CASE STUDY 3: SMALL COMMUNITY PROVES INCUBATION WORKS
Small Business Incubator Facility, a project of the Early Economic Development Corp., Early, Texas

THE OBSTACLES

Extremely small population, remote location, limited resources.

THE CASE

About five years ago the state of Texas established a program to support business incubation within the Texas Department of Commerce. At the time, Early, Texas, was one of only two communities in the state that successfully applied for a matching grant to develop its own business incubation program. Today, Early's program is known as the Small Business Incubator Facility, and it is run by Quincy Ellis, executive director.

Prior to building the incubator, the community conducted a feasibility study to determine whether the region could truly sustain and provide the critical mass and infrastructure that a successful rural incubation program would require. According to Ellis, it passed with flying colors. "The study proved that a business incubation program in this part of Texas would in all likelihood be successful," says Ellis, adding that the incubator then applied for and successfully garnered a $482,000 matching grant from the state.
Using its economic development sales tax, Early matched that amount and the incubator got rolling in April of 1996.

The incubator's original mission, which Ellis says hasn't changed much since inception, was to attract and retain businesses in a growth or start-up mode. "Our overall mission is to help entrepreneurs create wealth and create jobs," he says.

THE RATIONALE

At the time of the incubator's inception, Ellis says the community was competing for large companies. Going head to head with larger rural communities and urban areas for such companies - especially those needing to fill even 50 positions to 100 positions - was inconceivable, since Early's social infrastructure "just can't sustain that kind of growth anyway," he says.

Realizing that in 1998 only 400 companies actually changed ZIP codes nationwide, Ellis says he knew the community would only be able to land one of those large, relocating firms once every 12 years.

So instead, Ellis and his team decided to support the 10-, 15- and 20- employee companies that would fit perfectly into the community. "What we wanted to do was grow our own," he says. "In other words, our goal was to attract those entrepreneurs who were already in our town or region, and see if we couldn't help their businesses start, grow and be successful." Going after the smaller companies worked: since its inception nearly five years ago, the Small Business Incubator Facility has grown 16 businesses from seedlings to blooming entities.

"Everyone out there is competing for the large companies," says Ellis. "Taking the incubator route has allowed us to grow businesses at an unbelievable rate."

THE REGION

Early is 150 miles southwest of Dallas, just across a bayou from the town of Brownwood, population 19,000. Early's population is about 2,380, and Ellis says the incubator's region has a total population of about 25,000. Just west of Early, the land is arid and is mostly home to cattle, oil wells and dust storms. "We're in rural Texas, right smack in the center of the state," says Ellis.

Early created its incubator to boost its shrinking economy, which comprises light to medium manufacturing companies, primarily in the agribusiness sector. The region's economic base includes a few large manufacturing companies, like Kohler Corporation and 3M, which has a large plant in the area. Operating alongside those mid-size manufacturing plants are "lots of great smaller businesses," says Ellis. Overall the economy is good, though 2000 found the region in the throes of a devastating drought. "Other than that, the business climate is excellent," says Ellis.

THE INCUBATOR

Early's 18,000-square-foot incubator is currently filled to capacity with 11 companies. The client mix is a "hodgepodge" of services and manufacturing-based companies - plus one technology-driven firm - and the program is "general purpose" in nature. With below-market lease rates, shared office and business services and a wide range of technical assistance programs, the incubator provides clients with a supportive and dynamic business environment. Perks include professional building management, conference rooms and a light manufacturing area that includes a loading dock and two bay doors.

When construction originally began, developers put the internal build-out on hold until small businesses were found to fill the spaces. Sponsors had the overall design, but purposely did not finish off the service area because doing so would be like "throwing a party without knowing who might show up. Our strategy was to wait until businesses came to us, then finish it out quickly," Ellis says. The strategy worked well, since not all companies had the same wants and needs. Ellis says that allowing the clients to have input on the interior build-out process made clients immediately feel like part of the incubator team.

When it came time to find clients to fill those spaces, Ellis says he initially thought it would be challenging. His assumption was incorrect. "We attracted three small businesses right off the bat, the minute we opened the doors," he recalls. And while the incubator may be filled to capacity right now, Ellis says his team continues to market its services and value to businesses in the region. "One of the key lessons we've learned as a rural incubator is never to let your guard down from a marketing standpoint, even though you're full."

The Small Business Incubator Facility holds continuous training for clients. It starts with training on how to formulate a business plan, followed by training on marketing plans, sales and cash flow management. Most training occurs in the incubator's own training room; occasionally Charleston State University also hosts classes for small businesses in the incubator and brings its own staff to teach them.

To help its clients with funding, Ellis says the Small Business Incubator Facility uses the Texas Capital Fund for both infrastructure and capital improvement dollars. The incubator also uses the United States Department of Agriculture's Business and Industries Loan Program.

To benchmark the companies' successes, the incubator conducts informal reviews monthly and formal ones twice yearly. "We monitor their top-line sales," says Ellis. "In start-up businesses, you can't manage costs until you create the sale, so that's where our focus lies with these companies."

THE CHALLENGES

Since the incubator opened its doors, Ellis says challenges have reared their heads on a regular basis. From a planning standpoint, he says it's the region's limited resources that tend to hamper growth for such an incubator. To combat the limited funding, personnel and various other resources available to the Small Business Incubator Facility, Ellis says doing it right the first time is often the key to success.

"The fact that we're rural requires a more specific target market plan to be in place because in the urban environment, resources are more readily available and abundant," says Ellis. For example, some urban areas have universities to

provide incubator services - and sometimes they even run the entire incubator program on site. Not in Early. "We just don't have that luxury here," says Ellis. "Any rural incubator without a carefully thought-out plan and a supportive community will find itself in real trouble right out of the chute."

Lack of personnel can also be a challenge, says Ellis. In many small, rural communities, civic leaders wear many hats, and Early is no exception. In addition to serving as the program's executive director, Ellis also manages the Economic Development Corporation and the Chamber of Commerce with his assistant director, Dana Curtis. The pair not only recruits companies and help them grow and hatch in the incubator, but also courts new businesses to the area and hosts Chamber of Commerce meetings and functions.

It all comes back to the allocation of resources, a recurring theme among rural versus urban incubators. But according to Ellis, who obviously lives by "the more you do, the more you can do" philosophy, leading the trio of complementary organizations presents him with unique opportunities - and a healthy, consistent challenge.

"An incubator with 11 companies in it, an Economic Development Corporation and a very active, outstanding Chamber of Commerce Board keep us busy trying to meet the needs of all the community and business activities," says Ellis, adding that effective scheduling and communication processes help keep the programs running smoothly. Meeting problems head on, and not letting them fester into even larger issues, also keeps the workload somewhat manageable.

"We try to foster communication between the businesses themselves, and let them share with one another to help solve problems," says Ellis. "We also try to steer client companies to the right resources. If we can stamp out a problem in the beginning, then we can move onto other things that are more important in the companies' planning processes."

Ellis says one of the bigger problems that clients in his rural incubator deal with is market positioning. The Achilles heel for most of the incubated companies, he says, is that they may have a terrific product or service, but no real means of getting that out to the rest of the world. Many, it seems, have adopted a "small town" mentality, thinking primarily about how to sell to the immediate region, but not to the rest of the world.

"Most just don't know and/or understand how to market very well at a competitive level," he explains. "Instead, they tend to think on a micro level. When they find that they're actually in a macro market, they suddenly realize just how much more there is to learn about the marketing process."

The incubator aids those companies in their quest to rise up from the regional marketing mentality and into one where they can succeed on a national or even international level. Ellis says the program relies on its staff's years of business experience and expertise - and help from already successful companies in the area - to assist the incubated firms in creating strong marketing plans. In doing so, he urges all companies to examine all aspects of marketing - from advertising and packaging, to pricing, promotion and distribution. Of those elements, he says distribution can often be the hardest to master. "We wrestle with it almost on a daily basis," he says. "Sometimes, just getting that product or service into the marketplace is the biggest challenge."

KEYS TO SUCCESS

Graduate companies tend to stay in the region once they leave the incubator. Ellis says this is one of the integral factors in the incubator's success. "We see ourselves as a regional process, and not just an Early process," he adds. "That's been one of our strongest foundations all along, especially when it comes to marketing the incubator itself." And though the ultimate goal is to keep all graduates in Early, namely because of the investment in time and money made in each company, Ellis says he's still pleased when they decide to move to another community within the region.

The incubator maintains close ties with the community and its resource base. "While doing my initial homework on incubators that had experienced difficulties, my first observation was that they tended to be very 'unconnected' with their communities," says Ellis. Often, community leaders and citizens see such projects as money pits. Because of this, Ellis says his program's strategy includes staying connected with the community, marketing with vigor, networking with business and community leaders and keeping the entire project "community based." Keep them in the loop, he says, and the incubator has a much better chance of succeeding. Indeed, Early's incubator is integral to the overall economic development objectives and plans of the community.

The incubator urges the community to come inside to see how it works. The Small Business Incubator Facility hosts community meetings at the incubator whenever it can. "We do as much as we can to become connected to everyone in the region," says Ellis. "We host meetings in our training room, which is used almost on a daily basis - not only to facilitate the reason why the meeting exists, but also to give us a chance to market our program to the outside."

Incubator staff are "movers and shakers" in Early and have sufficient business experience to help companies grow. As head of the local Economic Development Corporation and the Chamber, Ellis participates in all aspects of recruitment and retention services and is intimately familiar with the community. Additionally, he has significant business skills and experience of his own. Further, Ellis is an entrepreneur in his own right, and the training and

consulting services the incubator offers reflect this experience and are regular, comprehensive and hard-nosed.

The economic impact has been significant and quantifiable. To date, the Small Business Incubator Facility has provided space for 14 businesses. Two have graduated, one failed and one relocated to another city. Perhaps more significantly, the program has already pumped $4.5 million into the region's economy. According to Ellis, when those dollars churn back and forth in the economy, total impact is $14 million. The incubator has also created 44 jobs and expects to add 150 more following the opening of a ceramic tile factory and the expansion of a concrete plant this year.

Early's incubator is located in one of the nation's smallest communities that successfully operate such an entity. This program's success suggests that community size is less important than planning and leadership skills in managing a successful program. Knowing the limitations of their region, Ellis and his team have found a way to make rural incubation work through alliances within the community and a strategy of recruiting the smallest companies and helping them to grow and become successful.