

INCUBATOR DEVELOPMENT IN ECONOMICALLY DEPRESSED ENVIRONMENTS

A Tale of Two Cities:

BENTON HARBOR, MICHIGAN

SOUTHSIDE CHICAGO, ILLINOIS

Despite Disparity of Populations

- National Business Incubation Association research concludes:
 - “Community size is not a predictor of success in incubation.”
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TYPICAL CHALLENGES IN DEVELOPING AN INCUBATOR

- Defining Market Demand
 - Developing Community and Stakeholder Consensus
 - Identifying Champion for Project
 - Optimum Location
 - Supportive Business Infrastructure
 - Development Cost and Funding
 - Financial Sustainability
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KEY FACTORS OF SUCCESS

- ❑ Effective Feasibility Study
 - ❑ Focus on Service Program not Building
 - ❑ *Proactive* Business Development Services
 - ❑ Well Integrated into Community Networks
 - ❑ Design for Financial Sustainability
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Success Factors (Cont.)

- ❑ Focus on Wealth Creation not social Engineering
 - ❑ Focus on the Entrepreneurial Spirit
 - ❑ Provide *Value* to Tenants *and* Stakeholders
 - ❑ Operate as a Business, not a Nonprofit
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OBSATCLES TO SUCCESS

- ❑ Commercialization is a *difficult process*
 - ❑ Lack of entrepreneurial culture
 - ❑ Under-funded
 - ❑ Poor management/leadership
 - ❑ Lack of broad-based consensus behind project
 - ❑ Competes with, rather than compliments existing service providers
 - ❑ Does not fit with macro ED goals
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Characteristics in Common BH/CSS

- ❑ Primarily African-American populations
 - ❑ BH 1969-2004 population stagnant, vs. U.S. +44.9%
 - ❑ BH 2000-2004 MI lost 201K manufacturing jobs <22.4%>
 - ❑ CSS population 19.6% below poverty line
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Characteristics in Common (cont.)

- ❑ High Unemployment (CSS 23.2%);
BH >20% for over three decades
 - ❑ Effective organizations champion
incubator development
 - ❑ Strong community and stakeholder
support
 - ❑ Adequate professional business
infrastructure
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Divergent Characteristics BH

- ❑ \$500MM Harbor Shores Development
 - will double city tax base by 2020
 - ❑ Whirlpool World HQ – significant contributor to ED
 - ❑ Lack of IP generation
 - ❑ Automotive/manufacturing culture
 - ❑ New business formation: flat or negative
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Divergent Characteristics BH (cont.)

- ❑ >90% of SBDC, SCORE, WBDC clients in retail or service; very few product-based businesses
 - ❑ Population requires additional education in basic workforce/job/life skills
 - ❑ Culture of entitlement
 - ❑ No entrepreneurship education
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Recommendations BH

- ❑ Consider *virtual incubation program* and allow Harbor Shores to develop over next 2-4 years
 - ❑ Develop Entrepreneurship courses with educational institutions
 - ❑ Develop early-stage investment seed fund
 - ❑ Focus service providers on product-based businesses
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Divergent Characteristics CSS

- 2-9-07: "The Chicago Urban League is getting out of the social services business, and launches Project Next."
 - Project Next is the Chicago Urban League's "Long-term economic development agenda that...redefines today's...imperatives by focusing on *economic empowerment as the key driver of change for African Americans.*"
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CUL Project Next

- ❑ Created an Entrepreneurship Center (EC) July 2007
 - ❑ EC partnered with Kellogg School of Management @ Northwestern University to develop a "Premier source of intellectual and economical capital for African American Entrepreneurs."
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Project Next Metrics

- ❑ 1500 Attendees in first 12 months for entry-level NextStep Program
 - ❑ NextLevel Program implemented January 2010 provides entrepreneurship education for 25-30 existing entrepreneurial businesses
 - ❑ 16-18 Businesses competitively selected annually for NextOne program: in-depth E-curriculum
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CUL Contractor Development Program

- ❑ 267 Clients served in 2007; 614 in 2008
 - ❑ Loans secured for clients: \$3.24MM in 2007; \$6.88MM in 2008
 - ❑ New deposit activity of clients: \$10.2MM in 2007; \$21.2MM in 2008
 - ❑ Jobs created: zero in 2007; 104 in 2008
 - ❑ Value of contracts zero in 2007; \$9.43MM 2008
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CUL Nielsen Poll 2007:

- "Economic entrepreneurship is the primary source of jobs in African American Communities"
 - "52.7% of respondents said they would like to start a business in their community if barriers for start-ups were lowered."
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CSS Feasibility Study 2010

Findings:

- ❑ Project compliments City of Chicago goals (jobs, jobs, jobs)
 - ❑ CUL Strong Champion
 - ❑ CUL Developed partnerships with universities (Kellogg School, Loyola, IIT and UC); well networked in community with other organizations
 - ❑ Broad-based community and stakeholder support
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Feasibility Findings (cont.)

- Significant Market Demand:
 - 4000 African American businesses in metro Chicago
 - 73% of which are services, retail and construction
 - 27% of which (>1000) in transportation, warehousing, hospitality, food service, A&E, manufacturing and educational services
 - 14 Largest AA firms revenue >\$1.5B
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Chicago Urban League Obstacles to Success

- ❑ Lack of access to capital for start-ups
 - ❑ Lack of affordable/appropriate space
 - ❑ Lack of incubation expertise
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Recommendation to Overcome Obstacles:

- ❑ Move forward with development of Southside Incubator (mixed-use, but product, not service or retail focused)
 - ❑ Put together \$3MM shared-risk, early-stage investment fund
 - ❑ Hire incubation expertise to guide development process
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Questions/Follow-UP:

- ❑ Chuck Stein
 - ❑ 614-946-8660
 - ❑ cstein@sdsecdev.com
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