

Small Business Incubator Feasibility Study

One Approach

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August 10, 2005**

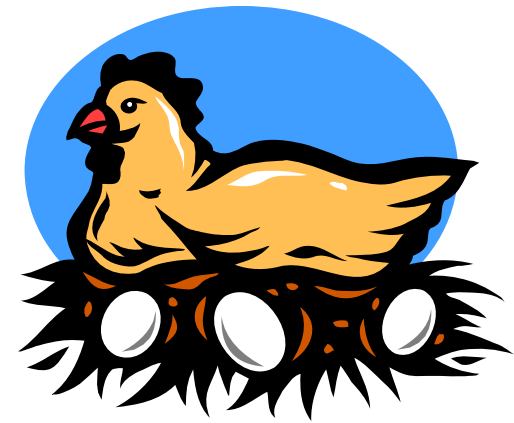


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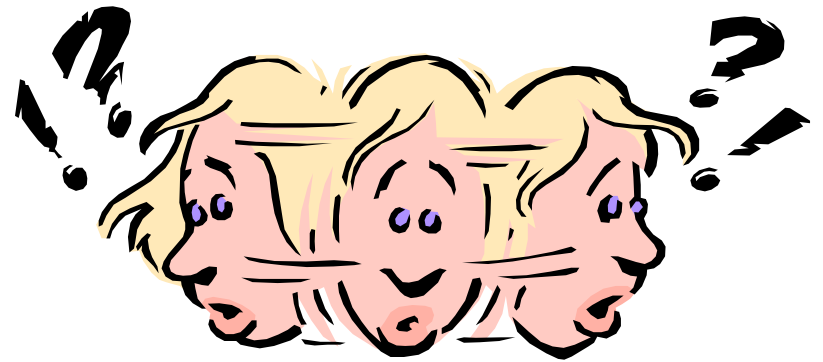
1. Introduction

Should answer some questions:

Who requested the study?

Why?

**What are he credentials of the individual
or research team?**



2. Current Situational Analysis

- a. Local Economic Activity**
- b. Local Economic Development Network/
Technical Support Providers**
- c. Reasons for Failure of Local Small Businesses**
- d. Demand Assessment for Incubator
Services and Products**



3. Incubator Program Model

operational overview and best practices



a. Focus and Goals

the entrepreneurial process

b. Operations and Management

*organizational structure
management*

c. Building Services

*space – site & bldg specs
pricing of space
marketing the incubator*

d. Business Services

*business advise
business financing
mentor network
common services*

4. Financial Projections

a. Cash Flow Projections

*(based on program
model in Section 3)*



5. Potential Funding Sources

- a. Federal
- b. State
- c. Local Government
- d. Private
- e. Loans
- f. Angel Investors
- g. Development Corporations



6. Conclusions

What are the results?

Positive? Negative?

Need more information?



7. Implementation Strategies

if appropriate

- a. Recommended “Champion”
- b. Recommended Development and start-up strategies
- c. Potential Dangers/Pitfalls



8. Appendices

- a. Survey Instruments (Questionnaires)**
- b. Community Meeting Notes**
- d. Preliminary Construction Estimates**
- e. Preliminary Layout**
- f. Interested Tenants**
- g. Newspaper clippings**
- h. List of incubator resources**



Finally ...

Who best to do it?

Well ...

How much money is available?



First:

Outsider – Disinterested Party

Neutral – Non-stakeholder



Second:

Low Cost Example -

Experience in Feasibility Studies

(May raise the project to a higher level to secure additional funding for more comprehensive study.)

Higher Cost Example -

Partner a party with regional experience and knowledge with a party with specific experience in incubators



... and ALWAYS ...

CHECK REFERENCES !!!



**BUSINESS INCUBATOR FEASIBILITY STUDY
KODIAK, ALASKA
June 2004**



Photo Courtesy: Kodiak Island CVB

Prepared for:

ALMA

**Asociacion Latina de Mujeres de Alaska
Latin Association of Women in Alaska**

Prepared by: Aurora Consulting

Funded by: U.S. Department of Commerce, Economic Development Administration

PowerPoint® by: Annette Johnson, University of Alaska Center for Economic Development

The ALMA – Kodiak Connection

The Marian Center – a Community Resource

Established in 1995

Mission: to provide education, information and advocacy so that immigrants are empowered to participate in the broader community.

The Marian Center sponsors ALMA. ALMA advocates for and promotes the empowerment of Latina women in cultural, social and economic life.

With the support of ALMA, St. Mary's Catholic Parish (the Marian Center) secured grant funding for the construction of a new facility. Integral elements of the facility are its computer lab and its commercial kitchen.

... and thus began the discussion of a Small Business Incubator ...



Sooooooooo ...

What IS a business incubator?

A business incubator:

- **Encourages entrepreneurship**
- **Supports the development of new ventures**
- **Fosters greater business diversification in the community**

A business incubator accomplishes these goals by providing:

- **Shared facilities**
- **Comprehensive support services**
- **Mentorship**

... to start-up and fledgling businesses.





Purpose:

To explore and define conditions, parameters and requirements for a financially sustainable small business incubator in Kodiak.



Accomplished through:

- **Kodiak Situational Analysis**
 - Demographics
 - Economy
 - Employment
 - Business environment
- **Overview of Kodiak Business Environment**
- **Review of Business Incubator Models**
- **Financial Analysis and Funding Considerations**
- **Recommendations and Conclusions**

Kodiak Situational Analysis

An aerial photograph of Kodiak, Alaska, showing the city built on a hillside overlooking a large harbor. The harbor is filled with numerous boats and ships. In the background, there are large, forested mountains and a body of water extending to the horizon under a clear sky.

Major Economic Themes

- Pre 1800 - Alutiiq subsistence economy
- Late 1700s - Russian fur trappers
- Late 1800s - Commercial fisheries
- Mid 1900s - U.S. Coast Guard - Timber
- Late 1900s - Alaska Aerospace Development Corporation
Tourism

Kodiak Island Borough Demographics

2000 Census – Population 13,913

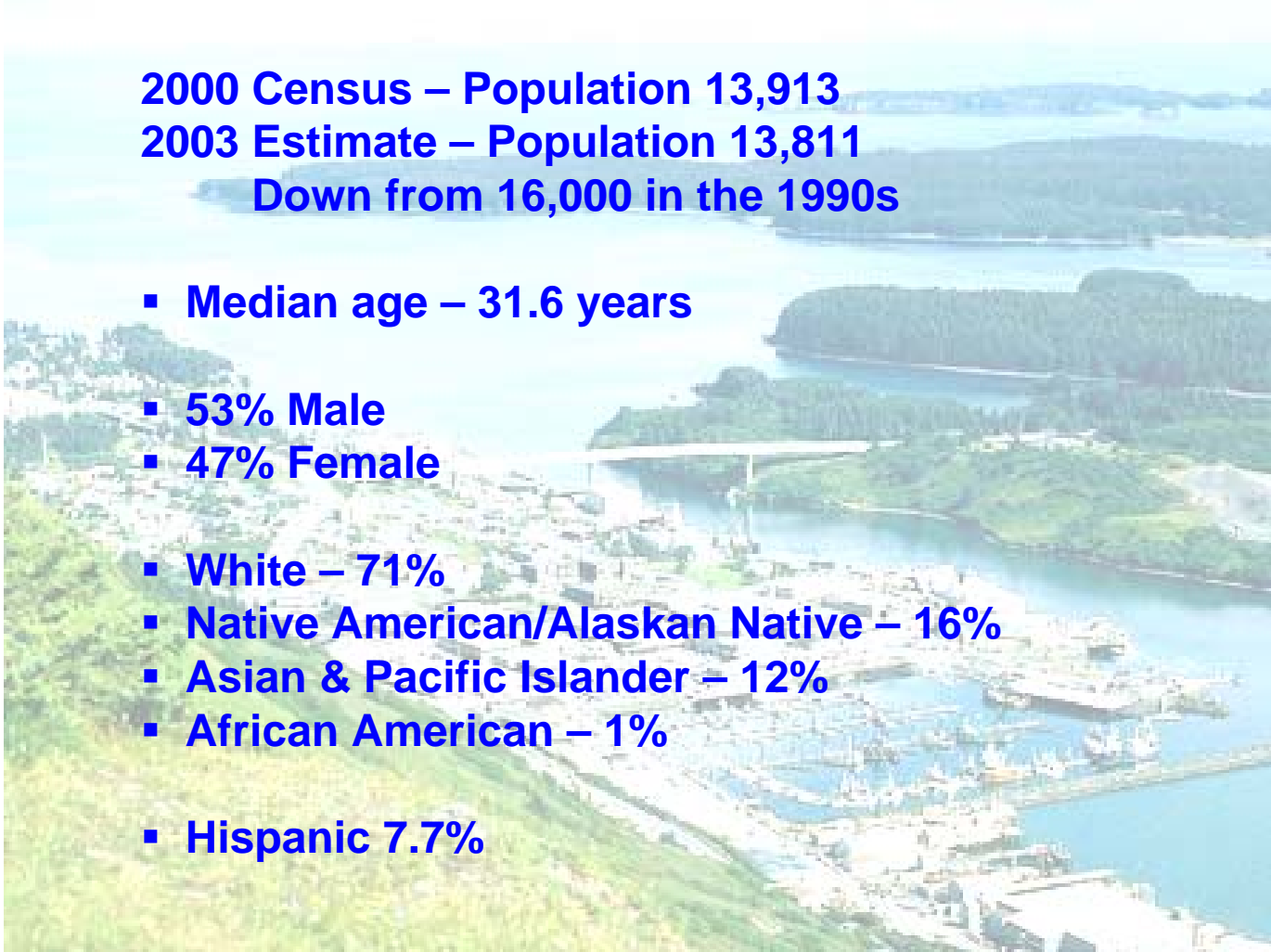
2003 Estimate – Population 13,811

Down from 16,000 in the 1990s

- **Median age – 31.6 years**
- **53% Male**
- **47% Female**

- **White – 71%**
- **Native American/Alaskan Native – 16%**
- **Asian & Pacific Islander – 12%**
- **African American – 1%**

- **Hispanic 7.7%**





Hispanic Small Business Participation

National – 12.5% of population identified as Hispanic
16% of firms owned by persons of Hispanic origin

Kodiak – 7.7% of population identified as Hispanic
5% of firms owned by persons of Hispanic origin

Hispanic population of Kodiak *under-represented*
in business ownership

U. S Census Data

Kodiak Island Borough Economy

Fisheries

Groundfish

1986 - \$23.5 million

2001 - \$39.8 million

Retail Sales

2003 - \$85 million

(>25% from 1987)

Tourism

Direct visitor spending

\$10.1 – 19.6 million per year

Timber

1993 - \$48.8 million

2001 - \$6.1 million





Kodiak Island Borough Economy

2003 Total Payroll - \$169.7 million

2003 Average Annual Wage

Kodiak - \$32,388

Alaska - \$37,344

Cost of living

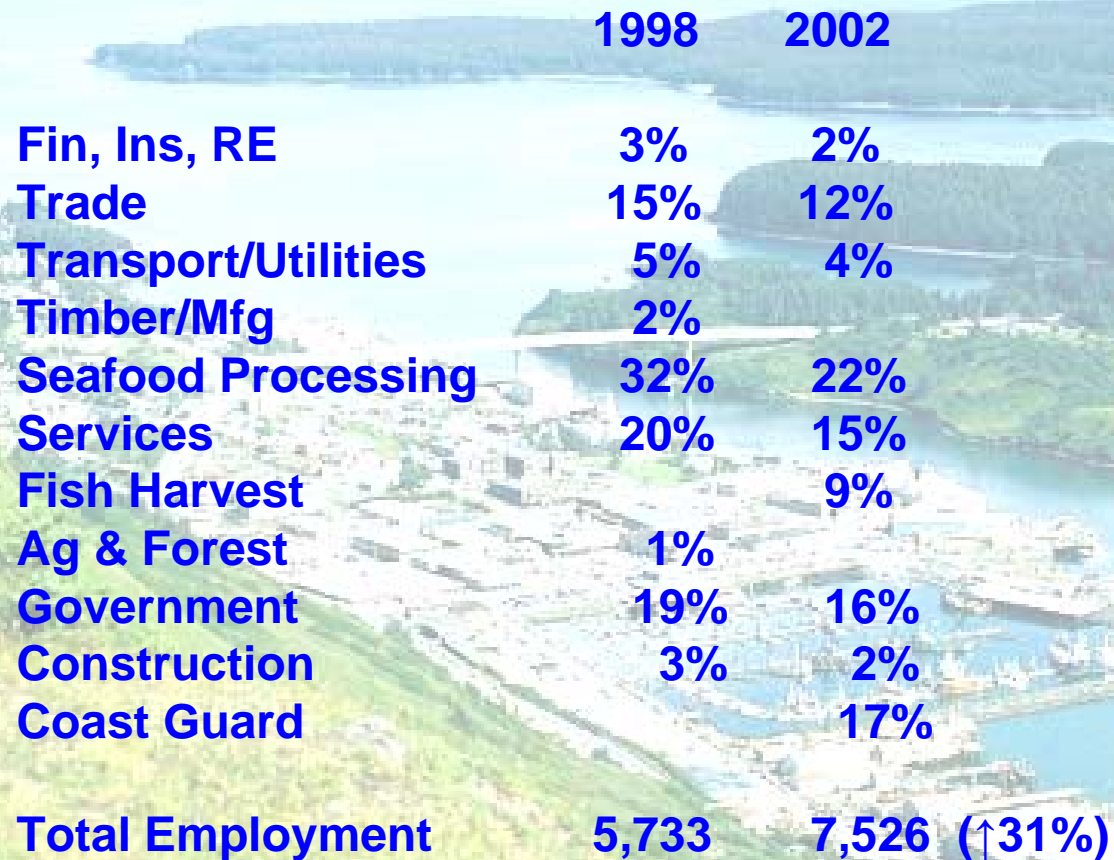
1995 – 60% above national average

1999 – 42% above national average

2003 – 30% above national average

Kodiak Island Borough Employment

Employment by Industry

An aerial photograph of Kodiak Island, Alaska, showing the town of Kodiak, a large harbor with many boats, and surrounding green hills and water. The image is used as a background for the employment data table.

	1998	2002
Fin, Ins, RE	3%	2%
Trade	15%	12%
Transport/Utilities	5%	4%
Timber/Mfg	2%	
Seafood Processing	32%	22%
Services	20%	15%
Fish Harvest		9%
Ag & Forest	1%	
Government	19%	16%
Construction	3%	2%
Coast Guard		17%
Total Employment	5,733	7,526 (↑31%)



Kodiak Island Borough Transportation

Air Service

Kodiak State Airport (ERA and Alaska Air)

Kodiak Municipal Airport

Lily Lake Float Plane Facility

Alaska Marine Highway Ferry

Road System

Monashka Bay to Cape Chiniak

Kodiak Entrepreneurial Environment

*Local Entrepreneur Survey conducted by
Sr. Barbara Harrington, gnsh, ALMA*

(27 interviews)

Most common problems

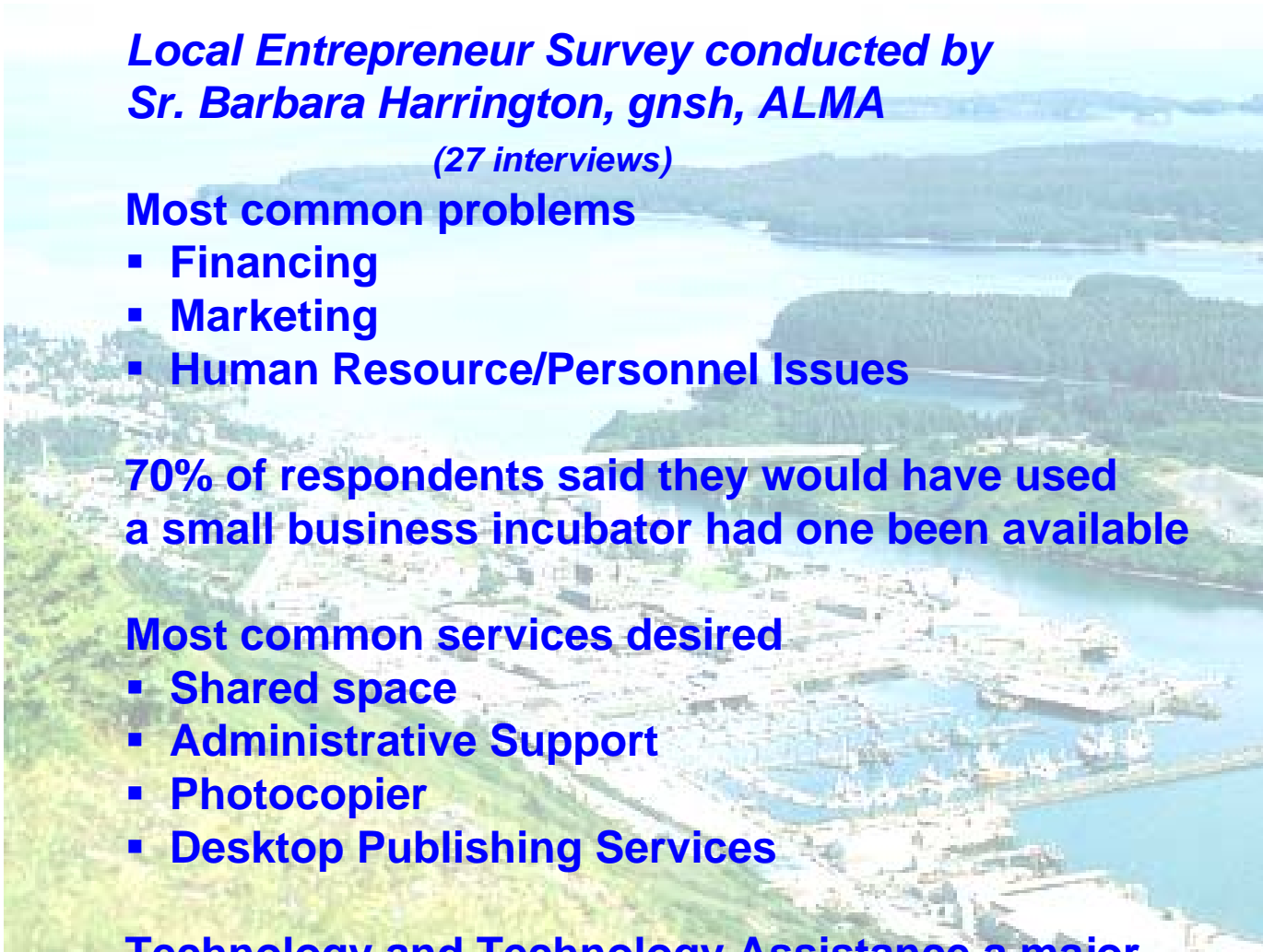
- **Financing**
- **Marketing**
- **Human Resource/Personnel Issues**

**70% of respondents said they would have used
a small business incubator had one been available**

Most common services desired

- **Shared space**
- **Administrative Support**
- **Photocopier**
- **Desktop Publishing Services**

**Technology and Technology Assistance a major
concern of younger business owners.**



Kodiak Entrepreneurial Environment

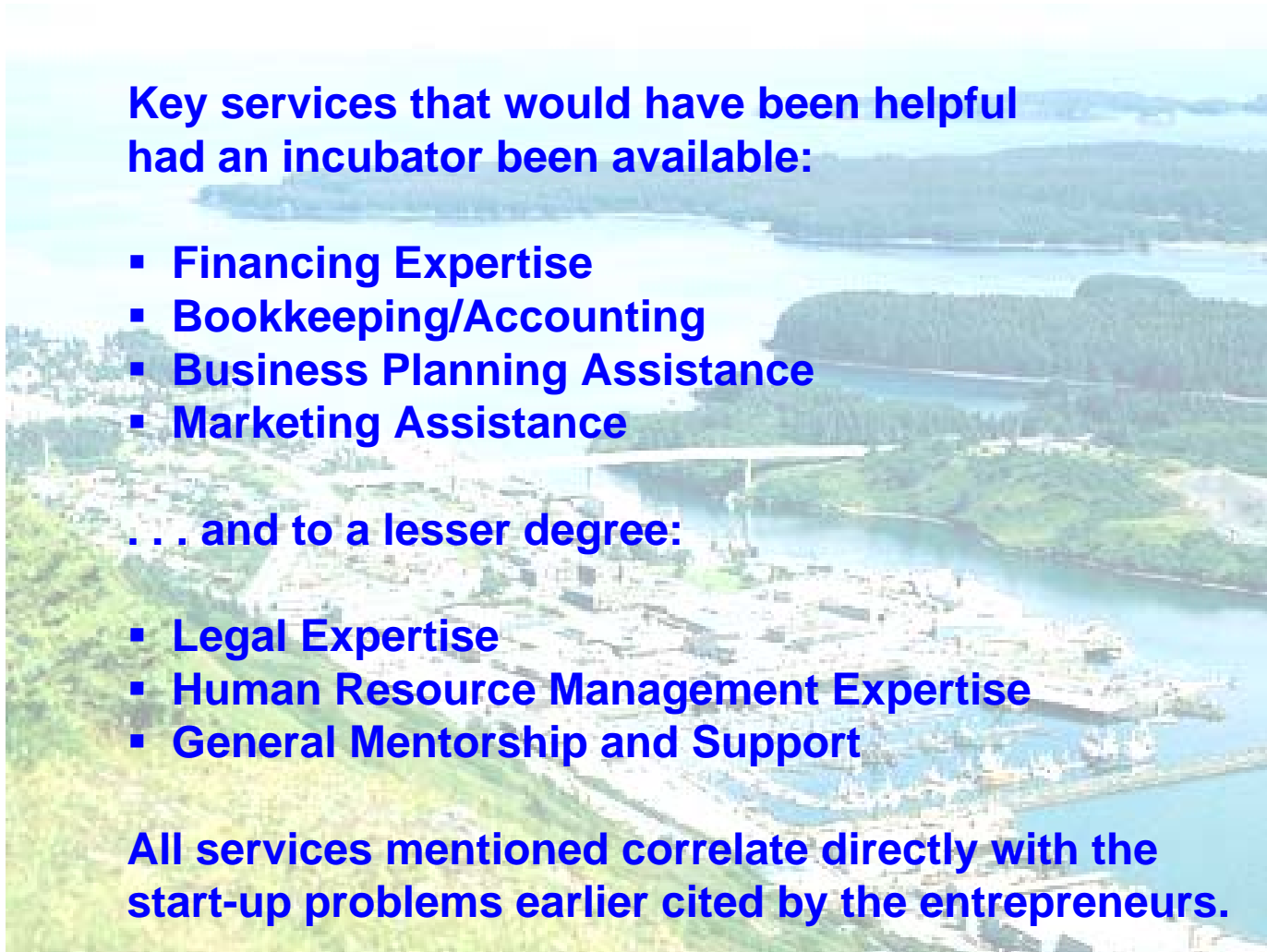
Key services that would have been helpful had an incubator been available:

- Financing Expertise
- Bookkeeping/Accounting
- Business Planning Assistance
- Marketing Assistance

... and to a lesser degree:

- Legal Expertise
- Human Resource Management Expertise
- General Mentorship and Support

All services mentioned correlate directly with the start-up problems earlier cited by the entrepreneurs.



Kodiak Business Gap Analysis

(What's not here!)

Conducted by Debora King, Kodiak Chamber of Commerce

- **Ten Focus Groups**
- **120 Participants**

The Three Questions:

- 1. Is there a product(s) you have purchased off-island, that had it been available on-island, you would have purchased locally?**
- 2. Is there a personal service(s) that would ease or enrich you life that is not easily accessible locally?**
- 3. Given the rich cultural diversity of the community, is there any product or service that is unique to individual ethnic groups that you would consider purchasing?**

Kodiak Business Gap Analysis

What they said --

1. Is there a product(s) you have purchased off-island, that had it been available on-island, you would have purchased locally?

- **Quality/affordable clothing**
- **Shoes**
- **Restaurant Services**
- **Electronics**

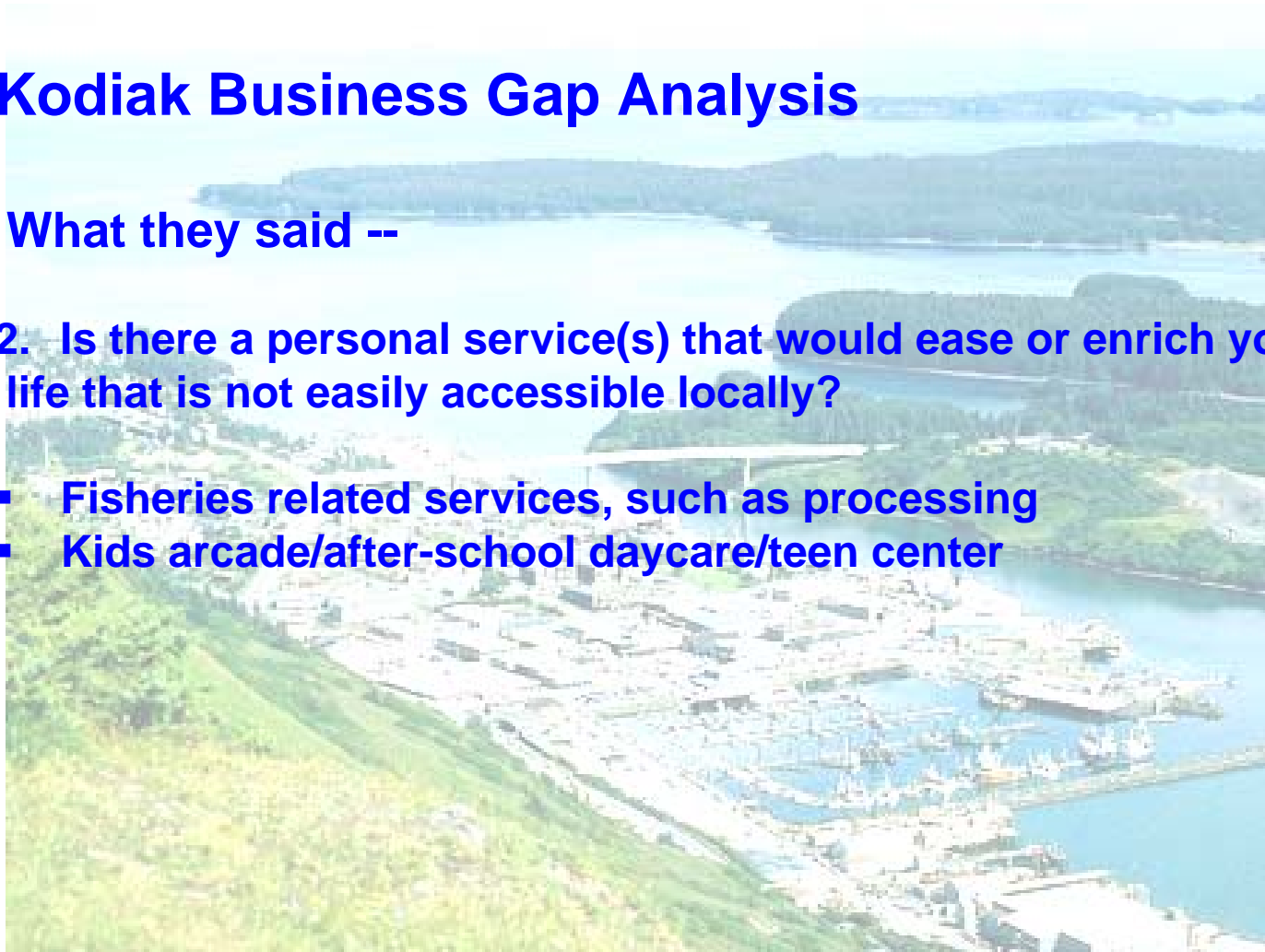


Kodiak Business Gap Analysis

What they said --

2. Is there a personal service(s) that would ease or enrich your life that is not easily accessible locally?

- Fisheries related services, such as processing
- Kids arcade/after-school daycare/teen center



Kodiak Business Gap Analysis



What they said --

3. Given the rich cultural diversity of the community, is there any product or service that is unique to individual ethnic groups that you would consider purchasing?

- Food
- Art/cultural products, such as beads
- Cultural music



Kodiak Business Gap Analysis

- Many of the items on the *wish-list* were for items readily available in the community, but the respondents were not aware of it. (This could indicate a need for local businesses to examine and modify their marketing and promotion activities.)
- Some were not likely to be financially feasible, given the relatively small market-size of Kodiak.
- Several of the identified gaps could be combined into business ideas.

Kodiak Business Gap Analysis

Might be worthy of additional consideration:

- **Arts/crafts/hobby and yarn shop.**
- **Made in Alaska/Kodiak shop, featuring local artisans.**
- **Furniture sales, custom production and repairs.**
- **Party supplies, wedding and special events planning, DJ services. Possibly combined with piñata production and sales and formal seamstress work.**
- **Shared commercial kitchen for ethnic foods production and catering.**
- **Day spa.**
- **Janitorial services, handyman, and household chores.**





ALMA Member Skills Gap Analysis

Conducted by Barbara Brown, Kodiak College

18 Latin American women interviewed

- **Skill set**
- **Ambition**
- **Employment experience**
- **Life plans**

Two major goals identified:

- **Learn English**
- **GED**

ALMA Member Skills Gap Analysis

Recommended consideration to accommodate ALMA members needs in an incubator (in coordination with ALMA or Kodiak College:

- **Teach English where and when it is convenient**
- **Make GED study and testing more available**
- **Provide intensive computer courses when canneries closed**
- **Devise formal nursing career ladder program for ALMA members**
- **Provide business planning assistance for catering and computer businesses**
- **Continue to communicate with ALMA members to ensure needs are met**



Kodiak Business Incubator Potential Stakeholders

- **Kodiak Chamber of Commerce**
- **Kodiak Area Native Association**
- **Koniag, Inc.**
- **City of Kodiak**
- **Kodiak Island Borough**
- **Kodiak College**
- **Kodiak Island Housing Authority**
- **ALMA**
- **Kodiak Island Convention & Visitors Bureau**
- **Kodiak Electric Association**



Kodiak Business Incubator Potential Partners

Who can benefit by establishing close working relationship with the incubator?

- **CPA/Accountants/Bookkeepers/Attorneys**
- **Computer Technicians**
- **Insurance Agents and Brokers**
- **Telecommunications Providers**
- **Professional Services (printers, office supplies, consultants)**
- **Financial Institutions (banks, credit unions)**

Regional and Statewide Assistance

Potential funders and technical assistance providers?

- **University of Alaska Small Business Development Center**
- **University of Alaska Center for Economic Development**
- **Southwest Alaska Municipal Conference (SWAMC)**
- **Alaska Department of Commerce and Economic Development**
- **Alaska Department of Labor and Workforce Development**
- **Alaska Industrial Development and Export Authority/
Alaska Energy Authority (AIDEA/AEA)**
- **Rural Development Assistance (RDA) Mini Grant**
- **Bureau of Indian Affairs (BIA)**
- **U.S. Department of Agriculture and Development**
- **Small Business Administration**
- **U.S. Department of Commerce, Economic Development Administration**
- **HUD, Community Development Block Grant Funds**

Business Incubator Statistics

- **An estimated 900 business incubators currently operating in North America**
- **Clients have an 85% survival rate**
- **Incubated businesses typically stay in an incubator for a period of two to three years**
- **Business incubation programs create new jobs for relatively little public funds – about \$1,000/job**
- **84% of incubated businesses stay in their community**
- **Most incubated businesses provide employee benefits, despite their youth**

The Most Successful Business Incubators Provide:

- **Flexible and affordable leases**
- **Entrepreneurial synergy – networking and commercial opportunities with other tenants of the incubator**
- **Business development, management and technical assistance**
- **Shared office services**
- **Group rates for health, life, and other insurance**
- **Assistance in obtaining financing for company growth**



Three Common Program Approaches

- **Facility-based business incubation**

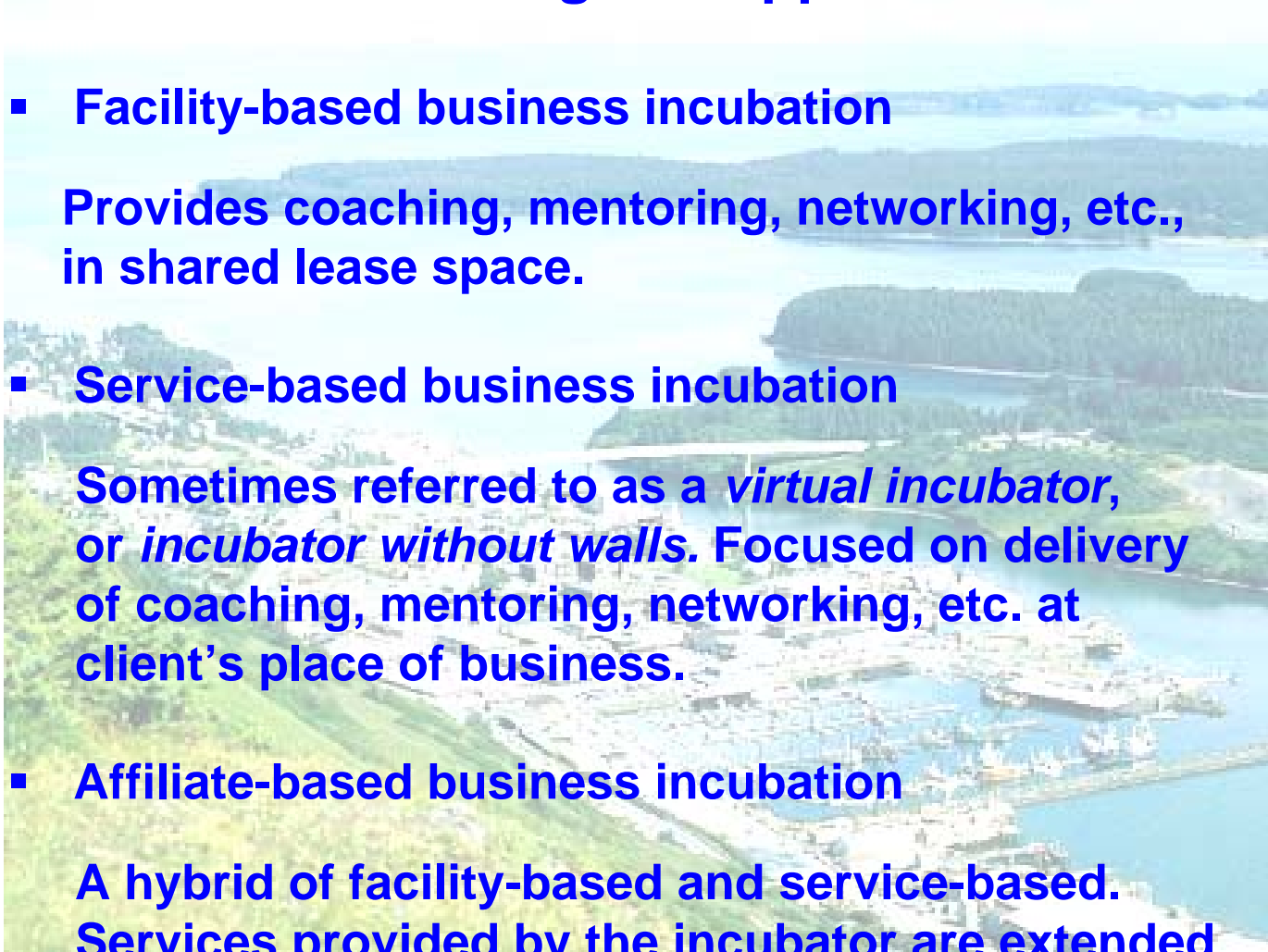
Provides coaching, mentoring, networking, etc., in shared lease space.

- **Service-based business incubation**

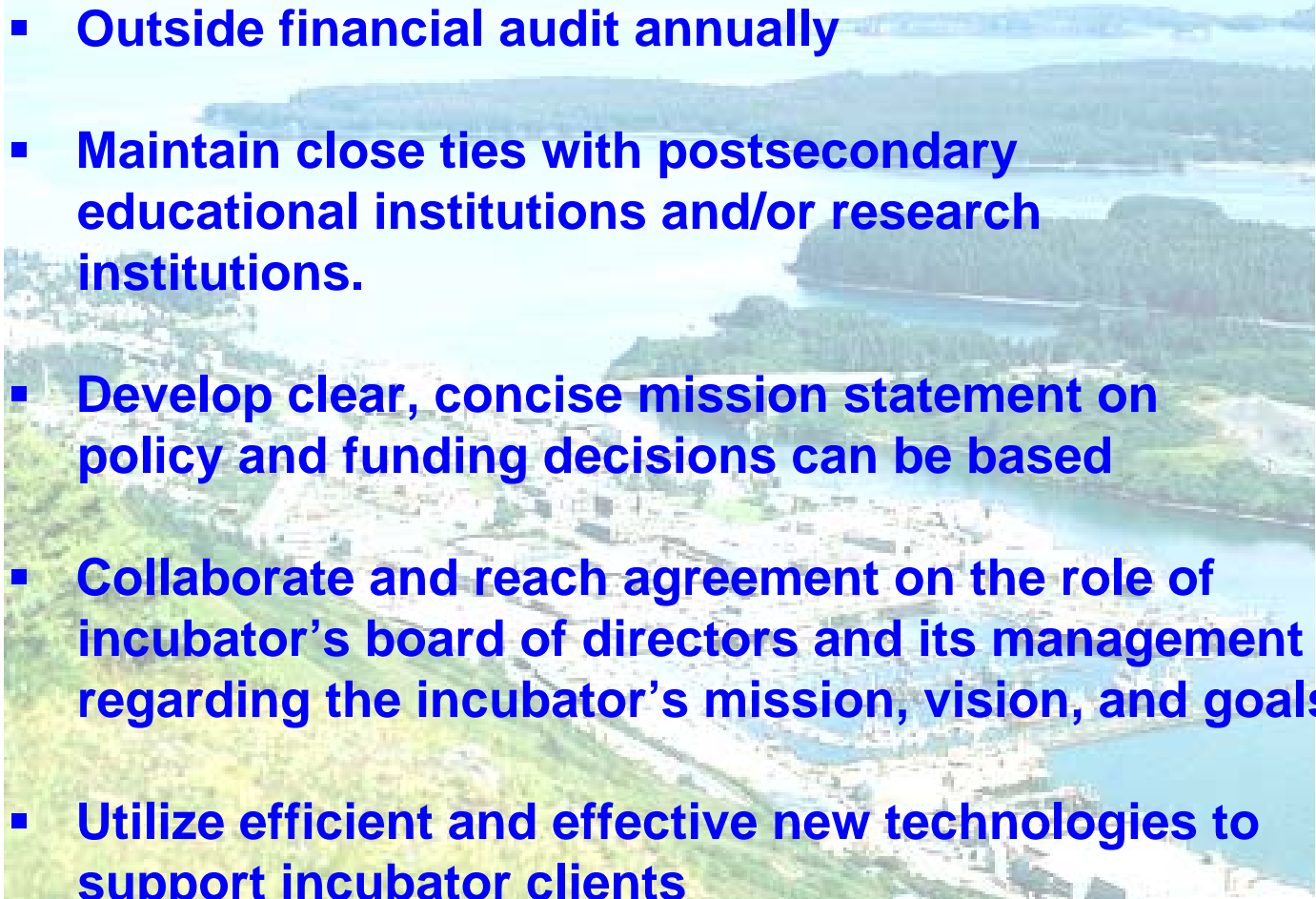
Sometimes referred to as a *virtual incubator*, or *incubator without walls*. Focused on delivery of coaching, mentoring, networking, etc. at client's place of business.

- **Affiliate-based business incubation**

A hybrid of facility-based and service-based. Services provided by the incubator are extended beyond the walls to clients outside the incubator



Incubator Best Practices

- **Outside financial audit annually**
 - **Maintain close ties with postsecondary educational institutions and/or research institutions.**
 - **Develop clear, concise mission statement on policy and funding decisions can be based**
 - **Collaborate and reach agreement on the role of incubator's board of directors and its management regarding the incubator's mission, vision, and goals**
 - **Utilize efficient and effective new technologies to support incubator clients**
- 
- An aerial photograph of a coastal town and harbor. The town is built on a hillside overlooking a large body of water. The harbor is filled with numerous boats and ships. In the background, there are mountains and a clear blue sky. The image is slightly faded and serves as a background for the text.

Incubator Organizational Structure

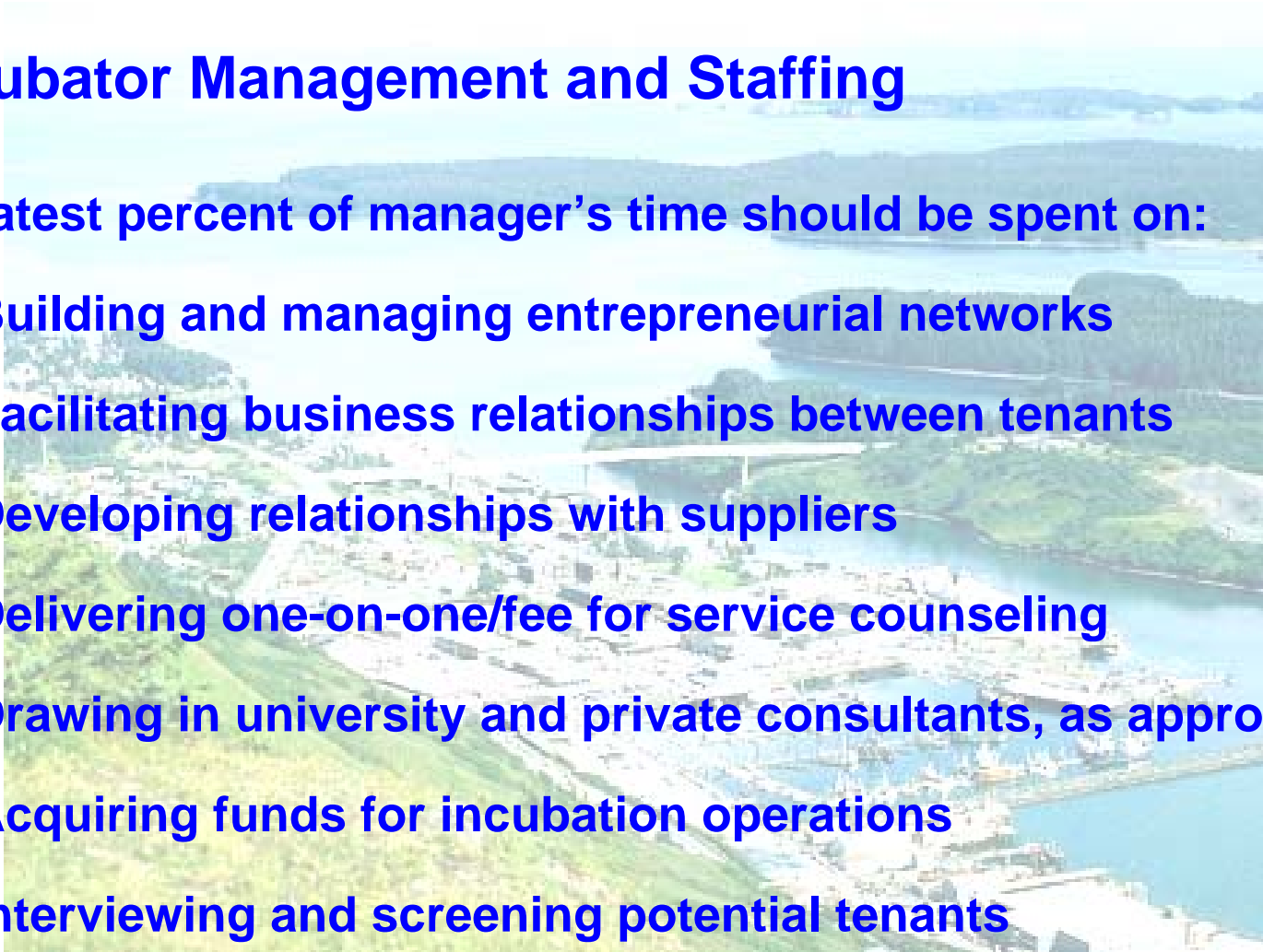
- **Non-profit, Public or Private – 49%**
Sponsored by government and/or non-profit organizations, primarily to support economic development activities
- **Academic related – 13%**
As above, but also provide faculty research opportunities
- **Hybrid – 18%**
Joint effort among government, non-profit, and private. May offer access to government funding, and private sector expertise and financing
- **Private, for Profit – 12%**
Primarily real estate or venture investments
- **Other – 8%**
A variety of non-conventional programs, such as art organizations, church groups, chambers of commerce, port districts, etc.



Incubator Management and Staffing

Greatest percent of manager's time should be spent on:

- **Building and managing entrepreneurial networks**
- **Facilitating business relationships between tenants**
- **Developing relationships with suppliers**
- **Delivering one-on-one/fee for service counseling**
- **Drawing in university and private consultants, as appropriate**
- **Acquiring funds for incubation operations**
- **Interviewing and screening potential tenants**
- **Collecting fees for technical assistance and rent**



Incubator Facility Requirements

- **Image**
This is a place of business ... not someone working out of their garage.
- **Operational Efficiency**
The entrepreneur spends his time on the *core* business, not worrying about phone lines, maintenance, janitorial, etc.
- **Responsiveness**
Entrepreneur has ready access to business development staff and business development tools.
- **Peer Support**
Intellectual and emotional support of other entrepreneurs.



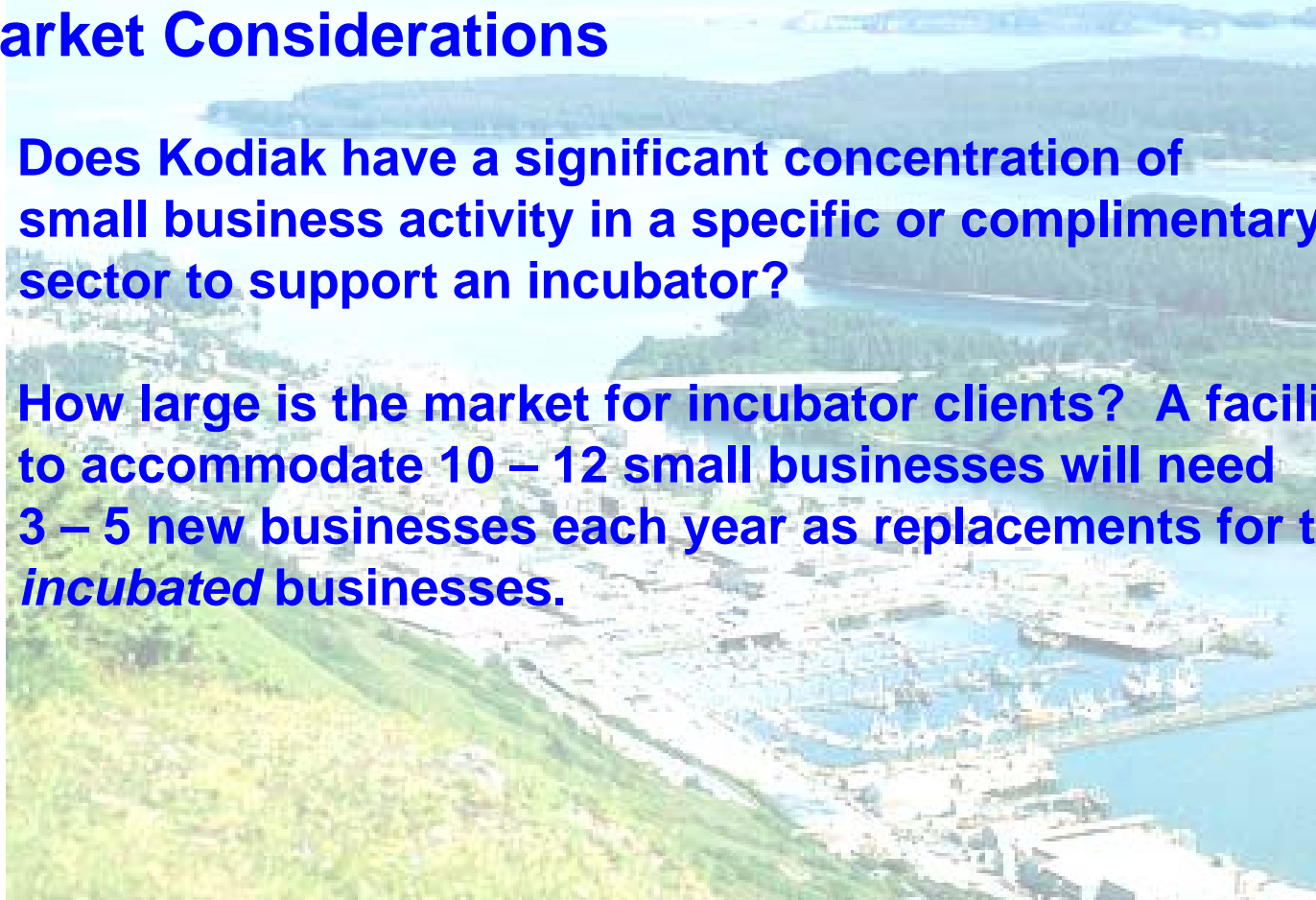
Incubator Service Offerings

- **Core business basics**
Business planning, financial management, marketing, etc
- **Professional services**
Reduced rate consulting services, financing, legal services, etc.
- **Networking opportunities**
- **Seminars and Training**
- **Resource library/computer lab**
- **Mentoring/coaching/facilitation**
- **Internet/Website development**
- **Shared administrative services**
- **Phone systems**
- **Security**
- **Space/Building services**
- **Marketing assistance**
- **Affiliate programs**
- **Micro-loans**
- **Pre-loan application**
- **Capitalization and Venture Partners**
- **University collaborations**



Kodiak Business Incubator Market Considerations

- 1. Does Kodiak have a significant concentration of small business activity in a specific or complimentary sector to support an incubator?**
- 2. How large is the market for incubator clients? A facility to accommodate 10 – 12 small businesses will need 3 – 5 new businesses each year as replacements for the *incubated* businesses.**



Business Incubator Financial Projection Annual Operation

	50% 5-6 Clients	75% 6-8 Clients	80% 8-10 Clients	100% 10-12 Clients
Revenues	\$144,000	\$216,900	\$231,360	\$289,200
Expenses	218,176	255,010	264703	296,184
Pre Tax Income	(73,576)	(38,110)	(33,343)	(6,894)
Plus: Depreciation	48,626	48,626	48,626	48,626
Cash Flow Before Taxes	(\$24,950)	\$10,516	\$15,283	\$41,682



Kodiak Business Incubator Funding Sources

State – loans and grants

Grants not likely at this time – loan at 7 – 8%

Federal – loans and grants

Economic Development Administration – Grant

USDA Rural Development – Grants & Loans

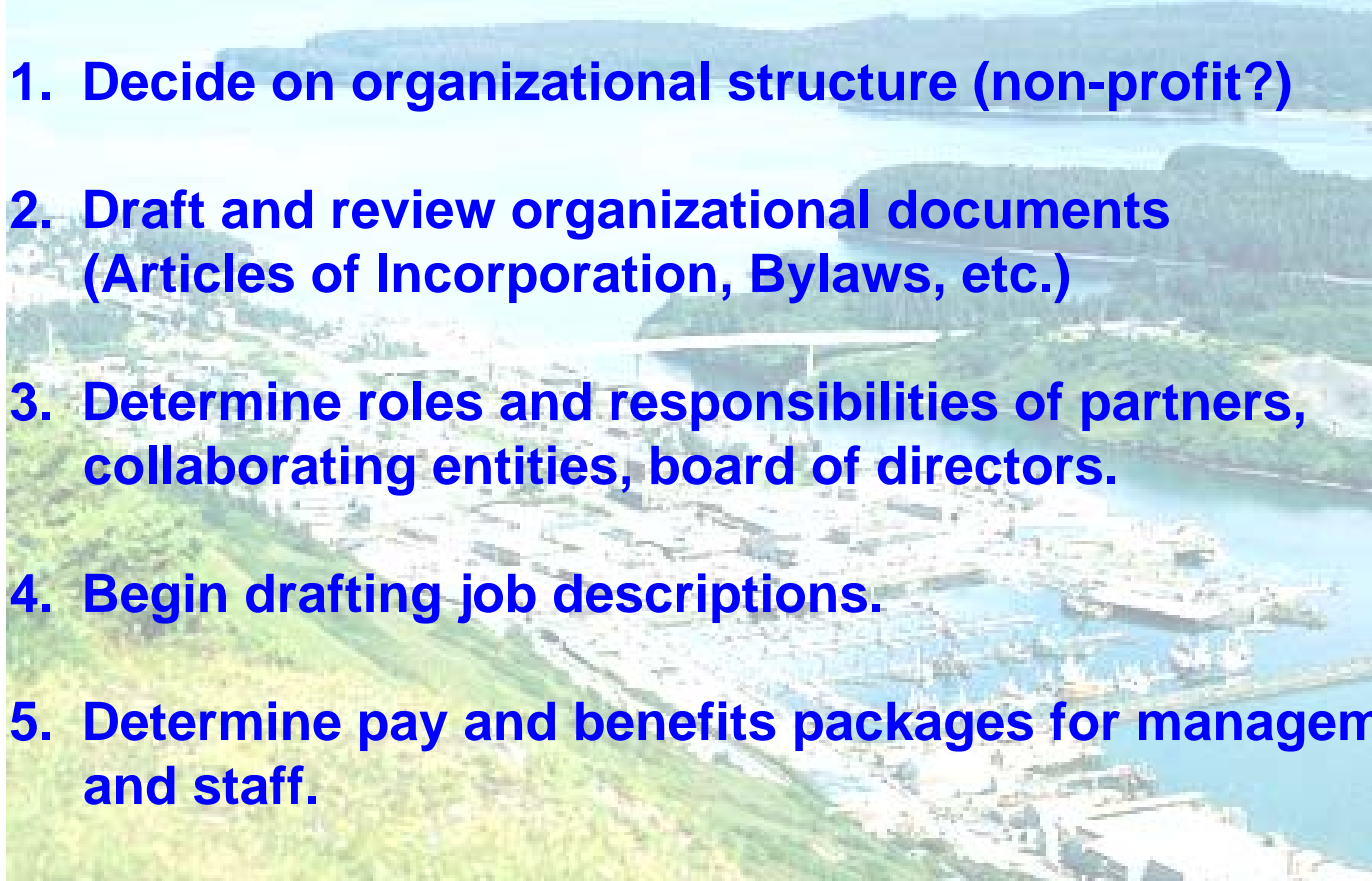
HUD CDBG – Grants

Kodiak Business Incubator Implementation Strategies

1. Identify the *Champion* – who/what entity will lead the efforts?
 2. Identify and collaborate with other key stakeholders
 3. Community wide outreach
 4. Identify initial business development focus and goals
 5. Be realistic in goal setting. Focus efforts on overriding goal to support the efforts of community and business leaders and the long-term goal of successful local entrepreneurs.
- 
- An aerial photograph of Kodiak, Alaska, showing the town, harbor, and surrounding water. The town is built on a peninsula, with a large harbor filled with boats and a bridge crossing the water. The surrounding area is lush green with trees and hills.

Kodiak Business Incubator Operations & Management Recommendations

- 1. Decide on organizational structure (non-profit?)**
- 2. Draft and review organizational documents (Articles of Incorporation, Bylaws, etc.)**
- 3. Determine roles and responsibilities of partners, collaborating entities, board of directors.**
- 4. Begin drafting job descriptions.**
- 5. Determine pay and benefits packages for management and staff.**



Kodiak Business Incubator Site, Building, & Space Recommendations

1. Flexibility

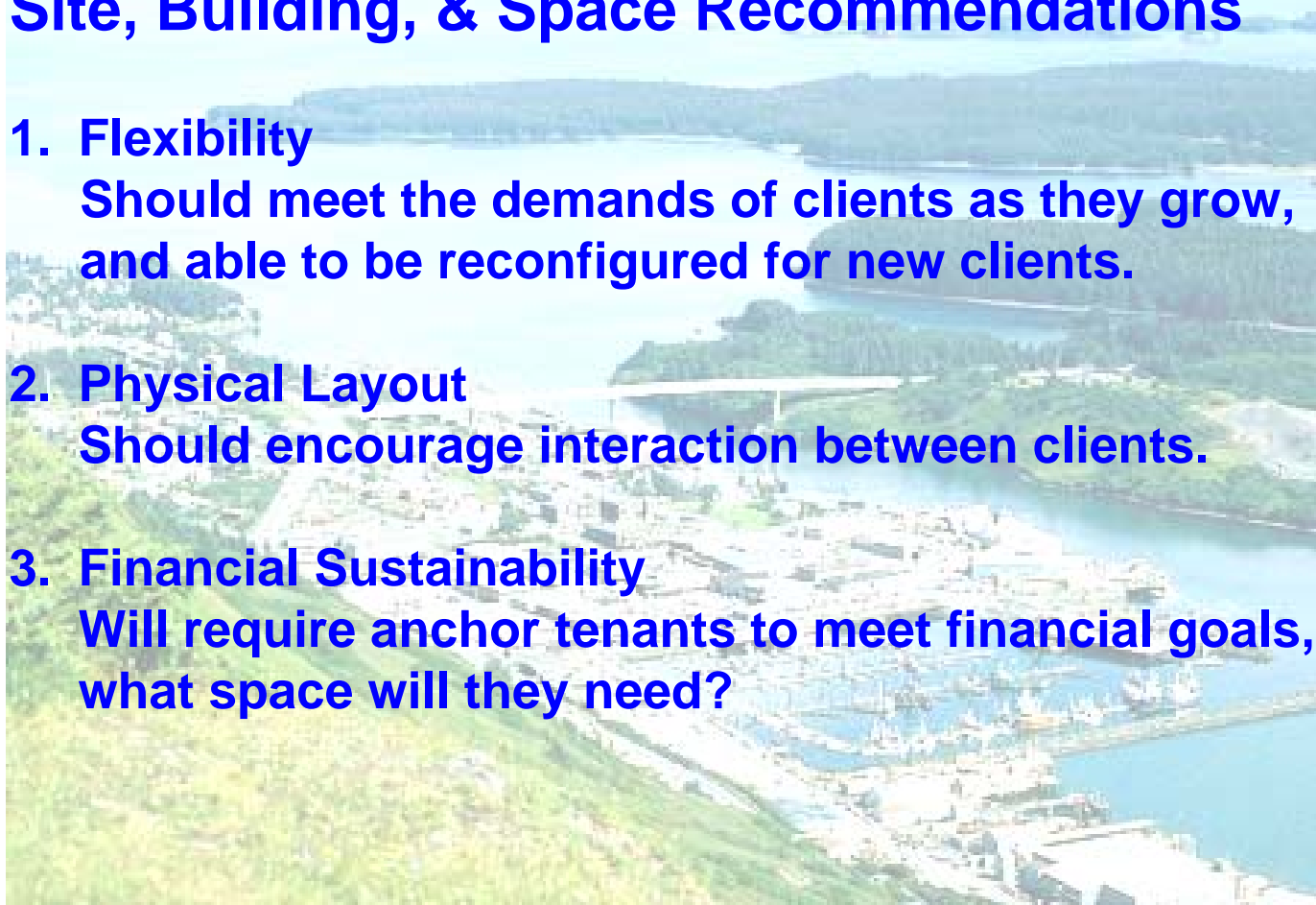
Should meet the demands of clients as they grow, and able to be reconfigured for new clients.

2. Physical Layout


Should encourage interaction between clients.

3. Financial Sustainability

Will require anchor tenants to meet financial goals, what space will they need?



Kodiak Business Incubator Service Recommendations

- 1. Educate project developers about general business failure.**
 - 2. Gain better understanding of why local businesses fail.**
 - 3. Management and staff should have basic working knowledge and capacity to offer consulting in areas of administration, marketing, human resources, accounting, business planning, legal assistance, and mentoring.**
 - 4. Develop marketing strategy for filling the incubator and selling its services.**
- 



Kodiak Business Incubator Staging Recommendations

1. Research and Design

Additional research and analysis need to be completed.

2. Facility Development Stage

Hiring of manager and construction or renovation.

3. Business Development Stage

Work with potential clients to meet their needs, and begin the implementation of a sound business plan for the incubator operations.



Kodiak Business Incubator Critical Risks & Challenges

- 1. Lack of adequately trained staff.**
- 2. Limited financial resources.**
- 3. Limited or lacking community support.**
- 4. Ongoing incubator vacancies.**



Kodiak Business Incubator

... and finally, incubators can fail for the same reasons any small business can fail ...

- 1. Failure to clearly identify markets.**
- 2. Failure to price services appropriately.**
- 3. Failure to adequately plan cash flow.**