



Business Incubator Program

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Introduction

Business incubators have been proven to be an effective way of fostering sustainable business growth and stimulating entrepreneurship. Among the potential outcomes of a successful business incubation program are:

- Job Creation
- New Business Formation
- Tax Revenue Generation
- Diversification of the Local or Regional Economy
- Industry/Sector Development
- Reduce Business Failure Rates
- Encouragement of Entrepreneurial Culture

“Business Incubation Works,” one of the most respected studies into business incubation outcomes in the United States, found a success rate of 87% of business incubator clients, with 84% of graduates remaining in their local communities, and a return on investment of \$4.96 in new tax revenues for every \$1.00 of public operating subsidies.

The purpose of this plan is to ascertain the appropriate actions and responsible parties in the development of a business incubator program in Grain Valley, identifying the legal and planning issues that underpin the establishment of a new incubator, including:

- Structure of the Incubator Program
- Creation and Oversight
- Management and Staffing
- Financing
- Establishing Policies and Procedures
 - Selection Process
 - Services
 - Graduation
- Marketing

Structure

The first step in designing an incubator model is to decide whether or not incubation is applicable, followed by consideration of the type of incubation that is appropriate for a particular environment. The incubator's objectives (such as public benefits like job creation and increased tax revenues or private benefits like profit-making) influence how incubators are structured. Several factors bode well for the successful implementation of a business incubator in Grain Valley, including:

- State and private funding sources to facilitate program development
- Availability of potential clients in eastern Jackson County
- Clearly defined economic development and marketing plans to assist with program implementation and enhancement of entrepreneurial climate
- Support from county, state, and federal representatives for program development
- Lack of competing incubator programs in the metropolitan area
- Program support from the local business community

In determining the structure of the proposed incubator, it is important to consider the purpose or focus of the program, the preferences of potential partners or sponsors of the program, and the affect of incubator's structure on the ability to secure potential funding. It is also important to note that flexibility should be built into the design, so that the program can be changed as the needs of Grain Valley and program sponsors evolve over time. While the design and planning of the incubator's structure and services are important in the start-up of the program, they can and should be improved as those associated with the incubator gain experience in its administration. Flexibility in terms of the services provided and revenue streams will help to ensure the sustainability of the incubator program over time.

The incubator program should be established under what is known as a "Distributed Model," which allows for the use of multiple sites as the needs of the community and the client pool change over time and provides a more flexible focus than an incubator concentrating strictly on a particular sector such as information technology, biotechnology, or industrial manufacturing.

Creation and Oversight

Primary sources of funding for the incubator program include the state of Missouri's Incubator Tax Credit Program and local foundations committed to the development of entrepreneurs. In the case of the former, such contributions must be made to a not-for-profit corporation having a tax status of 501 (c) (3), and such status is a requirement or preference for many of the foundations that may be targeted for potential funding. Given the potential for the generation of funds for the initial development of an incubator program in Grain Valley, a 501 (c) (3) corporation should be created to facilitate such efforts.

In order to ensure the consistency of the proposed not-for-profit with the economic development efforts of the community, its Board of Directors should be comprised in whole or in part of the membership of the Economic Development Task Force. That the members of the Economic Development Task Force are appointed by the Mayor with the consent of the Board of Aldermen ultimately ensures that the actions of the not-for-profit are responsible and accountable to the City's governing body and the residents who elect them.

Management and Staffing

The proposed not-for-profit, in turn, should contract with the City of Grain Valley for the day-to-day operation of the incubator program, as the City offers the single best option for providing staffing and support services for the program. While it can be important to maintain a physical presence at an incubator facility to provide services such as clerical assistance, it is not essential that 100% of that person(s) time be dedicated to incubator activities. Instead, a City employee can be used productively for municipal purposes when not engaged in incubator related work, thus lowering the operating costs associated with the incubator program. Similarly, office equipment and supplies purchased in conjunction with the City's typical purchasing process can provide economies of scale and lower incubator operating costs. Finally, municipal operation of the program will ensure its consistency with existing economic development and marketing efforts, facilitating the successful implementation of the incubator program.

Financing

Incubators usually rely on a mix of revenue streams, including rent and other payments from tenants, and income from sponsors. In successful incubators, clients will come and go, which results in an uneven cash flow to the incubator itself, therefore requiring oversight if the incubator is to cover its operating costs. This is particularly true of incubators in the early stages of implementation or expansion. It is incumbent upon the not-for-profit's Board of Directors to conduct an analysis of the incubator's initial costs, including:

- Pre-operating expenditures: disbursements prior to the actual inauguration of the incubator
- Physical facilities: disbursements required for the construction of new facilities or the renovation of existing building(s)
- Equipment: disbursements required for the purchase of equipment to start up and continue the operating activities of the incubator
- General expenditures: staffing, marketing, office supplies, etc.

Having identified the initial costs for starting the incubator program, the not-for-profit's Board of Directors should develop a comprehensive list of all potential program sponsors, make initial contact with potential sponsors, determine the availability of supporting funds, funding cycles, application procedures and deadlines, then make application for needed resources.

As incubators go through the different stages of start-up, operations, and expansion, different amounts and types of financing may be needed. Depending on the stage, incubator clients, and local/regional market conditions, it may also be more or less feasible to charge for services provided. The not-for-profit's Board of Directors must continue to monitor the aforementioned criteria and establish fees for service accordingly.

The extent to which business incubation can be financially sufficient, the strategies to be used, and the time it will take need to be addressed carefully in the design and planning phases of the incubator, and adjusted as those involved with the operation of the incubator gain experience with testing the various strategies.

Establishing Policies and Procedures

The not-for profit's Board of Directors should establish policies and procedures regarding:

- Selection Process
- Services
- Graduation

Selection Process

The business selection process must be compatible with the incubator's internal and external environment. It is essential to choose, from amongst candidate companies, those with the greatest potential for success. This is a complex process, because the concept of success is a relative value. The not-for-profit's Board of Directors should develop criteria for measuring the success of the incubator program and ensure that selected clients are those that contribute to improving the indicators used for evaluating the incubator's performance. Potential indicators that may be used in evaluating the success of the incubator program, and therefore the suitability of potential clients for acceptance into the program are:

- The number of jobs that are or will be generated
- Projected income levels for jobs created
- Potential for generating future tax revenues
- Capacity of the individual(s) involved in the project (financial resources, experience, etc)
- Feasibility of the enterprise (business and marketing plans, etc.)
- Compatibility of the proposed business with the community/region.
- Alignment with specific economic sector(s)

Services

An incubator can provide a wide range of services ranging from pre-incubation services such as research support and business planning, to incubation services such as office space, shared clerical resources, access to information and communication technologies, advice on management, marketing, technical, legal, and financial issues, and more.

In managing the day-to-day operations of the incubator program, the City and the not-for-profit's Board of Directors should identify the needs of the clients and provide the types and levels of service that are sustainable by the program and best lend themselves to the successful graduation of all clients. As entrepreneurs start or expand their business, they often need advice on a broad range of topics, including business planning, staffing, finding and working with suppliers, identifying the appropriate location for the business, navigating the regulatory landscape to obtain the necessary licenses, marketing, developing effective business processes, etc. The value of mentoring and

coaching the entrepreneur has also increasingly been recognized as one of the key values provided by business incubators.

While the City can reasonably meet the needs of clients for shared clerical services, shared office equipment, and other day-to-day tasks, to maintain a permanent board of specialists to assist in strategic planning, marketing, supply networks, etc. would be far too expensive for the City and its sponsors. However, the City's Business Creation, Retention, and Expansion Program contains links to resources that provide such specialized services, through organizations such as the Small Business and Technology Development Centers and KCSourcelink. Therefore, an important component in the success of the incubator program is ensuring a strong link between the services offered in the City's other programs.

Graduation

The overriding goal of business incubation is to move clients to a point where they are no longer dependent on the services of the business incubator to compete in the marketplace. As with selection, the exit terms and strategy should fit the business incubator's objectives, as well as take into consideration the type and profile of clients being supported. While it is important to have a clearly defined exit strategy, a degree of flexibility is essential, as not all businesses will grow at the same rate. Having a graduation policy based solely upon tenure in the program may allow some businesses capable of succeeding on their own to remain in the program, thus preventing other potential clients from having the opportunity to participate in the program, or may result in other businesses failing because they are not yet ready to compete in the open market when forced to leave the program. The not-for-profit's Board of Directors should establish flexible graduation criteria based on the achievement of certain benchmarks in the evolution of client businesses.

In order to ensure the continued success of graduated clients, there should be a clearly defined process of transferring businesses from the incubator program into the retention and expansion program to ensure the provision of post-incubation services.

Marketing

For the incubator to attract high quality businesses, the City and the not-for-profit's Board of Directors must clearly understand and respond to the needs of the business community in Grain Valley, eastern Jackson County, and the metropolitan area. However, understanding those needs is not enough. We must market ourselves and the incubator program effectively in those same areas in order to ensure a large number of initial client candidates. More client candidates to choose from gives the program a better chance of selecting companies that will succeed, with such success serving as one of the key components of future marketing efforts, in turn leading to a larger and better pool of client candidates.

Like all enterprises, the incubator should be guided by the market and focus on the specific target markets that we intend to reach, providing them with clear and consistent messages that provide information that is important to them, in the appropriate form of media that they are likely to see or hear. Marketing will be crucial for bringing in new partners throughout the life of the incubator program, retaining sponsors over time, and in attracting candidates for incubation. Increasingly, the success of the incubator will depend on our capacity to draw positive attention to the program and our ability to demonstrate its usefulness in the areas of new job creation, tax revenue generation, and the other indicators identified as the program's measuring stick for success. Some of the ideas, concepts, or programs that should be incorporated into the City's marketing efforts for the incubator program include:

- Hosting community events at the incubator facilities
- Offering "entrepreneurship" breakfasts at the incubator facilities
- Attendance at events held by professional associations, clubs and civic organizations
- Organization of lectures and seminars at academic establishments.
- Cost-effective media releases, sent out by e-mail and utilization of web site
- Workshops run with the specific purpose of showcasing the products and services offered by the incubator and its enterprises

Summary

In order to begin the implementation process of the Business Incubator Program, a not-for-profit 501 (c) (3) should be formed to serve as a conduit for funding and to provide oversight of the program. The not-for-profit should contract with the City of Grain Valley for the day-to-day operation of the program. Its board of directors should determine the costs for establishing and maintaining the program, identify and seek out potential sources of funding, and establish policies and procedures for the selection process, provision of services, and graduation. The marketing of the program should be incorporated into the City's existing marketing plan to ensure the success of the program.