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Economic acceleration, through business incubation

PCP Canada Inc.

PO Box 632
Chesterville, ON
Canada
K0C 1H0
613.448.1144

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INTRODUCTION

Most cities are investing resources to attract business, create jobs and build their city economies. With the advent of global market expansion, competition between cities is increasing.

Cornwall is experiencing an economic transition, and has an opportunity to explore new possibilities and new opportunities for a brighter economic future. Many mid-sized cities across Canada, as well as around the world, are experiencing this same economic transition away from industrial economies towards knowledge and technology economies. Economic diversification, innovation and stability are drivers for success in the new global trade economy.

The Trickle-Down Effect?

Yet, many still use a traditional industrial-based economic approach of 'trickle down community development' to build their economies. This model focuses government funding at existing mature businesses with over 50 employees. This group makes up a mere 2.3% of the business population in Canada. The support offered is intended to produce a flow of opportunity where jobs and profits are accessed down stream at all levels of society, thereby enabling trickle-down community development.

Even though the trickle down approach has been disproved in merit, fairness and logic, it continues to inform political spending at most levels of government.

The Focus of Government Economic Funding

The Federal Government focuses economic development on the top 2.3% of Canadian businesses. They also focus development on infrastructure spending and sustaining social services.

Provincial Government programs are designed to primarily support educational institutions, industry associations, and social organizations, which are well established and positioned to manage government funding and help create jobs in the near-horizon.

Economic Development Corporations (EDCs), or Organizations (EDOs), were originally established to support job creation at the municipal level, however their support is focused on highly qualified businesses with an existing track record – in other words, medium growth and large-size businesses, usually with more than 50 employees. This group of businesses make up 6.1% of the business population in Canada. EDCs are structured to support government niches, such as the biotech, pharmaceutical and aerospace industries and may exclusively follow government niche funding and procurement processes.

This leaves nearly 92% of businesses with little access to support just because they do not fit the mold presented by the current support system.

Consequently, a key element of the business incubation puzzle is missing.

SMEs Play a Major Role in Canada's Economy

Canada's small- and medium-size enterprises (SME) are the engine of Canada's economic growth and the power behind the Canadian economy. They represent over 97 per cent of independent business establishments (see figure 1), and account for roughly half of Canada's GDP. Canadian SMEs employ an average of 7 million

Canadians, or 65 per cent of private sector employees.ⁱ SMEs are truly the backbone of the Canadian economy and their impact on Canada's job creation over the last 25 years has been significant.

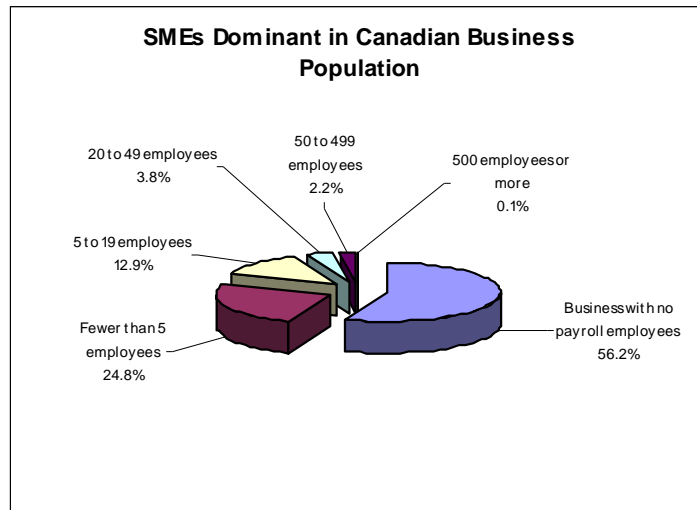


Figure 1

Figure 1 illustrates that most businesses in Canada are not 'highly qualified' (i.e. having a certain number of employees, payroll, profit, etc.) based upon what we know about government support at all three levels.

There is Another Approach

There is another way to strengthen local economies, and that is through a process of *accelerated business incubation* by focusing on SMEs – both start-ups as well as existing businesses. In addition, all communities have established organizations and associations that can be leveraged to achieve economic success faster.

THE MISSING PIECE OF THE ECONOMIC PUZZLE

Local economies, driven by the power of SMEs, benefit more from a flexible-based, globalized business model, rather than the more traditional industrial-based business model.

Quick Impact Projects (QIPs) – a type of project used in international development – are in line with the flexible-based model of the new global economy.

QIPs are characterized by:

- Reduced red tape and bureaucracy;
- Shorter timelines that empower faster action;
- Few paper-based feasibility studies or reports;
- No disqualification process for stakeholders interested in participation;
- No elimination of potential participants due to their lack of paper work (business plans, financial forecasting), education, experience, or financial support; these elements of a business become a part of the incubation process;
- No alienation of local taxpayers;
- Existing businesses are stakeholders and are invited to participate;
- Micro-finance structures and creative business building;

- A focus on action;
- Change and transition are embraced;
- Fewer nay-sayers and detractors in the form of media;
- **The only requirement is that stakeholders must be willing and able to act quickly and be comfortable with FAST INCUBATION.**

Communities are a complex representation of identities, religions, ethnicities, ideologies, nationalities, and economies. Every community is uniquely positioned – with challenges and opportunities – and must be recognized as such. By examining the QIP process, it becomes clear that we could be doing better in Canada by contributing to individual communities through economic acceleration.

What is Incubation?

The phrase “Business Incubator” has been around for a while. There has been an evolution in language related to incubation. Here are some phrases that you may already be familiar with:

- research networks
- research clusters
- centres of excellence
- centres of innovation
- business parks
- business centres
- technology centres
- virtual incubators
- business incubators

Essentially, an incubator takes a start-up business or an idea and transitions it into a growth opportunity through specific mentorship in particular business development areas, such as marketing, advertising, accounting, tax information, funding and partnering.

Most incubators recruit non-local expertise to fill local capacities for business mentorship and development.

There are many incubators in Canada and the US, with quite a few of these existing in major cities. Most incubators belong to the *Canadian Association of Business Incubation (CABI)* or its US equivalent, the *National Business Incubation Association (NBIA)*. Cities that have business incubators attract funding, which can translate into long-term economic gains. For example, here are some initiatives that Detroit’s Tech Town has recently attracted:

- \$1.36 Billion in federal grants to manufacture batteries for electric vehicles;
- \$20M to be raised by Great Lakes Angels to invest in early stage company start-up
- \$10M fund goal to assist 400 new companies
- Kauffman to join NEI at TechTown
- \$9.5M to boost Michigan businesses with retooling and promoting start-ups
- \$6M in federal funding for Michigan’s business accelerator

WHAT DO WE DO?

PCP Canada Inc. is unique in our approach to business incubation because we link business development to local economic acceleration through a systemized approach.

We recruit local expertise rather than recruiting non-local experts to fill local capacities. Locally based expertise is better at fulfilling capacities for incubation and creates a legitimacy not experienced in other business incubators.

Our approach applies the principles of QIPs to promote long-term financial sustainability and profitability through private-sector business principles and practices. We design our projects and programming to bolster the under-served segments of communities, and harvest the vast potential typically overlooked by other business incubators. This results in added support offered to leading people, projects and opportunities undergoing development in a community. Because we put more emphasis behind projects that are underway than other business incubators, we are able to achieve success faster because such projects are structured with best business principles and practices. Our incubation projects are also designed to support community organizations in achieving their goals and leveraging their expertise and commitment to accelerate local business incubation – to achieve economic success faster.

We use a sophisticated ‘whole-of-community’ approach of leveraging existing expertise, infrastructure, and capacities to ‘incubate’ a community towards long-term economic sustainability.

PCP Canada Inc. has international economic acceleration experience that focuses on regions experiencing major social transitions (conflict and calamity). In our work, we know that the leading economic and business incubation practices are those that are applied overseas in development communities. A number of best practices could be successfully applied in Canada.

What do these best practices have to offer Cornwall?

- Innovative and new ideas are applied in the most challenging of economic environments – and there are a lot of success stories;
- Action and results are focused because lives are at risk;
- Priority of funding is directed to the needy through quick impact projects (QIPs);
- There are lower levels of red tape and bureaucracy, therefore projects can be implemented faster and success can be achieved more quickly;
- There is a focus on building businesses, growing locally based market economies, stabilization, security, regaining lost business and opportunities; fast micro-financing; promotion, PR, and the involvement of new and different people that are interested in succeeding;
- A **primary focus** on economic acceleration through business incubation that results in measurable outcomes as well as social spin-off successes;
- Timelines are shorter; time is of the essence.

PCP Canada Inc. uses an international development process and operational tempo, which is fair and transparent and serves the whole of communities. This process along with its bricks-and-mortar location is called the Company Factory.

WHAT IS A COMPANY FACTORY?

The Company Factory is a proprietary business incubation process. It focuses on business start-ups, growth *and* mature SMEs. The Company Factory provides an opportunity to build businesses through **FAST INCUBATION**, resulting in an accelerated local economy. The Company Factory is an investment attractor that actively seeks private sector investments to match with government funding programs.

The Company Factory is a business development process *and* bricks-and-mortar location. The Company Factory provides true incubation in a physical location – similar to a university/business campus – to empower learning, education and profitability of businesses that choose to engage in the process.

A Company Factory is made up of three corresponding parts. These are co-located and exist within the physical boundaries of a community:

- Building (physical location, primary focus)
- Park (physical location)
- Web portal (virtual incubation and location)

The Company Factory System

1. Bricks-and-mortar location

- **Centralized location in an under-used or empty industrial building;**
- On-site offices for incubating businesses, including warehousing, manufacturing, and distribution space;
- Face-to-face incubation services, training, education, and mentorship;
- Business centre to attract potential incubation participants.

2. Systemization

- Our process identifies business competencies and then fills essential gaps through incubation;
- Investors financing start-ups achieve faster and higher levels of return on investments (ROI) when financial investments are matched with systemization;
- **FAST INCUBATION** educates, trains, and mentors businesses to achieve goals quickly.

3. Economic Acceleration

- Empowers local networks to promote the long-term successes of incubated businesses;
- **Focuses on incubating existing local businesses,** not just new businesses;
- Ensures that products and services available to incubated businesses are also made available to the wider business community;
- Provides import-export services;
- Mines and leverages previously untapped local economic potential by generating partnerships and joint ventures between existing businesses within a community;
- Provides licensing support (patents, copyrights, etc.);
- Provides product distribution matching;
- Develops distribution rights and royalties;
- Is a franchise model that supports local requirements;
- Provides web sales advantages to incubated businesses through web2.0 and direct sales systems;

4. Unique Funding Structure

- Micro-financing
- Private sector investment
- Local businesses incubating the other businesses
 - a. Service fees
 - b. Joint venturing
 - c. Share ownership in start-ups
- Local businesses being incubated
 - a. Profitability through start-up
 - b. Products and service sales
 - c. Potential sale of business

- Public funding from multiple levels of government

A Mid-Size City Example: Company Factory Kingston

In the 1990s, the Kingston Alcan factory closed a large portion of its facility, netting a loss of 1500 jobs in the local community.

In the late 1990s, Kingston had a disparate and unconnected population of SMEs working from inappropriate office spaces or homes around the city. This system detracted from their productivity, growth and profitability. Their locations cost more and they were not able to share or barter their products and services for those they required in return. There was no clear access to mentorship, education, training, or funds.

In 2000, PCP Canada Inc. developed the *Kingston Company Factory* Ontario's first private sector lead business incubator. The incubator's mandate was to drive local economic stimulus by converging and leveraging the over-looked small- and medium-size business population in Kingston, ON. The Kingston Company Factory increased profitability for the businesses involved by providing incubation services that included start-up, growth training, support services, joint venturing, and distribution and sales. Although 1500 jobs were lost because of the closure of the Alcan factory, over 3200 jobs were created through the incubation of SMEs at the Kingston Company Factory.

The Kingston Company Factory was hailed a success because it achieved measurable results for the Kingston SME community that makes up a significant portion of the Kingston business population.

- ✓ **37 start-up companies were incubated**
- ✓ **6 of these companies achieved growth and profitability in order to build their own large-scale Kingston-based facilities**
- ✓ **More than 20 medium-sized businesses graduated into larger office locations across Kingston**
- ✓ **3200 jobs were created to replace the 1500 lost with the closure of the Alcan factory**
- ✓ **Profitable partnerships were created between businesses being incubated**
- ✓ **An increase in the local tax base**

The Kingston Company Factory created more than just incubation. Some of the spin-off effects were:

- A perceived and real loyalty to the local SMEs;
- Micro-financing of non-traditional SMEs, like maintenance businesses, which were previously turned down by local banks and the EDC because they did not fit the mold of government niches, like biotech.

THE OPPORTUNITY FOR CORNWALL

This opportunity for Cornwall is focused on business incubation in multiple sectors and industries, which offer a strategic, secure and profitable acceleration of the local economy. No longer are all eggs put into one basket.

How could Cornwall benefit from economic acceleration through business incubation?

- Tap into the sheer power of the 96% of SMEs driving the local Cornwall economy;
- Immediate job creation through **FAST INCUBATION**;
- Empower existing Cornwall entrepreneurs to start-up more businesses;
- Spread Cornwall economic eggs into multiple baskets by focusing incubation on new and existing Cornwall SMEs rather than a full focus on large or mature businesses;
- Implement partnerships and opportunities with incubators;
- Increase the tax base.

How do we support existing Cornwall Businesses?

Most incubators in Canada serve new businesses only. A Company Factory accelerates local economies by supporting the ongoing business development of locally-based SMEs.

There are existing businesses in every community, and a Company Factory in Cornwall would enhance the growth and profitability potential of these through our systemized incubation processes. Most community economies consist of three types of businesses:

- Start-Ups
- Growth Companies
- Mature Companies

Each would fit the incubation process in a unique way.

Start-Ups

These are companies that are typically managed and operated by the owner and their limited profits limit expansion and growth. Start-ups are educated, trained and mentored in best business practices and are offered all services and products, from accounting to legal to IT support through our **FAST INCUBATION** system.

Growth Companies

These are companies that have grown from smaller sized enterprises and have somewhat systemized their methods and processes for profitability. These businesses may still be run by the original owner and may not have a best business practice system in place to accelerate growth and profitability. These businesses are incubated based on missing capacities and opportunities for systemization and investment.

Mature Companies

These are companies that have achieved a certain age, stability and profitability. They are often in a position where their business process and model may no longer serve a modern economy or context due to the changing nature of our globalized society. These businesses are incubated through their transition towards new systems efficiencies, modernization and growth.

The Cornwall Company Factory

While most cities are investing resources to attract business, create jobs and build their economies, Cornwall has an opportunity to apply a system that has proven results for the bottom line of communities.

While the competition between cities to build economies may be tough, Cornwall is uniquely positioned to quickly accelerate its own economy. By focusing on its SMEs through a Company Factory business incubation process, Cornwall can add strength to the foundation of its economy for long-term sustainability.

ⁱ Statistics Canada, *Business Register*, December 2004.