



THE BIRTH OF THE STARTUP EXCUBATOR

By George Deeb

Over the last five years, my firm Red Rocket Ventures has consulted or mentored more than 500 startups -- nearly all of them suffering from the same problem. They are typically so focused on building their product, they don't raise enough capital to cover essential [sales](#) and [marketing](#) activities that will allow them to better attract additional [venture capital](#) down the road. As a result, many startups run out of money soon after launch, stalling out before they reasonably had a fighting chance.

The root of the problem really comes down to better

[education](#). Entrepreneurs need to learn early on that you can't launch a startup unless you have raised enough capital for both your product development and your initial sales and marketing activities. They must learn the essentials that all [investors](#) look for: rapid user growth, proven [customer](#) acquisition metrics from previously tested sales and marketing channels and knowing the best, most cost-effective sales and marketing tactics to stretch their limited [budgets](#).

By focusing on this education problem, I was originally thinking about building a startup curriculum in a university-style setting. But, given

how quickly technologies and marketing tactics are evolving, I was worried about having the curriculum go stale the minute it was finished. Then, I thought some of this could be taught through startup incubator or accelerator programs, but that was only available to the small percentage of applicants that get accepted and only for the short period of time they were in the program.

I wanted a solution that would appeal to all companies that had the interest and the resources; a program that would grow with them through all stages of their growth -- from freshman year through senior year, using the education analogy.

I realized it was the agencies who had their finger on the pulse of all the rapid changes in technologies and digital marketing tactics. But, not the large agencies that are jacks-of-all-trades and masters of none. The boutique, niche agencies are the deep domain experts in their particular field, for example, search engines or social media.

And, more importantly, these boutique agencies that are smaller in size are also entrepreneurial and have first-hand knowledge of how to stretch startup marketing pennies into revenue dollars. By rolling up these services into a one-stop shop, managed by one person from the team, the startup "excubator" model was born in Chicago with the launch of Ensemble in August 2013, of which Red Rocket is a member company.

But, to really appeal to the startup community, we understood we needed a more attractive pricing plan that was more affordable to startups -- one where 20 to 40 percent discounts would apply for bundling your services needs into one "digital services suite" of expert vendors. In this model, the excubator would also consider taking an equity position in these businesses, so it actually had a vested interest to help these businesses succeed, as partners with entrepreneurs over the long term. This evolves the excubator members' revenue models from the normal "short term fee driven" model to a more logical "long term venture capital return" model, which if done correctly, should improve the a typical startup's odds of success from 10 percent to closer to 30 percent in the process.

It is too early to tell if this excubator model will work or not. A current flaw in the model is it still requires the startups to go cash out-of-pocket, even with deeply discounted rates, which they may or may not have the money to pay for. In a perfect world, an excubator model would have raised its own venture fund, or would partner with existing seed-stage venture funds, to help fund these early stage entrepreneurs who may have a great idea, but not the capital to afford the collective services which are required to launch the startup with maximum odds for success.

If excubators have done anything, they have creatively brainstormed how to help more startups over the long run.

About the Author:



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