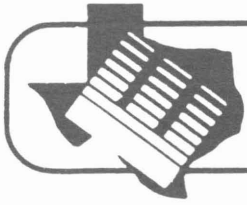


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## Texas Agricultural Extension Service

# Developing Your Local Economy: Business Incubators

*Don Stebbins\**

Texas towns were established and their economies developed by individuals with leadership and entrepreneurial skills. Instead of relying on corporate relocation decisions made elsewhere, many of our communities now need another generation of such individuals to revitalize their economies. As the feasibility of alternative community economic development strategies continues to be examined, increasing attention is being directed at community efforts organized to assist local entrepreneurs expand and establish "homegrown" businesses.

*A successful incubator becomes a source of community pride because it is specifically designed to produce "winners."*

Starting and successfully operating a business in a highly competitive economic environment is challenging. Too many aspiring entrepreneurs have good ideas but are seriously lacking in business experience. Unfortunately, due to some combination of inadequate planning, poor marketing, poor management or lack of financial capital, approximately 80 percent of new firms fail during their first 4 years.

It takes a lot of courage to begin a new business and, unless some excellent help and strong encouragement is available, not many people should be expected to do it. It is especially risky to start a business in many small towns because a support system providing advice and training is nonexistent or poorly developed. Thus, some of the more motivated and talented individuals are likely to move to areas where their chances of success are greater; if so, the small town loses valuable resources and economic development becomes even more difficult.

### Business Incubators

Business incubators are a rapidly growing form of assistance to small business. As recently as 1980, fewer than 10 existed; by 1990 there will be between 750 and 1,000 operating nationwide. The primary operational objective of an incubator is to provide a facility in which new businesses can get needed professional assistance and reduced start-up costs. The desired long-term effect is to substantially reduce failure rates and graduate firms from the incubator to other sites where they will continue to operate and contribute to the local economy. Since incubators are so new it is too soon to measure long-term success rates but early results are very promising.

\* Extension community development specialist, Texas Agricultural Extension Service, The Texas A&M University System.

According to successful managers and tenants, there are two important benefits from an incubator. First, having access to the support provided by an incubator gives entrepreneurs the vital element of encouragement frequently required to attempt a new economic activity—a dream has a better chance of becoming reality and both the individual and community benefit. Second, incubators provide a valuable communication forum; everyone involved is interested in small businesses and the opportunity to share ideas, problems and experiences. Some community leaders would add that a successful incubator becomes a source of community pride because it is specifically designed to produce “winners.”

## Establishing an Incubator

While the concept is easily understood and attractive, incubators are not right for every town. Before beginning an incubator, a lot of planning and hard work are required. During their operation, superior management and a willingness to make hard decisions about tenant selection, retention and dealing with failures are needed.

Planning involves decisions relating to public subsidization; profit or non-profit status; types of businesses to be included; location and management of the facility.


Slightly over one-half of the incubators organized before 1987 are owned by non-profit groups. The remainder are owned by academic



*Smaller towns can compromise the guidelines for incubators without discarding the concept.*

institutions, private sector organizations investing to make a profit, and joint public/private groups with subsidies available to attract private investment. A community requiring an incubator to focus on serving labor-intensive businesses, with the primary intent of creating jobs, should expect that part of the costs will require subsidies. If private ownership of the incubator is expected, owners/investors will want more decision-making authority; the tenant and service mix that yields profits probably is not the same as the mix that maximizes job creation.

Careful consideration of owner/sponsor options, the experience of other incubators, needs of the community and the willingness of residents to support an incubator are necessary to decide about ownership and decision-making roles.



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Decisions about location and types of businesses are logically related. Presumably a major goal of an organizing group is to establish a facility that will be successful by maximizing the number of entrepreneurs qualified to become tenants and their graduation rate. Organizers need to understand enough about business resource and location requirements, economics and business management to decide which types of businesses have the greatest potential for success, the services and support they need from an incubator and where the incubator should be located.

For example, if the community's retail trade and service sector is weak and organizers decide that an incubator focusing on those types of businesses is feasible, a strategically located mini-mall might be the appropriate facility. Light manufacturing firms do not require access to consumers so their locational needs are not the same as those for retailers; an entirely different facility in another location would be needed if they are expected tenants.

Incubators have been located in abandoned schools, unused public buildings, empty warehouses and even abandoned train stations. In some cases, these may be acceptable locations, but the mere availability of a structure is a very poor reason to select it. The major interest is in enhancing the probability that a business will succeed—there is risk enough without being saddled with a poor location or poor facility.

## Operating an Incubator

A good plan gets community support and translates into operating policies and procedures. Two major considerations about operating an incubator deserve special attention. They are: (1) the support and services offered and (2) managing the incubator.

A well designed incubator offers a mix of shared services and management support needed by the tenants, an entrepreneurial environment and flexible space at affordable prices. Typical shared services include clerical help, data and word processing, receptionist and telephone answering, custodial services and security. Rentals cover the cost of these services.

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Management support necessarily varies according to the specific needs of individual tenants. Legal advice and consulting or training in financial management, business planning, personnel management, taxes and record keeping, marketing and long-range planning are usually included in the package that is made available. Providers, either from the incubator staff or from the community, should be experienced and capable of giving correct, sound advice and training. Some incubators need to provide access to conference and meeting rooms, educational materials and a library. Volunteers may provide some of this support; user fees can be assessed to cover necessary costs.

Good intentions, excellent plans, community support and money can all be wasted if the incubator is poorly managed. Incubator management needs to market the incubator to qualified tenants, deal fairly and efficiently with failures and, in general, be responsible for effectively operating the facility while controlling costs and, in turn, keeping rentals affordable. Managers serve as role models and as major sources of assistance to tenants. It is essential for sponsors/owners to choose an excellent manager in order to reduce failure and frustration.

## Incubators In Rural Communities

Due to fewer potential tenants, less available financing and limited community budgets, incubators are more difficult to establish and may take longer to develop in rural communities. Fortunately, if an idea is sound, smaller Texas towns are accustomed to being innovative and making the idea work for them. They may have to be satisfied with a small incubator and make substantial changes in the way it operates to meet their constraints. Tenants may include a large proportion of existing businesses that want to expand or need support and assistance to survive. Regional cooperation with other towns or counties may be considered. Seed and venture capital may have to be raised outside normal channels.

Smaller towns can compromise the guidelines for incubators without discarding the concept. Providing a creative environment designed to assist local entrepreneurs is a valid economic development strategy in virtually all towns.

## Summary

Business incubators are a practical, effective way for communities to assist local businesses. The emphasis is normally on helping new firms but existing firms often need the same kind of help to expand or survive. Even if a community is not able to provide a building, the concept of creating an entrepreneurial environment and

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providing assistance is a valid economic development strategy that can be pursued. If a community develops a complete incubator, extensive planning is required. Major considerations include choosing the location of the incubator, qualifying tenants, marketing the incubator and selecting a manager.

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Issued in furtherance of Cooperative Extension Work in Agriculture and Home Economics, Acts of Congress of May 8, 1914, as amended, and June 30, 1914, in cooperation with the United States Department of Agriculture. Zerle L. Carpenter, Director, Texas Agricultural Extension Service, The Texas A&M University System.

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