies can send employees with good ideas on secondment to develop these ideas further into prototypes in cooperation with its incubatees. It offers them - on payment - a platform for further generation of ideas, funnel management support and a vehicle to get their idea to the market. These enterers are no start-ups, let alone pre-start-ups. Instead, they have experience in working in 'big business' that they can share with incubatees in different stages of their incubation program. What is more, these businesses are solid partners, making this a practice with a low risk for premature ending. Further, DNAMO also supports start-ups that are not established in the incubator in its so-called 'out-of-office' programme. Because these start-ups do receive coaching and a reimbursement, of 75% of the fee for master classes, this program costs money rather than bringing in money.

At the time of the study visit, DNAMO was planning to set up a seed fund with equity-sharing for established companies. Established companies in the region should grant money to that fund that is used for investments in start-ups in the incubation programme. The advantage for these companies is the opportunity to exert influence in the elaboration of the innovative idea of the incubatee and to enter in a partnership with that young firm in a later stage. Further, a small part of the money in the fund should be used for further development of the incubator itself. However, after the study visit, the planning of the seed fund was put to a stop.

Also after the study visit, DNAMO decided to change its focus from incubation to acceleration, i.e. to move down in the innovation funnel. Because companies in later stages of the funnel produce more value than early start-ups, this shift provides opportunities to DNAMO to charge higher fees. The shift to acceleration provides a four week program to companies to help them defining a clear investments strategy, making it receptive for external investment, and finding an investor. In return for this program, DNAMO receives a certain percentage of the investment. Further, DNAMO centres

more explicitly on supporting companies with opportunities to join the cluster of port-related companies in the area. It attempts to recruit such companies on the European scale. This new model needs time for exposure, a track record and a support network to be built up. In the meantime, DNAMO still depends on financial support from its partners.

## 6 Social contextualisation (WG2)

### 6.1 Creative Factory

Working space is offered to starting entrepreneurs in the Factory on a co-working basis. An essential part of this is the open lay out of the spaces in the building, supplemented with social and communal niches on each floor. A special importance is attached to the kitchen on each floor. The co-working arrangement is carefully maintained by the managing director who has a series of markers at his disposal that helps to identify new 'good fit' incubatees. The companies willing to establish in the Factory need to express their growth ambition and their level of complementarity to already present companies as opposed to duplications, and their willingness to work with these companies in a co-operative way. Also, the manager stimulates synergies between companies by choosing the location of companies in the building that would fit best with its neighbours. New companies are shown different options and thereafter they choose their preferred location. This is not always instantly possible, therefore companies always have the option to move to another position within the Creative factory. This has happened frequently due to differences in ways of working and due to the will to strengthen cooperation and partnerships with companies in other units (floors) of the incubator.

The establishment of the Creative Factory not only involved functional re-use of an obsolete building but is also a catalyst for social regeneration in the south side of Rotterdam, the part of the city where most of its deprived neighbourhoods are situated. Social regeneration of such areas is a more important line of policy in Rotterdam than incubator development per se, and the Creative Factory contributes to this policy by several initiatives with the aim to reduce youth unemployment and social exclusion in the surrounding neighbourhoods. These initiatives fit in a partnership agreement of the local public authority and the Factory at its foundation. In fact, this role of the Creative Factory in social regeneration of its urban surroundings was a main reason for the municipality to support its development. In exchange for the annual grant of € 25,000, the Creative Factory hosts free-of-charge meetings and events and organises guided tours for the municipality in this showpiece of refurbishment of old industrial buildings. It is however, not this sum of money - € 25,000 is a limited (although not negligible) proportion of the annual budget of the Creative Factory - € 355,000 in 2011 - that matters most to the manager. Consist with the main motive for the municipality to enter into partnerships with the Creative Factory, the manager attaches more importance to the objectives of local social regeneration policy, not in the last place because he believes that the factory will ultimately benefit from improved conditions and an improved image of the surrounding neighbourhood.

In general, the Creative Factory invests in helping young talented people from the surrounding area with unfavourable labour market positions - often drop outs from school and on welfare - finding the right track to discover and to be aware of their ambitions and dreams, either by going back to school, applying for a job, or even starting a business. The opportunities for internships that the Creative Factory offers to its incubatees potentially increase the levels of job-readiness, professional capacities and skills of local youngsters as well the quality of local schools, all typically poor in deprived urban areas like those where the Creative Factory is located in. Furthermore, the Creative

Factory organised in 2010 the ‘so you want to be your own boss’ contest to discover new creative talent that was thinking of starting a business. The Factory also presents itself as an open space where (young) people can walk in and win one of the three free workspaces made available for one year, including services to develop entrepreneurial and business skills. Finally, the Creative Factory obtains catering for meetings and events from the social enterprise *De Wijkkeuken*.



In spite of the ambition of the social contextualisation objectives, the return on these investments by the Creative Factory in terms of the number of people living in the surrounding area that has started a business in the Creative Factory is limited. Nevertheless, the Creative Factory has attracted people, including creative entrepreneurs, to its part of the city to live and to work who most likely wouldn't have come otherwise. It is estimated that over 150 artists and other creative people have moved to the surrounding neighbourhoods through intermediation of the Creative Factory. This undeniable positive contribution to the image of Rotterdam South is still without adverse gentrification effects on housing prices.

## 6.2 DNAMO

The working spaces of the incubates of DNAMO are located in the Innovation Dock. Both the large size and the openness of this space – working people are separated by glass walls or no walls at all – encourages mutual collaboration. It contributes to interactions – mostly informal, but eventually also formal – between the essential components of the RDM Campus model: businesses and practical education and training.

Furthermore, DNAMO organises quarterly networking lunches in the Dock Café in which more than 60 people participate each time. The lunches give its incubatees the opportunity to network with one another, but more in particular with external guests, including showcase businesses or interested investors. What is more, DNAMO in this way builds up an ecosystem of external stakeholders which can be placed for instance on its list of future contributors from practice to its incubation programs. In addition, the incubator uses newsletter and social media such as facebook, twitter, website and blogs to communicate and interact with people, sectors, industries and entrepreneurs .. By these social media, DNAMO presents news about itself, about its start-ups and together with start-ups. The success of the start-ups determines its own success. .

Social activity in the surrounding environment – in this case this is only the adjacent garden village Heijplaat - is almost non-existent in the case of DNAMO. It is the management of the RDM Campus as a whole that organizes such activities, although these are not a major objective of the Campus, let alone that it should explicitly fit in its business model or in any social regeneration program. Nevertheless, the presence of students, the openness of the Campus area to all people in the village as opposed to its closed nature to other people than workers during the days of the shipyard, and events such as the Open Day organised for the villagers and former employees of the yard, all definitely have positive impacts on the liveability and quality of place of the village. The opening of the Campus area make several facilities reachable to the village population, such as the Dock Café and the jetty for the new ferry link to the city centre of Rotterdam. The edition of the Open Day in May 2012 attracted over 500 visitors to the Campus.

## **7 Tiers of support, networks and partnerships (WG3)**

### **7.1 Creative Factory**

The Creative Factory has entered into partnership agreements with local government and 13 companies and institutions in education, finance, advisory, audit, communication, estate management and housing. The partnership model of the Creative Factory relies on careful selection by the managing director of partners from government, educational institutes and business. Together, they contribute in cash and offer a range of in-kind services that are tailored to both the needs of individual start-up companies and collective incubation programs in the Creative Factory. The negotiations between the managing director and potential partners encompass both the specific and complementary services they can provide and what they can expect in return.

Since the start in 2008, the Creative Factory has built up, for instance, a strong partnership with HR (Rotterdam University of Applied Sciences). HR contributes financially by renting its own unit in the Creative Factory. It uses this space for internships and projects for students to increase their practical capacities and knowledge and to become acquainted with creative entrepreneurship in practice. In reverse, HR students and professors support these entrepreneurs by advisory regarding operational management of their businesses. The current share of start-ups in the Creative Factory by graduated of HR is, however, still small.

Holland Program for Entrepreneurship, a network of three universities in the region (Erasmus University Rotterdam, Leiden University, Delft University of Technology) participates as a partner in the Creative Factory. It brings together students (by offering training courses, projects, internships etc.) and young people who want to start up a company (by offering universities network, research, and promising students) with entrepreneurs in the Creative Factory. In that way, young people have better opportunities to find jobs and better understanding of business world.



Also in 2008, the director of the Creative Factory successfully used his personal network to get into a partnership with a bank – the Rabobank, a former cooperative bank for the agricultural sector that is now taking part in a wide range of innovative projects. The bank not only contributes financially to the Creative Factory but also provides financial consultancy to incubatee businesses and acts as an intermediary in seeking venture capital and informing potential investors of business opportunities with companies in the Creative Factory. In exchange for these contributions to the Factory and its incubates, the bank disposes of the ‘Rabobank Room’ for business and board meetings with a nice view on the port area next to the factory building. Further, it has its name exposed on the exterior wall of the Creative Factory building amid those of other partners. This identifies the bank with the development of young talent, start-ups companies and social projects in a deprived area, contributing to the image of corporate social responsibility. More important however, the bank considers these contributions an investment in future applications by new enterprises by its services. In the course of time, other commercial enterprises, like KPMG, have also shown interest to become a partner for similar reasons. The market share of the Rabobank within the Creative factory is twice as high as outside.

A final notable initiative by the managing director of the Creative Factory is his active involvement in the foundation of both a national (Dutch Creative Residency Network; DCRN) and a European network (European Creative Business Network; ECBN) of creative incubators and incubator-like places. A primary objective of membership of incubators of ECBN is to expand their international networks to recruit partners. But probably more important is that ECBN helps individual incubatees to expand their business opportunities to all European member states to create a single open European market for creative industries. ECBN organizes Creative trade Missions, exchange programmes and has set up an online market place at [www.ecbnetwork.eu](http://www.ecbnetwork.eu). It is financed by local and national organisations and membership is free of costs for incubators and companies.

## 7.2 DNAMO

For now, DNAMO still has a smaller partnership network than the Creative Factory<sup>7</sup> but, in contrast, a board of founders from government, educational institutes and business. It currently works from the explicit mission to build up an ‘ecosystem’ of stakeholders in regional industries producing innovative sustainable solutions, including young start-ups, ‘big companies’ and foundations as potential supporting partners. This ecosystem contains a pool of successful entrepreneurs who put in their knowledge and expertise in a one-year course of coaching its start-ups. Further, DNAMO has partnership agreements with various types of consultancy companies (IP, legal issues, accountancy, subsidies) that offer their services at reduced rates to its start-ups.

In fact, this building up of an extended and varied ecosystem seems more important than success of its incubation program per se in this early stage of its existence. Two important activities in building (and maintaining) the ecosystem are:

- organisation of quarterly free network lunches (also fit in WG2) for regional stakeholders together with incubates. At the lunches specific themes are on the agenda for discussion. A side effect of the lunches is putting DNAMO (and RDM campus as a whole) on the map of regional stakeholders;
- organisation of the so-called Sustainability Clashes at RDM Campus. For 7 selected incubates in DNAMO with specific products in the market, teams of Rotterdam professionals from different service disciplines (lawyers, consultants, accountants etc.) are formed to build up a strategy during a one day event. At the end of the day, a dinner is organised and during dinner each start-

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<sup>7</sup> Notably, one of its partners is a Make a Cube<sup>3</sup>, an incubator that presented itself during the Milan study visit.



up presents its strategy for a broader audience of invited people (from businesses, politics etc.) and a jury. After dinner, one is declared winner, and the day is concluded by drinks. At the last edition (Nov. 2011), 200+ representatives of all kinds of stakeholders were present.



Obviously, DNAMO is not able to do without subsidies and grants yet. In fact, no less than 80 per cent of its €300,000 budget comes from subsidies: 64 per cent from the national Subsidy Program for Knowledge Exploitation SKE and 16 per cent from the municipal Rotterdam Climate Initiative. Another 10 per cent is granted by the founding fathers. Only the remaining 10 per cent are revenues in return for provision of services, facilities and spaces, which are however, directly transferred to PoR. In addition DNAMO receives approximately € 150,000 contribution in kind from social and economic partners, including the founders. This contribution includes office space, events development and staff time. The application for a subsidy by SKE was a joint initiative of two of the founding fathers: Delft University of Technology and Enviu. However, this national support is due to finish by the end of the year 2012 and the administrative burden to apply for a second three year term has Enviu made to decide not to do it. This means that DNAMO will lose two-thirds of its current cash flow. In order to balance the loss, the management of DNAMO plans to increase the incomes from partners to 60 per cent, sponsoring to 20 per cent and other subsidies to 20 per cent. It is also planned to continue the € 150,000 contribution in kind. No doubt that this would mean a fundamental adjustment of its finance strategy. Setting up a seed fund with equity-sharing (see 5.2) was planned as a new element of this strategy, but ultimately put to a stop.

Obvious differences between the pre-incubation and incubation program of DNAMO are the fulltime commitment in the latter to bring the product to the market and the access of companies in the second programs to innovation loans. These loans amount to between € 15,000 and € 50,000 and are supplied by the Rabobank within the framework of a program of cooperation between the bank and

Dutch government. The contribution of the government is standing surety for half the size of the borrowed sum. The borrowing companies must pay back the loan within five years, starting three years after receipt. The interest rates are low – similar to those that banks charge when lending to each other.

After the move of DNAMO to the Innovation Dock, it will cease to be the intermediary in the rental chain between its incubatees and PoR as the owner of the building. From then on, incubatees will rent their working spaces directly from PoR. What remains to DNAMO is the rent that it has to pay for its new office and use of meeting rooms. What is more, it has been arranged with HR that this will part of this rent. In exchange, DNAMO will put expertise from practice at the disposal of the module entrepreneurial skills in the educational program of HR, and will provide faster entry of its graduates to the incubation programme. First and foremost, however, this commitment by HR reduced the risk for PoR to throw in its lot with DNAMO as renter, and won it over to invest in building a new office in the Innovation Dock. Which will be quite an investment because the office will be a floating one, hanging from the ceiling.

## 8 Overview

Founded in respectively 2008 and 2009, the Creative factory and DNAMO are examples of young incubators. The below table summarises the sources of income they have created and developed during the few years of existence. Due to this short period of time, it is highly likely that some ideas are still in an infant stage of elaboration or progress in practice. Together with the deteriorating financial position of the funding authorities, this raises the question what will be the position of these incubators in a few years' time. This is almost a rhetorical question: the next few years are crucial for the financial sustainability of incubators, indeed the main background of the InCompass project.

Commercial contextualization (WG1) as a source of income can be started right from the beginning of creative incubators. That is not usually the case with regard to social contextualisation (WG2) and tiers of support, networks and partnerships (WG3). It requires time and effort for a young incubator to apply for subsidies and finding sponsors, to connect creative talent and ideas in the surrounding urban environment to the incubator, to build up partner networks, and to gain a certain name and reputation as player in the development of regional creative industries. In fact, both the Creative Factory and DNAMO show readiness to accept net expenditures for investments in initiatives belonging to WG2 and WG3 in return for future successes of incubators. DNAMO still spends more than half of its annual budget to achieving name and building up networks. The argument behind this seems to be that successful incubatees make a successful incubator.

However, it is not clear in which way the incubators discussed here will benefit from these future successes in financial terms. Both the Creative Factory and DNAMO also face significant uncertainties in the next few years. These seem the largest for DNAMO, which is currently most dependent of public subsidies, most of which will come to an end in 2013. Current results do not indicate how to meet this challenge. Seed funding with equity sharing might be a contribution to future financial self-sustainability of DNAMO, but has been shelved. The main uncertainty faced by the Creative factory is the end of the partnership terms with housing corporation Vestia and the municipality. Lease of the building ended 1 October and would most probably be extended for 5 years. The partnership with the city however, has a one year term and it is now unsure that it will extended due to budget costs. And if it will be, it is a question whether it will maintain the same financial deal it contains.

Several examples of business or creative industry incubators achieve net financial gains by retaining equity shares in incubatee firms. Sophia Antipolis<sup>8</sup> in France and the aforementioned Y-Combinator are examples. However, neither the Creative Factory nor DNAMO has an arrangement in place for involving ex-incubatees in fundraising activities on a structural base, or for retaining a share in incubatee firms for future dividends. In these two cases the only possible interpretation of the relation between the success of an incubator and that of its incubatees is in more indirect terms, for example as a high success rate may enable the incubator to attract more applications and select more critically, or to attract more sponsorship as its reputation grows.

	<b>Creative Factory</b>	<b>DNAMO</b>
<b>commercial contextualisation</b>	<p>from incubator activities:</p> <ul style="list-style-type: none"> <li>• rents and fees from incubatees</li> </ul> <p>from building and organisation:</p> <ul style="list-style-type: none"> <li>• rent out spaces to external parties (e.g. social events)</li> <li>• provide services to external parties (e.g. catering, tours)</li> </ul>	<p>from incubator activities:</p> <ul style="list-style-type: none"> <li>• rents (conform market) and fees from incubatees</li> <li>• fees from pre-incubatees</li> <li>• provide spaces and support services to external parties (planned Innovation Support Services)</li> <li>• from incubation to acceleration</li> </ul>
<b>social contextualisation</b>	<p>within incubator:</p> <ul style="list-style-type: none"> <li>• open, communal spaces</li> <li>• deliberate mix of incubatees</li> </ul> <p>neighbourhood level:</p> <ul style="list-style-type: none"> <li>• provide internships with incubatees for neighbourhood youngsters</li> <li>• intermediation for incubatees to find housing in the neighbourhood</li> <li>• grant free working spaces to neighbourhood start-ups</li> <li>• cooperate with neighbourhood business (e.g. catering from Neighbourhood Kitchen)</li> </ul>	<p>within incubator:</p> <ul style="list-style-type: none"> <li>• open or transparent working spaces</li> <li>• quarterly networking lunches (mutual networking)</li> </ul> <p>neighbourhood level:</p> <ul style="list-style-type: none"> <li>• Dock Café</li> <li>• open days</li> <li>• quarterly networking lunches (open to external relations)</li> </ul>
<b>tiers of support, partnerships</b>	<ul style="list-style-type: none"> <li>• mutual support by starting and more advanced incubatees</li> <li>• provision of in-kind services by partners (e.g. financial and legal advice, auditing services)</li> <li>• rent out spaces to partners (e.g. Rabobank, Rotterdam University of Applied Sciences)</li> <li>• provision of internships to HR and other university students, as well as to lower level vocational education students</li> <li>• provide national and European support networks (DCRN, ECBN)</li> </ul>	<ul style="list-style-type: none"> <li>• provision of in-kind services by partners (e.g. innovation loans)</li> <li>• Sustainability Clash contest: free additional support services for top 7 incubatees</li> </ul>

<sup>8</sup> See [www.sophia-antipolis.org](http://www.sophia-antipolis.org).

## 9 Validators' remarks

### 9.1 Introduction

The study visit report has been validated by five experts, including the management of the two incubators visited. These validators are:

- Jurjen Lengkeek (pre incubation manager at DNAMO)
- Leo van Loon (manager/owner of Creative Factory)
- Prof. Marina van Geenhuizen (Delft University of Technology, Faculty of Technology and Policy Management)
- Dr. Alexandra den Heijer (Delft University of Technology, Faculty of Architecture)
- Evert Verhagen (consultant/developer of creative places at Creative Cities, REUSE BV, and Amsterdam Stadsdeel Noord)

As far as the validators' comments were corrections or annotations to the text that have been included in the previous chapters. This was the case with all comments by Leo van Loon. Other comments are presented in this chapter. When necessary, comments have been edited and translated from the Dutch by Arie Romein and Jan Jacob Trip.

### 9.2 Jurjen Lengkeek (DNAMO)

#### *The innovation funnel*

Incubators have a distinct role in the innovation funnel. That funnel can be considered as wide where the creation of awareness is involved, increasingly narrow in the stages of pre-incubation and incubation and very narrow in the stage of acceleration and growth. At the beginning of the funnel the scope is broad, when awareness and knowledge on entrepreneurship are being raised by means of events and including education on entrepreneurship in the curricula of schools and universities. Pre-incubation and incubation entail the actual support of entrepreneurs that have an idea, until the final product has been put on the market. In the stages of acceleration and growth, firms that already have brought their product on the market are being supported with increasing the scale of production and to enter the mass markets.

Only at the end of this funnel there is a real chance of making any money: up to the incubation stage the support activities costs money while there are hardly participants that are able to pay substantial fees. This is the reason many incubators are funded mainly from the contributions from public and private partners.

The above is unlikely to change, for two reasons:

- 1) *The incubator model only yields profits in the distant future.* During the entire trajectory from idea to putting the product on the market to market domination the value that is added increases continuously. An entrepreneurs with an idea has less 'value' than a team that has just built its first prototype. This increase in value is the result of inputs during the trajectory, but it cannot yet been 'harvested'. Only when in investment is made the value of the start-up at that moment becomes clear, but it still is a 'virtual' value. Only at the end of the support funnel it is possible to cash, for example by receiving a percentage of the investment in return for the support provided. This is the reason many incubators work on the basis of an equity model: they request a small share in the start-up's stocks and when the start-up has grown and may be bought by another company the incubator sells its share and cashes. The problem for many Dutch and European

start-ups is that giving away equity for free is a delicate matter. Often, this construction is based on a 'giving-back' program: when a start-up firm becomes successful it repays the incubator a certain amount for a limited period of time. The bottom line is: it takes 5 to 10 years before the incubator receives any money in return for the support it provided much earlier. Until that moment the whole process is just quite expensive.

- 2) *The profits made by incubators are hard to assess and to attribute to specific sources.* Profits, or benefits, may include a rise in employment, an improvement of the quality of the incubator's environment which makes it a more attractive location for area for (young) professionals and other businesses, an increase in the number of innovations etc. Various parties may benefit from this, and it is hard to tell who exactly benefits: the municipality, the economy, and companies all in one way or another benefit from the incubator. Just because the benefits do not go to one company or organisation, but to many companies and organisations, it is hard to seduce one or several of them to support the incubator. The problem of freeriding is lurking, therefore. Otherwise, if you as an incubator apply for funds that are available, your claim may be considered too vague and it may be not clear the benefits should be attributed to your work. Therefore it will always be necessary for public authorities to safeguard this public interest and, hence, invest in incubation programs.

### 9.3 Marina van Geenhuizen (Delft University of Technology)

#### *Inconsistencies in the presented practices*

There are no inconsistencies as such in the presented practices, but there is little or no evidence for some assumptions. Regarding social contextualization, it is being accepted that building up and out of internal and external networks will ultimately bring in money for the incubator due to a better performance and 'paying capacity' of the incubatees. Conclusive proof for this has not been established yet, however. Networks may have very different characteristics: open versus closed; strong versus weak; local versus regional; homogeneous versus heterogeneous et cetera. Positive impacts of networks on the performance of companies is not guaranteed. What is more, impacts networks can even be negative.

#### *Useful practices*

As long as incubatees – start-ups with ideas as their major, if not only type of capital - have not reached the final stage of the funnel, they hardly generate cash. To them, the innovation funnel is some sort of a trap that endangers their survival, i.e. makes it uncertain if they will ever reach the final stage. Hence, practices that place (too) much emphasis on the innovation funnel model run the risk of a high rate of untimely ends of new businesses, being a threat to a main source of income for the incubators.

Ways to escape this 'trap' are various. The validator emphasizes two possibilities:<sup>9</sup>

- 1) Recommend young start-ups to spend part of their time to routine activities and services outside the funnel that have already proven to be remunerative in the market. By this, they not only earn cash in an earlier stage, hence reducing the risk of an untimely end, but also come into contact with market parties outside the incubator, hence placing the funnel in a more open innovation setting.
- 2) Allow a limited number of young companies that have already worked their way through the funnel and have an economic product on the market to stay (or occasionally to enter) the

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<sup>9</sup> See: Soetanto, D.P. & M. van Geenhuizen en Danny (2007), Technology incubators and knowledge networks: a rough set approach in comparative project analysis. *Environment & Planning B*, 34, pp. 1011-1029.



incubator. The innovative incubatees in earlier stages of the funnel can learn from their information, knowledge and experiences. This indeed extends the mixture of companies in the various stages of the innovation funnel with a few beyond the last stage of the funnel. To some extent, this also contributes to a more open innovation setting for those in earlier stages.

#### *Lacks of clarity in the report*

It is unclear whether the numbers of jobs at the bottom end of page 6 are full time equivalents or fulltime and part time jobs together.

#### *New ideas*

Based on this report I see two new ideas:<sup>10</sup>

- 1) The above mentioned extension of the mixture of companies in the various stages of maturity with a few beyond the stage of bringing their innovative product on the market successfully.
- 2) The concept of 'living lab' requires more attention because it offers great potentialities to reduce the (financial) risks ran by incubatees during the process from idea to commercially successful innovation on the market. Participation by incubatees in living labs, i.e. real-live environments for co-creation, testing and further development of innovations in cooperation with client groups and other partners like large companies and municipalities, means input of additional knowledge, reduces the length of time to bring innovative products on the market and may involve alternative ways to finance the process of creation of these products. It is a necessary precondition that the incubation programme offers opportunities to incubatees to participate in external living labs.

## **9.4 Alexandra den Heijer (Delft University of Technology)**

#### *Inconsistencies in the presented practices*

I see no inconsistencies as such in the presented practices, but to my mind some commercial aspects (WG1) are categorized under social (WG2). This might be solved by including a well-chosen definition of incubator instead of the descriptive note in the very first sentence of the report.

#### *Useful practices*

I think the case studies are representative for other cases – there are many lessons for improvements, but also realistic expectations and pitfalls for financial independency. To my opinion “incubators” and “independency” are contradictions by definition.

Some examples of lessons or realistic expectations for other cases:

- “Regarding fees and rents, it is recommendable to keep them low for starting companies in an infant stage and increase these gradually with their survival and growth, i.e. with their increasing financial capacity” (Section 2.2). This is an interesting concept, but what if there is no mix of ‘maturity’ (start-ups in different development stages)? Then there might be feasibility problems.

#### *Lacks of clarity in the report*

In the Introduction to the project (section 1) it is said that “Therefore, it is often taken for granted that they are strongly supported financially by national, regional or local authorities. Besides, it is very common that these authorities provide physical infrastructure (buildings, land) for their

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<sup>10</sup> See: Van Geenhuizen, M. (2012), Bringing University Knowledge to Market; Experiences in the Netherlands. In R. Capello, A. Olechnicka and G. Gorzelak (eds), Universities, Cities and Regions. Loci for Knowledge and Innovation Creation, Routledge.

establishment.” This, implicitly, shows that these organisations think this strategy is ‘worth it’: the benefits exceed the costs. But do they? Which methods do they use to assess the “added value” versus the costs? What will be their loss when they stop investing?

It is commented in section 3.2 that “Further, as the alma mater of many architects, the Faculty of Architecture in Delft has played a major role in the current strong international position and reputation of Rotterdam as a City of Architecture.” I would explicitly mention TU Delft, in particular the size (numbers of students, professors etc.) and importance of the faculty of Architecture.

At the time of the Study Visit, “In total, the Creative Factory has hosted over 200 companies since the start in 2008, and now hosts 75 in different stages of development” ( section 4.1). It would be illustrative of the success of the Creative Factory to elaborate on what happened: “How many left bankrupt and how many left successfully, e.g. because they had grown too large to stay?”

It is mentioned in the sections 5.2. and 7.2 that the planned setting up of a seed fund with equity-sharing (see 5.2) as a new element of the finance strategy of DNAMO was put to a stop.” The question is why?

#### *Recommendations to improve the text.*

- The text would be more readable if the quantitative data of the two visited incubators that is now spread across the written text, such as numbers of companies, numbers of employees, turnover rates, rent levels etc. would also be brought together in one table for each.
- Try to I missed some good definitions of incubators and incubates that could also deliver more structure to the case studies (incubate versus accelerate, which is mentioned in the DNYMO case)
- Add some maps and photographs of the incubators to brand them with this report!

#### *Good practices and new ideas*

A number of good practices for policies by urban or regional governments can be distilled from the report:

- The practice of equity sharing, in which the incubator is given a share in the start-ups it supports, is not put in practice in the incubators visited in Rotterdam, but an example of this (mentioned in Section 2.2) is the Y-Combinator in the US. This is a very interesting concept to explore for other cases, even though the US context might be (too) different.
- The low threshold in the Creative Factory (Section 5.1), where start-ups can also rent a flex desk for € 111,11 per month (excluding VAT). This is a good idea which seems to work.
- Companies willing to establish in the Creative Factory need to express their growth ambition and their level of complementarity to already present companies as opposed to duplications, and their willingness to work with these companies in a co-operative way (Section 6.1). Also, the manager stimulates synergies between companies by co-locating ‘matching’ companies. This represents a good strategy from the perspective of the advantages of a mixed but not ad-random composition of present incubatees. It implies there are programmatic requirements and there is an incubator ‘brief’.
- DNAMO invests in building an ecosystem of external stakeholders, by means of open days and other social networking events (Section 6.2). This seems a good strategy (“think global, shop local”).
- In exchange for its contributions to the Factory and its incubates, Rabobank disposes of the ‘Rabobank Room’ for business and board meetings (Section 7.1). This is a good concept for exposure to stakeholders and branding of Rabobank as supporter of start-ups.
- The Sustainability Clashes at DNAMO (Section 7.2) - in which for 7 selected incubatees with specific products in the market, teams of Rotterdam professionals from different service

disciplines (lawyers, consultants, accountants etc.) are formed to build up a strategy during a one day event - are an impressive and inspiring way to help start-ups.

- The innovation loans provided by Rabobank to incubates of DNAMO (Section 7.2) are an interesting financing concept, that shows what stakeholders such as Rabobank also have to gain from this.

### *Conclusions*

I agree with validator Jurjen Lengkeek from DNAMO (Section 9.2): “Therefore it will always be necessary form public authorities to safeguard this public interest and, hence, invest in incubation programs.” In my opinion – almost by definition – incubators have direct, short-term costs and indirect, long-term benefits; this has consequences for successful concepts and should be the basis of funding structures of these initiatives.

## **9.5 Evert Verhagen (REUSE)**

Both practices are very important in the context of Rotterdam. The city lost most of jobs in manufacturing industries in the 1960s and 1970s and is urgently looking for a more creative identity. Architecture and design play an important role, as well as photography and movie. Rotterdam has everything to attract the new economy: the people and the places.

In 2004 the creative industry was defined as one of the three priority clusters for economic development policy, next to the clusters of medical care and port activities. At that time, I was working as the director of the Rotterdam Highline Project and found that definition very unrealistic. Considering that the harbour is one of the largest in the world and the medical economy is also huge with large hospitals, the university and a complete infrastructure available next to enormous funding (everybody wants to live a healthy life forever), I felt that putting the creative economy on that same level was far too ambitious. It is a mistake to look at the creative economy as a separate cluster that could be comparable with the port/related and medical clusters. Instead, the creative economy is about identity, about adding creative value to products. Creative economy should not be seen as something separate but as something that has an effect on us all. Thereto, one has to look at it in an integral way.

We should look at the ‘creatification’ of the entire economy, comparable to industrialisation and automation in earlier stages. What is more, just like every product brought on the market needs to have an identity to be marketed successfully, a city needs magnets and attraction points. Arts, culture and sports play a vital role to that end. Adding identity (creative value) to the economy and the city as such can be done everywhere: by creative people in creative companies mostly in creative spaces. Thereto, the city should basically allow (young, talented) people to create it.

Three general goals should be clearly defined in the creative city policy:

- Talent development
- Entrepreneurship
- Retain graduates in the city

If successful, this policy can have various important effects. In the first place, it will attract more companies to the city and will allow more start-ups to mature because they want to connect to this city’s creative identity. Secondly, it should attract more visitors, i.e. people that come to the city on a temporary basis from elsewhere such as tourists that spend their money in Rotterdam, and people that decide to come to live in Rotterdam and eventually consider it their home base. Both kinds of

people make it possible to have certain facilities like museums and concert halls and a football stadium, things that otherwise would be hardly able to exist.

Both visited incubators have a mayor importance to Rotterdam. What I would like to know is how many other comparable projects there are. Are there any numbers on that? How do they work? Where are they?

In spite of their importance to the city, I get the impression from the report that there is too much pressure on the two visited practices. It is not realistic to expect that every such new project can be immediately successful. What makes such incubators valuable, including a huge economic spin-off, is the opportunities they offer for experiments, and mistakes, where we can learn from. This is what they are good at, and what we should let them do primarily. Putting too much pressure on them to be successful and trying to connect them with the neighbourhoods hamper their possibilities for growth. So the success factor should not be measured in growth of jobs in the creative industries, but in the ability of the city to retain graduates.

Looking at the two practices more into detail, my remarks are that the combination of activities is important. Creativity is about inspiration. One can never do that alone. This is why I think the best incubator places in the world have a lot to offer as meeting places, as markets for creatives. Creative places should be accessible and open. To have a club, a restaurant and to organise events is vital. That brings other people in, contributing to the creation of the market for the 'new economy' the incubatees are part of.

Obsolete industrial buildings have a strong quality of their own, making it possible to develop them into meeting places with a strong identity. It gives the people who work there a sense of pride; it creates identity, and value. The aim of the municipality to buy obsolete industrial buildings and recover these has to be valued because these buildings are part of the market place for the new economy.

Another remark is on the role of the manager. His role in the Creative Factory is very important. In my practice I have seen that there are some vital factors for success in bringing these new creative environments into being. The manager, the person who runs the place and makes all the others feel welcome may be the most important but is often very much underrated. The building is important, you must have the possibility to get there easily, and the environment (in these cases the neighbourhood, the authorities) must support the development. But more than all of this, the manager who is responsible for the place can make it or break it. If there is anything extra we (everybody else who is involved) can do, it is supporting these 'managers'. Help them to feel less insecure by giving them the opportunity to learn in their network. Support them. But get rid of them when they are not suited for the job.

## **10 Thematic seminar**

### **10.1 Introduction**

Minutes of the Thematic Seminar on the Report of Study Visit to Rotterdam, Malmö 29th November 2012.

During the Study Visits, local incubators present practices of how they organise their finance, with emphasis on non-public sources. The aim of Thematic Seminars is to identify any or all of these

practices as good practices that can be potentially transferred to cities and regions of some or all other InCompass partners. It is the Regional Implementation Group (RIG) in each of these cities and regions that comments on the feasibility and transferability of these practices to their city or with the objective to support strengthening the financial sustainability of creative incubators.

The discussion in the Thematic Seminar on the Rotterdam Report was guided by two questions:

1. What good practices can be identified from the Report (or Study Visit it reports on) for public policy makers?
2. Does the Report or Study Visit inspire any ideas for good practices that are not mentioned explicitly?

The discussion identified the following good practices. It should be taken into account that a considerable number of the participants in the discussion are public policy makers who have to deal with municipal or regional austerity policies.

## **10.2 Transfer of incubator initiated by local government to skilled private entrepreneur**

Many creative incubators are public initiatives. Few private entrepreneurs are willing to invest in setting up creative incubators because these face high risks of commercial failure in their initial stages. This does not mean that they have to remain public after the first stages depending on public investment. In the current times of austerity policies it should be attempted to transfer them to the private entrepreneurial sector. To be successful as a private enterprise, the creative community in which the incubator is embedded must be a dynamic environment. But most crucial as a main driver for commercial success of an incubator in subsequent stages is a managing director with a high level of entrepreneurial professionalism, according to some participants in the discussion that director should be business economist, and with an extended network of relations in the three helices government, businesses and knowledge institutions. The good practice for policy makers is “invest in finding a highly qualified entrepreneur as manager who is both willing and capable to manage a creative incubator”. Quite often, the Creative Factory is an example, this involves transforming an old building that lost his former function into an incubator, but that is not the case by definition.

The Creative Factory was mentioned several times as a good practice. Taken into account one of its peculiarities of this case - the municipality is the owner of the building - it shows opportunities for a win-win situation to both the entrepreneur, a person with an entrepreneurial spirit and creative ideas, that runs the incubator as a private business and the city council with a massive responsibility at its hand for maintenance of the building. For the entrepreneur there was an affordable building available to transform into an operational incubator, and for the council there was a private party that not only took over some of the responsibility for maintenance but has also further invested in physical qualities of the building and, most important, bear the risk for lacks of occupancy by incubatees.

## **10.3 Flexibility in occupancy and pricing of space in the incubator**

In particular the Creative Factory put into practice a considerable flexibility regarding rents, renting period, types and amounts of spaces etc. that is adapted to differences in demand by incubatees in different activities and to changes in demand in the course of transformation of incubatees from initial start-ups facing high risks towards viable firms. This flexibility is beneficial to the incubatees and ultimately also to the incubator, but is demanding of the space management and planning capacity – how to place and to keep ‘matching incubatees’ together - of the incubator managers. As a good practice, it is worthwhile to demonstrate to local policy-makers how this flexible model works



out and what its benefits are in the case of the Creative Factory. One way to encourage this practice by local policy-makers regards incubators instigated by local councils and managed by a private entrepreneur or association is to include this flexibility in occupancy and pricing of space in the incubator in a 'written' agreement or regulations to the incubator management.

#### **10.4 Role of incubator in regeneration of deprived neighbourhoods**

The Creative Factory deliberately plays a role in the urban regeneration programme of the part of the city it is situated in, for instance by making its infrastructure (space, equipment) and human resources available to help underprivileged young people in its district to start a career. This is not directly beneficial to the incubator: it costs rather than yields money. But it gives opportunities for indirect benefits. It raises an image of social entrepreneurship that may attract new partners such as banks, accountant firms and others who play a role in the incubation programme. Furthermore, it offers opportunities to charge the municipality – in money or otherwise - for making available training, internship or job opportunities to underprivileged young people in the surrounding urban district from the social development or urban regeneration budgets. To the municipality, this means contributing to finance incubators development in a way that gives something in return directly rather than by subsidies. In the case of Creative Factory, the municipality issues an annual grant to the Factory first and foremost because of its contribution to urban regeneration. To the incubator, it also offers opportunities to unveil hidden talent in the surrounding district and to transfer it to its incubation programme.

#### **10.5 Supporting creative incubators to strengthen the competitiveness of the city or region**

Austerity policy forces local government to withdraw financially from incubator development. However, its readiness to stay involved in this development may be greater if the incubation programmes, in particular their sectorial admittance policy, is more in line with, or even support the 'smart specialization' policy of the city, i.e. the preference to strengthen certain economic niches or branches in the context of its regional economic strategy, but also with connections to its city and place branding. This is in particular a good practice for intermediate or small cities – like most InCompass partner cities are - that do not have the critical mass of, for instance, London and Paris 'where it all happens even without government intervention'. Unlike these large cities, small and medium sized ones are often forced to pursue a policy to focus on one or a few deliberately selected niches of creative industry. This good practice requires from policy makers full awareness of 'what's happening in their city or region', i.e. of the strength and weaknesses of its economic structure and opportunities and threats for its development perspective; having a finger on the pulse regarding the kinds of activities of start-ups in incubators; and supporting the incubators with the 'right' start-ups. It should be noted that policy intervention by local or regional government is made easier due to path dependency that determines that applications for incubator programmes are to a certain extent in line with the economic strength and opportunities for regional economic development without policy intervention.

#### **10.6 Local government takes the lead in active governance.**

A good practice for local policy makers is to take the lead in a process of active governance. Both Rotterdam cases show that many different stakeholders from the various helices of the triple helix are involved in the initiative to start an incubator and in its further development to an economically sustainable project: local government, real estate owners and developers, financiers and educational

institutions etc. Openness of this 'arena' for discussion and negotiations in the course of time of the development of the incubator, including a changing 'entry', is important. Taken into account the objective of the local or regional government to strengthen the innovativeness of the economy and the role that incubation of new creative firms play in that, it attached great importance to get stakeholders in incubator development around the table. The government is not by definition the most appropriate stakeholder to take the lead in this, although it quite often is, but should take it if other partners hesitate.

## **10.7 Provide incubatees with easy access to affordable funding**

Incubatees in DNAMO are, by virtue of their acceptance in the incubator, eligible for an innovation loan from Rabobank (one of DNAMO's partners). These innovation loans as such are available also for start-ups that are not in DNAMO. The loans are based on a program of cooperation between the bank and Dutch government. The government is standing surety for half the size of the borrowed sum. Rabobank pays the other half from an internal start-up support fund. The borrowing companies must pay back the loan within five years, starting three years after receipt. The interest rates are low – similar to those that banks charge when lending to each other. The low interest rate and the guarantees by the Dutch government make this an attractive type of loan for start-ups.

Nevertheless, start-ups would still have to deal with the fuss of the risk assessment by Rabobank. DNAMO incubatees, once they are accepted by the incubator, are eligible for an innovation loan without further risk assessment by the bank, i.e. the risk assessment procedures of the incubator and the bank are combined. If a start-up is admitted to DNAMO, Rabobank must grant it a loan. The criteria have been defined by DNAMO, partly based on input from Rabobank and the other partners of DNAMO. The selection committee also includes a representative of the bank, alongside an experienced entrepreneur, a representative of Delft University of Technology and the incubation manager of DNAMO. This means incubatees have easy access to affordable funding, and the loan may be considered part of the support programme offered by DNAMO.

## **10.8 Mix of incubatees.**

A good practice is creating a mix of incubatees – large and small, different stages of progress from idea to marketable product. Altogether, this diversity of incubatees has a broad spectrum of knowledge and experiences that can be made effective by assisting and advising each other and offers opportunities to generate ideas for cross-overs. Against that background, a practice of strictly sticking to cut-off moments ending with kicking out incubatees - out of the incubation programme and out the building - at the scheduled end of the programme after 3 or 4 years, irrespective of their progress and state of affairs, is a bad practice. DNAMO is an example of that practice. A recommendation to local government can be to (support the) set up of a mechanism to lengthen the stay of incubatees that are still considered promising but had some bad luck that delayed their progress. But don't be too soft!

## **10.9 Nurture bottom-up initiatives from the creative community**

Often, the urban creative industry community is, so to speak, a bit 'allergic' for top down decision-making by local authorities that frustrates their freedom how to organise their work and even their live. Nevertheless, their ideas and initiatives coming from bottom-up are important for success of the incubators. A recommendation for local policy makers should be to facilitate the unveiling and

transfer of ideas and initiatives from the local creative community to the incubator without frustrating them by (too much) top-down interventions.