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The Business Incubator: A Rural Economic Development Tool

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will cover most of the amount owed to the U.S. bank in case the foreign bank defaults.

Food for Peace

The U.S. Department of Agriculture also has a Food for Peace program, more commonly referred to as PL-480. Current emphasis is on food aid on concessional terms and, in some instances, grants. PL-480 also expands markets for U.S. agricultural commodities and promotes economic development by increasing access of the poor to a growing and improving food supply.

PL-480 provides food relief to countries stricken by natural disaster or other emergency. Exporters should apply to the PL-480 operations division for approval as an eligible supplier.

Other

Other financing vehicles include the Export-Import Bank, Foreign Credit Insurance Association, Overseas Private Investment Corporation, International Development Cooperation Agency, World Bank Group, Inter-American Development Bank, Asian Development Bank, and the African Development Bank Group.

Conclusion

Your Nebraska banker, with the assistance of SBA and other agencies, can be a partner in your business operations. These institutions and agencies can help you determine whether your production can be geared for a foreign market and whether you have the financial ability to expand.

Resource counseling is available from the U.S. Department of Commerce, the Nebraska Department of Economic Development, correspondent banks in Nebraska with international divisions, and the Midwest International Trade Association, as well as from a number of private sector advisors.

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The Business Incubator–A Rural Economic Development Tool

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In the 1980s universities and economic development agencies encouraged the establishment of business incubators to bolster economic development. Business incubators are designed to cultivate the formation of new business ventures in an environment conducive to success.

Business Incubator Inputs and Outputs

Incubators seek to give structure and credibility to start-up or emerging ventures by providing four types of resources: secretarial support, administrative assistance, facilities support, and business expertise (including management, marketing, accounting, and finance).

The business incubator allows aspiring entrepreneurs, or tenants, more freedom to be creative–entrepreneurs can devote their time and energy to product or service development rather than to management or financial concerns. Shared support can reduce the overall level of financing required for an individual firm. Figure 1 illustrates the inputs and outputs of the business incubator.

The incubator can accelerate the learning process for entrepreneurs through workshops and training activities that focus on business strategies and formulas for success. The incubator can provide access to networks of suppliers and sources of information, thereby enabling tenants to target problems and identify and implement solutions quickly and efficiently.

Numerous authorities believe that rural economic development depends upon rural entrepreneurship. *Rural entrepreneurship* is defined as the creation of an organization that introduces a new product or service, creates a new market, or brings new technology to the rural environment.

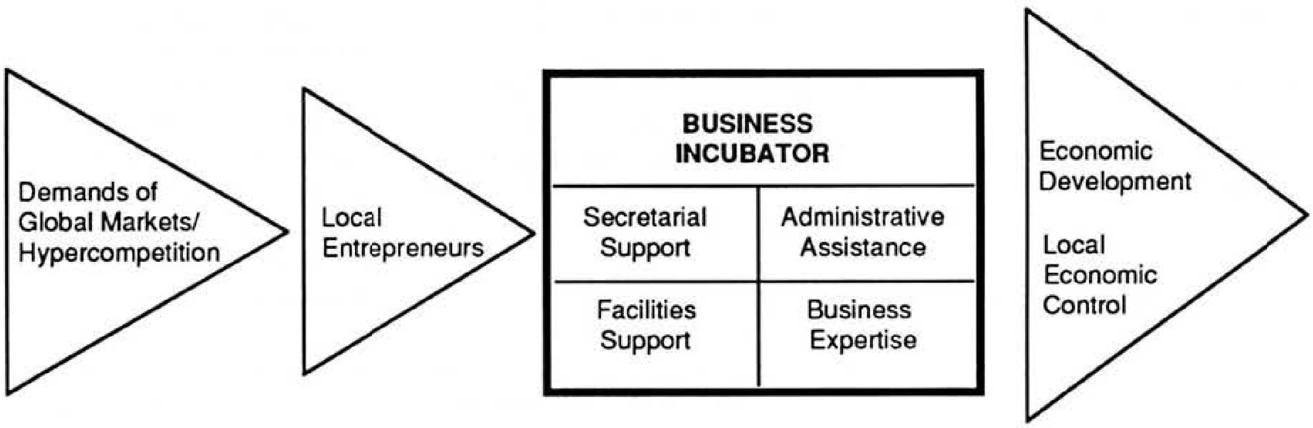
The nation's farm resident population decreased approximately one million persons in the 1980s, continuing a long-term trend. The number of large farms (those grossing over $500,000 annually) grew 15 percent between 1982 and 1987, but the numbers of all other size farm operations fell.

In the face of decreasing farm employment, falling farm earnings, and leveling farm property values, the rural economy must encourage the formation of new firms and the expansion of existing firms to maintain current levels of employment. Off-farm employment must be facilitated to maintain or expand rural population and per capita income.

Any locale must maintain its population and per capita income in order to generate taxes for municipal services such as utilities, roads, and schools. Increased rural entrepreneurial activity can be an important source of off-farm employment.

The business incubator appears to have a future in rural areas. Statistics reveal that in 1990, 28 percent of active incubators were located in rural areas. (*Rural* is defined in this article as a county with a population of fewer than

Figure 1
Inputs and Outputs of Business Incubators



50,000 residents.) The average rural incubator contains approximately 30,000 square feet of renovated space and houses seven tenant companies.

The total number of incubators in the U.S. has increased ninefold since 1984 to over 400 in 1990. Although differences exist between rural and urban incubators, the average age of each is 4.3 years. This statistic indicates that rural incubators currently are as viable as their urban counterparts.

Critical Factors in Incubator Development

It is important that individuals involved in rural economic development understand the factors that are critical to the performance of business incubators (Figure 2). The more extensively these factors are incorporated into an incubator, the greater is the likelihood that the incubator will contribute to overall economic development efforts.

On-Site Business Network

Entrepreneurship requires relationships with individuals and institutions. The successful entrepreneur requires access to sources of ideas, to information, and to raw materials. The knowledge that is available in incubators may be leveraged into tenant companies through:

- An incubator director or president who brings management and marketing experience to the incubator;
- A board of directors with a range of expertise that can be shared with tenant companies;
- An advisory council of key professionals to whom tenant companies have access;
- A network of consultants and suppliers providing services and materials, often on a favorable fee basis.

Access to Financing and Capitalization

The necessary access to financing includes evaluation of financial options, access to loans and grants, loan packaging, and introduction to venture capitalists. Most venture capital firms prefer to invest in companies with proven management and demonstrated market competence.

Incubators can provide important links to the venture capital community by focusing early attention on tenant companies, by making introductions as the companies prove themselves in the marketplace, and by educating the tenant companies in the venture capital process.

Incubators can provide indirect access to start-up capital by obtaining funds from community, state, and federal sources and passing some of these resources to the tenant companies in the form of lower rents and lower fees for services.

More than 60 percent of all incubators receive financial assistance from local governments, but local financial support is not entirely from public agencies. Private sources provide financial assistance to nearly 70 percent of incubators.

More than 40 percent receive funding from local economic development organizations or private industrial councils. More than 35 percent of all incubators receive support from local chambers of commerce. Industrial revenue bonds provide funding to more than 5 percent of incubators.

State and federal governments frequently combine with local agencies to provide additional funding for incubators. More than 60 percent of incubators receive financial support from state agencies. State revolving loan funds are used by 25 percent of all incubators. Common sources of federal financial assistance are the Economic Development Administration, the Community Development Block Grant program, and the Job Training Partnership Act.

Multiple sources of financing are required to meet the annual operating budgets and salaries and to establish the physical facilities needed by an incubator. Operating costs vary by the type of incubator, but the median annual expenditure is $85,000.

In addition, median annual salary expenses are approximately $40,000. Salary costs vary considerably relative to the scope, purpose, and location of the incubator. The cost of the physical facilities range from several thousand dollars for a donated vacant building to millions of dollars for a new high technology facility.

Shared Support

Incubators provide tenants with shared support services that, in turn, can reduce the level of financing required. Secretarial services include word processing, photocopying, and receptionist duties. Administrative services include contract administration and bookkeeping. Shared facilities services include security, conference rooms, computers and other equipment, parking facilities, and custodial services. The incubator also may provide expertise in the management, marketing, accounting, or finance segments of the tenant firm.

Perception of Success

Private capital and entrepreneurial talent only will flow into the most attractive projects. An attractive facility, affiliation with key institutions, an experienced incubator manager, a noted advisory council, a group of promising start-up companies, and successful firm expansion records all contribute to the perception of success.

Selection Process for Tenants

Clear selection criteria improve the chances of incubator success. Criteria for tenant selection vary with the objectives of the incubator. Because job creation and/or economic development is the primary objective of 80 percent of incubators, common criteria used to select tenants are:

- Ability to create new jobs;
- Ability to pay operating costs;
- A concise business plan that includes a cash flow statement and a market analysis;
- A unique opportunity;
- Growth potential;
- Specific industry focus (e.g., light manufacturing, high technology, professional services, etc.).

Concise Program Milestones with Clear Policies and Procedures

Incubator management must inform tenants of the criteria under which their performance will be evaluated and of the incubator's policies and operating procedures. Tenants must be aware of the expectations placed upon them, the resources available to meet these expectations, and the standard procedures for day-to-day operations.

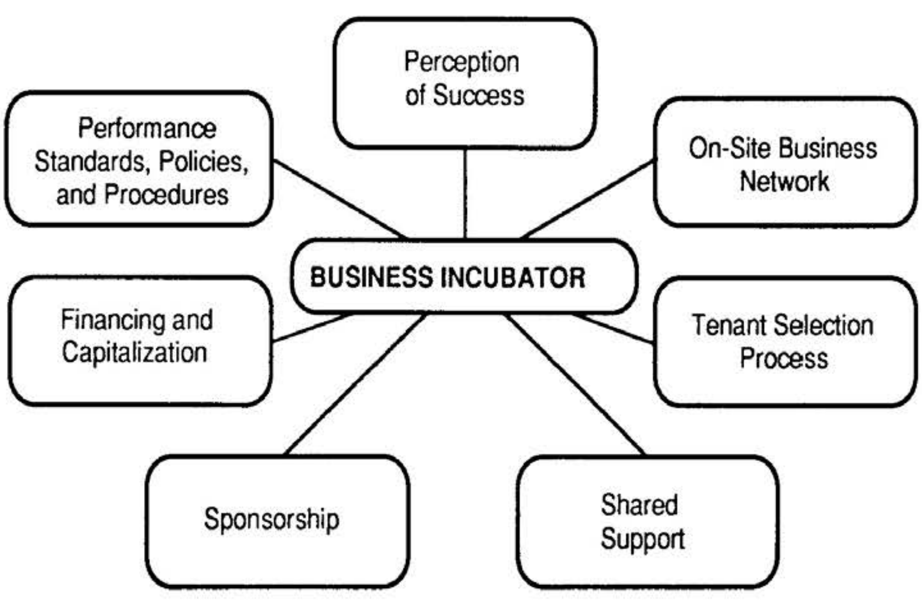
An especially important criterion is the length of time a tenant may occupy the incubator. The time limit should be established prior to a tenant's entrance into the incubator. The length of time will vary in relation to supply and demand for space, but should be consistent for all tenants entering the incubator at the same time. More than 75 percent of the companies spawned by incubators have occupied positions within the incubator environment for less than three years.

Sponsorship

Economic development agencies, local technical schools and community colleges, local governments, and for-profit organizations presently take the most active roles in sponsoring rural business incubators. Many active incubators have more than one sponsor. Three to four sponsors are recommended for new incubators.

Approximately 35 percent of active incubators have ties to local universities, colleges, or technical schools. Such ties provide access to research facilities, workshops, ideas, and student labor. Links with incubators allow commercial applications of the basic research conducted in these institutions to be developed.

Figure 2
Factors Critical to Incubator Development



Incorporating Incubators into Economic Development Plans

Industrial relocation tends to be a zero-sum game in which one region benefits only at the expense of another. Encouraging the growth of native companies can be a more beneficial long-term economic development strategy because such a strategy harnesses local entrepreneurial talent and keeps this talent within the community.

Growing local companies can enhance economic diversification by creating a climate within the area that rewards productivity and innovation. Finally, growth of native companies can add economic value to a region and promote local control of the economy.

Specific industries with the potential to succeed in a rural business incubator include light and heavy manufacturing, direct mail, research and development, sales and marketing, and high technology. In the agribusiness area, companies involved in plant and animal biotechnology, pharmaceuticals, herbicides, pesticides, water treatment, food products, and aquaculture offer the most potential for success.

Conclusion

It is too early to compare the survival rate of firms raised in an incubator environment to the one-in-five survival rate for small businesses after the standard five year development cycle. The performance of incubator firms to date, however, has been encouraging.

It is vital that rural incubator-raised firms perform successfully outside the incubator to add support to the rural infrastructure and to assist production agriculture if such firms are to remain competitive in the world marketplace.