

BUSINESS OR ENTREPRENEUR SUPPORT SERVICES

Business Incubator

Description

Contrary to a common idea, a business incubator is a program, not a building. The program (in variable formats) fosters the start-up, evolution, growth, and ultimate sustainability of new (or very early-stage) businesses. True, it will always have a home in a building somewhere in the community, and in that building many, even all of its client enterprises may initially be located. But it is the combination of business development services (including providing space) that makes the incubator a very effective tool. Thus the over-all aim is to offer a set of helpful services to local entrepreneurs. All, even the provision of space, could be and sometimes are offered independent of an incubator. It is just that the most powerful incubators integrate all necessary tools into a single tool.

The successful incubator, like other successful initiatives, will have a clearly defined goal and a clear strategy for achieving the goal. For a business incubator program, that means clarity about *what sorts of businesses will be aided in what ways in order to add what sorts of strengths to the community*. Answering this multiple question carefully results in different sorts of incubators for different communities, depending upon what is determined to be the local gaps for new businesses to be started successfully in the community. In short, the incubation program is tailored to what the community needs for business development, and those needs are specifically assessed, not just assumed. However, with its focus simply on business, even the most comprehensive incubator clearly is only one part of an overall community economic development system.

Among the many different strategies that an incubator may choose as central to its program is concentration upon a single industrial specialty, perhaps related to the major local resource or to an extant local tradition of specializing in a particular trade or industry. The aim of the incubation program may include explicitly fostering a flexible manufacturing network of many independent but interlocking firms in that selected sector, or others. Or it may choose simply to be ready to respond to any entrepreneur who appears to have a reasonably good idea, no matter what sector it concerns.

As noted, the kinds of services geared to the selected market of entrepreneurs can vary. For example, they can include assisting with **Feasibility Studies** or merely referring the entrepreneur to a consultant. A **Community Revolving Loan Fund** may be part of the available

services, or instead the incubator staff may merely promote entrepreneurs to conventional sources of credit. Again, the choice would depend upon analysis of what is truly needed by local entrepreneurs to create the businesses that will strengthen the community economy. Almost always the incubator offers a range of common office services such as a joint receptionist, photocopying, fax machine, etc. Customarily the rent charged for business space is below market rate initially but rises with the growth or age of the business.

Within that context of goals and a selection of services, the incubation process itself with each business firm/entrepreneur will be a constant moving between supportive tactics and demanding tactics, to encourage each firm into the most promising position. And that too will depend upon analysis of the needs and assets in each case.

Benefits

The potential benefits of an incubator program are an increase in the local rate of formation of businesses; an increase in the rate of survival of new businesses; an increase in the growth rate of businesses; or even an increase in the efficient re-distribution of the assets of businesses that have failed. An example of the latter is encouraging the promising but failed entrepreneur to try again or, in a less promising case, to encourage the entrepreneur to seek employment instead of business ownership.

Major challenges

The major challenge *in establishing* an incubation program is to conduct an adequate analysis of what the *community* really needs, instead of just assuming that the main need is, for example, ample cheap space for new businesses. The major challenge *in carrying out* an incubation program is to analyze what each actual *entrepreneur* really needs. In both instances, the temptation is to move with what is immediately apparent, when in fact what seems to be a real need may not be, or another need may be more significant. For example, almost any entrepreneur will say that s/he needs financing, but that does not mean that the incubator should set up a credit or equity investment arm. A variety of financing strategies actually may be available locally, but the firms may not know about what fits them, or may not be able to argue their case effectively. Those are quite different matters, and they must govern the incubation process, not a premature decision to establish a loan fund.

When the incubator assesses the local situation, it may determine that establishing partnerships with other services will be most effective. The Enterprise Centre in Dawson Creek, B.C., sponsored by the local Kiwanis, illustrates this conception. In operation for 13 years, it began with idea of fostering businesses as such, but now sees itself more in terms of systematically fostering a local entrepreneurial culture that will ultimately lead to more and stronger local businesses, and so it built a close relationship with the local high school.

Students are brought in to a two-year course at the Centre's own building, to start them off in the business of thinking about their own businesses. (See [Youth Entrepreneurship](#).)

The high school level courses are paralleled by other training, open to all local citizens. The Centre also leases space to businesses and to such agencies at the regional Community Futures Development Corporation, which itself offers a range of services for businesses. The Centre is a self-supporting institution, living off the revenues derived from providing services and space, and from contracting for the delivery of business training services for government agencies. It is a non-profit organization, totally independent from any other organization, including its close partner, the local school district, and the original Kiwanis sponsor. Its board of directors is chaired by the principal of the high school, but almost all other board members come from the business community. This is indeed a very distinctive incubator, but then all incubators will be as distinctive, shaped as they must be to the individual circumstances of each community.

Some practical steps

1. As stressed here, the initial task is to assess the community situation. Perhaps, in fact, an incubation program should be far down on the list of priorities for increasing community resilience. Indeed, perhaps business formation in itself is not so important at the moment as is business retention.
2. Next the question must be addressed, What is the specific gap (or gaps) that the incubator should work on?
3. With a clear idea of the specific goals, then a strategy can be worked up that will use the incubation technique appropriately.
4. Since an incubator is itself like any other business, it too must be able to sustain itself. And so the next step is to determine whether or not the idea is truly feasible. Can it be financed? Can a competent incubation manager be recruited? Only with full answers to these sorts of questions should a CEDO move ahead to implement and test out its plan.

Resource organizations & contacts

One of the most recent annual conferences of the (U.S.) National Business Incubation Association focussed on launching a new incubator; the association may be contacted at: 20 E. Circle Dr., Athens, OH 45701, tel. 614-593-4331. Be sure to check their website (www.nbia.org) which has a very helpful list of 50 topics on which you can get further information.

Publications

G. A. Lichtenstein and Thomas S. Lyons, *Incubating New Enterprises: A Guide to Successful Practice*, published by the Rural Economic Policy Program of the Aspen Institute, Washington, DC (tel. 202-736-5804). An essential resource.