

Community Investments Vol. 15, Issue 2 The Role of Incubators in Cultivating Small Business

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While many people associate the term incubator with the dot-com era, business incubation programs actually trace their beginnings back to 1959, when the first program opened in Batavia, New York. Since then, the industry has grown dramatically, both in terms of the number of programs in operation and the depth and breadth of services they offer. Today, business incubation programs assist entrepreneurs in most industries. Nearly half of the incubators in North America are mixed-use programs that work with a variety of early-stage companies, while more than one-third focus specifically on technology companies. In recent years, some incubators have developed programs to work with specific industry clusters, such as specialty food producers, biotechnology and biomedical, environmental, and information technology.

Unlike many of the incubators that emerged during the dot-com period in the late 1990s to generate quick wealth for investors, the majority of incubation programs aim to create jobs, diversify economies, revitalize neighborhoods, or commercialize new technologies. Business incubation programs like the Business Enterprise Center in Corvallis, Oregon catalyze the process of starting and growing companies by providing entrepreneurs with the expertise, networks and tools they need to make their ventures successful. Sponsors of these programs include academic institutions,

economic development groups, local governments, and community organizations. More than 950 of these programs now operate in North America, including approximately 200 in the Federal Reserve's 12th District. This article showcases the diversity of these programs and the many economic benefits they bring to their communities.

A facility with appropriate amenities is one component of a successful incubator, but the backbone of these programs is the array of business support services they provide entrepreneurs. "Business incubators are service programs, not buildings," said Dinah Adkins, president and CEO of the National Business Incubation Association (NBIA), an international membership organization serving incubator professionals, consultants, university, government and economic development officials and others. "No building can grow companies, provide mentoring and handholding, and assist an emerging company in meeting the benchmarks necessary for growth."

Many incubation programs offer clients educational seminars covering a variety of business topics, from developing a marketing plan to locating potential angel investors. Others offer networking events to bring together entrepreneurs and local business and community leaders. Some programs even help clients develop advisory teams of seasoned business professionals to help entrepreneurs work through the challenges of starting and running a business.

In fact, one of the most notable changes in recent years is the sheer variety of business assistance services the incubation industry now provides to entrepreneurs. NBIA's 2001 survey of North American incubator managers found that today's incubation programs provide a rich mix of services to help start-up businesses succeed, including comprehensive business training programs, assistance with manufacturing processes and product design and

development, and help with financial management and human resources development.

Another change has been the adoption of the business incubation model beyond the traditional mixed-use and technology incubators to more specialized industries, including ceramics, woodworking, arts and crafts, retail, and environmental technologies. Whatever the industry, business incubators share a common goal of producing successful graduates that are financially viable and freestanding when they leave the program.

And once they are ready to leave, many incubators help clients obtain the financing they need to grow their companies. According to a recent industry survey conducted by NBIA, about three-quarters of the business incubators in North America help clients access commercial bank loans and specialized noncommercial loan funds and loan guarantee programs¹. Nearly two-thirds of the programs provide links to angel or venture capital investors, and one-third offer in-house investment funds.

On average, clients remain in an incubator for approximately three years before graduating into the community, although start-up businesses in biotechnology and other industries with long research and development periods often stay longer. To help determine when it's time for a client to leave the incubator, most programs have set graduation or exit policies. Some of the most common reasons for a clients to leave the incubator are that they have outgrown the available space, have spent the maximum allowable time in the program, have achieved mutually agreed upon milestones or have failed to meet certain benchmarks of the program.

While incubators are designed to help entrepreneurs build successful business ventures, most programs require potential clients to do their homework before applying. According to incubator managers, the most successful clients come to the program with a well-developed business idea,

a viable market, a desire to learn and a strong entrepreneurial drive. Only then can incubator staff help an entrepreneur develop his or her business and the skills necessary to make it successful. And research shows that incubator graduates do have a good chance of success. A 1997 study by the University of Michigan, et al., revealed that approximately 87 percent of graduates from the nation's mature incubation programs were still in business². At the time of the study, most of those firms had been in business at least five years, and many considerably longer.

Incubator companies also tend to stay in their communities after graduation, providing a stable source of well-paying jobs for local workers. Since 1980, incubator clients and graduates have created more than half a million jobs in North America. These jobs, in turn, spawn further economic growth; every 50 jobs created by an incubator client or graduate generate another 25 jobs in the community. In 2001 alone, North American incubators assisted more than 35,000 start-up companies that provided full-time employment for nearly 82,000 workers and generated annual earnings of more than \$7 billion, which is welcome news for the many low- and moderate-income communities seeking to promote local economic growth.

While participating in an incubation program increases a start-up company's chances of success, creating a thriving new business remains challenging, especially during tough economic times. Many new businesses rely on a range of funding sources—including their local banks—to help them secure the money they need to start and grow their companies.

Whether it's a new incubator client that needs funds to help bring a promising new product to market or a soon-to-be incubator graduate that is looking to buy his own facility, these businesses provide potential funders with attractive opportunities for investments. Because of the screening procedures many incubators use to select clients and the training these companies receive while they are in the incubator, these businesses have a

better-than-average chance of succeeding and bringing additional growth to the community.

For more information about the business incubation industry or to locate a business incubator in your area, visit www.nbia.org.

For academic-turned-entrepreneur John Gardner, the Business Enterprise Center of Linn and Benton Counties was the logical place to move his business, ViewPlus Technologies Inc., when it outgrew his garage. The Corvallis, Oregon, business incubator provided the growing company with the infrastructure to succeed, including on-site business counselors, a shared receptionist, office furniture, and high-speed Internet access-services that were invaluable to an entrepreneur with little previous business experience.

When Gardner, an internationally respected physics professor from Oregon State University, lost his eyesight in 1988, he wasn't planning to start a business. Yet, he knew he needed to do something to make it easier for him and others with visual disabilities to access electronic information. Noting that many visual objects—like the complex equations and flow charts common in math and science—cannot be described adequately with words, Gardner set out to develop tools to help himself and others with visual disabilities study and work in fields that traditionally had been out of reach for the blind.

With this goal in mind, Gardner founded both Oregon State Science Access Project (SAP), a National Science Foundation grant-funded project, and ViewPlus, a company to commercialize technologies that came out of the SAP. But while Gardner knew the technologies he was developing would fill a market need, he was not an experienced entrepreneur. "We knew technology, but we didn't really know business," Gardner said. "We recognized that we didn't always know what we were doing though, so we reached out for help."

When ViewPlus was ready to market its first product, Gardner decided to move the company into the Business Enterprise Center because he knew of the program's successes in helping other entrepreneurs succeed. In fact, he visited with the incubator's staff several times while starting his business from home. "Everyone in Corvallis knows about the Business Enterprise Center," Gardner said. "I always knew that when the time was right, we'd move into the incubator."

Gardner said ViewPlus has benefited from the advice he has received from the incubator's business counselors and board members and the opportunity to network and learn from other entrepreneurs. The company also has enjoyed the luxury of a flexible lease, which has allowed it to expand from a 328-square-foot office when it entered the program in 1999 to nearly 3,000 square feet of both office and light industrial space today.

¹ Linder, Sally, 2002 State of the Business Incubation Industry, National Business Incubation Association, 2003. NBIA regularly surveys business incubators throughout North America to identify the latest trends in the industry. The 2002 State of the Business Incubation Industry report highlights NBIA's most recent survey data, collected in 2001.

² University of Michigan, NBIA, Southern Technology Council and Ohio University, Business Incubation Works, NBIA, 1997.

Biography



As a public relations specialist with the Athens, Ohio-based National Business Incubation Association (NBIA), **Linda Knopp** is responsible for increasing awareness of the association and the business incubation industry. Founded in 1985, NBIA conducts respected research, offers acclaimed publications and training opportunities, participates in effective consulting projects, and provides personalized service to its international membership of incubator managers and developers.

Ms. Knopp received a B.A. in journalism from Marshall University and has taken graduate courses in public policy studies at Duke University. She previously worked as a newspaper reporter and in educational, economic, and health care administration research.