Incubating the Future

Steps to Creating a Business Incubator
for
The Greater Wabash Region

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Executive Summary

The Mt. Carmel Area Economic Alliance (MCAEA), with assistance from the Greater Wabash Regional Planning Commission (GWRPC), prepared this analysis to gauge local interest in creating a business incubator and to design a plausible model for proceeding. Based on analysis of exemplary rural business incubators throughout the United States and on surveys of the key stakeholders in the Greater Wabash Region (GWR), we make nine recommendations:

(1) *Proceed Slowly* – There is interest in creating a business incubator in the GWR, but not yet a critical mass of local businesses or other community leaders who regard it as a priority. A number of predicate steps are needed over the next two years before a physical incubator can be seriously pursued.

(2) *Strengthen the Entrepreneurship Ecosystem* – A clear priority in the GWR is to expand web-based resources for all entrepreneurs, whether or not they are in an incubator, including courses, mentors, finance opportunities, youth programs, and sector-specific programs (like local food incubators).

(3) *Organize Regionally* – Wabash County, with just 12,000 residents, cannot realistically create an incubator on its own. A smarter approach would be for GWRPC to lead this initiative involving all seven of its county members, with 104,000 residents. Its first task should be to create the web-based resources mentioned above by connecting and integrating the resources that seven counties already have, such as AEA's "Tools for Business Success."

(4) *Start a Community Portal* – Another project that could strengthen regional identity (at a lower cost than an incubator) is a "community portal," a virtual space where local investors and local companies could connect in a legally compliant manner (consistent with the 2012 federal JOBS Act).

(5) *Deploy a Decentralized Model* – There are no buildings in the region big enough to house a major incubator (50,000-200,000 square feet), and no obvious sources of $1-10 million for a new building of this size. The GWR does have, however, many smaller buildings in or near town centers that are vacant or for sale. A decentralized incubator model might enable each participating county to create its own site, with each node using the region's entrepreneurship resources and investment portal.

(6) *Create A Two-Tiered Financing Model* – Otherwise unaffordable start-up costs for an incubator could be made manageable through a two-tier structure. For the first tier, each county might take responsibility for its own building, and covering operating costs through a combination of rents, county allocations, and fundraising. The second tier would be the regional program costs, which would run about $100-200,000 per year to cover one or two full-time staff. These could be covered by modest contributions from the seven counties in the short-term, and then ultimately by royalty payments from incubator graduates.

(7) *Create an Appropriate Board* – The regional model suggests that a decision-making board be set up within or subsidiary to the GWRPC. The board might be made up of representatives from each participating (or resource-contributing) county.

(8) *Allow Decentralized Choices on Sector Focus* – A decentralized model would allow each county to choose the right focal point for its building's occupants, such as an incubator kitchen.

(9) *Pursue Grants Opportunistically* – These recommendations suggest multiple kinds of grant proposals to multiple kinds of donors over the next few years. The strategy doesn't envision one gigantic EDA grant, but rather a series of grants: for a resource web site; for a portal; for each county's building. Funding the project piece by piece over several years is probably the smartest way forward.

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Introduction

Wabash County is a small, rural area in southern Illinois with 12,000 residents. Compared to entire state of Illinois, Wabash County's population is older, whiter, less impoverished, and more likely to own a home. Residents' median and mean incomes are both smaller and the general level of education significantly lower. Per capita retail sales are two thirds the state average. According to the Illinois Department of Employment Security, unemployment in Wabash County in June 2014 was 6.2%, substantially lower than a year earlier and lower than the state average, but still too high, with 358 people still looking for work. Facing many of the challenges of rural communities and small towns across America – including depopulation, a "brain drain" of young adults, a steady decline of natural-resource industries, and consumers shopping at distant malls – Wabash County has been striving to find new, promising ways to grow its economy.

Last year the Mount Carmel Area Economic Alliance (MCAEA) commissioned an analysis that revealed that the County had huge opportunities for growing new jobs through new and expanded local businesses. Using IMPLAN, perhaps the most widely used regional economic model, that study found that in three quarters of the possible economic sectors, Wabash County had no business activity whatsoever. Moreover, were the County to shift just 10 percent of residential, business, and government spending from outside to local business, it could create 335 jobs, solving most of the County's current unemployment problem. Seven sectors were identified as particularly promising job creators: finance, professional and personal services, food and farming, retail, health care, tourism, and warehousing and distribution.

The results of the leakage study, reinforced by the area's Economic Development Master Plan, generated interest in creating a business incubator in Wabash County. In 1980 there were about ten incubators in North America. Twenty five years later there were 800. During this period North American incubators were estimated to have created 19,000 companies and more than 245,000 jobs. Among the reasons communities created these incubators were the following:

- Incubators greatly improve the survival rate of early-stage companies.
- The entrepreneurship services linked with an incubator help expand all businesses in the community, even those not resident in the incubator.
- The businesses assisted are precisely those most likely to increase income, wealth, and jobs in the community.
- The presence of a thriving incubator can attract outside entrepreneurs and convince promising entrepreneurs (like recent high school graduates) to stay in the region.
- Unlike many other economic-development initiatives, an incubator can be designed to be largely self-financing through rents and other fees.

Following up this interest, MCAEA and the Greater Wabash Regional Planning Commission (GWRPC) obtained a grant from the U.S. Economic Development Administration (EDA) to perform a preliminary feasibility study for a regional incubator. A competitive bidding process proceeded, with the RFP (see Appendix I) laying out the following goal:

> In addition to determining viability (potential demand) for [a business incubator], the study should also examine the types of businesses such a facility should be designed to serve and whether the facility should be "bricks and mortar" or virtual….The resulting study should present a fair and extensive evaluation, based on criteria listed herein, that would yield a recommendation to proceed or not with the development and establishment of an incubator that would facilitate successful entrepreneurial activity in the region.

This paper presents the work ultimately done in fulfillment of the RFP. As part of our agreement with the EDA, all the work was split evenly between Contractor and MCAEA. It proceeded in the following steps between March and September 2014:

- An Executive Committee (EC) was organized involving the Contractor (Michael Shuman), two representatives from MCAEA (Ben Ross and Wayne Hennegar), and one representative from the Greater Wabash Planning Commission (Sarah Mann). The EC oversaw the planning and execution of all the tasks.

- To understand the market for entrepreneurial resources (i.e., the "supply" of entrepreneurship resources and the "demand" of these resources by entrepreneurs), the EC designed and conducted two surveys. One was of 10 providers of entrepreneurship resources (see Appendix II). The other was of 14 entrepreneurs (see Appendix III).

- The Contractor then prepared a "decision tree" memo to frame a meeting of community leaders in the region. It outlined 22 characteristics of successful rural incubators, but presented them as questions for the group to answer. These 22 points were abstracted from two sources: the 200-page "Best Practices in Rural Business Incubation," published in 2013 by the National Business Incubator Association (NBIA); and data we collected concerning all the rural incubators in Illinois.

- On June 26 about two dozen community leaders came together for a half day to discuss how to apply the 22 points to the region. Their feedback is summarized in Appendix IV.

- Finally the Contractor prepared this paper to synthesize the insights collected from the entrepreneurs, entrepreneurship-resource providers, and the key decision-makers.

The paper that follows presents all the data gathered and the subsequent analysis in four parts:

- Section I presents the 22 characteristics of successful rural incubators.

- Section II presents the insights gathered from GWR entrepreneurs, entrepreneurship-resource providers, and other community leaders.

- Section III presents recommendations based on our research and data collection.

- Section IV presents out final memo laying out suggested priorities for the region over the next two years.

I. Best Practices for Rural Incubators

To help community leaders in the GWR understand the choices they needed to make for a business incubator, we analyzed "best practices" in rural incubators. We came up with a list of 22 points, and presented them to community leaders as a series of questions to stimulate discussion half-way through our process.

Each point explains what helps a rural business incubator succeed. In bullet points below each point, we explain its rationale and provide several examples of the point in action drawn from national and Illinois sources, as outlined below.

For national models, we reviewed the 200-page "Best Practices in Rural Business Incubation," published in 2013 by the National Business Incubator Association (NBIA). The authors of this excellent guide, Bridget Lair and Dinah Adkins, looked at 100 programs and then presented detailed case studies on what they regarded as the top nine performers:

- Alabama – The Shoals Entrepreneurial Center (hereinafter Shoals)
- Georgia – Burson Center (Burson)
- Georgia – Lanier Technical College Manufacturing Development Center (Lanier)
- Illinois – The Quincy Business and Technology Center (Quincy)
- Ohio – Ohio University Innovation Center (OUIC)
- Tennessee – Tech 20/20 (Tech 20/20)
- Texas – West Texas A&M University Enterprise Center (WTAMU)
- Virginia – Franklin Business Incubator (Franklin)
- Wisconsin – The Northwest Regional Planning Commission Enterprise Center (NCEC)

Second, we reviewed data concerning all the existing rural incubators in Illinois, with the rationale that these would provide special insight for Wabash County. The Quincy incubator above is one relevant example. Other rural incubators in the state we looked at are:

- Carbondale – The Southern Illinois University at Carbondale Small Business Incubator (SIUC)
- Centralia – The Kaskaskia College Institute for Entrepreneurial Success Incubator
- Champaign – The Enterprise Works Technology Business Center (Champaign)
- Edwardsville – SIU-University Park Incubator (SIUE)
- Galesburg – The Sustainable Business Incubator (Galesburg)
- Mounds – The Pulaski County Business Incubator (Mounds)
- Rantoul – Rantoul Business Incubator
- Sterling – The Sterling Small Business and Technology Center (Sterling)
- West Frankfort – West Frankfort Business Incubator

Data on these incubators were compiled from web sites, interviews, and a new paper published by the University of Illinois at Urbana-Champaign entitled "Incubation in Illinois: An Assessment of the Landscape."

Illinois incubators also operate in Chicago, Joliet, Peoria, and Rockford, but the population density of these areas make these incubators "urban" and therefore beyond the purview of this study.

Our 22 points for rural incubator success follow below:

(1) A successful rural incubator is a natural evolutionary step for a comprehensive business-support ecosystem. It should flow from that ecosystem rather than create it.

* *Rationale* – A cost-effective incubator program will provide participants with a wide diversity of business-support services. Gaps in an entrepreneurship ecosystem inevitably mean gaps in the services available for incubating businesses. Moreover, the providers of business-support services help the incubator make better judgments about which "pre-incubation" businesses are ready to enter an incubation program.

* *Example* – Here are some of the services that top NBIA incubators provide:

• Videoconferencing facilities for learning
• Classes, in person, virtual, or software driven (like GrowthWheel or NxLevel)
• Staff training
• Technology
• Manufacturing equipment
• Office equipment and supplies (computers, fax, internet, printers)
• Collaborations
• Professional links
• Furnished offices
* Trade assistance

* *Example* – Prior to creating its incubator, Quincy had developed a wide network of local institutions providing entrepreneurial support, including banks, loan funds, universities, and manufacturers. It also recruited many retirees to serve as mentors.

(2) A successful rural incubator should have a tight, compelling mission statement.

* *Rationale* – An incubator cannot serve all businesses, given the limited number of available slots. Priorities must be set to provide a basis for recruiting the right companies, and saying "no" to the wrong companies (while still referring them to appropriate services outside the incubator).

* *Examples* – Chart 1 shows the various focal points of the rural incubators under study. Some incubators focus on technology companies, some on food businesses, some on manufacturing companies, and some on more narrow categories like biotech. That said, according to NBIA, the majority of rural incubators (62%) are willing to accept businesses from multiple sectors ("Multi"). As rural incubators grow, moreover, some *then* begin to create specialized facilities or programs.

Chart 1 – Mission Focus of Incubators

Incubator Name	Mission Focus
Northwest Enterprise Center Network	R&D Tech & Mfgr., Export Focus
Shoals Entrepreneurial Center	Multi, Digital, Culinary, Mfgr.
The Burson Center	Multi (Mostly Offices)
Quincy Business & Technology Center	Offices, Light Mfgr.
Ohio University Innovation Center	Tech, Bio, Digital Media
Franklin Business Incubator	Multi
Lanier Tech. College Mfg'ing Dev. Ctr.	Mfgr., especially Medical
Tech 20/20	Spinoff ORNL Technology
West Texas A&M Univ. Enterprise Ctr.	Mixed "Basic industry" companies, plus kitchen incubator
Rural Average	62% Multi, 20% Tech
Urban Average	40% Multi, 42% Tech
Enterprise Works Tech. Business Ctr. (UI Urbana-Champaign)	IT/Software, Biotech, Clean Tech
Kaskaskia College Inst. For Entrep. Success	Multi (Mostly Offices)
Pulaski County Incubator in Mounds	Offices, Kitchen, Light Mfgr.
Rantoul Business Incubator	Multi (Focused on Social Enterprise)
Small Business Incubator at SIU Carbondale	Multi (Focused on Knowledged Based Companies)
Sterling Small Business & Tech. Ctr.	Multi & Kitchen
Sustainable Business Center in Galesburg	Sustainable Mfgr.
University Park -- SIU Edwardsville	Multi (Focused on IT)
West Frankfort Business Incubator	Multi

(3) A successful rural incubator should shape its mission around available local assets.

* *Rationale* – Several factors can influence the focus and competence of an incubator. Some incubators are shaped by the services and support networks that exist within the region. If there are no software experts in the region, for example, technology companies would be hard to support. Other incubators are shaped by the key sponsors: university-sponsored incubators often focus on companies using their IP ("intellectual property); manufacturer-sponsored incubators focus on companies that create inputs to or spinoffs from their product lines. And still other incubators are shaped by the incubator building. The layout and structural demands for a clean lab, a production line, a warehouse, or an office are all very different.

* *Example* – The Shoals Culinary Academy in Alabama capitalized on the presence of many large-scale food manufacturers, which were able and ready to provide peer assistance to incubating food businesses.

* *Example* –Tech 20/20 is commercializing intellectual property from the Oak Ridge National Laboratory, one of its key sponsors.

* *Example* – The Quincy building, with limited floor space on each of its six stories, proved unsuitable for manufacturing businesses. The Sustainable Business Center in Pulaski, in

contrast, was bequeathed a huge building by a departing manufacturer that works well for new manufacturing businesses.

(4) A successful rural incubator should establish clear criteria for admitting businesses into its program.

* *Rationale* – Whatever the chosen focus of an incubator, it cannot accept just any company that knocks on its door. An incubator must make clear that it's about more than subsidized space. It's about increasing the probability and local impact of business success.

* *Example* – NECN admits clients based on: their potential to create high-wage, high-skill jobs; their willingness to be coached; and their possession of basic resources (financial, intellectual, and passion) to succeed.

* *Example* – The Shoals program says, "We're betting on jockeys, not horses."

* *Example* – The Burson program looks for businesses that have a completed business plan, have fewer than five employees, and are less than two years old.

* *Example* – The Quincy incubator will offer a one-year acceptance based on a business plan and a background check. Annual renewals are then possible.

* *Example* – The WTAMU demands that businesses are "viable," submit to background and credit checks, and have some degree of preexisting capitalization.

(5) A successful rural incubator program should try to recruit businesses that are locally owned.

* *Rationale* – The NBIA study notes that one problem that "bedevils numerous incubation programs" is the exit of companies after incubation. One of the founders of the OUIC program explained this problem to the NBIA interviewers: "People here are working constantly to create companies and products, but they may never become fully integrated into the community. That means that when they graduate, they haven't established loyalty to the region and might relocate." Remarkably, almost all the NBIA incubators count jobs created by a company that exits the community as a positive result—which makes many of the data surrounding program impacts suspect.

(6) A successful rural incubator will place key service providers and key sponsors on its board (or advisory board).

* *Rationale* – A rural incubator depends on deep commitment from its sponsoring organizations for time, in-kind contributions (mentorship, training, buildings), and money. Board membership is one way of solidifying that commitment.

* *Corollary* – If the incubator encompasses multiple counties, those counties that won't make a serious commitment should not be included.

* *Example* – WTAMU asked participating communities to invest at least $35,000 each per year.

* *Example* – NECN has a board rep from each of the participating 10 counties, as well as from five tribes.

* *Example* – Shoals got the Tennessee Valley Authority to underwrite kitchen equipment for its Culinary Incubator.

* *Example* – Burson Center has a 15 member board representing local companies, banks, medical centers, foundations, counties, and localities – and they all serve as recruitors for the program and provide services for participating businesses.

* *Example* – The Franklin Business Incubator has an advisory board with an insurance broker, an attorney, an accountant, a community college representative, and various economic developers, each of whom is expected to recruit promising businesses and provide support services to businesses in the incubator.

(7) A successful rural incubator should provide clients with a broad menu of capital options, and these options should be in place before the incubator is launched.

* *Rationale* – The availability of capital will determine whether incubated companies can grow and ultimately provide the job growth sought for the region.

* *Corollary* – One capital source is not enough. Small businesses have diverse capital needs in terms of the type of capital (debt, equity, royalty), size, duration, and structure. Sometimes multiple funds are also necessary because of the strings put on by the sources of capital on the types of business, their locations, etc.

* *Examples* – Chart 2 shows that the majority of the top incubators identified by the NBIA study provide some form of capital support for their incubating businesses. Indeed, most of these provide multiple funding sources.

* *Illinois Examples* – EnterpriseWorks at UI Urbana-Champaign provides access to capital through two venture firms, one private and one specifically for companies in the incubator (IllinoisVentures). The Pulaski County Incubator at Mounds has a dedicated revolving loan fund.

Chart 2 – Capital Sources for Top Rural Incubators

Incubator Name	Capital
Northwest Enterprise Center Network	Revolving Loan Funds & Equity Fund
Shoals Entrepreneurial Center	Angel Network
The Burson Center	None
Quincy Business & Technology Center	Revolving Loan Fund
Ohio University Innovation Center	Accelerator Add-on/Angel Pitches, various state funds
Franklin Business Incubator	None
Lanier Tech. College Mfg'ing Dev. Ctr.	Angel Fund
Tech 20/20	Multiple Funds
West Texas A&M Univ. Enterprise Ctr.	Shares State Grant

(8) A successful rural incubator needs a credible theory about how to fund its ongoing operations before it opens.

* *Rationale* – "Build it and they will come" is a recipe for disaster. A successful incubator needs to have a realistic sense of its market – how many clients will want to set up shop in the incubator, and how much will they pay for rent and services. And to the extent that these revenues may fall short, an incubator needs a clear plan about how it will cover the deficit.

* *Examples* – Chart 3 shows two key facts about NBIA's top rural incubators. First, the typical incubator spends $200-500,000 per year to operate its facility. Note, however, that many of the smaller budgets exclude staff that are paid by other partner (or supervisory) organizations. The two largest budgets are for networks of incubators also include various departments or enterprises that deliver services. Second, most incubators are not self-sufficient, though some are close (>80%). Those incubators that are not close to self-sufficiency have steady sources of outside support. The Burson Center is supported by annual gifts from its board members, most prominently a regional economic-development group called Carroll Tomorrow (which raised funds from EDA). Ohio University and West Texas A&M rely on steady state and local subsidies. The Franklin Business Incubator receives annual allocation of local government and economic-development agency subsidies.

Chart 3 – Financing of Top NBIA Incubators

Incubator Name	Operating Budget	Self-Sufficient?
Northwest Enterprise Center Network	$3M for organ'n	Almost
Shoals Entrepreneurial Center	$500k	80%
The Burson Center	$185k	35%
Quincy Business & Technology Center	$200k	100% (exc cap improvements)
Ohio University Innovation Center	$425k	No
Franklin Business Incubator	$250k	No
Lanier Tech. College Mfg'ing Dev. Ctr.	$300k	80%
Tech 20/20	$3.6M	86%
West Texas A&M Univ. Enterprise Ctr.	$552k	No

* *Illinois Examples* – Most of the incubators in Illinois draw support from universities or local/county governments. The Galesburg incubator came about when the Carhartt Company shut down a major plant and left town, and the company's foundation then committed to invest in the ongoing operations of the incubator.

(9) One workable theory for funding a rural incubator is that rents can cover most of the monthly costs.

* *Rationale* – While fees for service can help an incubator's cash flow, most of its revenue must come from rent. Most clients expect, moreover, that rent levels will be sub-market (or at least sub-market for the earliest years of occupancy). That, then, drives the minimum size for an incubator facility.

* *Example* – EnterpriseWorks at the University of Illinois Urbana-Champaign estimates that it receives $480,000 in revenue from rents each year and $10,000 in revenue from services.

(10) A successful rural incubator, even if ultimately self-financing, needs significant outside capitalization to get started.

* *Rationale* – Chart 4 shows that all of the top NBIA rural incubators, including those that ultimately became self-financing, required significant outside grants and gifts to get started. Depending on the initial size of the building and programs, initial finance typically runs several hundred thousand dollars to several million dollars.

* *Example* – The Quincy incubator required $1 million to purchase and partially refurbish its building. Half came from a state grant, and the other half came from a no-interest loan from the city.

* *Example* – EnterpriseWorks at the University of Illinois invested $8 million into its incubator building in the University's industrial park. Some of this was initially underwritten by the developer, but ultimately it was paid for by the university and the state (since the university is public).

Chart 4 – Outside Underwriters of Top NBIA Incubators

	NECEN	Shoals	Burson	Quincy	Ohio	Franklin	Lanier	Tech 20/20	WTAMU
EDA	x		x		x				x
USDA	x	x				x			
HUD	x								
DOE								x	
CDBG						x			
SBA	x								
ARC		x	x				x		
TVA		x							
ORNL								x	
State Funds	x		x	x	x				x
Localities	x	x	x	x		x	x		x
University		x			x		x	x	
Local Buz					x		x	x	

(11) For a very small community, one way to finance an incubator is to create a regional network of small communities.

* *Rationale* – Chart 5 shows that most of NBIA's top rural incubators have a service population above 50,000-100,000. It makes sense that larger service populations yield more incubator-ready businesses and more business-service providers. Larger service populations increase the occupancy rate of the incubator, which means it has a greater chance at realizing its theory of funding. A larger area also means more peers for the incubated businesses, which increases their probability of success.

Chart 5 – Population Served for Top NBIA Incubators

Incubator Name	Service Area Population
Northwest Enterprise Center Network	179,000
Shoals Entrepreneurial Center	147,000
The Burson Center	Greater Atlanta
Quincy Business & Technology Center	55,000
Ohio University Innovation Center	66,757
Franklin Business Incubator	17,000
Lanier Tech. College Mfg'ing Dev. Ctr.	34,000
Tech 20/20	3 States
West Texas A&M Univ. Enterprise Ctr.	428,000

* *Examples* – Several of the top NBIA programs – NECN, Shoals, WTAMU, and Tech 20/20 – are networks expanding over large areas. Perhaps the most impressive is NECN in Wisconsin, which serves a region that extends for nearly 11,000 square miles and includes ten counties and 230 units of local government. NECN has constructed one building as its mother

ship and then others spread across the region as satellites. It deploys "circuit riders" who move around the region and provide various forms of technical assistance.

* *Illinois Incubators* – About half the rural incubators in Illinois are small and have facilities with under 10,000 square feet of floor space and fewer than ten client companies. There's no compelling evidence, however, that incubators at this scale can cover their own costs or make a major contribution to the local economy.

(12) A successful rural incubator program should minimize construction costs.

* *Rationale* – For most incubators, the biggest start-up cost is acquisition of a building, and the biggest items in the operating budget are the carrying costs, mortgages, maintenance, and improvements. Managing these costs carefully at the outset can greatly improve the bottom line. Poorly thought through construction costs can burden a program throughout its lifetime. For example, choosing to reuse an ill-fitting space might actually be more expensive than building a new space to a program's specifications.

* *Example* –NECN timed construction bids for February/March, when contractors were looking for more work.

* *Example* – NECN used prefab designs in its multiple buildings to keep down engineering fees and other costs.

(13) A successful rural incubator program should maximize rental income from its space.

* *Rationale* – Again, because a building is one of the biggest expenses for an incubator, maximizing the ability of that space to generate revenue is a key to an incubator's success. Choosing the right level of space, based on demand from potential incubator clients, is critical. Chart 6 shows that the floor space for most incubators ranges between 35,000 and 175,000 square feet.

Chart 6 – Floor Space and Clients Served for Top NBIA Incubators

	Floor Space (sq. ft.)	Clients
Northwest Enterprise Center Network	180,000	18
Shoals Entrepreneurial Center	150,000	36 + 3 anchors
The Burson Center	11,000	23 + 5 affiliates
Quincy Business & Technology Center	67,000	20 + 4 anchors
Ohio University Innovation Center	36,000	25
Franklin Business Incubator	40,000	28+ 2 Anchor (web designer & SBDC)
Lanier Tech. College Mfg'ing Dev. Ctr.	135,000	11-13, plus Office Leases
Tech 20/20	175,000	??
West Texas A&M Univ. Enterprise Ctr.	75,000?	??

* *Example* – While most incubators lease out 50-80% of their space, the main incubator for the NECN leases out 95% of its space and eliminates common areas. (The 5% is restrooms and loading docks.) Each client has its own entrance.

(14) Most successful rural incubators are nonprofits, but a hybrid structure might offer more capital-raising opportunities.

* *Rationale* – Because most rural incubators depend on outside contributions and their donors seek tax write-offs, they tend to structure themselves as nonprofits. But nonprofits have distinct disadvantages: they cannot attract equity investment, they are legally limited in what they can and cannot do, their reporting is often more demanding than that of for-profits, and their staff may be less entrepreneurial. Some of the more sophisticated incubators therefore have created for-profit arms.

* *Example* – WTAMU has a for-profit company that delivers its entrepreneurial services.

* *Example* – NECN has an equity fund that is for-profit.

(15) A successful rural incubator has only a few, highly motivated staff on payroll.

* *Rationale* – Budgets must be kept trim to match annual expenses and revenues.

* *Examples* – As Chart 7 shows, most NBIA top rural incubators have two employees. Those with more than two tend to be either part time (OUIC) or linked with multiple facilities in a network. One employee is responsible for delivering services, while the other is responsible for facilities management.

* *Corollary* – Each of the nine NBIA case studies had at least one exceptionally motivated individual leading the entire effort.

Chart 7 – Employees for Top NBIA Incubators

Incubator Name	Staff
Northwest Enterprise Center Network	2
Shoals Entrepreneurial Center	3
The Burson Center	2
Quincy Business & Technology Center	2
Ohio University Innovation Center	4 PT
Franklin Business Incubator	2
Lanier Tech. College Mfg'ing Dev. Ctr.	3
Tech 20/20	8
West Texas A&M Univ. Enterprise Ctr.	8

(16) The small staff of a successful rural incubator can leverage other volunteer or low-cost service providers. One strategy for accomplishing this is to make key service providers anchor tenants of the incubator.

* *Rationale* – Reducing the distance and barriers between tenants and service providers increases the likelihood of timely delivery of the services. Some anchor tenants, committed to

the mission of the incubator, will be willing to provide services for free. Others can be convinced to provide services in exchange for a rent reduction.

* *Example* – The Quincy incubator houses representatives from two key state agencies: the Illinois Department of Commerce and Economic Opportunity and Illinois Procurement Technical Assistance.

* *Example* – The Burson Center has two anchor tenants: The Georgia Tech Procurement Assistance Center and the Georgia Manufacturing Extension Partnership. It also provides free office space to a law firm in exchange for its giving free legal advice to clients.

* *Example* – The Franklin Business Incubator provides anchor tenancies for the local SBDC and a web designer.

* *Example* – Lanier's anchor tenants are an SBDC and a Procurement Assistance Center.

* *Example* – Tech 20/20 provides space for the Community Reuse Organization of East Tennessee, which privatizes land, equipment and facilities no longer needed by the U.S. Department of Energy.

(17) A successful rural incubator program should make its services available not only to businesses resident in the incubator but also other businesses in the region.

* *Rationale* – Even before an incubator is opened, support services should be made available on a fee-for-service basis, to ensure that they can thrive in the long-term. Extending these services to businesses resident in the incubator then becomes a natural next step. These service providers also are perfect talent scouts for potential new occupants of the incubator.

* *Example* – OUIC incubator provides various levels of affiliate memberships for $50-100 per month.

* *Example* – WTAMU has a pre-incubation program, with a core 12-week course for $500, sponsors a "Lunch and Learn" program, and runs a collaborative CoSpace.

(18) A successful rural incubator program should organize ongoing events that engage the public with companies in the incubator.

* *Rationale* – Public involvement creates support for the program, which is especially important if subsidies are involved. The public can help bring important perspectives and contacts to incubating companies. And the public can help recruit potential new incubator residents.

* *Example* – OUIC incubator has CEO roundtable sessions once a quarter, bringing together residents businesses with top companies in the region. It also has a quarterly "Technology and Entrepreneurship Idea Exchange."

* *Example* – The Burson Center has 40 training and conference center programs every year.

* *Example* – Tech 20/20 has an annual conference for its participants and other interested members of the public.

(19) A successful rural incubator program will graduate clients within three-to-five years, usually when they have met carefully pre-defined criteria of success or failure.

* *Rationale* – An incubator is not intended to provide long-term subsidies to a business. If a business appears unlikely to succeed, it should be moved out to give other companies the opportunity to be incubated. If a business does succeed, it also should "fly the coop."

* *Example* – The Burson Center designates that whenever one of its companies has more than ten employees or more than $1 million in annual sales, it's ready to move on.

(20) A successful rural incubator program will carefully track both the performance of the incubator and the performance of incubated companies. This tracking should be both quantitative and narrative.

* *Rationale* – Creating clear indicators of success provides critical accountability.

* *Example* – The OUIC tracks for five years from clients and graduates, including jobs, wages, and taxes.

* *Example* – WTAMU produces a colorful annual report.

(21) A successful rural incubator program should continue to engage clients after graduation.

* *Rationale* – Following clients after graduation is necessary to measure their and the incubator's success. In addition, most clients still need some help after graduation, only it has to be more specialized. Graduates also can be very effective mentors for the next generation of incubator residents.

* *Example* – NECN regards post-graduation involvement of clients as a major reason for its success.

(22) A successful rural incubator can beget an "accelerator."

* *Rationale* – The term "accelerator" has come into vogue since the establishment of Y Combinator by Paul Graham in 2005. According to NBIA, "Seed accelerators invest in founding teams that are put through a fast-paced process to validate products and markets and solidify follow-on funding rounds. They gain equity in return…" The time scale for an accelerated company is typically weeks or months, not years. Most rural areas lack the critical mass of high-

tech products that can justify this approach, though it's possible that a successful incubator could, over time, identify promising candidates for acceleration.

* *Example* – The Northeast Indiana Innovation Center, based in Fort Wayne, provides incubator services to ten surrounding counties. It recently added a student business accelerator, in which young people are given living stipends ($600-1,200 per month), capital infusions ($5,000 per company), and services ($3,000 worth per company), in return for 3-6% equity. It is now adding an adult accelerator.

II. Community Feedback

Halfway through our process, community leaders were asked to apply the 22 points above to the GWR. We also engaged entrepreneurs and entrepreneurship-resource providers on some of these points through the two surveys we distributed. Below is a summary of the feedback we received.

(1) Scope *– Any incubator initiative probably should encompass the region as defined by the Greater Wabash Region Planning Commission.*

Defining the right geography for action is a challenge for a relatively small, rural county. Define your area too small and it's hard to achieve critical mass and economies of scale. Define your region too large and the driving requirements make coordinated action difficult.

For entrepreneurs we interviewed the right geographic unit is Wabash county. Our entrepreneur's survey revealed that the most anyone was willing to travel to an incubator office was 20-30 minutes, and many would insist on traveling less. This suggests that a facility must be in Wabash County.

For community leaders, the right geographic unit is a region embracing multiple counties, particularly Edwards, Lawrence, Richland, Wayne, and White counties. These geographic contours are almost identical with the scope of the Greater Wabash Regional Planning Commission (it also includes Crawford County).

The feedback suggests that an incubator initiative should proceed through the GWRPC, but that each county might create a relatively modest incubator facility as part of a network of facilities. This framework also serves several other needs of the region, noted below.

A regional framework raises tricky questions about how to share costs and benefits (some discussed below). And it also raises tricky political questions. Many of the community leaders surveyed noted that the politicians running Wabash County have difficulty thinking or acting regionally.

(2) Goal *– The overall goal of this initiative is to create, not an incubator per se, but a thriving entrepreneurship-support ecosystem that ultimately may include one or more incubators. There is urgent work to do to strengthen that ecosystem.*

The surveys revealed significant gaps in the GWR entrepreneurship ecosystem. From the standpoint of entrepreneurs surveyed, the assistance they most want is with sales, marketing, and advertising. A secondary need, mentioned by fewer businesses, was for capital and/or a different space. Another common concerned voiced was frustration with the highly regulated Illinois business climate.

When the entrepreneurs surveyed were presented with the possibility of assistance in 15 categories, some responded positively to each. The assistance categories receiving the most votes (6, 7, or 8) were "business plan preparation," "market analysis," "advertising," "sales," and "capital." Only four businesses indicated interest in "office/factory space," the distinguishing characteristic of a physical incubator. Comparing this response to the previous one suggests the relative importance of expanding entrepreneurship services over creating an incubator at this time.

From the standpoint of the providers of entrepreneurship-support services, there are also significant gaps. While many opportunities exist, local and online, for training entrepreneurs, other elements of an entrepreneurship ecosystem are missing. There are few mentorship networks in the immediate area, no local incubators, and only the most traditional forms of capital (bank loans, revolving loan funds, and federal loan support programs).

We asked these providers to perform a SWOT analysis of the region's entrepreneurship resources. Here's a summary of what they said:

- Among the *strengths* noted in the entrepreneurship ecosystem are the GWR's top institutions: the community college, the planning commission, various EDCs, the Mt. Carmel AEA, local banks, and the Olney SBDC. Entrepreneurs also can find ample land, industrial sites, workers, and infrastructure at relatively low cost and with limited competition.

- Among the *weaknesses* noted are limited sources of capital, an absence of regional coordination and cooperation, and limited technical assistance for entrepreneurs. Also mentioned were poor attitudes among some existing businesses, a widespread aversion to risk taking, and poor commercial real estate options.

- Among the *opportunities* noted are the strong businesses or promising business opportunities in the GWR: food aggregation and distribution; oil, gas, coal, biomass; manufacturing; and transportation. Some of the problems besetting the economy – youth departures, purchasing leakages, and limited broadband – were also seen as fixable and therefore presented opportunities.

- Among the *threats* noted are the absence of capital, workforce deficiencies, the aging of the population, the small size of the local market, and the resistance to change by some local politicians. Many mentioned the problems presented by a state government that imposes too many regulations, high taxes, and high workman's compensation expenses.

The entrepreneurship resource providers also agreed that marketing existing resources must be done more effectively. Personal visits to entrepreneurs may be needed. Young people need to be connected with these resources. Various educational institutions in the region, beyond the community college, also need to be involved.

When asked if more resources were available for expanding the entrepreneurship ecosystem, respondents said they would prioritize communicating about existing resources, expanding mentorship and training opportunities through more full-time TA providers, and creating new sources of local capital. Some would focus these programs on retention, some on teens and youth, and some would make more commercial spaces available. Only two respondents specifically mentioned creating an incubator.

When asked for “other ideas” for helping entrepreneurs in the region succeed, respondents mentioned: teaching entrepreneurship at all stages of life, changing local government, and transforming grassroots attitudes about business and business creation.

(3) Capital *– A high priority for strengthening the GWR’s entrepreneurial ecosystem is to make more capital available to local businesses.*

Entrepreneurs surveyed regard obtaining capital as a relatively high priority, but only in the abstract. Most respondents did not have unmet capital needs, and those with potential capital needs seemed, overall, willing to continue operating without additional capital. It was unclear whether these answers reflected satisfaction with their existing scale of operations or just a long-standing pessimism about obtaining additional capital.

If they could expand, the typical capital needs of the businesses surveyed would range from \$10,000 to \$100,000. They would prefer to have this finance in the form of debt, though many assumed (incorrectly) that equity would necessarily mean surrendering control of their company. They would be reluctant to take additional debt now, however, because greater debt would make it more difficult to get financing in the future (suggesting that many are still in the 2008-12 “recession mindset”).

When we assembled the community leaders in June, we asked them to name potential sources of capital in eight categories: banks & credit unions; nonbank lenders; revolving loan funds; municipal bonds; hedge and venture-capital funds; angel networks; Slow Money chapters; and crowdfunding. The only category in which there is much activity is banking. Among the banks in the region are First Bank, First National Bank (Mt. Carmel and Allendale), Old National Bank, Regions Bank, Fifth Third Bank, and the Three Rivers Community Credit Union. But banks generally are conservative and reluctant to make unsecured loans to start-ups.

Here’s what the community leaders said about other sources:

- *Nonbank Lenders* – There are several non-bank lenders, lending collaborators (such as the USDA, SBA, DCEO), and some state-run funds that might convince (through guarantees and co-financing) private banks to make a loan to a business. But some of these sources are only available for very specific types of entrepreneurs (e.g., farmers). Moreover, the state and federal programs still require businesses to put up at least 10% of the loan in the form of personal collateral.

- *Revolving Loan Funds* – Various towns in the region have revolving loan funds, including Mt Carmel, Flora, and Olney. The Greater Wabash Regional Planning Commission has a fund too. All these funds are small. Both the Mt. Carmel and the Greater Wabash RPC can loan up to \$100,000 per project (with per job requirements of \$10,000 for Mt. Carmel and \$7,500 for GWRPC).

- *Municipal Bonds* – Use of tax increment financing (TIFs) in Illinois provides a precedent for the GWR deploying municipal bond finance to support local businesses.

- *Hedge & Venture Funds* – There are no hedge funds or venture funds operating specifically in the GWR. In southern Illinois, however, there are players like Open Prairie, Ettinger Venture, and Illinois Venture Funds. These funds, however, support a tiny number of businesses and usually only after they have passed successfully through the start-up phase.

- *Angel Networks* – There are some deep-pocket investors in GWR but no organized angel networks (though occasionally angels in the region collaborate ad hoc).

- *Slow Money* – There is no chapter of Slow Money focused on developing local investment options.

(4) Incubator Demand – *Current "demand" in the GWR for an incubator is modest.*

Again, only 4 of the 14 entrepreneurs interviewed indicated potential interest in moving into an incubator. This suggests some demand in the region for an incubator but it's modest. Two caveats are important. First, our survey was not representative of the thousands of entrepreneurs in the region. Second, the survey – by necessity – focused on existing entrepreneurs. Since start-up, rather than established, businesses might be the most important recruitment targets, the views of entrepreneurship-resource specialists, who deal with potential entrepreneurs every day, is very important as well.

When we asked entrepreneurs to imagine sharing space and services with similar businesses in an incubator, the most desirable feature (registering 3.8 out of 5) was shared space and equipment. The least desirable features (registering 2.5) were classes or capital services. One interpretation of this is that the businesses surveyed would welcome lower rent, but are unsure how they would use other services. Again, though, start-up entrepreneurs might answer this question differently.

Even hypothetically, two thirds of the respondent entrepreneurs were uninterested in moving in with similar businesses; one third was interested. Significantly, the answer to this question flipped when respondents were asked about moving in with *different* businesses. Then two thirds expressed interest. This suggests that businesses in the region are more ready for an incubator with diverse businesses. There appears to be worry about potential competitors, especially in a small market like the GWR.

Entrepreneurs surveyed also saw the value in other services an incubator might offer. Some service businesses saw value in co-locating, for example, to get reliable internet and overhead services. Some retail businesses saw value in creating a small retail mall. Food businesses, however, were nervous about shared licenses and legal requirements.

Most entrepreneurs agreed in the abstract that an incubator providing lower rent and overhead costs would help some businesses take off, but they had difficulty naming specific businesses that they thought might move into an incubator. Again, this could mean that an incubator would be much more useful to early stage entrepreneurs who are not on the "radar screens" of existing entrepreneurs.

(5) ***Incubator Focus*** – *There is no consensus around what kinds of businesses a GWR incubator should focus on, which suggests that, like most rural incubators, it should accept multiple kinds of businesses.*

The community leaders were presented with a list of the seven biggest "economic leakages" in the GWR (from last year's study), and asked to rank-order the extent to which each ought to be a priority. There was no consensus, but the two highest ranking categories were food and health care. Lowest on the list were tourism, FIRE (finance, insurance, and real estate), and wholesale & distribution. The average of all the ranks for each sector is shown below:

Sector	Priority (1-7)
FIRE	4.86
Food	2.64
Health Care	2.86
Retail	4.32
Services	3.29
Tourism	5.68
Warehousing & Distribution	4.36

Even without a community consensus around one sector, a rural incubator might nevertheless specialize in a sector if there were a motivated sponsor in that sector. For example, a major food business might serve as a key partner for a food incubator, or a university might serve as the sponsor for an IP-rich tech incubator.

Here were the potential anchor partners the community leaders suggested for each of high-leakage economic sectors:

- *FIRE* – Blue Cross, Blue Shield, local banks.
- *Food* – USDA, University of Illinois Extension, Farm Bureau, Pioneer, Wabash Valley Service Company, various seed companies, local farmers.
- *Health* – Wabash Hospital, Dr. Fullop.
- *Retail* – Wabash Valley College, J. Wilderman Autoplex.
- *Services* – Mt. Carmel Area Economic Alliance, Dee Drilling, Mike Witters, local lawyers.
- *Tourism* – Chamber of Commerce.
- *Wholesale & Distribution* – Toyota, Fram (formerly Champion Laboratories)

Further discussion by the community leaders, however, suggested that none of these partners were flush with funding or currently eager to sponsor a major incubator project. Persuasion, of course, might motivate some of these partners to step forward.

In the absence of a community consensus to proceed with a specific type of incubator and in the absence of a motivated sponsor, a reasonable working assumption is that the GWR should design its incubator, at least initially, to serve multiple kinds of business. Over time, a specialized incubator could be established alongside the multi-business incubator.

(6) ***Local Business*** – *While local ownership of incubated businesses might best serve the GWR, it may not be practical to limit incubator participation to such businesses.*

The community leaders heard the pro's and con's of restricting an incubator to locally owned business. The biggest pro is the confidence the community has that an incubated business, once graduated, will stay local and deliver its benefits to the community. The biggest con is that including non-local businesses might increase the probability of developing a home-run success that chooses to stick around.

The community leaders divided almost evenly on the question. Three thought the local focus was best, five thought the non-local focus was best, and five were open to both. There was consensus that at a minimum invitations to outsiders should be careful and selective.

(7) ***Champions*** – *Another priority for any GWR incubator initiative would be to recruit a powerful leadership team.*

The community leaders were asked to name, as specifically as possible, potential champions for the incubator who might serve on a board or an advisory board. Here were the names that came up:

- *Government* – Tim Hocking, Rudy Witsman, State Senator Dale Righter, State Rep. David Reis, various city council members.

- *Economic Development* – Sarah Mann, Ben Ross, Wayne Henegar.

- *Business* – Don Price (First National Bank), Mike White, Rick Andrews, J. Roy Dee, Jim Wilderman, coal mine companies.

- *Philanthropists* – WVC and WGH Foundations, Southern Illinois Community Foundation, Rob Coleman, foundation for Enhancement of Life in WC (Stan Ernest), Beth Browning.

- *Illinois Agencies* – GWRPC, DCEO (Bill Stanhouse), Procurement Technical Assistance Centers, Small Business Development Center (Barney Brumfiel).

- *Colleges* – Matt Fowler, Terry Bruce, IECC, SIUC, SIUE, others from WVC.

- *Local Institutions* – Jay Purvis, Steve McGill, Al Henager, others from Wabash Hospital.

- *Civic Associations* – AEA, Chamber, Rotary, Kiwanis.

- Lawyers – Mike Witters, Roger White, Rhine & Ernst.

- Others – USDA representative, SBA representative, retired business owners and managers.

One important reaction to this question, however, was that the "movers and shakers" in the region were overcommitted with other projects and institutions. This, of course, may also point to the importance of identifying and recruiting new "movers and shakers."

(8) Start-up Funding *– Covering the start-up costs for a GWR incubator will require raising significant sums of money from sources that have yet to be approached (let alone prepared to make commitments), suggesting the importance of a design that minimizes these costs.*

The community leaders were told that a rural incubator usually requires capital up front to purchase or obtain a long term lease on a building ($1-10 million), and perhaps another $400,000 to cover start-up costs comfortably over, say, two years. They were asked how plausible (1 to 5, with 1 being "highly plausible") that start-up capital could be obtained from various sources.

The only sources that rated close to a 1 or 2 were a donated building and federal money. But further discussion suggested that the only buildings available in the region were relatively small. Respondents saw some plausibility in getting money from local government, the community college, foundations, philanthropists, and businesses, but further discussion suggested that none of these sources had a deep pocket or could be considered a likely underwriter for an incubator.

	Plausibility (1-5)
Donated Building	2.21
Fed Money	2.04
State Money	3.54
Local Money	3.00
College	3.14
Foundation	2.92
Business	2.88
Philanthropist	2.68

A successful incubator project therefore will depend on significant local efforts to raise the start-up capital, or a design that brings down the start-up costs.

***(9) Operational Costs** – Limited local money sources also suggest that ongoing operations need to be covered primarily through internal revenue sources.*

Once started, a GWR incubator probably requires a minimum of $200,000 per year to cover the salaries and overhead of at least two staff, one focused on the building and one focused on entrepreneurship services. The community leaders were asked how many saw a real opportunity to get ongoing support from various sources for the incubator. The results (indicating how many saw a "real opportunity") are below:

	Real Opp'y
State	2
Local	8
College	4
Foundation	6
Business	5
Philanthropy	4

Significantly, with 14 people offering feedback, no more than 8 saw any of these sources as offering ongoing support for the incubator. The community leaders could imagine Mt. Carmel and Wabash County contributing to the incubator each year, but only modestly. Some saw foundations, philanthropists, and businesses contributing each year, but again only modestly.

The bottom line is that a GWR incubator will need to operate as close to self-reliantly as possible.

***(10) Self-Financing Tools** – Among the tools that might help an incubator finance its own operations are charging rent and taking a royalty stake in the incubated companies, though there is no consensus on how potential clients would react.*

The community leaders were asked to evaluate these two potential tools for self-financing.

On rent, they were asked if they thought it was plausible that businesses would sign up for the incubator even if rent was as high as 90% of the market rate. Seven said "yes," three said "no," and the rest were unsure. The point was made in discussion that the better the services, the closer rent could be to the market rate.

On royalty payments, the leaders were asked if they thought businesses would be willing to surrender 2% of their revenues for five years after graduation. The results were identical with the previous question (though individuals voted differently): seven said "yes," three said "no," and the rest were unsure.

III. Recommendations

Based on the preceding analysis of what helps rural incubators to succeed (Section I) and the views and judgments of community leaders (Section II), we came up with nine recommendations for a proposed incubator in the GWR.

(1) *Proceed Slowly*

There is definitely interest in creating a GWR incubator – among entrepreneurs, entrepreneurship-resource providers, and community leaders – but there is not yet a critical mass who regard it as a high priority. This study should be considered the beginning of a process to grow that support. The experience of successful rural incubators elsewhere in the country also suggests that a number of predicate steps probably need to be taken first before a physical incubator is pursued. The most important of these are to create an entrepreneurial ecosystem and to do this through regional coordination, both of which might take at least one or two years.

(2) *Strengthen the Entrepreneurship Ecosystem*

An incubator is a means to an end, and that end should be a stronger regional entrepreneurial ecosystem. And toward that end, the most urgent priority in the GWR should be to do the following:

- Expand the "Tools for Business Success" sections on the AEA web site, and gradually transform it into a regional database.
- Create a comprehensive, web-accessible database of existing entrepreneurship services, both local and nonlocal, and make the database easy to navigate. Additionally, create a web space where entrepreneurs can post their specific needs.
- Design new courses at the Wabash Community College that meet some of the specific areas in which entrepreneurs said they need additional help such as sales and marketing.
- Recruit business mentors in the region, place their names and expertise on the web site, and encourage existing entrepreneurs to develop relationships with them. Some of this can be carried out through the CEO program for younger entrepreneurs.
- Put together sector-specific teams to help identify specific entrepreneurship needs and form partnerships that improve their competitiveness. For example, food businesses might collectively buy foodstuffs (as Tucson Originals does).
- Continue developing the "CEO Program" to engage young people to think entrepreneurially and start their own businesses.
- Continue spreading the "Shift 10 Program" to increase local purchasing and local sales.

- Consider creating a multi-county industrial park, perhaps even including counties in Indiana.

There are several regional nonprofits that can contribute to these action points, including SAIL and Connect SI.

(3) *Organize Regionally*

Wabash County cannot realistically create an incubator on its own. There is simply not the critical mass for action or the needed finance in a locale with 12,000 residents. As noted earlier, NBIA's top rural incubators represent areas with 50-100,000 residents. This suggests that work in this area should be done, and led, by the Greater Wabash Region Planning Commission, which encompasses seven counties (including Wabash) and 104,000 residents.

That said, there are significant obstacles to greater regional collaboration. To date it hasn't been done very much or very effectively. A recent effort to create a regional Job Fair, for example, was not successful. And many local and county politicians are not comfortable yet working regionally. Some community leaders in Wabash County expressed concern that regionalization might lead to Olney becoming the new hub, rather than Mt. Carmel.

But collaboration is easier with simple tasks, especially where the counties are not competing with one another. Creating an entrepreneurial ecosystem through a regionally targeted web site might be uncontroversial and might not cost very much. The CEO program already has generated a significant level of collaboration among high schools in the region. Creating a useful regional web site could further build an enduring regional identity that would support more ambitious projects.

(4) *Start a Community Portal*

Another project that could build regional identity (at a much lower cost than an incubator) is a "community portal." A portal is a virtual space where local investors and local companies can find one another in a legally compliant manner. Once the entrepreneurship resources and portal are in place, businesses in an incubator will have the services and capital that will enable them to succeed.

Some community portals are being organized around new state securities reforms. For example, Wisconsin recently overhauled its laws for intra-state offerings and allows non-broker-dealers to set up portals for the buying and selling of these securities. While there is no legislation like this pending in Illinois right now, this could change and open new opportunities for the GWR.

The proposed rules for implementing the federal JOBS Act, signed by President Obama in April 2012, also would allow non-broker-dealers to set up such portals for small securities offerings (including debt, equity, and royalty securities). Until these federal rules are finalized, it's difficult to know the exact costs of running this portal would be. Estimates for starting up a portal range from \$100,000 to \$400,000, with ongoing costs probably closer to \$100,000 per year (primarily to cover a staff person). But the portal operator would be able to charge listing, review, and success fees that should more than cover these costs.

Even before the JOBS Act is implemented, the GWR could add features to its regional web site that would list businesses looking for investment and local investors interested in supporting these businesses. Basic information could be presented, and private transactions (offline) encouraged. The site could facilitate the creation of in-person meetings of local businesses and investors much like LION (the Local Investment Opportunities Network) of Port Townsend, Washington, which has generated $1 million of transactions per year in a 10,000 person community.

(5) *Deploy a Decentralized Model*

There appear to be no buildings in the region big enough to house a major incubator (50,000-200,000 square feet). There are also no obvious sources of $1-10 million for a new building. The GWR does have, however, many smaller buildings in or near town centers that are vacant or for sale. Indeed, the MCAEA is considering purchasing a number of these buildings in Mt. Carmel, renovating them, leasing some to promising local businesses at a discount, and selling others to promising new owners.

A smarter approach to creating a regional incubator, therefore, might be to help each participating county to create its own, smaller site, with a clear understanding that each could tap into the GWR entrepreneurship resources and community portal. It will be easier for each county to identify and finance a building with, say, 10,000 square feet that could house 5-10 companies. The incubator staff would then be circuit riders from site to site. This is essentially the successful model of the Northwest Regional Planning Commission Enterprise Center (NCEC) in rural Wisconsin.

This model also supports one of the pieces of feedback from local entrepreneurs—that they do not wish to drive long distances to their respective incubators.

(6) *Create A Two-Tiered Financing Model*

By far, the biggest start-up cost of creating an incubator is obtaining a building through lease or purchase. The other significant cost is for the ongoing provision of entrepreneurship support services. Creating the support services for the region prior to creating an incubator and decentralizing responsibility for the buildings helps make the start-up costs manageable through the creation of a two-tier system for financing the incubator.

For the first tier, each county might take responsibility for setting up its own incubator building, and covering costs through a combination of rents, county allocations, and philanthropic contributions. For example, Grayville owns and runs its own small retail incubator.

A second tier would be the regional staff, which again would run about $100,000 to 200,000 per year. If each of the eight counties contributed for the first few years $10-25,000, they could support one full-time program manager who would circuit ride among all the incubators, again leaving it to each county to manage its own incubator building.

Over time, royalty payments from graduates might pay for expanding the staff and/or lowering each county's annual contribution. For example, suppose the goal were to use royalty payments to cover $200,000 in annual expenses. If a 2% royalty on gross revenues were imposed on graduates (over, say, the first five years after graduation), the $200,000 would be raised with graduates generating a total of $10 million in sales per year. It's not far-fetched to imagine ten graduates each generating an annual average of $1 million in sales. The sharing of all royalty payments regionally would further reinforce a sense of regional identity.

(7) *Create an Appropriate Board*

The regional model suggests that a decision-making board should be set up within or subsidiary to the GWRPC. The board might principally be representatives from each participating (and resource-contributing) county. (Some of the GWRPC board members represent larger towns such as Grayville and Fairfield rather than counties.) This proposed structure addresses the challenge of a county like Wabash tapping multiple leaders for its own incubator when these leaders are already overcommitted to other worthy projects. Each county would only need to identify one leader for the board, and that could be one of its economic developers.

(8) *Allow Decentralized Choices on Sector Focus*

A decentralized model would allow each county to choose the right focal point for its incubator building's occupants. Presumably, most would choose have businesses from a mixture of sectors. But perhaps one county could take the lead with a kitchen incubator and another with a health-care business incubator. Each county also could choose whether (or to what extent) to focus on locally owned businesses.

(9) *Pursue Grants Opportunistically*

These recommendations suggest multiple kinds of grant proposals to multiple kinds of donors over the next few years. The strategy doesn't envision one gigantic EDA grant, but rather a series of grants: for a resource web site; for a portal; for each county's building; for a small kitchen incubator; etc. Building the GWR incubator piece by piece, over several years, might be the smartest way forward.

While the numbers below could vary considerably, here are some of the components of the recommendations above around which proposals might be framed:

- Web Site Expansion ($25-100,000)
- Web Site Staff Oversight ($25-50,000 per year)
- Community Investment Portal Startup ($100-$400,000)
- County Incubator Building Purchase ($25-100,000)
- Annual County Contribution to Incubator Program ($10-25,000)

Among the plausible sources of support for these grants:

- various foundations, including national foundations supporting entrepreneurship (such as Kauffmann, Coleman, and Allstate) and local foundations (WVC and WGH Foundations, Southern Illinois Community Foundation, Rob Coleman, Foundation for Enhancement of Life in WC);

- local and/or county government contributions; and

- national grants from the EDA, USDA Rural Development, HHS Healthy Food Finance Initiative, and the Federal Reserve;

- federally supported institutions in Illinois supporting low-income community development, including those with designations as Community Development Financial Institutions (CDFIs) and providers of New Markets Tax Credits (NMTCs).

It's worth emphasizing, again, that there are plausible business designs for each piece of the incubator project. The investment portal can be supported through fees. The county-based incubators can be supported through rents. And the overall incubator system can be supported through royalty payments by graduates. Each of these potentially profitable designs therefore can be supported through private capital, including municipal bonds, accredited investors, and program-related investments by local foundations (including those of the local hospital and college). If the incubator, in whole or part, were designed as a for-profit small business, it could qualify for financial support from various Illinois programs (Capital Access Program, Invest Illinois Venture Fund, Participation Loan Program). Moreover, it could be financed through small-scale securities issued on the community portal. Indeed, the first offering on such a portal could be for the financing of the portal itself.

IV. Priorities

Before the final presentation of the findings to the MCAEA board in September, the Executive Committee asked the Contractor to boil down the findings in Section III to a short, prioritized list of actionable steps. Here's a summary of what was presented:

Immediate Priorities

(1) *Strengthen the Entrepreneurship Ecosystem* – An urgent priority in the GWR is to expand resources for entrepreneurs in the region (see the specifics recommendations under Section III, point #2).

(2) *Begin a Dedicated Effort to Organize and Implement Regional Activities* – Work with the GWRPC to implement many of the tasks outlined in point #1, rebranding these activities as regional.

One Year Priorities

(1) *Start a Community Portal* – One project that could build regional identity (at a much lower cost than creating an incubator) might to launch a "community portal." Consider also a creating an active "Slow Money" chapter to put small business needs in front of micro investors.

(2) *Create a Regional Board* – The GWRPC should create a regional board to oversee the incubator project.

(3) *County-Based Plans* – The Regional Incubator Board should mobilize each county to start preparing plans for a small incubator within that county. Each county should answer the following questions: What building(s) might be used for the incubator? Which businesses might be interested in using it? Will the incubator have a sectorial specialization (like a kitchen incubator)? What's the plan for financing the building, any renovations, and site management? Rent? Government subsidies? Donated funds? These county-based plans would then be integrated into regional pitches for funds.

Two Year Priorities

(1) *Implement County Incubator Plans* – Counties that successfully raise funds should begin to develop their incubator sites. The rest should continue to try raising funds.

(2) *Develop County Finance Plans* –Seed money should be sought from the EDA and the USDA. There are specific grants from both agencies targeted at rural areas. Concomitantly, begin to develop local funding sources, both public and private, that together with federal and state grants can form the structure of a sustainable financing plan for the incubators.

(3) *Prepare Regional Proposal* – Equipped with regional services, funding mechanisms (via the community portal), and matching funds, the region finally will be prepared to submit strong proposals to various federal agencies, including USDA and EDA.

Appendix I: RFP from MCAEA

MOUNT CARMEL

Opportunity is Here!

AREA ECONOMIC ALLIANCE

REQUEST FOR PROPOSAL (RFP)

WABASH BUSINESS INCUBATOR

FEASIBILITY STUDY

MOUNT CARMEL AREA ECONOMIC ALLIANCE
P.O. BOX 41
528 N. MARKET STREET
MOUNT CARMEL, IL 62863

DATE

January 10, 2014

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1. SUMMARY AND BACKGROUND

Mount Carmel Area Economic Alliance (AEA) is currently accepting proposals to conduct a feasibility study to determine the viability of a business incubator to serve Wabash County, IL and its adjacent counties. In addition to determining viability (potential demand) for such a facility, the study should also examine the types of businesses such a facility should be designed to serve and whether the facility should be “bricks and mortar” or virtual.

The purpose of this Request for Proposal (RFP) is to solicit proposals from professional consulting firms and organizations having the experience (related or direct), the capacity, and the expertise to accomplish the requirements outlined in this RFP. The resulting study should present a fair and extensive evaluation, based on criteria listed herein, that would yield a recommendation to proceed or not with the development and establishment of an incubator that would facilitate successful entrepreneurial activity in the region.

The AEA is a multi-purpose 501 (c) (3) community economic development corporation serving Wabash County, Mount Carmel, and other communities comprising about 12,000 people in southeastern Illinois. AEA was founded as the Area Industrial Development Committee in 1964 and transitioned to the AEA under assumed name in 2012. The organization has developed an Economic Development Master Plan over the past year, which includes initiatives and activities in five areas: Retaining and Expanding Existing Business, Stimulating Entrepreneurship, Recruiting New Business, Improving the Education/Business Interface, and Creating Better Quality of Life and Leisure Assets.

This proposal supports part of the “Stimulating Entrepreneurship” element of the Economic Development Master Plan, which is aimed at creating more opportunities for community entrepreneurs. The elements of the Master Plan that would support a business incubator include: (1) A youth entrepreneurship joint venture between Mt. Carmel High School and Wabash Valley College called Creating Entrepreneurial Opportunities (CEO), which is expected to generate a few new businesses each year. (2) A Community Entrepreneurship Support System that itself will be supported by advertising and promotion to recruit entrepreneurs and a cadre of seasoned business mentors to counsel entrepreneurs in dealing with problems and challenges.

In addition to the Master Plan, AEA has also commissioned an “Economic Leakage Study” of the community, which has outlined in detail the economic activity occurring in the region in each of the 440 IMPLAN categories that are derived from the thousands of NAICS categories of businesses in the US. The study revealed that there is no activity in the region in 330 IMPLAN categories. This and other information will be available to the selected consultant under this RFP.

2. PROPOSAL GUIDELINES

This section of the Request for Proposal will provide a description of what each responding organization's proposal should contain with regard to requirements that must be included in each proposal.

This Request for Proposal represents the requirements for an open and competitive process. Proposals will be accepted until 5pm CST, February 10, 2014. Any proposals received after this date and time will be returned to the sender. All proposals must be signed by an official agent or representative of the company submitting the proposal. Electronic proposals may be submitted to Ben Ross, Executive Director, Mount Carmel Area Economic Alliance at ben.ross@mcaea.com up until 5:00 pm CST, February 7, 2014. Electronic submissions must be executed with a scanned signature of an official representative or agent of the submitting organization.

If the organization submitting a proposal must outsource or contract any work to meet the requirements contained herein, this must be clearly stated in the proposal. Additionally, all costs included in proposals must be all-inclusive to include any outsourced or contracted work. Any proposals which call for outsourcing or contracting work must include a name and description of the organizations being contracted.

All costs must be itemized to include an explanation of all fees and costs. Contract terms and conditions will be negotiated upon selection of the winning bidder for this RFP.

The Grant supporting this RFP originated with the U.S. Economic Development Administration (USEDA). The guidelines for the grant required in-kind matching funding, which AEA has committed in time and expertise of its Executive Director, who holds an undergraduate degree from the University of Tennessee, and an MBA from Vanderbilt University, and its President, who holds degrees from Wabash Valley College, Le Tourneau University, and Asbury Theological Seminary. Between them they have over 65 years' managerial experience in Economic Development at the state, multi-state, regional, and local levels, IT consulting, entrepreneurship, utility industry PR and ED, and academia. The proposal should include the use of 240 hours of dedicated time of these individuals in the completion of the project to defray project costs.

Additionally, AEA has completed an economic leakage study that analyzes money flows leaving the community in 440 Implan business categories, and which examines the degree of business activity locally in the same categories and compares this data with other communities of like size.

CONTENTS – What the proposal and ensuing study should include and reveal

Market Analysis

- Determine if there is demand for incubation space and services
- Determine what kind of demand is most prevalent (manufacturing, service, professional, FIRE, etc.)
    - Description of where the above will come from
        - Technology, advanced mfg, IT, agriculture, life sciences, materials science, etc.
        - Warehousing and distribution
    - What will it look like (configured interior space, internal infrastructure, labs, office, production, warehousing, specialized equipment, etc.)
    - Is an anchor tenant indicated and if so what type(s).
- What could be the niche(s) (competitive advantage).
- Description of how such incubation will impact entrepreneurship, business recruitment, and retention/expansion of existing business

Community Infrastructure

- Determine if the professional, business, and capital infrastructure exists to meet the needs of entrepreneurs, and if not, what is needed and at what cost (estimated).
- Will existing businesses (particularly financial) work with early-stage/start-up businesses.
- Is a "bricks and mortar" facility indicated and if so, of what size.
- What would the expected occupancy rate be over time.
- What services would need to be provided in-house.
- What financial resources are available or would need to be developed (e.g. loan funds, venture or angel capital, etc.)

Community Support

- There is community consensus regarding stimulating entrepreneurship. What would need to be developed is a communications strategy to support entrepreneurship and the incubator if it is indicated.
- The incubator would be part of a three pronged strategy of entrepreneurial stimulation, which in turn is part of a 5 part overall economic development master plan that is available for review by all respondents.
- The successful proposal will describe how the information gathered in this study will complement and integrate with the overall plan.
- The study should reveal at least one community supporter/entity who would lead the incubator effort

Location/Real Estate

- What do various constituents consider to be the optimum location(s)
- What size facility can the community support
- Adaptive use or new construction. Are there locations that might be donated
- What is the appropriate finish out to fit the entrepreneurial demand

3. PROJECT PURPOSE AND DESCRIPTION

The purpose of this project is as follows:
AEA has developed a comprehensive economic development strategy with goals, objectives and action steps to be implemented over the coming 5-10 years. One critical element of the plan, which is aimed at stabilizing and growing the economy of the area, is to stimulate entrepreneurship. This part of the plan will include the establishment of the successful Creating Entrepreneurial Opportunities (CEO) program, which is aimed at equipping youth in the community with knowledge and skill sets necessary to develop and operate their own businesses; creating a community entrepreneurship support system to identify and provide mentoring, counseling, financing, and other essential services to help the general population of entrepreneurs in the community to succeed, and to determine the need for and explore the degree to which a business incubator could facilitate the overall effort.

Project Description:
AEA has received a matching grant from the Economic Development Administration (EDA) to pay for half of this feasibility study. AEA will select the most viable consultant to advance the determination of the viability of such business incubator in concert with AEA staff, which will provide in-kind services to complete the study, as outlined in the Appendix to this RFP.

The description of this proposed study is outlined in the "Contents" section in "2. Proposal Guidelines." above, and in the criteria outlined in " 3. Project Scope" below.

4. PROJECT SCOPE

The scope of this project includes all the research, evaluation, and analysis necessary to determine the need and viability of a business incubator to adequately stimulate entrepreneurial activity and to identify and describe the actual and latent demand for such incubator in Wabash County Illinois.

Such determination should include the determination of the type (virtual or physical) incubator that would adequately service the determined demand for such facility. If the study reveals the types of entrepreneurs identified are more suited to internet or virtual businesses, that would benefit little from a physical facility, then the study should emphasize the types and specifications of the services (including mentoring, consultation, and counsel) that should be available and under what conditions (free or for fee) those services should be made available for the greatest economic impact.

If the study determines that the demand for incubation must include a bricks and mortar facility with certain shared services, then such facility should be described vis a vis the most prevalent entrepreneurial demand, and should describe the physical footprint and layout of the facility and the shared services or equipment that should be provided. It would not be required from an engineering or architectural design perspective to provide professional design specifications of the facility. Only to describe with enough specificity to communicate the general size of and functions that would be need to be present in the facility to accommodate need.

The selected bidder will be responsible for planning and conducting thorough market research sufficient to validate that there is or is not sufficient demand for a business incubator. If it is determined that such demand does not exist, it would be expected that further work would not be completed. It would be necessary for the successful bidder to estimate in the project timeline the point at which enough information exists to determine the viability of an incubator. At that juncture, a meeting between the successful bidder and AEA would be scheduled, and a decision negotiated regarding further work.

The following criteria must be met to achieve a successful project: (Required by the EDA)

- Organize Action Teams comprised of public, private, and higher education representatives (will be accomplished by AEA staff)
- Survey existing businesses to determine potential for subsidiary businesses that may require incubation services
- Identify the components needed to facilitate entrepreneurial demand within the region, including:
    - Develop network of mentors/professionals in business, accounting, law, marketing, strategic/business planning, etc. to support potential incubator tenants (will be accomplished by AEA staff)
    - Determine communication/marketing materials needed to drive potential entrepreneurs into the system (to be accomplished by AEA staff)
    - Define and develop financing options for tenants in an incubator (to be developed in concert with AEA staff and action teams described above)
- Determine the existence and description of business demand for an incubator in the community
    - Describe the nature of viable incubator customers based on their NAICS codes
    - If there are several discrete entrepreneurial demands in different NAICS codes, an evaluation of the types most likely to succeed in an incubator
- Determine the interest and support level of business, political, and civic leaders in the region
- Identify education initiatives derived from business feedback with regard to skill and knowledge sets needed to support existing business that will foster entrepreneurial activities to be located in an incubator (to be accomplished by AEA staff along with other resources)
- Determine potential funding sources for the creation of an incubator

  - A description of the staff expertise necessary to support the incubator tenants and an evaluation of the existence of such talent in the community.
  - Consideration of ways to serve both virtual and physically based entrepreneurial businesses through the incubator staff
  - An evaluation and recommendation of equipment, hardware, and software necessary to support the shared services offered by the incubator
  - An analysis of how to structure rents and fees for space and other services provided to tenants
- An assessment of the minimum occupancy level necessary for the incubator to be self- sustaining within 3-5 years
- Assist AEA to develop adequate funding strategies to operate the facility with minimum additional cash infusions beyond rents and fees
- Recommendations about how to integrate the incubator with the community based entrepreneur support systems being developed in the community
- Recommendation for the maximum period of occupancy that tenants should be allowed to remain in the facility before leaving for new quarters, and a suggestion of the elements of a transition package that would help the fledgling business to leave the incubator successfully.
- Prepare and submit written progress reports to the EDA (in concert with AEA staff)

5. REQUEST FOR PROPOSAL AND PROJECT TIMELINE

Request for Proposal Timeline:

All proposals in response to this RFP are due no later than 5pm CST February 7, 20xx.

Evaluation of proposals will be conducted from February 10, 2014 until February 21, 2014. If additional information or discussions are needed with any bidders during this period, the bidder(s) will be notified.

The selection decision for the winning bidder will be made no later than February 17, 2014.

Upon notification, the contract negotiation with the winning bidder will begin immediately. Contract negotiations will be completed by February 24, 2014.

Notifications to bidders who were not selected will be completed by February 24, 2014.

Project Timeline:

Project initiation phase must be completed by March 10, 2014.

Project planning phase must be completed by April 7, 2014. Project planning phase will determine the timeline/schedule for the remaining phases of the project.

All work and reports must be completed and submitted to AEA by August 22, 2014

All invoices for payment must be submitted by September 15, 2014

6. BUDGET

All proposals must include proposed costs to complete the tasks described in the project scope.

NOTE: All costs and fees must be clearly described in each proposal's budget narrative along with a summary spreadsheet of line item costs. It is preferred that narrative be presented in MS Word or PDF and spreadsheets submitted in MS Excel or PDF.

7. BIDDER QUALIFICATIONS

Bidders should provide the following items as part of their proposal for consideration:

- Listing of the project team members with education, relevant work experience, and pay rates.
- Capabilities of the Firm as a whole with regard to community economic analysis and related expertise paying particular attention to marketing and business feasibility analysis.
- Existence of equal opportunity policies in place at the firm
- References and evidence from past clients regarding satisfaction with similar projects conducted

8. PROPOSAL EVALUATION CRITERIA

AEA will evaluate all proposals based on the following criteria. To ensure consideration for this Request for Proposal, your proposal should be complete and include all of the following criteria:

- 30 points: Experience and Technical Competence in conducting the required services
- 20 Points: Understanding of the General Project to be determined by the succinctness expressed by the consultant in understanding the scope of work, requirements of a successful engagement, the methodologies used to deliver the projects desired outcomes, and a high quality proposed timeline that demonstrates that the deadlines will be met
- 20 points: Professional Background of the team actually assigned to do the work (please do not load this criteria with staff that though in the firm's employ, will not actually work on this project), previous work and references
- 15 points: Responsiveness with regard to the adequacy and accuracy with which the firm responds to this RFP Technical expertise and experience: Bidders must provide descriptions and documentation of staff technical expertise and experience

- 10 points: Cost, the reasonableness of the consultant's budget proposal and the degree that the firm ensures in writing that the budget shall be adhered to
- 5 points: Equal opportunity documentation and compliance

Each bidder must submit three copies of their proposal to the address below by February 7, 2014 at 5pm CST:

Mount Carmel Area Economic Alliance
528 N. Market Street
Or P.O. Box 41
Mount Carmel, IL

Or by email to ben.ross@mcaea.com

Appendix II: Survey of Entrepreneurship Resources

"Task 3" for the Greater Wabash Region (GWR) Incubator Study was "to identify the components needed to facilitate entrepreneurial demand in the region." A survey was conducted of 10 experts on the strengths and weaknesses of the entrepreneurship resources in the region. Below is a summary of the survey results, followed by a comprehensive compilation of responses.

Summary of Survey Results (With Commentary)

- Generally, there are many opportunities, local and online, for training entrepreneurs. But other elements of an entrepreneurship ecosystem are missing. There are few mentorship networks in the immediate area, no local incubators, and only the most traditional forms of capital (bank loans, revolving loan funds, and federal loan support programs).

- Among the *strengths* noted in the entrepreneurship ecosystem are the various institutions in the GWR: the community college, the planning commission, the various EDCs, the Mt. Carmel AEA, local banks, and the Olney SBDC. Entrepreneurs also can find ample land, industrial sites, workers, and infrastructure, with relatively low costs and limited competition.

- Among the *weaknesses* noted are limited sources of capital, an absence of regional coordination and cooperation, and limited technical assistance opportunities for entrepreneurs. Also mentioned were an aversion to risk taking, poor attitudes among some existing businesses, and poor commercial real estate.

- Among the *opportunities* noted are some of the strong or strengthening businesses in the GWR: food aggregation and distribution; oil, gas, coal, biomass; manufacturing; and transportation. Some of the problems besetting the economy – youth departures, purchasing leakages, limited broadband – were also seen as fixable and therefore presented opportunities.

- Among the *threats* noted are the absence of capital, workforce deficiencies, the aging of the population, the small size of the local market, and the resistance to change by some local politicians. Many mentioned the problems presented by an Illinois government that's unfriendly to business: overregulation, high taxes, and workman's compensation expenses.

- There's a consensus that communicating about and marketing existing entrepreneurship resources must be done more effectively (and a recognition that this is a priority of the Mt. Carmel AEA). Personal visits to entrepreneurs may be needed. Young people need to be connected with these resources.

Various educational institutions in the region, beyond the community college, also need to be involved.

- Generally, if there were more resources for expanding the entrepreneurship ecosystem, respondents would prioritize communicating about existing resources, expanding mentorship and training opportunities through more full-time TA providers, and creating new sources of local capital. Some would focus these programs on retention. Some on teens and youth. Some would make more commercial spaces available. Significantly, only two people specifically mentioned creating an incubator.

- Asked for "other ideas" for helping entrepreneurs in the region succeed, respondents mentioned: teaching entrepreneurship at all stages of life, changing local government, transforming grassroots attitudes about business and business creation.

Compilation of Responses

Survey questions are presented in italics, and the results are presented in plain type.

(1) Background Information

Answering the survey were the following ten experts:

- Barney Brumfiel, SBDC in Olney
- Sandra Irvine, City of Carmi
- Sarah Mann, Greater Wabash Regional Planning Commission
- Steven Mitchell, Man-Tra-Con/ConnectSI
- Kayla Murphy, Fairfield Area Development Commission
- Ben Ross, Mt. Carmel Area Economic Alliance
- Rusty Wanstreet, USDA
- Kim Watson, Illinois Dept. of Commerce and Economic Opportunity
- Dave Wilderman, IECC/WVC
- Rudy Witsman, City of Mt. Carmel

(2) Let's start by listing all the entrepreneurship resources in the region that you know about. What's currently available in each of the following categories?

a) Training:

- One-night/day seminars or workshops?
- Adult education programs?
- Courses for young entrepreneurs in the public schools?
- Youth training programs run by nonprofits, churches, etc.?
- Formal courses in community colleges?
- Formal programs in higher-ed institutions?
- Programs available at Small-Business Development Centers?
- Online programs?
- Other?

Generally, there were a number of programs listed here. These were sponsored/led by Wabash Valley Community College, the Chamber of Commerce, the Area Merchants Association, and the Mt. Carmel AEA (e.g., the "Tools for Business" site). The new CEO program is reaching out to youth. If the region is expanded somewhat, a number of university-based programs (such as at Southern Illinois University) can be found. Moreover, there are plenty of national programs available online.

b) Mentorship for Entrepreneurs:

- Through local networks?
- Through specialized nonprofits (like SCORE)?
- Through professional associations?
- Through large businesses in the region?

- *Through coaching associations?*
- *Through business associations (like the Chambers of Commerce)?*
- *Through online resources?*
- *Other?*

Mentorship resources in the GWR are quite limited. One person said these resources are "better for developers than for entrepreneurs." The Mt. Carmel AEA is developing a mentorship network, but it's not functional yet. The SBDC in Olney has mentorship resources, but they are mostly at a distance. Marion and Carbondale have more elaborate networks in place, which could serve as models for the GWR.

c) Facilities for Entrepreneurs:

- *Co-working Spaces? Incubators?*
- *Pooled Resources (secretarial, copiers)?*
- *Equipment Lease/Rental/Sharing?*
- *Technical Assistance Pools?*
- *Other?*

All of these resources can be found at other incubators in southern Illinois, such as at the Dunn-Richmond Center, SIU-Carbondale, and West Frankfort. Grayville, which is within the GWR, has a small retail incubator. The Mt. Carmel AEA is developing these resources (hence this study).

d) Capital Resources for Entrepreneurs:

- *Foundation Grants or Program-Related Investments?*
- *Government Grants, Loans, or Loan Guarantees?*
- *Bank/Credit Union Loans?*
- *Revolving Loan Funds?*
- *Angel Investors?*
- *Angel Investor Clubs?*
- *Venture Capital Investors?*
- *Crowdfunding Sites and Opportunities?*
- *Investment Clubs?*
- *Local Chapters of Slow Money or Similar Organizations?*

The categories in which there are significant resources are: bank/credit union loans (the GWR has a half-dozen financial institutions); revolving loan funds in many of the GWR counties and towns; and access to federal grants from the SBA, USDA Rural Development, and FredCo. Fairfield Area Development also relies on Industrial Trust funding, TIFs (tax increment financing), and redevelopment agreements. There's a smattering of other activities in the region – angel investing, VC's based elsewhere looking for deals, members of Slow Money – but the general judgment is that the GWR has significant capital gaps.

(3) Now we would like you to evaluate these resources. What do you believe are the top three strengths, weaknesses, opportunities, and threats concerning the resources available for local entrepreneurs?

Strengths:

- Training availability
- Available workforce
- Funding opportunities
- Culture of independence
- Community college (3)
- Planning commission and other EDC's (3)
- Less competition
- More affordable startup costs
- Fewer barriers like zoning ordinance
- Development Center
- Financing government and lending institutions
- Space for development, available sites (2)
- Several economic development tools like TIFs, enterprise zones, RLF, industrial trust
- Mt. Carmel AEA, with strong leadership and board (3)
- Some groups are comfortable collaborating
- Local banks
- Good infrastructure
- Local awareness of strengths and weaknesses

Weaknesses:

- Coordination on all levels (2)
- Not enough capital, nor enough diversity of capital (7)
- Centralized resources
- Limited opportunities for local entrepreneurial markets
- Lenders averse to risk
- Financial staying power
- Access to training, incubating, or mentorship activities (2)
- Limited knowledge of financial principles
- Not enough staff at the SBDC and not enough sites
- Utilization of SBDC resources
- Lack of financial resources available.
- ED targeting big business rather than small
- Space available is in bad shape or costs too high
- Negative attitudes among some classes of business in the communit
- Complacency and aversion to risk
- Fear of and aversion to trying new strategies
- Networking and resource sharing
- Support for start-ups

Opportunities:

- Growing movements in food aggregation and distribution
- Growing oil and gas industry in the local area
- Creating greater regional planning
- Natural resources – coal, gas, biomass, etc
- Transportation infrastructure/proximity to markets
- Widespread access to broadband
- Get youth in the region to think entrepreneurally
- Frontier community college
- Greater Wabash Regional Planning
- Possible re-emergence of manufacturing
- Networking of existing companies (2)
- Development of financial skills at an earlier age
- Create more incubator spaces
- Provide ongoing entrepreneurship support programs
- The 8 types of leaky business identified by the Leakage Study
- The 330 business classifications in which no activity exists
- More local purchasing through "Shift 10" and other collaborations
- Succession Planning
- Illinois Business Department

Threats:

- Skills deficiencies (2)
- Financial and capital shortcomings (2)
- Small local markets
- Overregulation
- Shaky finances of the state of Illinois
- General business climate in Illinois
- Workers Compensation expense in Illinois
- Surrounding states seen as more business friendly
- Running out of funding or expiring ED tools (2)
- Local average age is increasing, and not following trends that might draw younger crowd.
- Feeling of malaise and defeat among some merchants (2)
- Supply side vendors that won't sell in small batches to local vendors
- Fear/aversion to learning e-commerce
- Mt. Carmel City Government
- Local Paradigms
- Leakage
- Lack of support/follow-up programs

(4) If the region were unable to expand its entrepreneurship resources, could they at least be deployed more effectively? Might, for example, communication about these resources be done more effectively? What kind of communication?

- Yes. We are considering mounting a multimedia awareness campaign to inform small businesses and entrepreneurs of the existence of certain available services, and to augment the program with a single point of contact telephone number and email address to funnel clients into the system.
- Yes, awareness of resources must be developed within the AEA teams and administration. There needs to be a catalog of resources developed, a detailed recognition of these resources, and a willingness among entrepreneurs and leaders to use these resources.
- It may take personal visits for communications.
- I would say communication and the things available to people who want to start a new business is lacking. Also the information people know and fail to understand it. In the near future. And to be effective, we must identify some things. [PAR] What are the needs of our community? Then we need draw to the market [PAR] To get younger people. Our average age in the community is becoming older. We need young fresh ideas. We need to use our high school and community college to our advantage.
- Providing information lists on available resources more conveniently through local chamber of commerce or community websites.
- Yes, the key to creating a successful program is communication. GWRPC could be a good resource as well as the local economic development directors and the local media.
- More effective networking between resources
- More networking between entrepreneurial agencies and higher education. Business center in Olney needs more recognition outside of Olney.
- Communication is the beginning of mutual understanding and learning. All forms have some benefit.

(5) If you had $1 million to invest in new entrepreneurship resources for the region, what would be your top priorities? Are there specific individuals or organizations in which you'd invest?

- Through AEA and a collaboration with organizations like the Chamber, the college, the merchants association, and regional multiplier groups, I would use the money to implement a community based support system for entrepreneurship that would include an awareness campaign to identify and feed entrepreneurs into the system, a cadre of professionals and business mentors who can evaluate and counsel entrepreneurs on their business concepts, and a variety of debt and equity financing sources that could enable entrepreneurship as a for profit opportunity.
- Develop an entrepreneurial development system like that made available by the Murfreesboro, TN Chamber of Commerce. Mount Carmel lacks the

willingness and ability to pay full-time people to develop entrepreneurship and related activities.

- Set up support programs for retention visits. Provide staff and resources for these programs.
- My priorities would be focused on small business and younger children and teens.
- Resources to assist in providing more financial assistance and building space for business startups.
- I would invest in an incubator network within the region (not just one site, but several in the GWRPC region) that had a full time staff person available as a resource for all businesses in the region. The staff person would have all the information to needed resources as well as accounting experience to help the company with their financial issues. The staff would refer to a network of mentors for any and all other issues that arise. In addition the incubator network could help to spearhead the volunteer network and classroom curriculum for Kindergarten- grade school entrepreneurship programs.
- Better preparation of individuals to understand and meet the demands of business; financial foundation, market research skills and resources. [PAR] Most entrepreneurs need a more complete understanding of the drivers of success in a business, a better understanding what actions to take to effect the desired results. [PAR] Too many startups are driven but emotion, immediate financial need, existence of an available parcel of real estate, a desire to convert a hobby into a viable source of revenue. Many go into business without a complete understanding of the level of sales they will have to produce to obtain the vital results.
- Need to make available shovel ready sites within the region.
- Funding.
- You may have this information but mapping and resource collection would be my first priority.

(6) Are there any other ideas that you have for improving the ability of the region to help entrepreneurs succeed?

- Somehow we need to reach and educate people in all age groups and stages in life that entrepreneurship is a viable way to support and or supplement income to make everyone a self-sustaining economic entity. It will require that we help people unlearn the mandate that to do well, one must prepare and seek opportunities that entail working for someone else as an employee.
- A paradigm shift of conservative government leadership.
- Have a positive attitude toward entrepreneurship and make it a focus of activities. And increase the focus on retention and expansion of existing companies.
- High school junior achievement; high school classes for entrepreneurs; entrepreneur job creation fair in high school (Like invention convention); career jobs shows on Friday.
- Starting the education at the kindergarten level and having companies send representatives into the schools for a program that should be developed for

each grade to teach entrepreneurial thinking at all levels (not just high school). Much like the Junior Achievement program but aimed at enterpreneurship instead of the JA goal of STEM.

- Early preparedness; when a would be entrepreneur has an inspiration, by nature, they are not patient enough to prepare their concept, research the market, ultimately do the things they don't want to do in order to prepare to succeed. The success rate could be much improved by more complete preparation and understanding.
- Mentoring program.
- Never give up. Keep trying. An easy way to bring entrepreneurs to the table is with money or the thought that they may get some. This could lead to opportunities for teaching, networking, etc.

Appendix III: Survey of Entrepreneurs

"Task 2" for the GWR Incubator Study was "to survey existing businesses to determine potential for subsidiary businesses that may require incubation services." Below the results of this survey are summarized, followed by a comprehensive compilation of the answers.

Summary of Survey Results (With Commentary)

- While 14 businesses responded (our target), we were unable to get, as initially planned, two businesses from each of the seven sectors earlier identified as having the greatest leaks. Most of the respondents were retailers or service providers.

- Most of the business responding were very small (0-6 employees), young (typically 2.3 years old), with small annual sales (<$100,000).

- The most salient theme of responses was that existing businesses need help with sales, marketing, and advertising. A secondary need, mentioned by fewer businesses, was for capital and/or a different space. Another common theme was frustration with the highly regulated Illinois business climate.

- When businesses were presented with the possibility of assistance in 15 categories, some businesses responded positively to each. The assistance categories receiving the most votes (6, 7, or 8) were "business plan preparation," "market analysis," "advertising," "sales," and "capital." This suggests the importance of providing a wide range of services in the GWR.

- Only 4 businesses indicated interest in "office/factory space," which would be the distinguishing characteristic of a physical incubator. Comparing this response to the previous response suggests the relative importance of expanding entrepreneurship services over creating an incubator at this time.

- The respondents with potential capital needs seemed, overall, willing to continue operating without additional capital. But it was unclear if this reflected satisfaction with their existing scale of operations or pessimism about obtaining additional capital. If they could expand, the typical capital needs of these businesses would range from $10,000 to $100,000. They would prefer to have this finance in the form of debt, though many assumed (incorrectly) that equity would necessarily mean surrendering control of their company. They would be reluctant to take additional debt now, because this would make it more possible for their companies to get finance in the future (suggesting that many are still in the 2008-12 "recession mindset").

- We asked respondents to imagine sharing space and services with similar businesses in an incubator. The most desirable feature (registering 3.8 out of 5) of this would be shared space and equipment. The least desirable feature (registering 2.5) would be classes or capital services. One interpretation of this is that the businesses would welcome lower rent, but are unsure how they would use other services.

- Two thirds of the respondents, however, were uninterested in moving in with similar businesses; one third was interested. Significantly, the answer to this question flipped when respondents were asked about moving in with *different* businesses. Then two thirds expressed interest. This suggests that businesses in the region are more ready for an incubator of diverse businesses than those of similar ones. There appears to be some distrust of potential competitors.

- The most anyone was willing to travel to an incubator was 20-30 minutes, and many would insist on traveling less. This suggests that a facility would have to be in Wabash County.

- Some service businesses saw value in collocating to get, for example, reliable internet and overhead services. Some retail businesses saw value in creating a small retail mall. Food businesses were nervous about shared licenses and legal requirements. Other businesses appeared not very eager to partner with others in their sector.

- Most respondents agreed in the abstract that an incubator providing lower rent and overhead costs would help some businesses take off, but they had difficulty naming specific businesses that they thought might move into an incubator. This could mean that an incubator in the GWR ought to service very early stage startups.

Compilation of Survey Answers

Below is the survey language (in italics) followed by answers we received.

(1) Background Information

The 14 companies that filled out the survey were:

- Accurate Technology
- Albion Tire
- Brushfire Creative
- Car Quest
- Cosmetic Retail
- Creative Arc Designs
- Diana Concrete
- Escape Travel
- Hippie Hill
- Integrity Realty
- Lee Andrea Sweet Treats
- Piece Time Quilt Shop
- Simply Seconds
- Three Girls and a Swirl

While we aimed to get two companies from each of the seven sectors that were identified as promising in the earlier leakage study, were unable to achieve this diversity. Moreover, some companies identified with more than one sector, while others identified with a different sector than we anticipated. Below is the number of companies that identified with each high-leakage sector:

__ *Finance* (1 business)
__ *Food and Farming* (2 businesses)
__ *Goods Wholesaling and Retailing* (8 businesses)
__ *Health Care*
__ *Manufacturing, Warehousing, and Distribution* (1 business)
__ *Professional and Personal Services* (5 businesses)
__ *Tourism*

We asked respondents to indicate what their legal form was:

- Sole Proprietor – 6 businesses
- S-Corp – 1 business
- LLC – 2 businesses
- Partnership – 2 businesses
- Unsure – 1 business
- No answer – 2 businesses

We asked respondents when they were formed. The oldest company in the group was formed in 2007. The average age of the companies was 2.3 years.

We asked respondents about the number of employees. Answers ranged from 0 to 6. Some of the respondents were not sure whether to include themselves (or other owners) as employees.

We asked respondents to identify their “rough scale of annual revenues and expenses,” with the following answers:

___ *<$50,000* – 8 businesses
___ *$50-100,000* – 3 businesses
___ *$100-250,000*
___*>250,000* – 2 businesses
No Answer – 1 business

(2) Generally, what are your greatest needs to expand?

***** Increase volume; find new locations; increase services e.g. business automation; increase segments (e.g. health care and schools); increase margin; develop new markets and new services

***** Not planning to expand now, but would like to once get out of debt. Need to increase volume and stabilize the top line. Would like to have help, but would not consider hiring an employee in Illinois. The worker's comp and personnel policies for employees in the state would ruin the company. Trying to understand the rules for independent contractors; if can find people that ork as independents, then will bring on help. If had not spent entire life in Illinois would never consider running a business here. Right now owns the majority of his inventory, and is plowing as much as he can back into his business.

* Physical space, capital to purchase space, qualified applicants, higher yielding accounts

* Building that is purchased and personally financed has a large open space in the back. Has an office in the front and a workroom with equipment for printing in between. Needs capital to purchase inventory for new products and to renovate the large open area for expansion.

* Getting people to come in.

* More space, furniture, another employee

* At this time no need to expand; if plans change then need a building and money.

* This industry is fairly closed (not much help from competitors). Illinois not the most business friendly [licensing, need a separate DBA for every county you do business), very highly regulated, licensing is expensive, amount of insurance to carry to get into business, inhibiting factors include windfall profits tax. Also, there is no MLS Service and no Board of Realtors.

* We have plenty of capacity [but] we need additional sales to expand.

* We would like to expand our services to better serve our customers and branch out into new items. We are hoping to find a larger location with more foot traffic and other surrounding businesses to accomplish these goals. [PAR] We would like to bring Sweet Treats into a more café like experience with our same made from scratch desserts and premium coffee as well as artisan style sandwiches, wraps, soups and salads for a more complete experience. [PAR] Because of our current situation and the area we are currently located; we would need to find some sort of capital to help us with the purchase of more/new equipment, possible renovations and supplies. We are open to the possibility of investors or a private investor loan to accomplish this. [PAR] Finding a good customer base is also going to be key. We thought we were going into a customer base appropriate for our products, but have quickly found out otherwise. We know we have a good product and need to find a group who appreciates quality and doesn't just want to settle for "okay" or pre-packaged products found at local superstores. We also need customers who understand the "you get what you pay for" concept since our products are higher quality with good ingredients; the price cannot be as low as the local supermarket or superstore.

* More clients.

* When started the business, the greatest need was for a retail space. This is still the case. The Chamber of Commerce has a building that they decided to call an incubator. She offered to pay rent, but they insisted that she would pay no rent in the first year. The facility was in disrepair, and she sunk a lot of money into it preparing it to be the kind of retail space she wanted for her business. What she did not know was that the year of free rent was for one year only. Then they insisted she leave. She offered to pay rent for the second year, but was informed that the one year is an absolute. She was extremely lucky in that another space happened to become vacant for her to move into. They have since had two other businesses in the incubator. The second one was able to move successfully. The third and current is about to hit the one year mark, and have been notified that they have to move. There is no viable space in town. They are therefore forced to find space in another town in order to move.

* The greatest need is capital and an available building. There aren't many building available in Grayville to buy or tent except for ones that are in bad shape.

* Plan to remain in current space. They own the building. The business only operates 3 months out of the year in the summer.

(3) Specifically, would any of the following kinds of assistance be helpful to you?

- *Business Plan Preparation* – 7 businesses indicated as helpful
- *Market Analysis* – 7
- *Technical Assistance or Other Expertise* – 5
- *Partnerships with Peer Companies – 5*
- *Recruitment and Hiring – 4*
- *Personnel Policies -- 5*
- *Workforce Development – 3*
- *Accounting & Legal -- 7*
- *Computers and Equipment – 5*
- *Office/Factory Space – 4*
- *Advertising – 8*
- *Sales – 6*
- *Fulfillment -- 2*
- *Publications – 2*
- *Capital – 6*

(4a) On the assumption that the answer to the "Capital" question is positive, we asked several follow-up questions: How much capital do you need?

- To open a small market store e.g. Princeton $20K
  To open a medium market store e.g. Evansville $200K
- $75,000 - $100,000
- $30,000 to do everything (large printer and computer, renovation of the back space in the building to make room for new products etc.

- Because of our situation, none at this point. But if we decided to expand, \$50,000 to help cover additional equipment and infrastructure (water lines, irrigation).
- The amount of capital we would require depends on a few "unknown" factors at this time: rent at a new location, how much equipment will be needed for the space, what can we get used vs. new and how much of our current equipment we will be able to re-use/sell. Estimates of needed capital would be \$10,000-\$30,000 subject to the variables mentioned.
- Would like to upgrade for \$30-40,000.
- I am not sure if one can ever have enough capital because the more you have the more you can invest in your business to make it the best you possibly can.

(4b) Would you prefer it in the form of debt, convertible debt, equity, royalty, or licensing rights? Why?

- Equity or convertible debt but preferably equity. Would prefer investors who have some commitment but also who can bring expertise and experience to the company e.g. on the board.
- Debt.
- *Debt* Why? – *Doesn't want to take on a partner now (give up equity)*
- Debt
- Being a small business and one that deals in perishable products, debt would probably be the best solution for us. Convertible debt wouldn't be out of the question either but I would want to be sure we would provide the investor with appropriate returns being just a small restaurant style business and not a producer of some sort of "mass produced" good.
- Convertible debt.
- I would say debt. That way I would be able to make payments instead of having to divide out the profits to other individuals.

(4c) Have you tried obtaining the capital thus far? From where? What were the results?

- Yes. Brokers, investors, and banks. Bank loans for new business against specific projects. Has a friend who is an 8% investor.
- Yes, we applied twice for \$10,000 from the City of Mt. Carmel Revolving Loan Fund and were loaned the capital both times.
- Have you tried obtaining the capital thus far? - No. From where? So far has done self-financing. What were the results? If she does debt financing she will probably start with Grayville Revolving Loan Fund, but really hasn't checked into that yet.
- Yes, local bank. Successful. But again our situation is unique, as we have farm ground for collateral.
- We obtained a small business loan and a line of credit from German American Bank who was actively participating in the growth of business in our area. They were helpful at first but have since been less helpful as the growth in this market has diminished and five businesses on our block have closed/are

closing. Other capital we have used has come from personal avenues and credit cards.

- Yes, FNB, but not enough collateral
- No I haven't.

(4d) What can you do to increase your chances of qualifying for financing?

- Time (so the company can stand on its own), and increasing personal credit score.
- Improve all partner's personal credit scores.
- Lay out a business plan.
- What we did (and everyone should) is reduce debt, get rid of credit cards (or pay them off as fast as you can).
- At this time, we are unsure what we can do other than work on our day to day sales, keeping expenses as low as possible and keeping our debts current.
- Have more of my own money.

(5) If you could move into a shared space with similar businesses, how valuable might you find each of the following services (rate 1-5, with 1=unimportant and 5=very important):

- *Subsidized Space & Overhead:* Average answer is 3.9
- *Technical Support: 3.0*
- *Administrative Support (e.g., reception): 3.0*
- *Shared Equipment: 2.6*
- *Peer Networks: 3.0*
- *Classes: 2.6*
- *Capital: 2.5*

(6) Would you find it valuable to move into a shared spaced with similar businesses? Why?

9 businesses said "no," 4 said "yes," 1 did not answer.

(7) What about moving into a shared space with DIFFERENT kinds of businesses? Would that be valuable? Why?

5 businesses said "no," 8 said "yes," 1 did not answer.

(8) How far would you be willing to travel to work in such a shared space?

Respondents answered this question in different ways, some referring to distance, others minutes, others in broad terms. The most anyone was willing to travel was 20-30 minutes, and many would insist on traveling less.

(9) Would the services discussed earlier be more valuable if you stayed in your current space, or if you moved into a shared space?

3 answered “yes,” 6 answered “no,” 3 were “unsure,” and 2 did not answer.

(10) How useful would this fleet of services in a shared space be to other businesses in your sector? Can you name three other businesses in your sector that might be interested?

***** Very. No. Aren’t any currently and wants to keep it that way.

* N/A Wouldn’t know. His is mostly a closed sector; not much sharing going on.

* It would seem that anyone working in the professional services sector could utilize these services within a shared space that helped cut their start-up costs. Just the benefit of a clean workspace, reliable internet, and a professional space to meet with clients would attract people. Callie Casburn of Lark’s Eye Design would be one business I could name.

* Can’t think of any.

* I could only see a benefit for my business from shared rent, utilities, etc. I don’t think I could survive with the overhead of an outside office. I can’t think of any other businesses like mine that would benefit from this.

* Lily Lane Farms in Enfield; Sumpter Berry Farm in Carmi.

* Taking into consideration the community culture, the tendency might be more individualistic or do it yourself. Suggested companies: Brett W. Burger, Inc – appraisal company (mainly farms); Trevor Borowiak – large regional grocer; Brandon Hodgson – DHI realty in Mt. Carmel

* As stated earlier, shared spaces are hard in the food industry due to the rules and regulations we are bound by from the Health Department. It would take careful selection for a food business to find a good match to share a space.

* Polished, my partner. Any retailers or hair salon.

* The girls that are in the Chamber “incubator” who are facing eviction. (Simply Seconds – consignment and new clothing.) Other companies to include: Arc Designs (on our list of companies to interview); Darla Wilson – Sunset Cabin Creations – home based in Albion – primarily baby items, tee shirt quilts etc.; Kay Skiles Studio – artist in metal – opening a new studio in Grayville now. Coming in from Evansville

* I think it would be useful but there are only two other consignment stores in Grayville: House of Gendron and Buy U Boutique.

* Yes. Can’t think of any now.

(11) How do you think these other businesses feel about working in a shared space? Would it be a plus for them?

- Most people in Albion are very independent
- I think Callie Casburn would see the benefits. For her, it would depend on the cost of using the space.
- For some yes, for others no.
- Brett Burger would regard this as a plus

- Yes (for retailers and hair salons).
- They would be open (designers, quilters, and artisans).
- I can see how it would have pros and cons due to the fact we are competitors in a small town. One pro is about meeting more of people's needs. Their advertising would help bring in business for me to the shared space, [and] mine would do the same for them.

Possibly and yes. Generally they thought that a well located incubator with rent subsidies and share space and services would be good here. They recounted a few businesses that started and then failed due to overhead and bad locations

Appendix IV: Community Priorities

"Task 5" for the GWR Incubator Study was "to determine the interest and support level of business, political, and civic leaders in the region." This memo summarizes my sense of our findings to date. Much of the basis for these findings comes from our discussion with 14 community leaders at Wabash Community College on June 26, and from the surveys that they filled out during that session.

Findings from Group Discussion

(1) *Gaps in the Entrepreneurship System*

Our community leaders identified significant gaps in the GWR's entrepreneurship ecosystem. They were asked to evaluate eight types of entrepreneurship resources, with a 1 being "no gap" and a 5 being "high gap." As shown below, the group's consensus (an average of all the scores) is that there are gaps in every category. There is some confidence in regional courses provided by the community college and the SBDC, but even these areas are seen as needing improvement. Almost all the other six areas received grades of 4 or 5. Additional gaps were noted in marketing, finding skilled candidates, and communicating what exists in entrepreneurial resources.

	Degree of Gap (1-5)
Courses	2.54
Training	3.15
Mentors	4.08
Peers	3.92
Legal Assistance	4.31
Equipment	3.85
Facilities	4.31
Capital	3.85

One gap is worth special attention. Even though commercial leases are relatively inexpensive, there are severe limits on the types of facilities available for business. For example, small retail sites are not easily available. This suggests the need for an incubator space. But the absence of any large, leasable buildings in the region underscores that an incubator either must be modest in size or must link multiple small buildings in a network.

(2) *Capital Gaps in GWR*

There are also significant gaps in capital available for promising entrepreneurs. The community leaders were asked to name potential sources of capital in eight categories: banks & credit unions; nonbank lenders; revolving loan funds; municipal bonds; hedge and venture-capital funds; angel networks; Slow Money chapters; and crowdfunding. The only source of capital that appears to be reasonably available is banking. Among the banks in the region are First Bank, First National Bank (Mt. Carmel and Allendale), Old National Bank, Regions Bank, Fifth Third Bank, and the Three Rivers Community Credit Union. But banks are very conservative, and especially reluctant to make unsecured loans to start-ups.

Here's the verdict on other sources:

- *Nonbank Lenders* -- There are several non-bank lenders, or lending collaborators, like the USDA, SBA, DCEO, and some state-run funds, that might convince some of the banks to support a given business (perhaps through a guarantee). But these sources are available for a very small number of very specific types of entrepreneurs (e.g., farmers).

- *Revolving Loan Funds* – Various towns in the region have revolving loan funds, including Mt Carmel, Flora, and Olney. The Greater Wabash Regional Planning Commission has a fund too. All these funds are fairly small, mostly tapped out already, and can provide only small capital infusions to start-up businesses. This May be overly negative. Both the Mt. Carmel and the Greater Wabash RPC have money and can loan up to $100,000 per project. I believe the per job requirement for GWRPC is $7,500 and Mt. Carmel is $10,000. Neither of them are tapped out though.

- *Municipal Bonds* – There's no precedent to use municipal bond finance to support local businesses. Except for TIF, which I believe provides for municipal bond funding.

- *Hedge & Venture Funds* – There are no funds operating specifically in the GWR. In southern Illinois, however, there are players like Open Prairie, Ettinger Venture, and Illinois Venture Funds. These funds, however, support a tiny number of businesses, usually only after they have passed successfully through the start-up phase.

- *Angel Networks* – There are some deep-pocket investors in GWR but no organized angel networks. Occasionally angels in the region collaborate ad hoc.

- *Slow Money* – There is no chapter of Slow Money focused on developing local investment options.

- *Crowdfunding* – The community leaders only had a little awareness of crowdfunding opportunities, and these come largely from the national level.

(3) *Incubator Focus*

The community leaders were presented with a list of the seven biggest "economic leakages" in the GWR (calculated in last year's study), and asked to rank-order the extent to which each ought to be a priority. There was no consensus, but the two highest ranking categories were food and health care. Lowest on the list were tourism, FIRE (finance, insurance, and real estate), and wholesale & distribution. The average of all the scores is shown below:

	Priority (1-7)
FIRE	4.86
Food	2.64
Health Care	2.86
Retail	4.32
Services	3.29
Tourism	5.68
Wholesale & Distrib	4.36

(4) *Anchor Partners*

It was explained to the community leaders that most rural incubators started out with a mixture of businesses across sectors, UNLESS there were specific partners or sponsors in a sector. For example, a major food business might serve as a key partner for a food incubator, or a university might serve as the sponsor for an IP-rich tech incubator.
Here were the potential anchor partners the community leaders suggested for each of high-leakage economic sectors:

- *FIRE* – Blue Cross, Blue Shield, local banks.
- *Food* – USDA, University of Illinois Extension, Farm Bureau, Pioneer, Wabash Valley Service Company, various seed companies, local farmers.
- *Health* – Wabash Hospital, Dr. Fullop.
- *Retail* – Wabash Valley College, J. Wilderman Autoplex.
- *Services* – Mt. Carmel Area Economic Alliance, Dee Drilling, Mike Witters, local lawyers.
- *Tourism* – Chamber of Commerce.
- *Wholesale & Distribution* – Toyota, Fram (formerly Champion Laboratories)

Further discussion suggested that none of these partners were flush with funding or eager to sponsor a major incubator project (though anything is possible through persuasion!).

(5) *Local Ownership*

It was explained to the community leaders the pro's and con's of restricting an incubator to locally owned business. The biggest pro is the confidence the community has that, once graduated, an incubated business will stay local and deliver its benefits to the community. The biggest con is that including non-local businesses might increase the probability of developing a home-run success that doesn't stick around.
The community leaders divided almost evenly on the question. Three people thought the local focus was best, five people thought the non-local focus was best, and five were open to both. At a minimum, there was consensus on the point that invitations to outsiders should be careful and selective.

(6) *Champions*

The community leaders were asked to name, as specifically as possible, potential champions for the incubator, who might serve on a board or an advisory board. Here were the names that came up:

- *Government* – Tim Hocking, Rudy Witsman, State Senator Dale Righter, State Rep. David Reis, City Councilman.

- *Economic Development* – Sarah Mann, Ben Ross, Wayne Henegar

- *Business* – Don Price (First National Bank), Mike White, Rick Andrews, J. Roy Dee, Jim Wilderman, coal mine companies.

- *Philanthropists* – WVC and WGH Foundations, Southern Illinois Community Foundation, Rob Coleman, foundation for Enhancement of Life in WC (Stan Ernest), Beth Browning

- *Illinois Agencies* – GWRPC, DCEO (Bill Stanhouse), Procurement Technical Assistance Centers, Small Business Development Center (Barney Brumfiel)

- *Colleges* -- Matt Fowler, Terry Bruce, IECC, SIUC, SIUE, others from WVC.

- *Local Institutions* -- Jay Purvis, Steve McGill, Al Henager, others from Wabash Hospital

- *Civic Associations* -- AEA, Chamber, Rotary, Kiwanis

- Lawyers – Mike Witters, Roger White, Rhine & Ernst

- Others – USDA representative, SBA representative, retired business owners and managers.

One important reaction to this question, however, was that the “movers and shakers” in the region were already way overcommitted with other projects and institutions. This, of course, may also point to the importance of identifying and recruiting new “movers and shakers.”

(7) *Available Capital for Incubator*

The community leaders were told that a rural incubator usually requires capital up front to purchase or obtain a long term lease on a building ($1-10 million), and perhaps another $400,000 to cover start-up costs comfortably over, say, two years. They were asked how plausible (1 to 5, with 1 being “high plausibility”) that start-up capital could be obtained from various sources.

The only sources that rated close to a 1 or 2 were a donated building and federal money. But further discussion suggested that the only buildings available in the region were relatively small. Respondents saw some plausibility in getting money from local government, the community college, foundations, philanthropists, and businesses, but further discussion suggested that none of these sources had a very deep pocket.

	Plausibility (1-5)
Donated Building	2.21
Fed Money	2.04
State Money	3.54
Local Money	3.00
College	3.14
Foundation	2.92
Business	2.88
Philanthropist	2.68

Once started up, an incubator probably requires a minimum of $200,000 per year to cover the salaries and overhead of at least two staff, one focused on the building and one focused on entrepreneurship services. The community leaders were asked how many saw a real opportunity to get ongoing support from various sources for the incubator. The results (indicating how many saw a “real opportunity”) are below:

	Real Opp'y
State	2
Local	8
College	4
Foundation	6
Business	5
Philanthropy	4

Significantly, with 14 people offering feedback, no more than 8 saw any of these sources as offering ongoing support for the incubator. The discussion suggested that those eight could imagine Mt. Carmel and Wabash County contributing to the incubator each year, but only modestly. Some saw the ability of foundations, philanthropists, and businesses to contribute each year, but again only modestly.

The bottom line is the GWR incubator will need to operate as close to self-reliantly as possible.

(8) *Self-Financing Tools*

The community leaders were asked about two potential tools for self-financing the incubator: charging rent for the space, and taking a royalty stake in the incubated companies.

On rent, they were asked if they thought it was plausible that businesses would sign up for the incubator even if rent were as high as 90% of the market rate. Seven said "yes," three said "no," and the rest were unsure. The point was made in discussion that the better the services, the closer rent could be to the market rate.

On royalty payments, the leaders were asked if they thought businesses would be willing to surrender 2% of their revenues for five years after graduation. The results were identical with the previous question (though individuals voted differently): seven said "yes," three said "no," and the rest were unsure.

(9) *A Regional Approach*

The community leaders were asked whether Wabash County should pursue an incubator on its own. Every single respondent, except one, said "no." And the one "yes" wrote that the reason was the difficult politics of getting Wabash County officials to think regionally.   Several suggested, however, that these political barriers were changeable. In terms of how a region might be defined, the community leaders were given a map showing about twenty counties surrounding Wabash County and asked to check all the counties they thought should be included in the region. The numbers of votes for each are shown below. There appears to be a consensus on including Lawrence and Edwards counties. About half the respondents also saw a virtue in including Richland, Wayne, and White.

	Include in Region?
Jasper	1
Crawford	3
Lawrence	11
Richland	8
Edwards	12
Wayne	7
White	7
Knox	2
Gibson	2
Posey	1

(10) *Indicators of Success*

Finally, the community leaders were asked what yardsticks they might use to measure whether the incubator was successful. The suggestions are below:

- The number of jobs created (or, alternatively, number of quality jobs) in the region.
- Number of new start-ups in the region (or, alternatively, the rate of start-ups)
- The degree of public support for entrepreneurship (or, alternatively, the degree of governmental support for entrepreneurship).
- The sales generated by incubated businesses, or the number of customers served.
- The percent of companies that graduated and were still operating in 2, 5, and 10 years.
- The occupancy rate of the incubator.
- The degree to which the incubator is self-financing.

The number of applicants to the incubator each year.

22 Objectives for a Successful Rural Incubator

(1) A successful rural incubator is a natural evolutionary step for a comprehensive business-support ecosystem. It should flow from that ecosystem, and cannot create it.

(2) A successful rural incubator should have a tight, compelling mission statement.

(3) A successful rural incubator should shape its mission focus around available local assets.

(4) A successful rural incubator should establish clear criteria for admitting businesses into the program.

(5) A successful rural incubator program will try to recruit businesses that are now and wish to remain locally owned.

(6) A successful rural incubator will bring key service providers and key sponsors onto its board (or advisory board).

(7) A successful rural incubator should be able to provide clients with a broad menu of capital options, and those options should be in place before the incubator is launched.

(8) A successful rural incubator needs a compelling theory of ongoing funding before it opens.

(9) A big part of the compelling theory of funding for a successful rural incubator is that rents can cover most of the monthly costs.

(10) A successful rural incubator, even if ultimately self-financing, needs significant outside capitalization to get started.

(11) For a very small community, one alternative way to finance an incubator is to create a regional network of small communities.

(12) A successful rural incubator program will minimize construction costs.

(13) A successful rural incubator program will maximize rental income from its space.

(14) Most successful rural incubators are nonprofits, but a hybrid structure might offer more capital-raising opportunities.

(15) A successful rural incubator has only a few, highly motivated staff on payroll.

(16) The small staff of a successful rural incubator will leverage other volunteer or low-cost service providers. One strategy for accomplishing this is to make key service providers anchor tenants of the incubator.

(17) A successful rural incubator program will make its services available not only to businesses resident in the incubator but also other businesses in the region.

(18) A successful rural incubator program will create ongoing events that engage the public with companies in the incubator.

(19) A successful rural incubator program will graduate clients within three-to-five years, usually when they have met carefully pre-defined criteria of success or failure.

(20) A successful rural incubator program will carefully track both the performance of the incubator and the performance of incubated companies. This tracking should be both quantitative and narrative.

(21) A successful rural incubator program should continue to engage clients after graduation.

(22) A successful rural incubator can beget an “accelerator,” but not vice-versa.