

Building and Operating a Network of Incubators in Rural Areas



NBIA International Conference

April 11, 2011

2:15 p.m. – 3:30 p.m.

Presentation Overview



- Background of Programs
- Building Blocks of Network Development
 - Entrepreneurial Development
 - Successful Communities
 - Market/Purpose Driven
- Critical Components of Program Development
 - Value-added programs
 - Measuring the Results
- Specific Example of Rural Network Success
- Summary

Program Background



The WTAMU Enterprise Network



- A regional incubation center serving the West Texas/Panhandle Region
- Started 2001 as an economic development initiative of West Texas A&M University
- Funded by Texas and EDA
- Strong alliances with other regional entrepreneur support organizations

When we started, we didn't...



- conduct a feasibility study
- hire a consultant
- select a Board of Directors
- create an advisory board
- look for many clients
- plan for long-term sustainability

When we started, we did...



- join and get active in the NBIA
- study the success of others
- have strong experience in entrepreneurial development
- get strong legislative support
- start with one anchor tenant

Economic Impact



- In 2010, Enterprise Center Clients:
- 39 companies
- \$41.6 million annual revenue
- 323.5 total jobs
- \$11.2 million annual payroll
- \$1.9 debt capital
- \$3 million equity capital

Our Mission



Grow and diversify the economic base of Amarillo and selected regional communities by utilizing the tools of business incubation, entrepreneurial development, and entrepreneurial education.

Our Focus



- Creating new “basic businesses and primary jobs”
- “basic business” is a firm that generates most of its revenue from outside the local trade area.

Economic Development

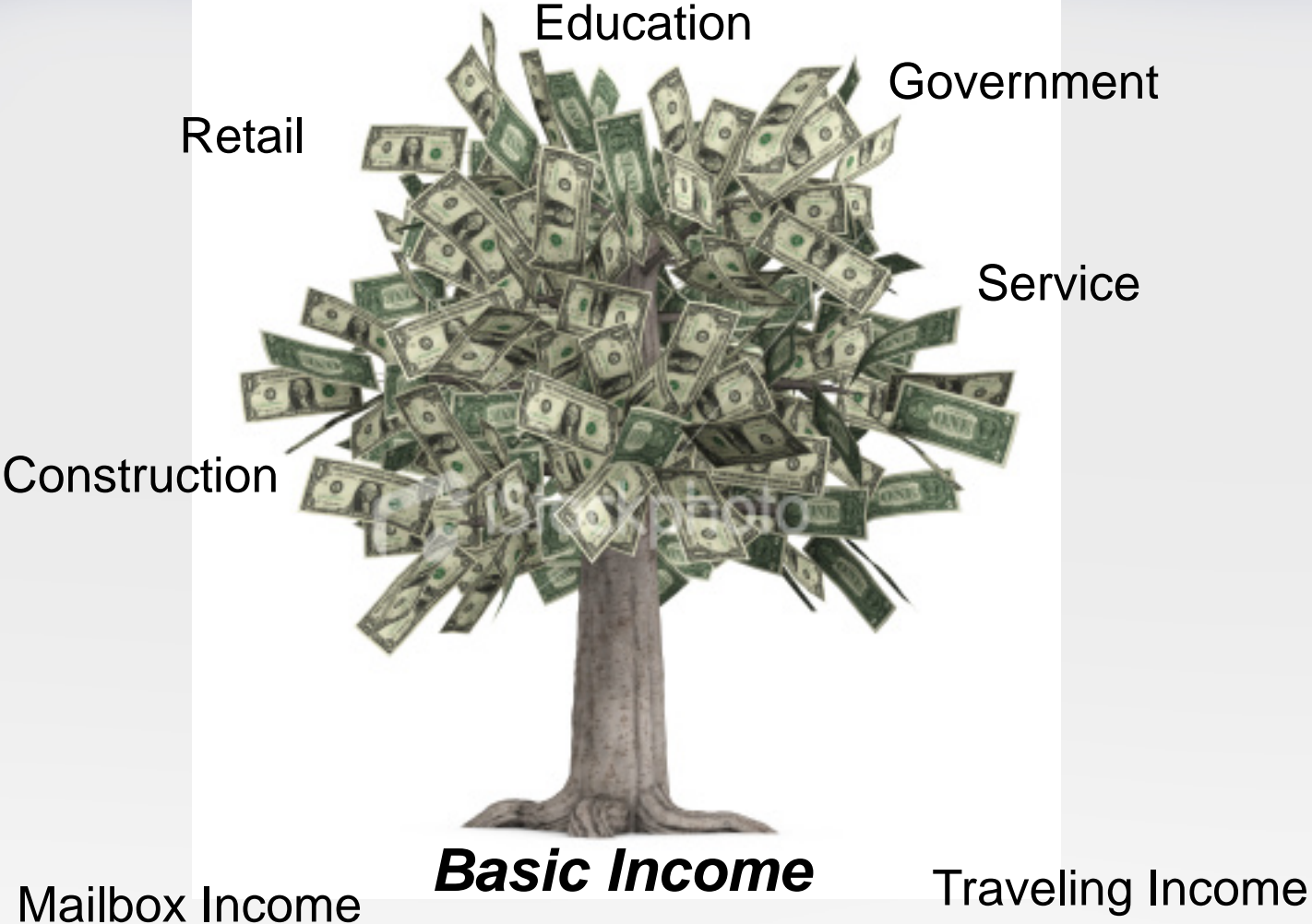


**Industrial
Recruitment**

**Business Expansion
And Retention**

**Entrepreneur
Development**

Community Money Tree



Our Ultimate Goal



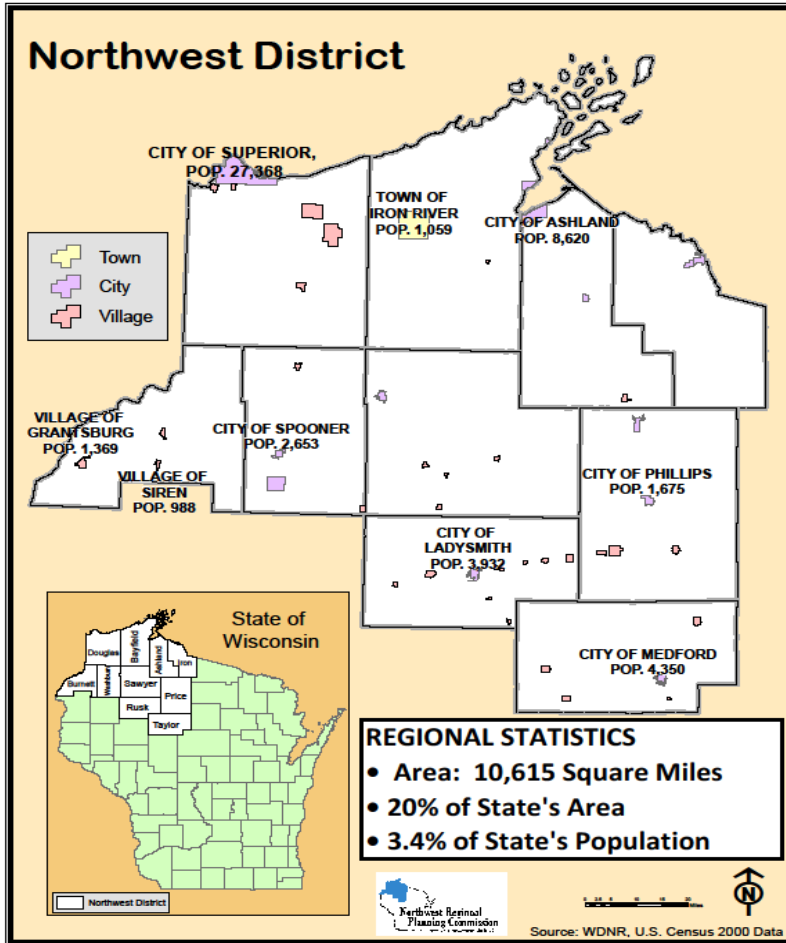
- Produce successful graduates
- Produce entrepreneurs that are financially viable and self-sustaining when they leave the incubator.

The Northwest Enterprise Network



- A Multi-site, business incubation program serving the Northwest Wisconsin region.
- Owned and operated by the Northwest Regional Planning Commission.
- Ten incubators located in six communities; Populations of 4,500 or less.

Demographics



- Area:
20% of State
- Population:
3.4% of State

Background



- Historical Job Growth
 - Natural Resource / Tourism Based
 - Low Paying or Seasonal
- Tech-Based Companies
 - Tendency to Locate in Metro Areas
 - Concentration of the Resources They Required
- Per Capita Income of Region
 - Lagged State 30-40%

Resulting Strategy



Purpose – Foster Tech in Rural Areas and
Grow From Within Region

Goal - Create High Skill / High Wage Jobs

- Wisconsin Rural Business Initiative
 - Technology Transfer Agreements
 - Increased Availability of Revolving Loan Funds
 - Technical Assistance Programs
 - (Incubator Without Walls)
 - Venture Capital
- Missing Piece – Permanent Facilities

Results



Northwest Enterprise Center Network Performance Data

	Tenant Data	Graduate Data	Combined Totals
Number Companies	18	21	39
Number FTE Jobs	134	177	311
Annual Sales	\$13,720,000	12,950,00	\$26,670,000
Annual Payroll	\$4,800,000	\$8,730,000	\$13,530,000
Private Investment	\$15,405,000	\$13,260,000	\$28,665,000
Client Tax Payments	\$31,300	\$95,400	\$126,700

Impact Data Highlights



- International Sales
 - Canada, China, France, Great Britain, Norway
 - Products Designed/Manufactured in N.W. WI
- High Quality Jobs
 - \$43,504 Average Annual Salary
 - 40% Higher than Regional Average
 - 10% Higher than State Average
 - 4% Higher than National Average
- Achieving Primary Purpose and Goal
- Tax Base is Growing
- Good Return on Investment

Network Development



Entrepreneurial Development



Build a Strong Coalition



- Business service providers
- Economic Development Agencies
- Successful entrepreneurs
- Other referral sources

Get Community Buy-in



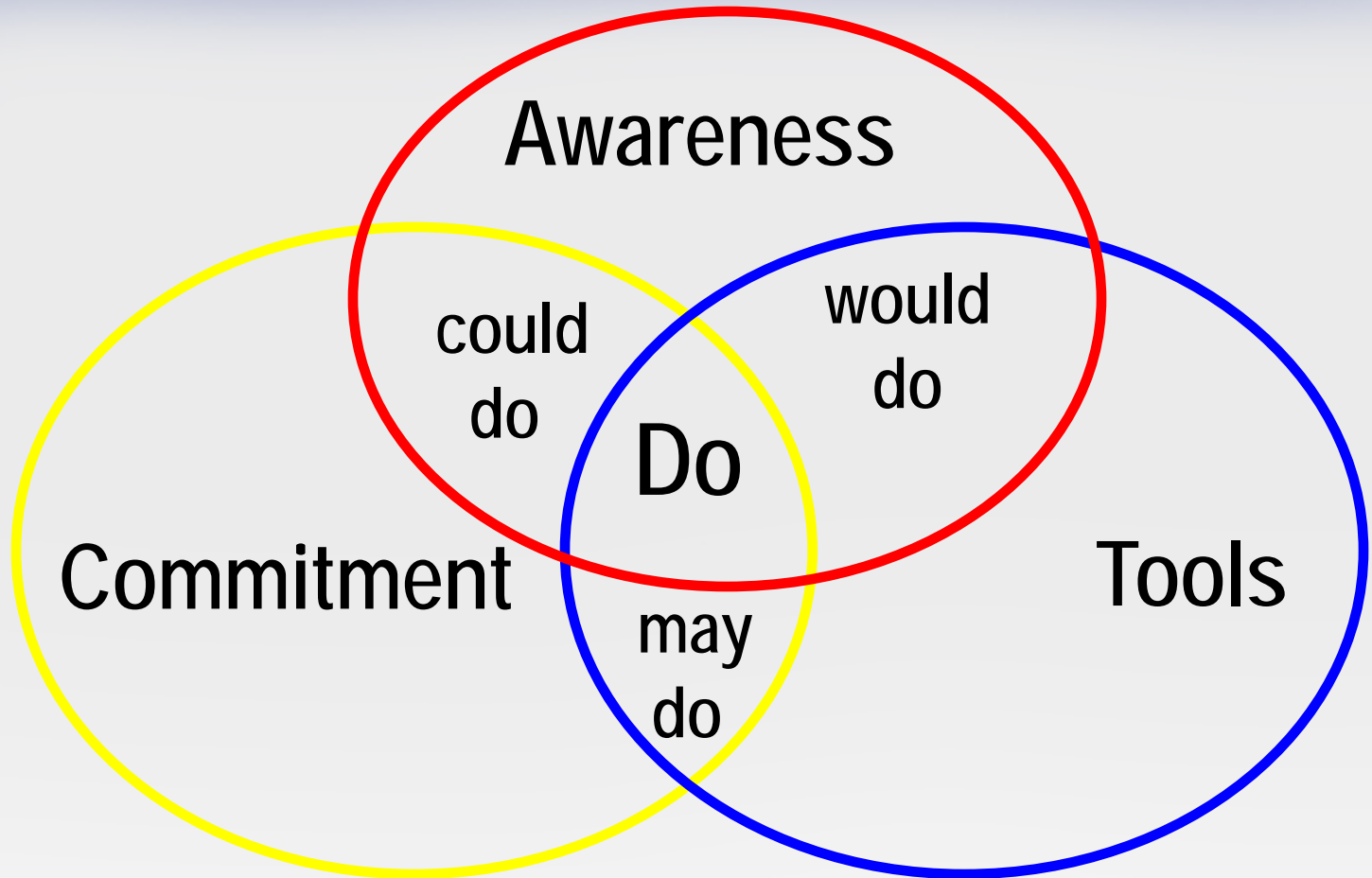
- Rural incubators cannot exist without the support of community
- Incubator must be tied into the fabric of all that is economic development
- Be the “go to” organization

Successful Communities



1. Understand that rural economic development is not a quick fix
2. Have a core of committed leaders who are willing to set politics aside
3. Are willing to take risks and accept controversy as a normal part of positive progress.
4. Capitalize on existing resources.
5. Focus on helping local businesses start, survive, grow and expand.
6. Create Long-Term Plans
7. Take ACTION!

Take ACTION



Program Development



Select Great Clients



- Screening process critical to success
- Entrepreneur, plan, strategic fit
- Viability, coachability

Create Value-added Client Programs



- Client coaching and mentoring have to be staples in your program offering
- Programs not for program's sake
- Based on client's need
- Be proactive

Measure your success



- Stakeholder measurement outcomes
- Can't manage what you don't measure
- Sustainability

Successful Rural Networks



Purpose Driven and Market Driven
Here's an Example...

Rural, Regional Strategy



Determine Purpose and Mission

- Purpose – Foster Tech in Rural Areas and Grow From Within Region
- Goal - Create High Skill / High Wage Jobs

Incubation – Metro vs. Rural



- Metro:
 - Well Financed - Large Municipalities, Universities, Established Companies
 - Upscale Facilities / Availability of Higher Lease Rates
 - Very Focused – Office and Lab Based
 - Client Waiting Lists
- Rural Challenges:
 - Lack of Financial Resources Compounded by Low Lease Rates
 - Lack of Industry Sector Market Depth for Focus
 - Examples: BioTech, Medical Device, Computer Tech

Our Market



- Required Practical Facilities
 - Smaller Scale
 - Lower Cost
 - Flexible / Efficient Designs
- Mixed Use / Wide Variety of Companies
- Provide Broad Spectrum of Business Resources
- Regional Model - One Community at a Time

Regional Approach



- Central Management Team
- Dilution of Overhead
- Ability to Provide Higher Level of Services
- Multiple Locations Adds Diversification
 - Capitalizes on Strengths of Local Economies
 - Lowers Risk Through Diversification

Kalamazoo, MI



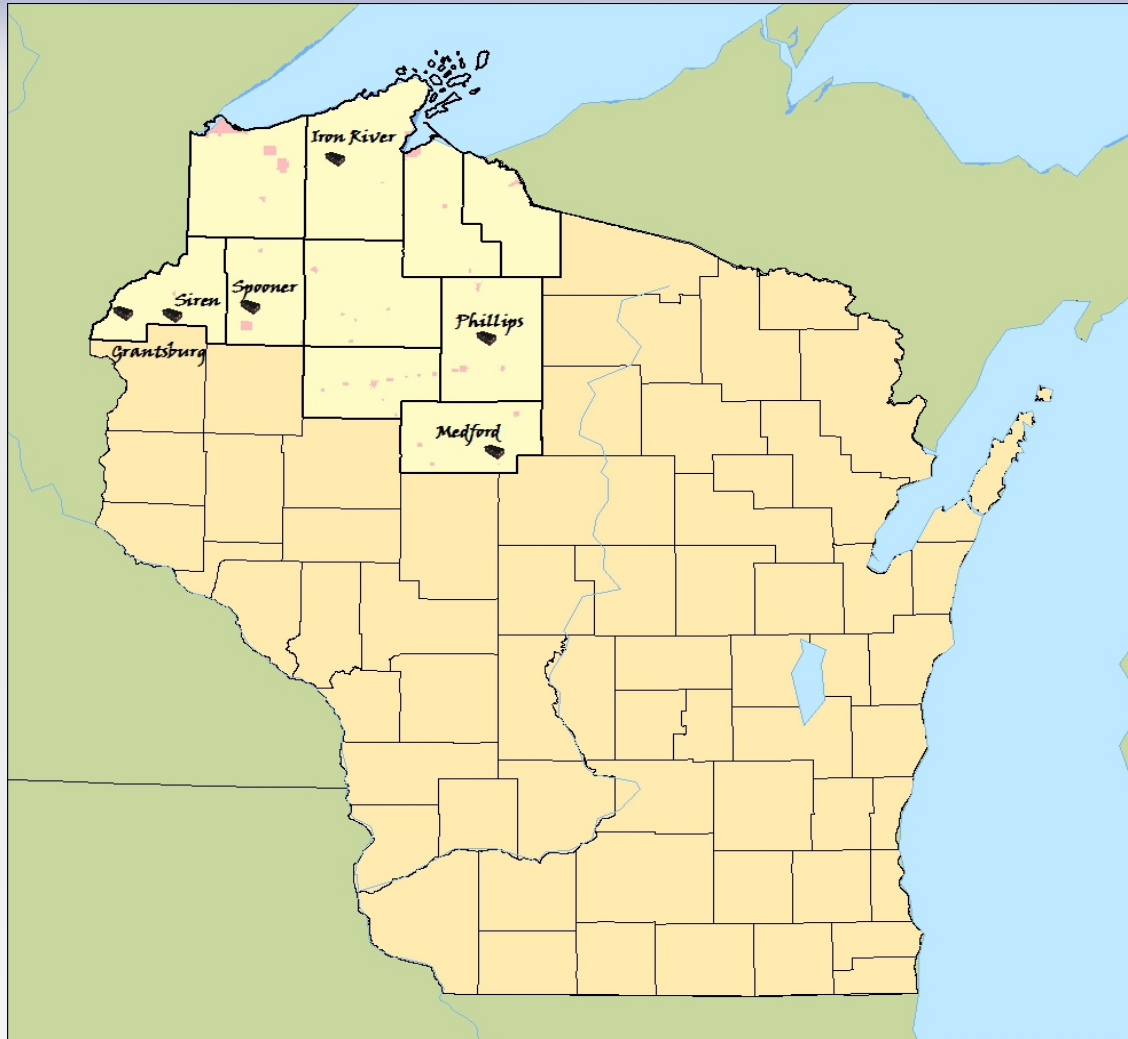
Iron River, WI



Phillips, WI



10 Facilities – 170,000 Sq. Ft.



Program Investment



- \$7.5 Million - Facilities
 - \$5.4 Million from 2001 to 2003
 - \$1 Million in 2008
 - \$1.1 Million in 2009
- Financing
 - Grant Funds
 - Owner Equity / Bank Financing
 - Local Communities

Program Funding Partners



- U. S. Department of Commerce EDA
- U. S. Department of Agriculture, Rural Development
- U. S. Department of Health and Human Services
- U.S. Small Business Administration
- Wisconsin Department of Commerce
- NW Regional Planning Commission
- Wisconsin Business Innovation Corporation
- Wisconsin Rural Enterprise Fund
- Bayfield County
- City of Medford
- City of Phillips
- Village of Grantsburg
- Village of Siren
- Peoples Bank of Wisconsin
- Bayfield Electric
- Midway Telephone Company



Construction Considerations

Adaptive Re-Use
and
New Construction

Facilities – Adaptive Re-Use and New Construction



- Be clear about priorities (jobs, profit, taxes, etc.)
- Is it the right size?
 - Type of space and total SF relative to market
 - Dedicated onsite program or shared
- How much money between startup & breakeven?
- Community resources & commitment (time, money & people)

Facilities – Adaptive Re-Use and New Construction



- Flexibility - Easily divisible into various size units
- Location
- Utility infrastructure (supply, efficiency & ability to share or divide)
- Parking
- Pedestrian friendly
- Community Regulatory Requirements
- Docks, sprinklers, elevators & stairs

Overhead Structure is Determined Early in the Process



- Careful Selection of Architect/Engineer
- Proper Site Selection
 - Topography / Soil Type
- Rural Facility Design / Efficiency Goals
 - Has Large Impact on Operating Cash Flow
 - Floor Plan Must be Highly *Flexible* and *Billable*
 - Billable Targets: 75% Office; 95% Production
- Construction Cashflow Considerations
 - Grant Reimbursement Process
 - Construction Financing Interest Expense

Overhead Structure is Determined Early in the Process



Construction Efficiencies:

A&E (3% vs. 8% x \$1,500,000) \$75,000

Proper Site Selection 50,000

Construction Financing 50,000

(\$1,000,000 x 5% for 12 Months)

Timing of Bids (Feb./Mar.) 25,000

\$200,000

Positive Impact on Annual Operations **\$15,840**

(\$200,000 @ 5%; 20yrs)

Overhead Structure is Determined Early in the Process



Design Efficiencies:

32,000 x 65% Billable Space = 20,800 sq. ft.

32,000 x 85% Billable Space = 27,200 sq. ft.

Potential Annual Revenue Gain **\$19,200**

(6,400 Sq. Ft @ \$4.00/ft. x 75% Max. Occupancy)

Annual Operating Gain \$35,040

(\$15,840 + \$19,200)

Total Gain over 20yr Useful Life \$700,800!

Keys for Program Development



- Study and Apply the Success of Others
 - Program Managers
 - State / National Associations (WBIA, NBIA)
- Purpose and Market Driven
- Efficient Use of Resources
- Use Realistic Projections
- Adaptable to Changing Market Conditions
- Need to Ask One Simple Question:
“What if We’re Wrong?”

Summary: Steps to Success You Can Use!



- Accept Responsibility for Your Own Success
 - Study and Apply the Success of Others
- Location Selection Based Upon Community and Market Potential
- Build Strong Community Foundation Based Upon Realistic Expectations/Projections

Summary: Steps to Success You Can Use!



- Purpose Driven / Market Driven Direction
- Create Capacity to Deliver “Value-Added” Programs
- Secure Adequate Financial Support for Both Construction AND Operations

Summary: Steps to Success You Can Use!



- Minimize Fixed Overhead by:
 - Maximizing Facility Design Efficiency
 - Controlling Construction / Startup Costs
- Select Great Clients
- Operate Program as a Business / Track Results
- Repeat if Successful

Thank You



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