# ECONOMIC DEVELOPMENT COMMITTEE
# AGENDA

**MAY 24, 2017 - 2:00 P.M.**

**CITY HALL CONFERENCE ROOM**
**15 LOOCKERMAN PLAZA - DOVER, DELAWARE**

PUBLIC COMMENTS ARE WELCOMED ON ANY ITEM AND WILL BE PERMITTED AT APPROPRIATE TIMES. WHEN POSSIBLE, PLEASE NOTIFY THE CITY CLERK (736-7008 OR E-MAIL AT CITYCLERK@DOVER.DE.US) SHOULD YOU WISH TO BE RECOGNIZED.

**AGENDA ADDITIONS/DELETIONS**

1. **PRESENTATION - STARTING A SMALL BUSINESS INCUBATOR (DR. MICHAEL CASSON - DELAWARE STATE UNIVERSITY UCEDIT)**

2. **ADJOURNMENT BY 3:00 P.M.**

**/TM**
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THE AGENDA ITEMS AS LISTED MAY NOT BE CONSIDERED IN SEQUENCE. PURSUANT TO 29 DEL. C. §10004(E)(2), THIS AGENDA IS SUBJECT TO CHANGE TO INCLUDE THE ADDITION OR THE DELETION OF ITEMS, INCLUDING EXECUTIVE SESSIONS, WHICH ARISE AT THE TIME OF THE MEETING.

# Starting a Small Business Incubator: Feasibility approach

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# Objectives

- **Establish what a business incubator is and what a business incubator is not**
- Understand the tools for conducting a feasibility study
  - Overview
  - Track One: Fact Finding & Orientation
  - Track Two: Preliminary Plan
  - Track Three: Facilities & Services
  - Track Four: Funding & Implementation
- Incubator failure and success factors

# What is Business Incubation?

A business incubator is….

- a **program** designed to accelerate the successful development of entrepreneurial companies
- through an array of business support **resources and services,**
- developed or orchestrated by **incubator management,**
- and offered both in the **incubator** and through its network of contacts.

A business incubator is **NOT**….

- cheap rent
- a way to use an old building

# The Incubation Difference

- Help with business basics
  - Networking activities
  - Marketing assistance
  - Help with financial management
  - Access to capital
  - Links to university/corporate partners
  - Business training programs

# But What's the Difference?

**Small Business Development Center:**

- By law, works with any small company that asks
- Works with small businesses at any stage

**Research/technology park:**

- Focuses on large or established companies
- Offers few or no business assistance services
- Permits companies to stay as long as they like

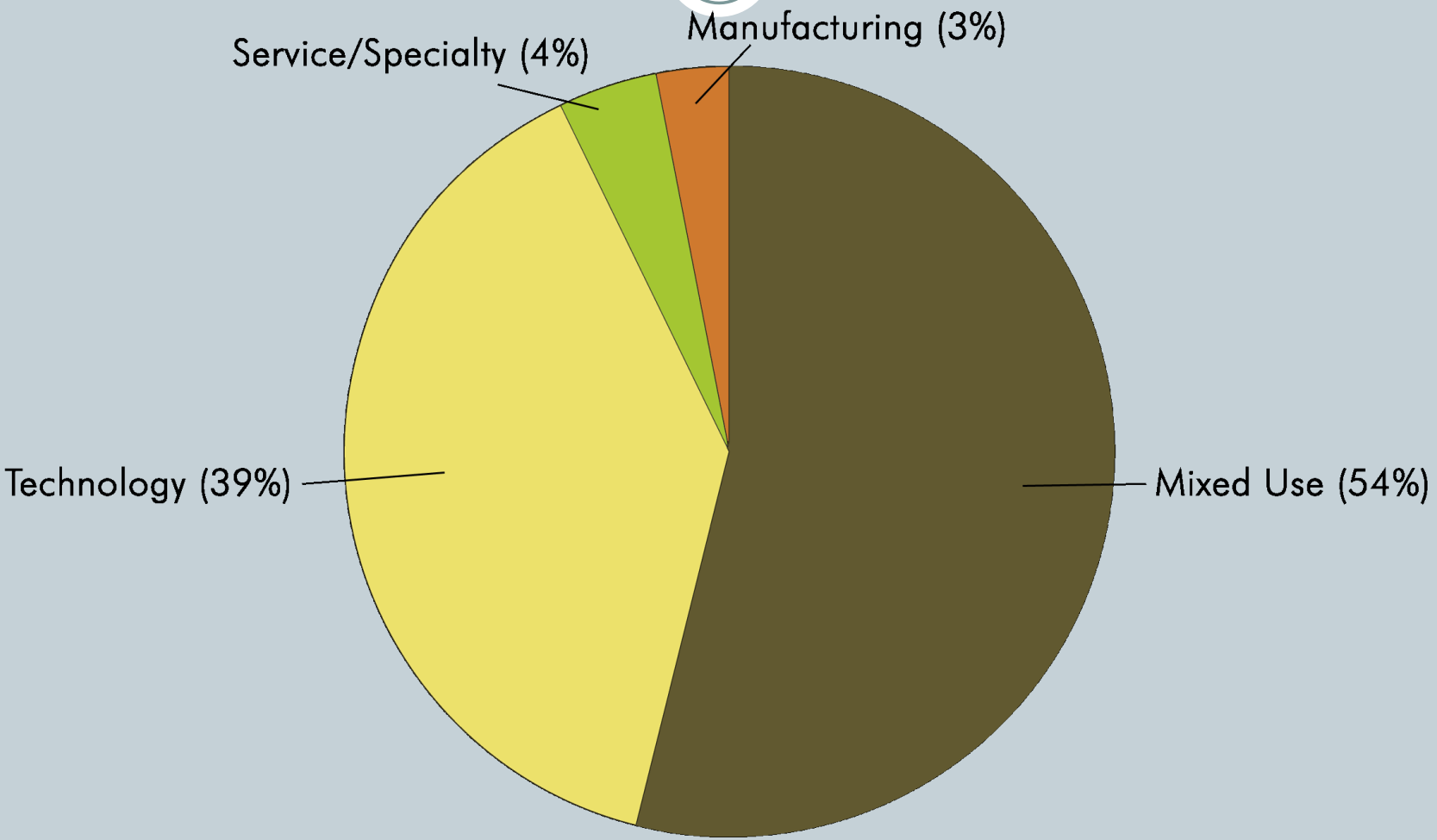
**Business incubation program:**

- Works with select, viable start-up and early-stage companies
- Offers targeted, specific business assistance services
- Requires companies to graduate

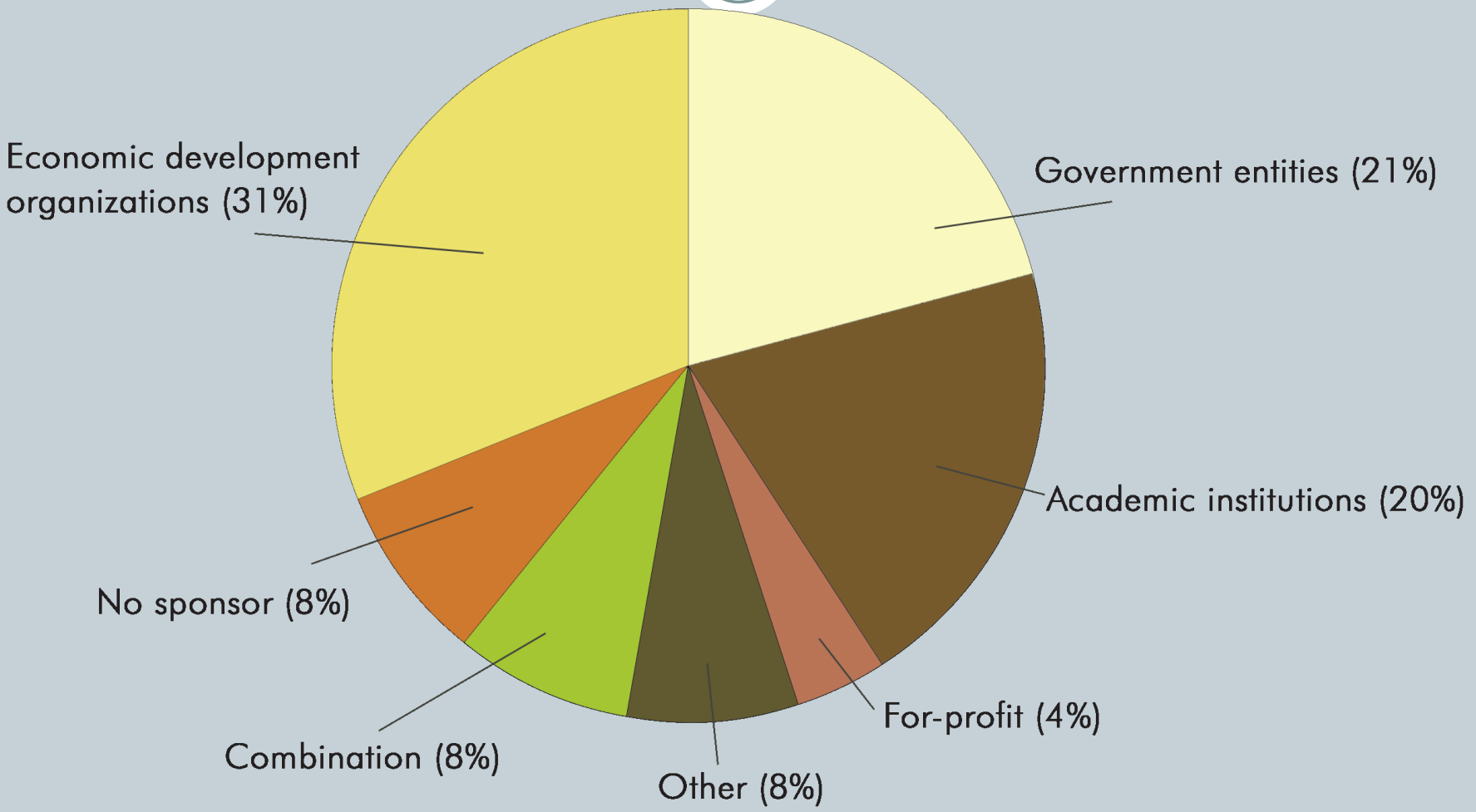
# Successful Incubators

- Integration into larger community
  - Part of overall community economic development plan
  - Community/sponsor support for mission and operations
- An effective team
  - Professional management with adequate pay
  - Network of business advisors, mentors and consultants
- Professionalism
  - Emphasizes client assistance
  - Models good business practices
  - Strives for financial sustainability
  - Measures effectiveness and impact regularly

# Types of Incubation Programs



# Incubation Program Sponsors



# The Bad News….

- Seven out of ten new employer firms last at least two years, and about half survive five years.

- More specifically, according to new Census data, 69 percent of new employer establishments born to new firms in 2000 survived at least two years, and 51 percent survived five or more years.

  (Source: U.S Dept. of Commerce, Bureau of the Census, Business Dynamics Statistics)

# The Good News….Incubation Works

Return on investment:

- $1 public investment in incubator = $30 in local tax revenue

Business retention:

- 84% of graduates stay in community

Increased likelihood of business success:

- 87% of incubator graduates stay in business

(Data provided by NBIA)

# Why Incubators Fail

- Expecting too much too quickly
- Selecting the wrong manager
- Overestimating the incubator's role
- Overspending
- Failure to leverage resources

# Goals

- Help participants understand what a business incubator is and what a business incubator is not
- **Understanding the tools for conducting a feasibility study**
  - Overview
  - Track One: Fact Finding & Orientation
  - Track Two: Preliminary Plan
  - Track Three: Facilities & Services
  - Track Four: Funding & Implementation
- Incubator failure and success factors

# 1. Overview of Feasibility Studies

Why conduct a feasibility study?

- The process can galvanize support from numerous potential stakeholders
- Creative ways to overcome obstacles can be explored and identified
- A comprehensive plan includes a facilities plan and a service program business plan, important tools for operation of the project
- Most funders will require such a study

# Track One: Fact Finding & Orientation

Step 1. Determine funding needed to complete feasibility stage (usually $25k for a consultant)

Step 2. Create an RFP (or study guide) that states what you want the feasibility to accomplish

Step 3. Test community reaction

Step 4. Explore potential project funding sources

# Track One: Fact Finding & Orientation

Step 5. Explore possible facilities/building sites

Step 6. Create outline of plan

Step 7. Present outline of plan's concepts to small groups of interested parties

Step 8. Forge consensus and identify community resources

# Track One: Fact Finding & Orientation

Some notes on demographic statistics

- Demographic statistics should play a secondary role in revealing some obstacles and/or resources that can indirectly affect the project.
- Not all demographic data is equally important

# Track One: Fact Finding & Orientation

- Demographic statistics can help:
  - Identify any and all clusters of companies/industries
  - Identify clusters of companies that can serve as a source of customers for incubator companies as well as a source of spin-off technologies to grow the cluster.
  - Establish a foundation upon which you can prepare a “needs” section of a grant proposal to support the project.
  - Locate potential incubator candidate facilities
  - Identify a source of prospective clients via databases that collect business registrations
  - Identify features of the community that can be organized to support new company development

# Feasibility Questions



Organization & Management

- What does the sponsor or any other potential stakeholder expect by way of outcomes from the incubator's activities? How will success be defined?
- Which legal entity and organization structure will achieve the expected outcomes? Are those expectations aligned with the financial commitments being made?
- Who will become the key champion(s) of the project?
- How will the management team be assembled, evaluated, and rewarded?
- What significant organizational or political barriers need to be surmounted?
- What organizations or groups which are not now involved could be valuable contributors to a successful effort?

# Feasibility Tips

Purposes of the Core Planning Team

- Shape the vision of the project
- Commit the resources of the sponsor(s)
- Decide if there should be any co-sponsors, besides the original sponsor
- Make key planning decisions which will help in the further definition and refinement of the project.
- Brainstorm tactical development alternatives
- Provide the development team or consultant with introductions to key individuals and organizations in targeted industries
- Recommend potential funding strategies
- Exploit media opportunities creatively
- Critique interim reports or documents and approve final business plan recommendations

# Feasibility Tips

Board Structure Tips

- Limit the number of members
- Be clear about expectations of Board members' roles
- Seek clarity from Board about staff priorities
- Let each Board Member participate in an area where they are most skilled
- Set up procedures in the bylaws to eliminate problems (i.e., lack of attendance)
- Consider two different Boards, each for a different purpose (Fiduciary Board and Advisory Board)
- Allow any person who will work with the Board have a role in formulating its composition
- Keep the Board well informed

# Track Two: Preliminary Plan

Step 1. Construct a corporate identity

- Private non-profit
- Public authority
- Separate corporation
- Non-profit/for-profit hybrid

Step 2. Formulate the mission statement

Step 3. First private draft of feasibility report. Very brief (6-8 pages)

Step 4. Present the First Cut Plan to the Public (20-30 pages)

# Track Three: Facilities & Services

- Step 1. Develop a marketing plan as part of the business plan
  - Are there prospective customers for the incubator in the community?
  - Do not rely on demographic analysis—perform first person interviews
  - Benchmark: minimum of 25,000 jobs. If community has less, perform additional research
  - Analyze clusters
  - Evaluate new entrepreneurial activity in the community

# Track Three: Facilities & Services

- Step 2. Target the Facility

ANSWER THESE TWO QUESTIONS:

- Is there enough money to support the monthly payment with the anticipated subsidy for the first three years?
- Is there enough money to support an unsubsidized program at “full occupancy?”

# Track Three: Facilities & Services

- Step 3. Establish the Service Program
  - Services can aid in recruitment. Start services up to a year before facility opening.
  - Focus on quality, not quantity
  - Office practice services
  - Management services
  - Determine which services to include in the rent and which are fee-based

# Track Three: Facilities & Services

- Step 4. Line up Funding Sources
  - Establishing a nonprofit entity will offer widest range of funding options
  - Expect one year of planning if targeting federal funds (like EDA)
  - Raise enough initial money to cover 18-months of operations
  - Do not plan on federal/state funding support beyond 3 years
  - Get creative when looking for funding support
  - Weigh grant funds with a critical eye…compliance can be difficult
  - Do not under-capitalize

# Feasibility Questions

Key Questions (marketing plan)

- What are the highest priority, target markets for the incubator? What is known about the stage of development, technology intensity, or business support needs of these targeted firms?
- From which sources (e.g., college faculty, corporate spin-outs, industry associations, the entrepreneurial community, etc.) will the bulk of incubator candidates be drawn?
- How will we continue to court the existing database of prospects? By what timetable will incubator space and services be available?
- What mix of on-going marketing activities and promotion will attract clients and tenants?
- What realistic absorption rates can be projected for the incubator? Are the projected rental rates achievable?

# Feasibility Questions

Key Questions (facility)

- What is the demand for and supply of physical space in the vicinity of the proposed site? Under what terms and conditions are early-stage companies currently leasing space?
- Is there a cost effective strategy in which the project can be developed in construction phases or at different related sites?
- Are there any local facilities now providing "shared space" and common services for early-stage companies?
- How easily can the facility be reconfigured to maximize the creation of appropriate, flexible space and at what cost?
- Has the build new vs. renovate old decision been made yet?
- Are there any special build-out strategies that might be employed with the facilities tailored to these particular target markets? i.e., what kinds of space do you bring on-line first?
- Who might be available to help design and construct/rehab the incubator facility?

# Feasibility Questions

Key Questions (service program)

- How can the sponsor work collaboratively with other businesses and technical service providers in the area?
- Which existing services of the sponsor can be offered to the incubator's clients and tenants and which new services and resources will need to be developed?
- What specialized services and resources of the sponsor would distinguish the incubator from other "similar" projects in the area?
- What are the projected costs to develop, manage, and deliver these business and technical support services?
- What business and technical support services will entrepreneurs pay for and how much will they pay?
- How can the services, resources, and facility be integrated into a comprehensive support program to achieve the expected business growth outcomes of the incubator firms?

# 10 First Cut Criteria

1. Ability to lease sufficient space (usually around 30,000 s.f.) in order to reach minimum critical rental role.
2. Ratio of at least 75/100 net rentable to gross s.f.
3. Ability to meet all facility mortgage, tax, insurance, and operational costs at no more than 75% leased.
4. Ability to offer lease rates at 80% - 95% of the market rate.
5. Existing interior fire wall rated partitions accommodating multi-tenant occupancy.
6. One parking spot per 300 s.f. of leasable space.
7. Detailed as-built drawings and complete history of building use available for review.
8. Building has value appreciation potential.
9. Acquisition/renovation compares favorably to flex-type re-engineered new construction.
10. Environmental issues are known and resolved.

# Build or Renovate?

- Develop a relationship with local commercial real estate agents
- Formulate a clear set of standards by which all properties will be judged
- Identify sources of funding for bricks and mortar projects
- Understand the importance of **LOCATION** to the potential clients
- Research patterns of industrial development in the area
- Justify your decision to build new vs. renovate based on solid criteria and a reality-based understanding of available properties

# Track Four: Funding & Implementation

- Step 1. Identify Critical Assumptions
  - Leasing schedule (monthly and quarterly)
  - Break-even point
  - Utility costs
  - Bad debt (usually 6%-8%)
  - Third-party income (i.e., political “pork” support)
  - Tenant mix
  - Environmental conditions
  - Costs of tenant improvements

# Track Four: Funding & Implementation

- Step 2. Go/no go decision
  - Over 90% of feasibility studies recommend the project proceed. Hind-sight complaints are usually one of four reasons.
  - Be sure the target facility shows potential to provide enough rental income.
  - Re-evaluate your program to see if it is really organized to feature services as your market niche and if those services are worth paying for.
  - Check the timing of application deadlines and anticipated award/rejection dates for funding sources.
  - Examine your financial assumptions

# Feasibility Questions

Key Questions

- What is the magnitude of the funding sought?
- What are the possible and likely sources of funding for program development, facility acquisition, and/or capital improvements?
- What are the projected cash flows in the context of organization, market, real estate, and program?
- What are the possible and likely sources of funding for operations support? For example, you'll need to cover the short-term and medium-term shortfalls typical of projects until they reach break-even.
- Given the above, what are the projected returns-on-investment (ROI) the stakeholders can expect? What tradeoffs between financial outcomes and other non-financial outcomes are acceptable and what ones are unacceptable?
- How and when will a fundraising campaign be orchestrated?

# Self-sufficient or self-sustaining?

<u>Self-Sufficiency: The Holy Grail?</u>

1. How do the stakeholders define self-sufficiency?
2. Are there grants or loans available?
3. What's included in "project expense?"

Pros: More autonomy
Run incubator like a business
Flexibility for new endeavors

Cons: May not be financially possible given the business dynamics
Doesn't take into account other benefits
May force an unwanted "bottom line" focus

Self-Sufficiency vs. Self-Sustaining
Every incubator needs a self-sustainability plan.

# Key steps in financing your project

- Determine the scope and scale of the project
- Decide on financial goals
- Sell the financial model to the stakeholders
- Monitor and tweak the financial model
- Wear the fundraiser's hat (always!)
- Remember Murphy's Law

# Goals

- Help participants understand what a business incubator is and what a business incubator is not
- Explain best practices of incubation
  - Mission driven & market responsive
  - Sustainable
  - Management & leadership
  - Client selection
  - Client graduation
  - Measurable outcomes
- Give participants the tools for conducting a feasibility study
  - Overview
  - Track One: Fact Finding & Orientation
  - Track Two: Preliminary Plan
  - Track Three: Facilities & Services
  - Track Four: Funding & Implementation
- **Incubator failure and success factors**

# Why Do Business Incubators Fail?

Organization

- No clear definition of stakeholders' roles, responsibilities, and aspirations for the project
- Unclear understanding of personnel responsibilities
- Lack of a "champion" or core development team
- Underestimation of the complexity of developing and running an incubator project
- No integration of the project into regional economic development plan
- Cumbersome and/or overlapping board structures
- Lack of knowledge of similar projects on a national level
- Reluctance to use outside advisors—NIH (not invented here)

# Why Do Business Incubators Fail?

Market

- Inadequate budget to support ongoing, systematic marketing campaign
- Focus on “cheap rent” instead of quality business and technical support services
- Confusing the concept of advertising with that of marketing
- Failure to understand tenant companies’ needs
- Insufficient analysis of local market conditions
- Managers unfamiliar with real estate sales
- Ineffective use of “referral agents” (accountants, bankers, lawyers)
- Failure to engage the local real estate agents/developers

# Why Do Business Incubators Fail?

Program

- Inadequate budget for support programs and lack of delivery on promised services
- Hiring of business support personnel with no entrepreneurial or start-up business experience
- Undue reliance on pro-bono services by professionals
- Unkept promises of financial support for individual companies
- No subcontracting of support services to private companies

# Why Do Business Incubators Fail?

Real Estate

- Substandard property in a bad location
- Underestimation of fixed costs to run building
- Site has severe environmental remediation problems
- Building size is insufficient to reach critical mass of tenants
- Architectural design not geared to start-up companies
- Inappropriate mix of uses by tenant type
- Unworkable traffic flows of interior spaces
- Net leasable space too small a percentage of total space
- Property subject to historical/landmark restrictions

# Why Do Business Incubators Fail?

Finance

- Lack of diversified and ongoing approach to raising capital
- No reality-based financial projections
- Unsuccessful monitoring of cash flow
- Lack of foresight regarding financial contingencies
- Disagreement around projects need for break even
- No provision for working capital funds for start-up tenants

# When is a Business Incubator Feasible?

Commitment

- The stakeholders have developed a mission statement and established measures by which the project will be evaluated.
- The stakeholders understand the kinds of investments (land, money, time, other resources) they will be required to make over time and the respective magnitudes.
- A single project champion or group of advocates has been identified to marshal resources in the early stages of the project.

# When is a Business Incubator Feasible?

Resources

- Adequate cash flow analyses have been performed and threshold levels of financing have been secured.
- A building can be secured which lends itself to the needs of early-stage companies (easily modularized, flexible, core infrastructure, multi-use).
- Specialized equipment and/or office furniture is available at minimal cost.

# When is a Business Incubator Feasible?

Expertise

- The project manager understands the role of the incubator within the context of other local and regional economic development projects.
- A team experienced with incubation will lead or coach the formulation of the business plan.
- People with experience in construction/rehab will be part of the business plan development effort.

# When is a Business Incubator Feasible?

Market

- The incubator offers specialized business and technical assistance services in order to meet the needs of targeted entrepreneurs.
- The people testing the feasibility complete a market assessment that identifies a significant **quantity** of potential client candidates (2X more than the # expected).
- The feasibility study team can identify a sufficient number of **quality** candidates to enter the incubator.

# Wrap-Up

Were goals met?

- Understanding of what a business incubator is and what a business incubator is not
- Explain best practices of incubation
- Provide the tools for conducting a feasibility study

# References


- Michigan Small Business and Technology Development Center

# Thank You.



**QUESTIONS?**