

Municipality of Brockton

Technologies Incubator Feasibility Assessment

January 31st, 2013



Contents

| | |
|---|-----------|
| EXECUTIVE SUMMARY | IV |
| 1 INTRODUCTION | 1 |
| 2 BEST PRACTICES FOR BUSINESS INCUBATION..... | 3 |
| 2.1 BUSINESS INCUBATION: AN OVERVIEW | 3 |
| 2.2 ECONOMIC BENEFITS OF BUSINESS INCUBATION | 5 |
| 2.3 MODELS FOR BUSINESS INCUBATION | 6 |
| 2.4 KEY CONSIDERATIONS FOR THE DEVELOPMENT OF A BUSINESS INCUBATOR | 7 |
| 2.4.1 GOVERNANCE AND ADMINISTRATION | 7 |
| 2.4.2 PROGRAM DEVELOPMENT AND DELIVERY | 9 |
| 2.4.3 PHYSICAL VS. VIRTUAL INCUBATION | 10 |
| 2.4.4 FINANCING AND REVENUE GENERATION | 11 |
| 2.4.5 COMMUNITY AND INDUSTRY PARTICIPATION | 12 |
| 2.5 PRINCIPLES OF INCUBATOR SUCCESS | 14 |
| 2.6 POTENTIAL THREATS TO INCUBATOR SUCCESS | 15 |
| 2.7 CASE STUDIES | 16 |
| 2.7.1 INNOVATION CENTRE FOR ENTREPRENEURS IN ST. THOMAS, ONTARIO | 16 |
| 2.7.2 WESTMAN ENTREPRENEURIAL CENTRE IN BRANDON MANITOBA | 17 |
| 2.8 CONCLUSION | 18 |
| 3 ACTIVITIES PLAN | 20 |
| 3.1 DEFINING THE BUSINESS INCUBATION FACILITY'S FOCUS | 21 |
| 3.2 SERVICE DELIVERY MODEL | 22 |
| 3.2.1 PRE-INCUBATION | 22 |
| 3.2.2 FULL-SERVICE INCUBATION | 24 |
| 3.2.3 PROGRAM AND SEMINAR ADMINISTRATION | 25 |
| 3.2.4 FINANCING NETWORK | 25 |
| 3.2.5 OFFICE SUPPORT SERVICES | 30 |



| | | |
|-------|--|-----------|
| 3.2.6 | YOUTH EMPLOYMENT AND PROGRAMMING | 30 |
| 3.3 | PARTNERSHIP AND FUNDING OPPORTUNITIES | 32 |
| 4 | OPERATIONAL PLAN | 35 |
| 4.1 | GOVERNANCE AND ADMINISTRATION | 35 |
| 4.2 | STAFFING | 37 |
| 4.3 | CLIENT SELECTION, MANAGEMENT AND GRADUATION | 38 |
| 5 | FINANCIAL PLAN | 41 |
| 5.1 | OPERATING ASSUMPTIONS | 41 |
| 5.2 | REVENUE ASSUMPTIONS | 42 |
| 5.3 | EXPENSE ASSUMPTIONS | 44 |
| 5.4 | INCOME STATEMENT | 46 |
| 6 | ACTION PLAN | 48 |



Executive Summary

The Municipality of Brockton and Brockton Economic Development Committee (BEDC) requested assistance to examine the potential feasibility of a water technologies incubator. This incubator would play a central role in the implementation of both cluster development and investment attraction activities within the community. The incubator concept was introduced in the Municipality of Brockton's *Planning Strategy for Water Cluster Investment Opportunities* (2012) report where it states:

With the development of a water cluster in Brockton, there is an opportunity to develop a more sector-specific approach to business incubation with the intent of supporting early stage companies after new technologies have been commercialized, while leveraging proximity to expertise in systems management and natural water systems in which companies can test and demonstrate new products. (p.54)

The incubation services would be designed to assist businesses as they progress from start-up to graduation. This design needs to occur or the incubator is not meeting its primary goal of graduating businesses through the incubation process.

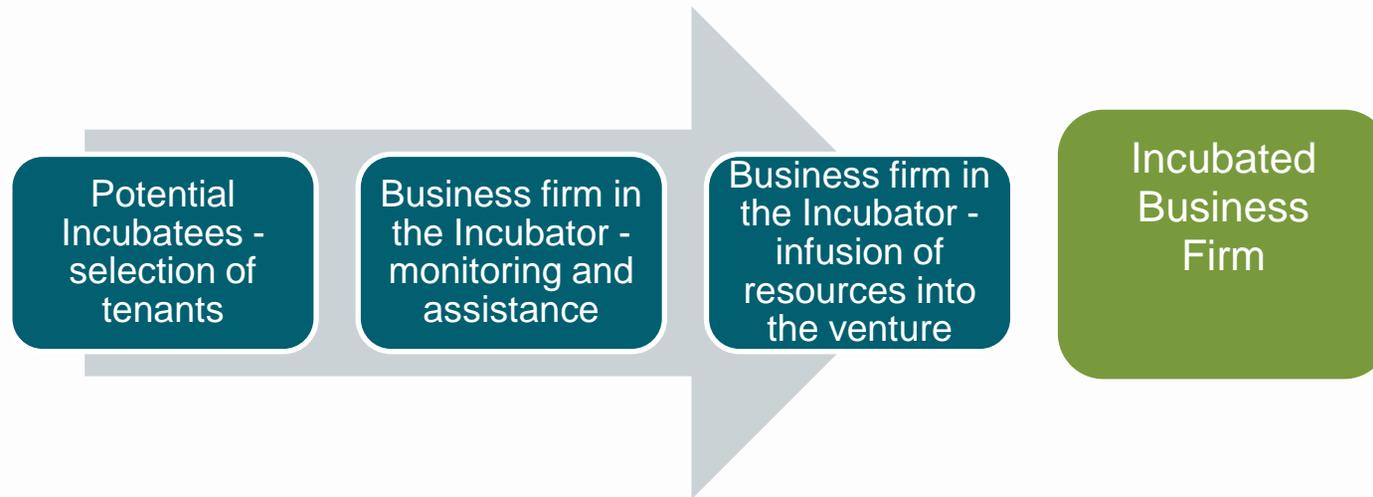
The planning strategy report states that the central focus of the Brockton water cluster should be the development of business incubation resources that leverage the water sector expertise and small business support resources available in Brockton and southern Ontario to fill the gap in small business and entrepreneurial support in the provincial water sector. Over the long term, the Brockton area should look to establish a permanent facility for business incubation and leverage the area's access to natural heritage resources, growing research and expertise with the cluster and connections to external networks (e.g. Ontario Centres of Excellence, Southern Ontario Water Cluster).

Best Practices for Business Incubation

Broadly speaking, business incubation refers to a range of business support activities that nurture the growth and development of businesses to spur job and wealth creation. An incubation facility can provide a value-added “intervention system” to its tenant companies, which consists of a range of services to small business which are designed to nurture and develop them into successful enterprises over a defined time period. This approach identifies incubation as a process incorporating three key phases: the selection of the tenant, monitoring and assistance of the venture, and the infusion of resources into that venture. An “incubated firm” is one that successfully completes these phases and emerges as a viable business.



UNDERSTANDING THE INCUBATION PROCESS



Incubation has emerged more recently as a successful business development strategy for smaller communities like the municipality of Brockton. By providing services such as below-market rents and assistance with business services, incubators often serve to finance or incentivize entrepreneurship in smaller communities, where access to these goods and services is often difficult or limited. Rural communities are often well-suited to supporting incubators because they can initiate and generate their own solutions to their common economic problems and build long-term community capacity¹. Rural incubators can become a community focal point not only for starting new businesses, but they can also catalyze the growth and expansion of existing small businesses.

Incubation also accrues unique benefits to rural communities. The benefits of rural business incubators are as follows:

- **To enterprises (tenants):** access to needed resources (tangible and intangible), legitimacy, professionalism and reputational benefits, collective identity, attraction and retention of local talent, increased credibility, improved skills, access to mentorships and capital, and increased likelihood of survival and success
- **To the community:** entrepreneurial culture, attraction and retention of talent

¹ Atherton, A. & Hannon, P. 2006. Localised strategies for supporting incubation. *Journal of Small Business and Enterprise Development* 13(1): 48-61.



- **To government:** overcoming market failures surrounding the availability of capital and resource efficiency, enhanced regional development efforts, generation of jobs and increased tax base, demonstration of government commitment to small business, and shared knowledge and resources
- **To existing business:** possibility to acquire innovations, supply chain management, and spinoffs

Incubation is not a static process, and the nature of service provision to emerging businesses can take many forms. Key considerations for the development of a business incubator along with principles of incubator success and potential threats are presented in the following table.

KEY CONSIDERATIONS FOR DEVELOPING A BUSINESS INCUBATOR

| Key considerations for the development of a business incubator | Principles of Incubator Success | Potential Threats of Incubator Success |
|---|--|--|
| <ul style="list-style-type: none"> ■ Governance and administration (tenant identification) | <ul style="list-style-type: none"> ■ A responsive centre for local community and industry needs | <ul style="list-style-type: none"> ■ Lack of community understanding of the incubator's intent and role |
| <ul style="list-style-type: none"> ■ Program development and delivery | <ul style="list-style-type: none"> ■ A strong manager-tenant relationship | <ul style="list-style-type: none"> ■ Poor incubator management and follow-up with tenants and clients |
| <ul style="list-style-type: none"> ■ Physical vs. virtual incubation | <ul style="list-style-type: none"> ■ Established incubator policies | <ul style="list-style-type: none"> ■ Lack of governance and program support |
| <ul style="list-style-type: none"> ■ Financing and revenue generation | <ul style="list-style-type: none"> ■ Effective promotion and visibility in the community | <ul style="list-style-type: none"> ■ Difficulty recruiting new tenants or promoting the incubator effectively |
| <ul style="list-style-type: none"> ■ Community and industry participation | <ul style="list-style-type: none"> ■ A dense network of service providers and funders | <ul style="list-style-type: none"> ■ Inadequate facilities or space and limited potential to earn revenues |

Activities Plan

Defining the Business Incubation Facility's Focus - It is appropriate for the technologies incubator to have a broader focus than simply drinking water technologies. As such it is appropriate to include an incubator focused on the entire water value chain. Canadian innovation in the water value chain is depicted in the following figure.



CANADIAN INNOVATION IN THE WATER VALUE CHAIN

| Water Services | Water Treatment | Distribution | Management | Wastewater Treatment |
|---|---|---|---|--|
| <ul style="list-style-type: none"> ■ Engineering and consulting ■ Quality analysis ■ Infrastructure construction and rehabilitation ■ Water analytics | <ul style="list-style-type: none"> ■ Ozone disinfection ■ Ultraviolet (UV) disinfection ■ Micro-filtration or ultra-filtration ■ Reverse osmosis ■ Ion exchange ■ Electro-dialysis ■ Desalination ■ Other technologies (e.g. coagulation, flocculation and clarification) | <ul style="list-style-type: none"> ■ Automated systems and instrumentation to monitor and control pollution ■ Products to optimize management and operation of water/wastewater treatment and conveyance infrastructure ■ Transmission and usage efficiency metering and system management | <ul style="list-style-type: none"> ■ Water information systems and software ■ Agricultural efficiency technologies ■ Quality enhancement, filtration and desalination ■ Biosolid utilization (e.g. waste-to-energy) | <ul style="list-style-type: none"> ■ Wastewater-to-product and recycling technologies ■ Residential and industrial grey water treatment ■ Anaerobic and aerobic sludge digestion ■ Nitrification and denitrification systems ■ Enhanced biological phosphorus removal |

Source: Water and the Future of the Canadian Economy, The Innovolve Group, 2010, p.38.

Service Delivery Model - For the Municipality of Brockton, BEDC and Walkerton Clean Water Centre, what is envisioned and detailed is a “pre-incubation” stream, focused on business startups and those with more limited needs, and a full incubation stream, which provides tenancy and a full suite of incubation services to businesses with an established potential for growth.

Pre-incubation refers to services provided for entrepreneurs who may not yet have developed their ideas or businesses enough for residency. It offers very early-stage businesses access to a facility and resources on an ongoing basis, rather than a one-off exchange of knowledge through a seminar or information package. A pre-incubation package generally provides clients with some combination of the following: a “hot” (i.e. rented to multiple clients) desk or cubicle, internet and basic advisory services, access to a lending library, and discounted seminars. Pre-incubation can function as a “proof of concept” phase for the technologies incubator, shepherding small businesses owners to a state where they have prepared a business plan and can become a tenant client of the incubator. Services should focus on the following areas:



- Business planning resources (including draft financial plans and cash flow sheets) provided by the Saugeen Business Development Corporation)
- Past business plans, potentially sourced from established and innovative local companies (e.g. Price Schonstrom Inc., Larsen & Shaw)
- Labour market information and local business and demographic statistics provided by the Four County Labour Market Planning Board
- Other government program information

Full-service incubation is the core area of business services at an incubation facility. These services should focus on businesses that have an established business plan and require more advanced assistance to take a water related technologies product or service to market and generate revenue. For these businesses, an incubator can significantly reduce operating costs and provide assistance in reaching clients and financing. Services should focus on the following areas:

- Support for marketing and promotions strategies
- Facilitated client networking
- Support for sales strategies
- Market development support, including export assistance
- Access to financial support and other capital
- Support for innovation and new technology
- Access to government programs and events
- Tailored (sector-specific) business coaching

Program and Seminar Administration in the program areas for the pre-incubation stream are expected to compose the majority of the program delivery (and thus revenue generation in year one), as it is assumed that there will be a greater number of pre-incubation and affiliate clients than in-house tenant clients in the early stages. Therefore, the eight program areas in the full-service incubation stream should be offered on an as-needed basis, directed primarily to the tenant businesses within the incubation facility but available to any interested participants in the Brockton and South Bruce and Grey counties business community.

Financing Network – Securing substantial project-based or operational funding is a very time-sensitive activity. The guidelines, eligibility requirements, number of competitive applicants, and mandates of funding programs may change significantly from year to year. The following figure provides source funding programs with the highest potential for either the current funding cycle or the 2013 funding cycle. Each recommended program should be monitored on an ongoing basis and relationships should be built with the staff and political leadership within a variety of ministries to learn about new opportunities as soon as they arise.



POTENTIAL FUNDING OPPORTUNITIES

| Project-Based Funding | Operational Revenue | Profit-Oriented Funding |
|---|--|--|
| <ul style="list-style-type: none"> ■ Ministry of Economic Development & Innovation - Southwestern Ontario Development Fund ■ Federal Economic Development Agency for Southern Ontario (FedDev) – Prosperity Initiative ■ Ministry of Agriculture, Food and Rural Affairs - Rural Economic Development Program ■ Ontario Centres of Excellence | <ul style="list-style-type: none"> ■ Rental Income ■ Fee –for service ■ Partnerships that support shared space and shared staff ■ Augmented base services with time-bound projects | <ul style="list-style-type: none"> ■ National Research Council’s Industrial Research Assistance Program |

Youth Employment and Programming - The incubator can serve to house and promote programs geared towards youth entrepreneurial education and business development administered by other organizations. These include:

- The use of the Ministry of Economic Development and Innovation’s Summer Company program to support business ventures
- The launch of secondary school student organizations with interests in or links to activity in the water technologies incubation centre
- The linkage with the secondary school's Specialist High Skills Majors Program with the incubation centre
- Hosting conferences, meetings and special events related to new business opportunities in the water sector
- Approaching companies with an interest in youth entrepreneurship in order to create on-site partnerships and program opportunities

Partnership and Funding Opportunities - There are a wealth of research, business services, and related initiatives already existing within southwestern Ontario that represent potential partnership opportunities for the incubator initiative in the municipality of Brockton. These partnerships have the opportunity to enhance quality and reduce costs of education and business support services delivered through the centre. The ability to offer these services through partner organizations will help to ensure that students starting up businesses have a basic foundation in entrepreneurship theory



and practice. Local partners include the Saugeen Business Development Corporation, Bruce Community Futures Development Corporation, Walkerton and District Chamber of Commerce/Business Improvement Association. University of Guelph, University of Waterloo and Western University represent potential partners for the delivery of water technologies and environmental systems programming and seminars, as well as potential sources of clients or interns in the incubator. Innovative research areas at each University are presented in the following figure.

LEADING WATER RESEARCH EXPERTISE BY UNIVERSITY IN THE REGION

| University | Leading Water Research Expertise |
|------------------------|---|
| University of Guelph | Water Reclamation and Reuse Information Centre; Water Resource Engineering; Guelph Institute for the Environment; Controlled Environment Systems Research Facility; ecology@Guelph, Urban System Environmental Design Centre and Ontario Rural Wastewater Centre; and research chairs involved in the nature, delivery and quality of water |
| University of Waterloo | Waterloo Institute for Groundwater Research, Centre for Advancement of Trenchless Technologies and affiliated with the Canadian Water Network and Natural Sciences and Engineering Research Council of Canada (NSERC) Chair in Water Treatment |
| Western University | Centre for Environment and Sustainability and wastewater technology research |

Other potential partners include Wilfrid Laurier University's Schlegel Centre for Entrepreneurship, and Sir Sandford Fleming College's Centre for Alternative Wastewater Treatment.

Operational Plan

Governance and Administration - It is recommended that the board of directors be composed of members from the following stakeholder groups:

- One member of Municipal Council
- One member of the Brockton Economic Development Committee
- One member from the Walkerton Clean Water Centre
- One member from either the Saugeen Business Development Corporation or Bruce Community Futures Development Corporation



- A representative of a regional post-secondary educational institution (University of Guelph, University of Waterloo or Western University)

These representatives should be additionally responsible for selecting up to three at-large members as follows:

- Two at-large members with consideration given to individuals with a business background currently practicing in law, accounting, marketing, real estate or finance who are residents/or ratepayers in the South Bruce and Grey region
- Over the long-term, one member should be an entrepreneur who is an incubator graduate

Staffing - The first action of the board of directors for the incubator should be to hire an incubation manager. The manager should have expertise in small business development, project management and applied sciences or engineering. It is common that these managers have entrepreneurial experience themselves. This experience makes them more responsive to the needs of incubator clients. In this instance, familiarity with the business environment in southwestern Ontario would be an asset. Realistically, the manager will be hired on a part-time basis, but the opportunity should lead to a full-time, permanent staff position.

Client Selection, Management and Graduation - A final area in which the administration of the technologies incubator is critical is in the review and selection of tenants. The board of directors should be able to establish a 'checklist' of requirements to be met by candidates. Depending on the level of demand for the incubator's services, this checklist should be comprised of:

- The presence and quality of a business and growth plan
- A marketable water technologies related product or service
- A commitment to the South Bruce and Grey region and economy
- A general suitability to the focus or goals of the technologies incubator and the Brockton area

The manager and board will aim to find a mix of companies with varying levels of business maturity and growth potential. However, there is a short term need to secure tenants and begin to generate revenue, which often overshadows the desire to secure an optimal tenant base. In the medium to long-term, the manager and board will need to establish a graduation protocol for incubator clients.

Financial Plan

The combined annual expenses of the incubator under the scenario outlined make it difficult to establish self-sufficiency through programming alone. With that said, the introduction of a combined contribution of \$50,000 from the project partners appears to lead to a scenario where the incubator will be able to generate a slight profit of \$2,211 by the end of



the third year. This is based on fairly aggressive revenue growth targets for the incubator through its pre-incubation and full-service incubation client streams, as well as growth in revenues attributed to seminars and corporate sponsorships. This follows a deficit of \$48,705 during the second year. At the end of the third year, the incubator is projected to have a cash balance of \$10,468, suggesting the importance of monitoring financial performance and potential sources of external funding closely to maintain a positive financial standing. Overall, the financial assessment shows that a water technology incubator is financially feasible under the preliminary conditions and assumptions in this report.

Action Plan

The **RECOMMENDED ACTIONS** require a commitment from the Municipality of Brockton, BEDC and Walkerton Clean Water Centre. The larger actions are grouped into the following strategic directions:

1. Get the Fundamentals in Place - As a prelude to this larger process there are a number of immediate actions that should be undertaken to initiate the broader program.
2. Create the Incubator - The Action Plan envisions the creation of a small, physical incubator as an interim step prior to a larger centre. The physical space provides a focal point for activities, and is a tangible demonstration of the program's economic benefit to the community.
3. Staff the Incubation Program - To effectively deliver the programs and activities envisioned the water technologies incubation centre will need to recruit a professional staff person capable of playing specific roles within the emerging structure.
4. Govern the Incubator - Effective governance of the incubator will rely on having appropriate management structures in place.
5. Program the Incubator - Focus should be on internal operations and tenants and eventually expand programs. The initial programs will lay the foundation for future expanded programs.
6. Promote the Water Cluster - It will become increasingly more important for the Walkerton Water Technologies Incubator to have a larger presence and become better known among potential partners. Once established, promotion and marketing efforts will be ongoing.
7. Finance the Incubator - The intent of Walkerton Water Technologies Incubator is to operate like a business but function as a not-for-profit. This approach requires planning for long-term sustainability.

The associated actions that serve to implement these goals are prioritized as **IMMEDIATE** (less than one year), **SHORT TERM** (2-3 years), **MEDIUM TERM** (4-5 years). The prioritization of actions is intended to reflect a logical sequence of activities. Each of the strategic directions provides a series of potential performance measurements.



1 Introduction

The Municipality of Brockton and Brockton Economic Development Committee (BEDC) requested assistance to examine the potential feasibility of a water technologies incubator. This incubator would play a central role in the implementation of both cluster development and investment attraction activities within the community. The incubator concept was introduced in the Municipality of Brockton's *Planning Strategy for Water Cluster Investment Opportunities* (2012) report where it states:

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The incubation services would be designed to assist businesses as they progress from start-up to graduation. This design needs to occur or the incubator is not meeting its primary goal of graduating businesses through the incubation process.

The planning strategy report states that the central focus of the Brockton water cluster should be the development of business incubation resources that leverage the water sector expertise and small business support resources available in Brockton and southern Ontario to fill the gap in small business and entrepreneurial support in the provincial water sector. Over the long term, the Brockton area should look to establish a permanent facility for business incubation and leverage the area's access to natural heritage resources, growing research and expertise with the cluster, and connections to external networks (e.g. Ontario Centres of Excellence, Southern Ontario Water Cluster).

This report incorporates a more detailed look at incubation opportunities in the context of the larger water technology cluster development effort. The report is structured as follows:

Section 2 - Best Practices for Business Incubation is a review focused on incubation practices in small communities and highlights key considerations for the development of a business incubator. The section also examines the principles of incubator success and potential threats to success. Two case studies are provided to help inform the feasibility assessment.

Section 3 – Activities Plan defines the technologies incubator in the water technologies sector and the service delivery model for a rural community in southwestern Ontario. A series of funding and partnership opportunities are provided to assist the incubator in the Brockton area.



Section 4.0 – Operational Plan sets out the operational considerations for a water technologies incubator in the municipality of Brockton, which include issues related to governance, staffing, and client management. These considerations will define the success of a business incubator that has clients providing water related products and services. A business incubator must itself be a model of a well-run business.

Section 5.0 – Financial Plan summarizes the details of the water technologies incubator finances.

Section 6.0 – Action Plan outlines the step-by-step recommended actions to creating and sustaining the water technologies incubator in the municipality of Brockton.



2 Best Practices for Business Incubation

In order to conduct a feasibility assessment for a technologies incubator in the municipality of Brockton, it is important to address the rationale for small business incubation, and the key considerations involved in the development of an incubator. The following review draws on academic literature and reviews of best practices to provide an idea of the key structural and operational considerations required for developing, implementing and sustaining a successful business incubator, giving special consideration to its application in a rural context.

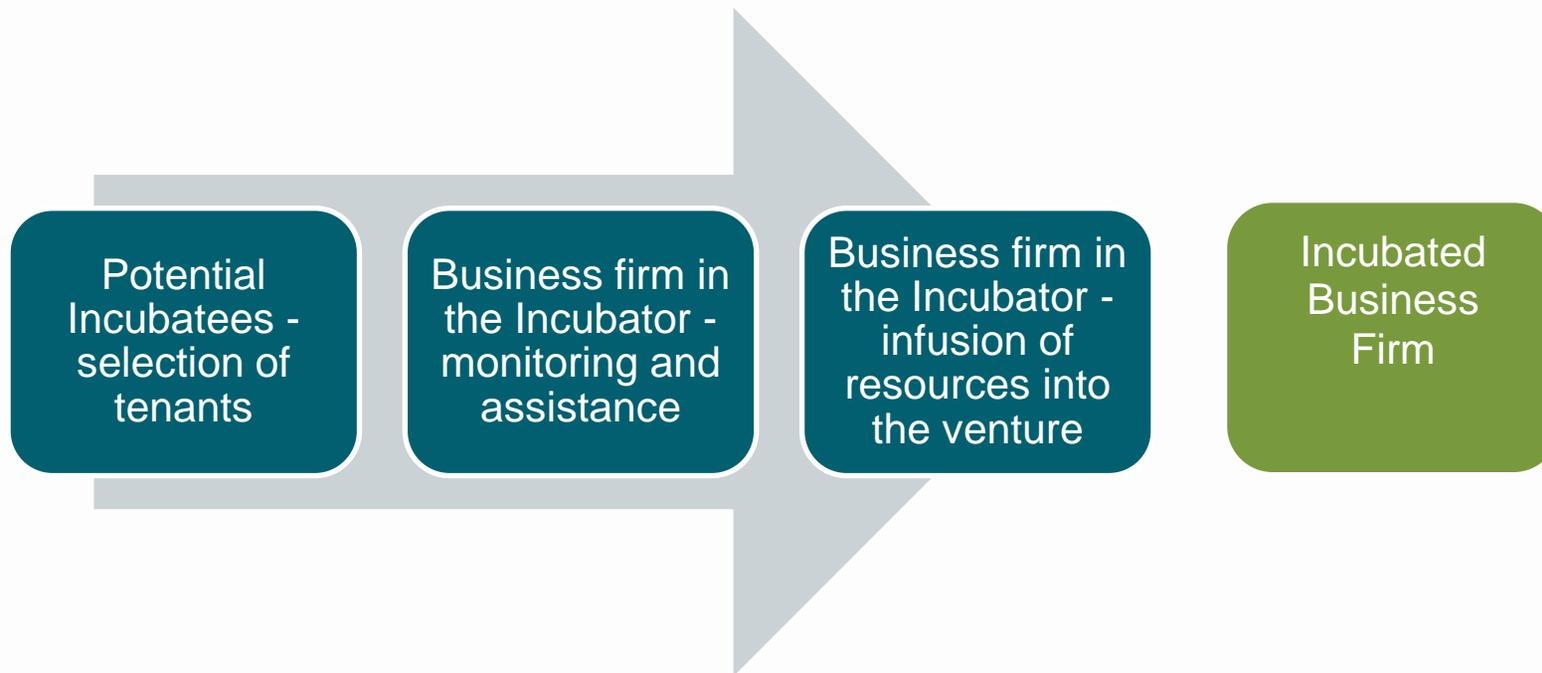
2.1 Business Incubation: An Overview

Before proceeding further it is important to understand what is meant by “business incubation”, and how it is distinct from other business development activities. Broadly speaking, business incubation refers to a range of business support activities that nurture the growth and development of businesses to spur job and wealth creation.

The academic community regards incubation as having both structural and service-oriented roles. While some business incubation activities can, and have been, delivered virtually, business incubators are generally characterized as physical office spaces shared by tenant companies. An incubation facility can provide a value-added “intervention system” to its tenant companies, which consists of a range of services to small business that are designed to nurture and develop them into successful enterprises over a defined time period. This approach identifies incubation as a process incorporating three key phases: the selection of the tenant, monitoring and assistance of the venture, and the infusion of resources into that venture. An “incubated firm” is one that has successfully completed these phases and emerged as a viable business (Figure 1).



FIGURE 1: UNDERSTANDING THE INCUBATION PROCESS



The business services that are contained in these phases vary from incubator to incubator, depending on the size of the community, the focus of the incubator, and the nature of the facility. As a result, the desired and achieved outcomes of the incubation process also vary from place to place. However, in the *Developing a Successful Business Incubation Program* book (2006), the author argues that possible outcomes from the incubation process would include:

- Job creation
- Technology commercialization
- New business formation
- Wealth creation
- Tax revenue generation
- Neighbourhood revitalization



- Economic diversification
- Industry cluster/sector development
- Empowering women, minorities, and low-income individuals
- Encouraging an entrepreneurial culture in communities that have traditionally relied on large corporations for employment

The Canadian Association of Business Incubation (CABI) further suggests that incubators have a more qualitative role to not only ensure the small business survives the start-up period, but to produce confident, successful graduates that are well grounded financially and secure in their knowledge of how to run a productive business independently. By providing not only concrete skills and competencies to business owners, but also intangible values and confidence, incubation has been seen to increase the viability of participant businesses.

Incubation has emerged more recently as a successful business development strategy for smaller communities like the municipality of Brockton. By providing services such as below-market rents and assistance with business services, incubators often serve to finance or incentivize entrepreneurship in smaller communities where access to these goods and services is often limited. Rural communities are often well-suited to supporting incubators because they can initiate and generate their own solutions to their common economic problems and build long-term community capacity². Rural incubators can become a community focal point not only for starting new businesses, but they can also catalyze the growth and expansion of existing small businesses.

2.2 Economic Benefits of Business Incubation

As suggested above, business incubation has emerged as a strategy for many communities because of the direct outcomes it can generate in terms of tax revenues and jobs. These effects can be significant, especially over the long-term. Several studies have been completed that state incubated firms have higher success rates than most new businesses. Most incubated firms will stay in the community after graduation from the incubator, job creation, which may be relatively small at around 10 per incubated firm, tends to increase over time.

In addition, The National Business Incubation Association (NBIA) reviewed a study released in 2009 by the U.S. Department of Commerce Economic Development Administration, which showed that business incubation has a much larger economic impact and return on investment than other forms of public infrastructure expenditure. This report notes that incubators can provide up to 20 times more jobs than infrastructure projects such as water and sewer improvements,

² Atherton, A. & Hannon, P. 2006. Localised strategies for supporting incubation. *Journal of Small Business and Enterprise Development* 13(1): 48-61.



at a cost of \$144 to \$216 per job compared with \$2,920 to \$6,872 for the latter.³ Other work completed by the NBIA has shown that in 2005 alone incubators were responsible for revenue of over \$17 billion and assisted businesses that were responsible for over 100,000 jobs. The message is clear that business incubation is a proven and effective allocation of public resources for the purposes of business growth and job creation.

Incubation also accrues unique benefits to rural communities. Dr. Tacin, a leading scholar at Queen`s University School of Business, breaks down benefits of rural business incubators into the following categories:

- **To enterprises (tenants):** access to needed resources (tangible and intangible), legitimacy, professionalism and reputational benefits, collective identity, attraction and retention of local talent, increased credibility, improved skills, access to mentorships and capital, increased likelihood of survival and success
- **To the community:** creation of an entrepreneurial culture, attraction and retention of talent
- **To government:** overcoming market failures surrounding the availability of capital and resource efficiency, enhanced regional development efforts, generation of jobs and increased tax base, demonstration of government commitment to small business, shared knowledge and resources
- **To existing business:** provision of possibilities to acquire innovations, supply chain management, spinoffs

2.3 Models for Business Incubation

As the practice of business incubation has evolved so has the scope and focus of incubation. Incubation is no longer just focused on the development of companies in light manufacturing and technologies. Specialized incubators exist throughout Ontario and Canada and focus on sectors such as food processing (e.g. Agrivalve Processing Business Incubator in Leduc, Alberta or the Toronto Food Business Incubator), cultural industries (e.g. Haliburton Creative Business Incubator), and interactive media technologies (e.g. nGen in St. Catharines). Furthermore, youth business incubation (e.g. BizInc. In London) has also emerged as a growing sub-segment which functions to introduce young entrepreneurs to mentorship, networks and capital needed to create a viable business.

In addition to the focus of incubation, the language employed to discuss incubation has also begun to change. Incubation is not a static process, and the nature of service provision to emerging businesses can take many forms. To establish a degree of clarity around terms used, the following definitions are commonly used in this small business development space:

³ National Business Incubation Association. "News Release: Business Incubators are the Best Investment of Public Dollars, Study Says." January 27, 2009.



1. **Incubation:** a series of proactive support programs delivered from either a physical or virtual space designed to enhance the viability of new and emerging businesses within a specific community or sector of economic activity.
2. **Acceleration:** a series of proactive support programs delivered from either a physical or virtual space designed to fast-track the growth and development of existing small firms with significant market potential, often in a specific economic sector (e.g. Waterloo Accelerator Centre).
3. **Generation:** a series of proactive support programs delivered from either a physical or virtual space designed to kick-start both businesses and joint public-private projects as part of a larger effort to grow a specific economic sector or anchor the development of an economic cluster (e.g. nGen in St. Catharines).

As this feasibility assessment is focused on the development of a technologies incubator, the primary focus will be on the development of a space that supports water technologies business growth in the Brockton area. The ongoing development of companies within this sector and the growth of service delivery networks to support this sector can generate a cluster of economic activity that is supported by both the public and private sector, and thereby evolve into an acceleration model.

2.4 Key Considerations for the Development of a Business Incubator

2.4.1 Governance and Administration

A key consideration in establishing a business incubator is how it will be governed. The administration and structure of an incubator's board can go a long way to determining its success or failure. A board plays a key formal role in guiding the operations of a business incubator, but also plays a key role in the selection of tenant companies for the incubator and the provision of outside experience to the services provided by the incubator as well. An incubator board can create access to a larger network that plays a key role in developing new ventures. If an incubator board were to include, for example, an accountant, intellectual property attorney, venture capital financier, banker, marketing consultant, and local entrepreneur, it would instantly have access to expertise in most of the competencies an incubator needs to establish.

While board composition is important, the establishment of a governing document, such as a by-law, is also necessary to outline procedural and administrative concerns, the incubator's funding model and mandate, and governance relationships and board roles. This can not only be necessary from a legal perspective, depending on the incubator's relationship to its local municipality, but can also help to mitigate potential conflicts of interest in the board's governance.

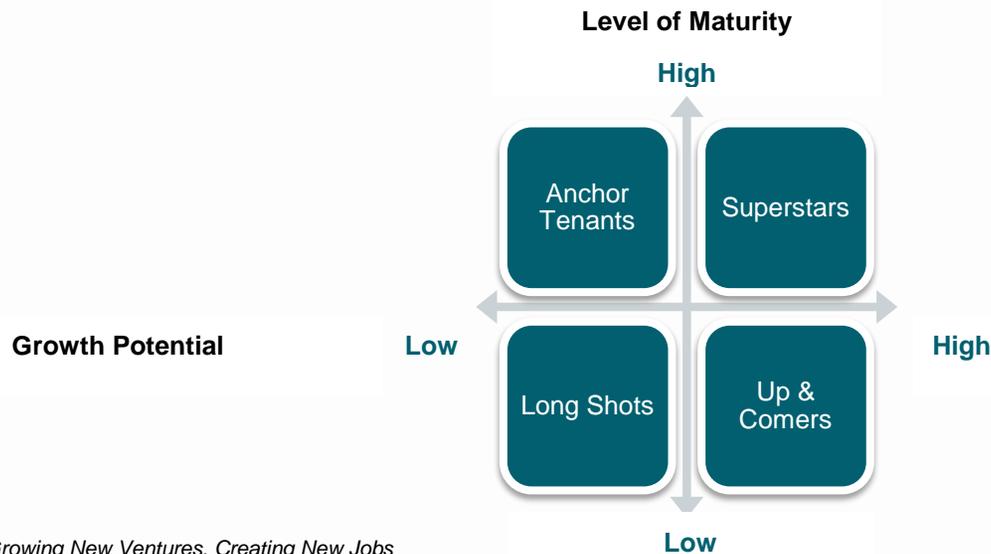


2.4.1.1 Tenant Identification

A final area in which the administration of the incubator is critical is in the review and selection of tenants. While tenant selection varies according to the model of incubation and sector focus of each facility, boards should be able to establish a checklist of requirements to be met by candidates in order to be considered, including the presence of a business and growth plan, a marketable product or service, a commitment to the local municipality and economy, and a general suitability to the focus or goals of the incubator. While there is no single list of criteria for establishing a good tenant, successful incubators will incorporate some combination of criteria in evaluating potential candidates.

In the book *Creating New Ventures, Growing New Jobs* (1995), the authors suggest that a mix of growth potential and level of maturity (relating to product potential and market size, and financial capacity and management of the firm) should be sought in evaluating potential tenants. They establish a framework of “anchor tenants”, “long shots”, “super stars” and “up-and-comers” to describe potential firms, which can be understood by plotting them on an X-Y graph (Figure 2).

FIGURE 2: BUSINESS GROWTH POTENTIAL AND LEVEL OF MATURITY



Source: *Growing New Ventures, Creating New Jobs*

In this classification, superstars need minimal incubation assistance, but add significantly to the incubator's reputation. Anchor tenants require minimal assistance, but provide financial stability in terms of ongoing rents and can assist with mentorship programs. Up-and-comers have high growth potential but a low level of business maturity and can benefit the most from incubation. As the true target of incubation, these companies often form the bulk of a facility's tenants. Long



shots are assistance-intensive, with low possibilities of success; however, they can add to the excitement and dynamism of a facility, and some long shots may have the potential to evolve into up and comers and are therefore worth nurturing in some instances.

Ultimately, business incubation managers and administrators will aim to find a mix of companies at various stages in maturity and growth potential. However, the reality of many incubators, especially in areas with limited funding or revenue potential, is that many young companies can fill the incubator space. That is to say, the need to secure tenants and begin to generate revenue often overshadows the desire to secure an optimal tenant base, and incubators must be flexible in this regard.

2.4.1.2 Staffing

Upon determining the mandate and tenants for an incubation facility, it is important to identify what resources will be needed for the incubator's ongoing operation. Perhaps the most important resource that affects the success or failure of an incubator is its staffing – both in terms of size and skill. It is common for incubators to have a complement of two to three staff, but most programs often just have a CEO/manager with a full/part time assistant to support them.

However, the NBIA has suggested that a successful incubation program needs more than two staff at the incubator. Given the obvious resource limitations of many incubators, it is clear that this support presence often necessitates bringing in outside assistance to clients or creating a network of partners and resources to reach out to. One way of addressing these limitations is through the contracting out of certain tasks, such as maintenance, facilities management, and tech support. Yet at the same time, in-house staff must be flexible enough to respond to the various tasks at hand in the operation of the incubator. The nature of incubation is such that there will often be unassigned tasks that emerge as a result of evolving business needs; incubator staff need to be able to train or develop the capacity to learn a wide variety of tasks, from business counselling and mentoring to technology and computer support to administration and finance.

2.4.2 Program Development and Delivery

The range of programs and services that an incubator may deliver is incredibly broad, with little consensus existing among researchers and practitioners regarding an ideal model or set of best practices. Generally, there is an importance to have a diverse number of firms, strong client networks, and different arrangements of physical space. The NBIA's *Comprehensive Guide to Business Incubation* (2004) includes an outline of the standard services required by most business incubators, organized as follows into three categories: serving clients, incubator program and financial management, and administrative/program support.

- Serving clients



- Technical assistance (business planning, acquiring financing)
 - Special programs (training, loan programs, resources)
 - Networking activities (banks, universities, other professionals)
 - Client attraction and selection
- Incubator program and financial management
 - Financial management (budget, grants, purchasing decisions)
 - Program management (strategic plan, program measurement, personnel, board management, client management)
 - Administrative/program support
 - Administrative/office assistance (accounts and payments, clerical support, reception, payroll, mail, training, public information)
 - Facilities maintenance (infrastructure, security, signage, maintenance)
 - Computer system support (systems, databases, website)
 - Marketing/public relations (copywriting, marketing strategies, PR, special events)

Depending on the focus and location of the incubator, the emphasis on the activities will shift. For example, at the start-up of an incubator the emphasis will be mainly on real estate and administration. Once real estate is secured and a manager is in place, the focus will be on tenant selection and the development of an incubator service offering. Once tenants are secured and services are in place, there will be a need for a comprehensive suite of services for all tenants.

Regardless of the actual services and programs delivered by the incubator, a consideration of the entire incubation process is important and undervalued. Research has revealed that there is little formalization or a common approach to the process of incubating and graduating successful firms.⁴ This research suggests the value in having a detailed approach not only assist with tenant selection, but the development of rent subsidization programs, incubator-tenant relationships, and the creation of tenant exit strategies in order to achieve the goal of cultivating successful, viable firms.

2.4.3 Physical vs. Virtual Incubation

Another key consideration for incubator program design, enabled by the increase in the speed and availability of telecommunications, is the relative benefit of providing a physical space versus delivering services virtually. There is general agreement that, in practice, physical incubation facilities are more successful. They provide a central site of

⁴ Hackett and Dilts, in 2008, conducted a systematic review of 53 incubators in the United States



delivery for business services and programming, provide more opportunities for revenue generation, and allow for face-to-face interaction that is vital for networking and business development. However, virtual incubation programs can enable off-site clients or tenants to use an incubator's services without having a full-time office space at a facility.

Virtual incubation can be particularly appealing, where lower densities mean that accessing both tenants and client markets is more easily done remotely. Where local infrastructure is more limited and the local jurisdiction is more geographically dispersed, it can be difficult for businesses to access or locate in a centralized location. By providing certain services virtually – through online learning modules and webinars, or by phone – incubators can provide counselling and training to larger numbers of small businesses over larger distances. In addition, virtual incubation programs can be less expensive to operate, as they do not require the capital expenditure on a large space or certain operational costs associated with facility maintenance.

Furthermore, where rural business incubators were once primarily focused on services required within the local community or location-independent services (i.e. food and agriculture, health services, packaging) advancements in technology have changed this local need. The rise of Internet-based commerce has enabled high-technology businesses to take place almost anywhere, and rural business incubators may not need to exclusively rely on co-location with other businesses or markets to realize many benefits of incubation.

2.4.4 Financing and Revenue Generation

Ultimately, the long-term success and sustainability of any business incubation initiative depends upon its ability to raise initial capital funds and secure ongoing operating revenue. Incubation managers need to weigh the costs, particularly facility space and payroll, against revenue sources. As a general rule, incubators need to identify any source within their capacity to generate revenue. Research shows that not until month 18 will facilities of sufficient size generate revenues to cover operating expenses.

Drawing on business incubator research and past projects, the following principal incubator revenue sources have been identified:

- *Rental income from companies* - Tenant rentals is generally seen as the most obvious and sustainable source of revenue. Most incubator business and operational plans are designed to have rent as their primary source of revenue. Incubators have begun to move away from offering below-market rents as this can often convert into a cost or loss item for the incubator. In fact, some have sought to reduce operating expenses by generating cash flow from tenants as early as possible (i.e. beginning occupancy during renovation). It is common for incubators to reserve space for anchor tenants, which were identified earlier as mature businesses that already generate significant revenue but have low growth potential. Many will not require the incubator's services, and will pay standard market



rents⁵. This can often cover a large portion of the facility costs and allow the incubator the financial flexibility to offer lower rents to its target clients.

- *Fees charged for business services* - Another common revenue source is through a “fee-for-service” model, in which business or clients who are not full-time incubator tenants are charged a fee to utilize some of the services, workshops or other initiatives hosted by the incubator.
- *Fees from incubator companies/tenants for management assistance* - A less common source of revenue is fees charged through holding equities or royalties. However, this model makes companies less attractive to outside investors and blurs the client/service provision relationship.
- *Financial support or investments from one or more sponsors* - Another common revenue source is external stakeholder funding, in which various public and private partners contribute to the costs of operating the incubation facility, either by funding specific projects or by contributing to or subsidizing operating costs. This is usually done by direct cash payment but can also be accomplished in some instances through in-kind contributions or the secondment of staff.
- *Grant funding* - Grant funding is also a significant source of revenue for incubators. Though not a model for ongoing, sustainable funding, grants can provide the capacity for capital investments that are not within the confines of a limited operating budget. Grants can be derived from a variety of sources, particularly when the incubator program is sector-based or investment in real estate is required.⁶

2.4.5 Community and Industry Participation

Best practice research suggests that incubators rarely exist independently and that they often have a partner or sponsor to provide both funding and logistical support. It is common in Ontario for universities and community colleges to own, manage or influence incubation facilities through funding or governance.

With each incubator sponsor comes a series of expectations or outcomes that the incubator is expected to fulfill. Dr. Tina Dacin from Queen's University cites research conducted in the European Union and elsewhere and summarizes the desired goals of a range of sponsoring entities. This is presented below (Figure 3), together with a list drawn from other incubation literature of contributions that each sponsoring entity can make to an incubation program.

FIGURE 3: DESIRED OUTCOMES FROM INCUBATION SPONSORSHIP

⁵ Another method to lower facility costs is by co-locating the incubator facility with other government offices, including the economic development office. This can also lower costs related to staffing and administration, which can be shared to some degree.

⁶ In Ontario, if the facility is to be geared to a specific sector (e.g. food processing), funding may be available through provincial government departments (e.g. OMAFRA).



| Incubation Sponsor | Desired Goal | Desired Contribution |
|-----------------------------------|---|---|
| Technical University | Innovation, faculty/student involvement | Learning opportunities, academic resources and facilities, potential staff (students) |
| Research Institute | Research commercialization | Research assistance, expertise |
| Public-Private Partnership | Investment, employment and other social goods | Support services |
| State Sponsorship | Regional development, job creation, equity | Supportive policy infrastructure, independence |
| Private Sector | Profit, patents, spin-offs, image | Process/product improvement, sub-contracting and knowledge application opportunities |
| Venture Capital | Winning enterprises, high portfolio returns | Financing and commercialization assistance networking |

The above goals are not exclusive to each partnering entity. Clearly, regardless of the sponsor, successful firm creation and the spinoff benefits that accrue to the local community are desired outcomes. In the case of Brockton there need to be clear goals of the proposed technologies incubator program and potential partners. Universities and colleges with water technologies research may benefit as incubator sponsors. They represent a ready-made source of knowledge, talent and advanced research that can more easily be converted into business applications and market-ready products. However, the geographic distance to the nearest post-secondary institution may limit the opportunities for this form of partnership, and diminish the potential benefits it can generate. Instead, communities like Brockton require public support for their incubator programs and need to leverage other community partners (e.g. Saugeen Business Development Corporation, Bruce Community Futures Development Corporation) where appropriate.

In rural areas, one way to leverage partnerships and expertise not locally available is by acting as a node in a broader incubation or business development network. While the incubator remains embedded in its local environment and is responsive to local businesses, it accesses best practice knowledge, incubation expertise, and occasionally services and finances from other incubators or institutions located outside the area (i.e. Guelph and Kitchener-Waterloo).

While rural incubators have formed successful partnerships with a wide range of sponsors, the benefits of government and public sector sponsors for incubation programs are many. First and foremost, because the profit motive is not necessarily a sole motivating factor for the public sector, government-administered incubators are able to select and nurture entrepreneurs that have a higher risk but also potentially higher reward. As opposed to private sector or venture



capital sponsors, most instances of government-sponsored incubators do not allow the government to take equity position in their tenant companies, and instead derive income from rents, subsidies and grants.

In addition, government-sponsored incubators are generally designed to accept and develop business clients that are in the very early stages of market readiness. Thus, the tenant selection process need not be designed to “pick winners”, but instead can take a needs-based approach.

An additional benefit of government-sponsored incubators lies in the fact that they can often be leveraged to serve community needs and further local economic development goals and, in the case of Brockton, can further water technologies investments.

There are also potential drawbacks to government-sponsored incubators, which may make them more likely to fail than other models. Because government-sponsored incubators and their tenants often have access to ongoing public-sector funding, a system of dependency can arise where tenant companies lack incentive to move outside of the incubator.

2.5 Principles of Incubator Success

While it is important to recognize that there is no single checklist that guarantees incubator success, there are clear principles that most top incubators operate under. Drawing from the best practices research, the following figure summarizes these principles.



FIGURE 4: PRINCIPLES OF INCUBATOR SUCCESS

| Principles |
|--|
| ■ A responsive centre for local community and industry needs |
| ■ A strong manager-tenant relationship |
| ■ Established incubator policies |
| ■ Effective promotion and visibility in the community |
| ■ A dense network of service providers and funders |

2.6 Potential Threats to Incubator Success

On the other hand, there is also research that has been conducted for why incubators do not succeed. This is just as important to understand as the principles described above, as it outlines areas to avoid or plan against when developing a technologies incubator in the Brockton area. The central obstacles to incubator success are as follows:

FIGURE 5: POTENTIAL THREATS TO INCUBATOR SUCCESS

| Threats |
|--|
| ■ Lack of community understanding of the incubator's intent and role |
| ■ Poor incubator management and follow-up with tenants and clients |
| ■ Lack of governance and program support |
| ■ Difficulty recruiting new tenants or promoting the incubator effectively |



- Inadequate facilities or space and limited potential to earn revenues

Additional challenges and considerations must be evaluated for the Brockton area given the rural context. These issues are not difficult to overcome yet are important to consider if the incubator is to be sustainable. Brockton will be challenged by the following:

- Lack of available or appropriate premises (i.e. real estate) in the area
- Competition from many incubator centres across Ontario all competing for limited government and private sector funding
- Geographic distance to post-secondary institutions
- Lower average manager salaries than larger city centres.

It is important for the Municipality of Brockton, BEDC and Walkerton Clean Water Centre representatives to be aware of and plan to avoid these challenges wherever possible to ensure that a new technologies incubation facility can achieve long-term success.

2.7 Case Studies

Two small city incubators that are explored and help put business incubation in perspective are the Innovation Centre for Entrepreneurs in St. Thomas, Ontario, and the Westman Entrepreneurial Centre in Brandon, Manitoba.

2.7.1 Innovation Centre for Entrepreneurs in St. Thomas, Ontario

The City of St Thomas has a population nearing 38,000 people and population of just over 84,000 in surrounding Elgin County. The Innovation Centre for Entrepreneurs (ICE) opened in June of 2011 and focused its efforts on start-up businesses as well as encouraging the expansion of home based businesses. The ICE facility is 5,500 square feet consisting of manufacturing suites, modular executive office suites, laboratory facilities, a business centre, and onsite conference and meeting rooms. The services offered by the centre include:

1. Support Services

- Needs Identification: A thorough and continual evaluation of the needs of clients through frequent meetings is the cornerstone of the ICE program.



- Coaching and Facilitation: Specialized resources and advice are provided proactively to respond to needs as they arise and resolve challenges before they become problematic. Access to local mentors is one tool that may be used to support staff coaching.
- Monitoring Client Progress: Regular evaluations of progress in relation to specific milestones such as achieving “proof of concept”, securing capital, sales targets, strategic partnerships, and program graduation, are completed to ensure that clients are on track to graduate and take action should performance fall below the program standard.

2. Professional Infrastructure

- Professional Services Network: Business services are available to ICE clients for no cost or at preferred rates including accounting, legal services, marketing, venture capitalist consultations, researchers, technology specialists, and others.
- Interim Boards: Where new ventures are seeking a board of directors for their operations, ICE will support clients as they select their board of directors.
- Client Access to Capitalization and Funding: ICE staff understand and facilitate access to funding sources such as venture capital, government programming, corporate investors, and corporate partnering strategies.
- Client Networking: ICE provides an environment that is conducive to client networking, internally, including lunch ‘n learn sessions, and externally, including an annual business networking event.

Incubator Results: ICE received over 40 applications from businesses interested in becoming clients before the centre opened. Its success is connected to the strong support role played by the local Community Futures Development Corporation (CFDC), the local Economic Development Corporation, Small Business Enterprise Centre as well as other funding partners.

2.7.2 Westman Entrepreneurial Centre in Brandon Manitoba

The Westman Entrepreneurial Centre (WEC) is located in Brandon, Manitoba, a community with a population of 50,000 and an additional 103,020 people in the surrounding Westman Region. The facility is 4,000 square feet and includes 12 offices and a common space. WEC is located in an historic building, which accommodates high tech businesses.

The services offered by the centre include:

- Secured wireless internet access and remote data backup service as well as space for hosting a server and network attached storage
- Videoconferencing and a boardroom with speaker phone and projector
- Needs assessment by CFDC Business Development Officer



- 24 hours of pro bono professional business services per year, including legal, accounting, engineering and design, graphic design, and marketing services
- Mentorship services, including matching with a volunteer mentor from the community and two hours of mentor time per month

Incubator Results: The creation of the facility was spearheaded by the local CFDC and was intended to focus on information technology and knowledge based startups. The centre has run into some challenges in that the number of knowledge based businesses that start up in the community was more limited than anticipated in the feasibility study. The centre is in the process of transitioning to a broader focus on rural innovation and welcoming expansion oriented clients as well as startups.

2.8 Conclusion

While there is no single approach for developing a business incubator, this review brings together findings from incubator experiences and literature to provide a set of best practices for the Municipality of Brockton, BEDC and Walkerton Clean Water Centre representatives' consideration. While there are unique features in the Brockton area, such as the Walkerton Clean Water Centre facility, that will have to shape the development and orientation of a water technologies incubator, a number of key principles and lessons have emerged that should inform Brockton's effort.

- Assess the feasibility and prepare a business plan, include a market assessment and model for sponsorship, governance, and type of incubator
- Develop linkages to a community's knowledge base, comprised of existing businesses, professional networks, and post-secondary institutions
- Leverage resources and government policies wherever possible, including at the local municipality, county, provincial and federal levels
- Select tenants and entrepreneurs with innovative, growth-potential, market-oriented plans, and allow for tenants from a range of businesses providing water related products and services and stages of growth
- Build a dynamic, entrepreneurial governance and management team that is able to provide training and expertise in a wide range of fields
- Add value to client/tenant enterprises through the delivery of quality services focused on business planning, networking, finance and administration, and ultimately business exit strategies
- Develop a funding model and pursue investment and operating capital for the incubator and its clients, pursuing funds from rental revenues (including anchor tenants), fees and grants



- Monitor performance and evaluate outcomes of both the incubator and client businesses, including setting performance benchmarks
- Maintain professional and administrative flexibility to ensure the incubator remains forward-looking, service-oriented, and self-sustaining



3 Activities Plan

It is necessary to define the services and programs that the technologies incubator should offer to best meet the needs of the Brockton area's entrepreneurs and small business owners. As was explored in the previous section, all incubators should be:

- A venue for networking and the sharing of learning and knowledge
- A venue for companies to access key specialist business support and advisory services
- A venue for the coordination of specialized training and skills development initiatives
- A venue for companies and researchers to interact with and access key sources of financing

The tailored value proposition that was stated in the *Municipality of Brockton's Planning Strategy for Water Cluster Investment Opportunities* (2012) was as follows:

A small, rural community with a sophisticated water treatment demonstration and training facility and available water research capacity for the larger national and international network of water related expertise.

There are a number of supporting conditions that help to further refine the value proposition and service offering for a water technologies incubation facility. Many business service organizations and environmental organizations exist in the surrounding region including the following:

- Concerned Walkerton Citizens
- Saugeen Valley Conservation Authority
- Saugeen Valley, Grey Sauble and North Bruce Peninsula Source Protection Authorities

However, there is a local gap with business service provisions limited to the Bruce Community Development Corporation and Saugeen Business Development Corporation, both funded by Industry Canada, and with no provincially-supported organizations located in the municipality of Brockton or county of Bruce. A technologies incubation facility in the Brockton area can build upon these existing regional business service offerings through the CFDCs to establish a stronger role by functioning both as a local delivery point for existing services and leveraging successful programs hosted in the Brockton area.



3.1 Defining the Business Incubation Facility's Focus

It is critical to define a strategic focus and market for a water technologies incubation facility. Business incubation programs come in many different specialities as demonstrated earlier in the report; however, a key principle of successful incubators is that their characteristics specifically match the community or market in which the incubator operates. As such, the business services that are offered must be suitable to potential client businesses. It is appropriate for the technologies incubator to have a broader focus than simply drinking water technologies. As such, it is appropriate to include an incubator focused on the entire water value chain. Canadian innovation in the water value chain is depicted in the following figure.

FIGURE 6: CANADIAN INNOVATION IN THE WATER VALUE CHAIN

| Water Services | Water Treatment | Distribution | Management | Wastewater Treatment |
|---|---|---|---|--|
| <ul style="list-style-type: none"> ■ Engineering and consulting ■ Quality analysis ■ Infrastructure construction and rehabilitation ■ Water analytics | <ul style="list-style-type: none"> ■ Ozone disinfection ■ Ultraviolet (UV) disinfection ■ Micro-filtration or ultra-filtration ■ Reverse osmosis ■ Ion exchange ■ Electro-dialysis ■ Desalination ■ Other technologies (e.g. coagulation, flocculation and clarification) | <ul style="list-style-type: none"> ■ Automated systems and instrumentation to monitor and control pollution ■ Products to optimize management and operation of water/wastewater treatment and conveyance infrastructure ■ Transmission and usage efficiency metering and system management | <ul style="list-style-type: none"> ■ Water information systems and software ■ Agricultural efficiency technologies ■ Quality enhancement, filtration and desalination ■ Biosolid utilization (e.g. waste-to-energy) | <ul style="list-style-type: none"> ■ Wastewater-to-product and recycling technologies ■ Residential and industrial grey water treatment ■ Anaerobic and aerobic sludge digestion ■ Nitrification and denitrification systems ■ Enhanced biological phosphorus removal |

Source: Water and the Future of the Canadian Economy, The Innovolve Group, 2010, p.38.

Basic business assistance and support is commonly cited as the most highly utilized incubator function among Canadian incubators. While assistance in specific business tasks such as marketing and accounting are also core incubation features, basic business education defines a core element of many incubation programs, and it is suggested that the focus of the Walkerton incubator should follow this approach.



FIGURE 7: HIGHLY UTILIZED SERVICES WITHIN CANADIAN INCUBATORS

| Business Services |
|---|
| ■ Help with business basics |
| ■ Marketing assistance |
| ■ Help with accounting or financial management |
| ■ Links to venture capital or angel investor |
| ■ Links to federal and provincial funding sources |
| ■ Office space |
| ■ Resource library |

Source: Canadian Association of Business Incubators

3.2 Service Delivery Model

For the Municipality of Brockton, BEDC and Walkerton Clean Water Centre, what is envisioned and detailed below is a “pre-incubation” stream, focused on business startups and those with more limited needs, and a full incubation stream, which provides tenancy and a full suite of incubation services to businesses with an established potential for growth.

3.2.1 Pre-incubation

Pre-incubation refers to services provided for entrepreneurs who may not yet have developed their ideas or businesses enough for residency. It offers very early-stage businesses access to a facility and resources on an ongoing basis, rather than a one-off exchange of knowledge through a seminar or information package. Offering pre-incubation and/or a mix of incubation services is a common practice.

A pre-incubation package generally provides clients with some combination of the following: a “hot” (i.e. rented to multiple clients) desk or cubicle, internet and basic advisory services, access to a lending library, and discounted seminars. Pre-



incubation can function as a “proof of concept” phase for the technologies incubator, shepherding small businesses owners to a state where they have prepared a business plan and can become a tenant client of the incubator.

There are multiple pricing models for hot-desk programs, generally falling into two categories: a per-use rate or “packages” of hours, with the price-per-hour decreasing as the quantity of hours purchase increase. As described in the following section, a mix of these approaches is described for the incubator, whereby each pre-incubation client purchases 40 hours per month at a rate of \$5 per hour.

A pre-incubation model would be appropriate for the Brockton area for the following reasons:

- The geographical scope and rural nature of the Brockton area suggests that any location chosen for an incubator (e.g. East Ridge Business Park, former Walkerton Jail) will be contentious. An East Ridge Business Park location remains a logical site for the incubator because of the proximity to the Walkerton Clean Water Centre. By offering flexible, scaled-back incubation space and services, the incubator could remain a part-time office or centralized meeting space for more rural businesses.
- As there may be limited initial demand for tenancy in the incubator, a pre-incubation program could present a secondary revenue source for the incubator and allow the Municipality of Brockton and its partners to support a broader range of businesses.

A component of the service offering in this stream should be a resource library. These resources should be accessible on a drop-in basis to pre-incubation clients and local businesses and include information in the following areas:

- Business planning resources (including draft financial plans and cash flow sheets) provided by the Saugeen Business Development Corporation)
- Past business plans, potentially sourced from established and innovative local companies (e.g. Price Schonstrom Inc., Larsen & Shaw)
- Labour market information and local business and demographic statistics provided by the Four County Labour Market Planning Board
- Other government program information

In addition to the access to a library and physical space, the pre-incubation program should be accompanied by a training and seminar program administered on a fee-for-service basis. Focused as it is on entrepreneurial ventures with limited resources and business expertise, the services offered in this stream can be entrepreneurial education in core business service areas, such as:

- Financial recordkeeping, bookkeeping basics, budgeting, cash flow and financial statements



- Market research
- Small business taxation issues
- Human resources and hiring practices and policies
- E-business principles

As discussed at the end of this section, many of these core business services are already offered by other agencies such as the Saugeen Business Development Corporation and Bruce Community Futures Development Corporation. In considering the delivery of the listed seminars, the incubation manager should look to leverage these resources wherever possible.

3.2.2 Full-Service Incubation

The core area of business services at an incubation facility should focus on businesses that have an established business plan and require more advanced assistance to take a water related technologies product or service to market and generate revenue. For these businesses, an incubator can significantly reduce operating costs, and provide assistance in reaching clients and financing.

For these clients, a more advanced suite of services is more appropriate, administered in a more hands-on fashion involving coaching and facilitation by the incubator staff and network of service providers. This assistance must be geared towards product-to-market strategies, client facing skills (i.e. marketing and networking), and growing core competencies into niche service offerings. The incubator's role will be to provide client businesses with more outside perspectives on their business and/or product while providing full office support services and a network of resources for businesses to leverage.

The two streams of programming in the incubator are designed such that the full-service incubation clients will require a more advanced suite of services than those offered to pre-incubation clients. The incubator should focus this stream of programming in the following areas:

- Marketing and promotions strategy
- Facilitated client networking
- Sales strategies
- Market development support, including export assistance
- Accessing financial support and other capital
- Support for innovation and new water technologies
- Access to government programs and events
- Tailored (water technologies sector) business coaching



3.2.3 Program and Seminar Administration

The five pre-incubation program areas and eight full-service incubation program areas will be delivered through seminars and training programs. Seminars and training programs will be delivered to two key audiences: pre-incubation clients and full-service incubation clients. The incubator's central service offering will be to provide these on-site seminars in the above technical areas to clients and other local entrepreneurs in the water technologies sector.

When determining how often to deliver these seminars, the incubator manager must consider the volume of clients and the level of demand among businesses in the sector. The seminars in the five program areas from the pre-incubation stream are foreseen to compose the majority of the program delivery (and thus revenue generation in year one) as it is assumed that there will be a greater number of pre-incubation and affiliate clients than in-house tenant clients in the early stages. Therefore, the eight program areas in the full-service incubation stream should be offered on an as-needed basis, directed primarily to the tenant businesses within the incubation facility but available to any interested participants in the Brockton and South Bruce and Grey counties business community.

As the incubator builds its service offering and partnerships over time, it is recommended that two seminars per month are offered in the first year. As demand for this programming increases over time, it is recommended that the incubator offers one additional seminar per month in each year for years two and three, which will lead to a subsequent increase in revenues. As shown in financial plan, it is projected that the incubator targets a net of \$15 from each external or affiliate participant in each seminar. The price charged to the consumer may vary depending on the allocation to other co-presenters or partners. Pre-incubation clients that rent hot-desk space would receive a 50% discount on attendance to these seminars.

These programs will be delivered both by the incubation manager as well as through partnerships with other business development and service delivery organizations as outlined at the end of this section.

3.2.4 Financing Network

Securing substantial project-based or operational funding is a very time-sensitive activity. The guidelines, eligibility requirements, number of competitive applicants, and mandates of funding programs may change significantly from year to year. The following is intended to provide broad guidance as to the programs with the highest potential for either the current funding cycle or the 2013 funding cycle. Each recommended program should be monitored on an ongoing basis and relationships should be built with the staff and political leadership within a variety of ministries to learn about new opportunities as soon as they arise.

Some funding programs are provided on an ongoing basis for a long period of time, while others are advertised with weeks to pull together an application. Strong preparation is always recommended to be ready for opportunities by



completing feasibility studies, arranging partnerships and preparing a detailed business case. Then, when a funding opportunity arises, the groundwork has been completed and a strong project developed that has a good chance of success.

3.2.4.1 Project-Based Funding

Project-based funding is generally available for a strong project that is anticipated to produce positive economic benefits. However, the process of securing this funding usually involves the coordination of multiple funders with varying mandates, budget availability, and eligibility requirements. Navigating these challenges to bring together a funding program is a matter of knowing a variety of possible sources and building relationships and project awareness within potential funding agencies early in the project planning process to facilitate flexibility and coordination. This overview of potential funders should be verified continually and longstanding relationships developed with each potential funder to ensure that project applications present the water technologies business incubator in a way that meets the expectations of each funding agency.

All grant agencies prefer a percentage contribution from the applicant that is higher than the minimum requirement, if possible. A greater number of partnerships, involving a contribution of resources, either financial or through in-kind services, is generally an asset to a funding application. Letters of support from organizations that support the project in theory are often included in funding applications. These are good from a political perspective, but when a resource investment is associated it is interpreted as a higher level of support.

Southwestern Ontario Development Fund (SWODF)

The mandate of SWODF is to support regional economic development by creating jobs, attracting private sector investment and promoting innovation, collaboration and cluster development in southwestern Ontario.⁷ SWODF is administered by the Ontario Ministry of Economic Development and Innovation and has two components: one oriented towards individual businesses and another, more appropriate to the interests of Brockton, oriented towards non-profit projects.

The Regional Stream of the fund may provide up to 50% of eligible project costs to a maximum grant of \$1.5 million dollars. It is important to note that SWODF cannot be “stacked” with other provincial programs. This means that a contribution from another provincial agency cannot make up the remaining 50% of project expenses.

In order to be eligible for SWODF funding the applicant must be able to prove that the following requirements are in place:

⁷ Ontario Ministry of Economic Development and Innovation [Online Dec 2012] http://www.ontariocanada.com/ontcan/1medt/en/swodf_en.jsp



- Is the project focused on economic and business development, or job creation initiatives in your community/region?
- Is the project value greater than \$100,000?
- Is the project aligned with provincial and regional priorities?
- Does the project have private sector support?
- Will the funding be used for activities which are new or incremental to the applicant organization or any of the partners?

Federal Economic Development Agency for Southern Ontario (FedDev)

FedDev is an Economic Development Agency which is the responsibility of the Minister of State for Science and Technology. The agency works closely with Industry Canada. FedDev offers a variety of programs that may support the initial costs of a business incubator as well as special projects that the incubator may create once it is operational. FedDev can be flexible in its interpretation of its programs. Therefore, a series of discussions as to the most appropriate program for a project and the framing of an application are highly recommended for the water technologies incubator stakeholders. The following program has been recommended as a starting point for investigation by FedDev staff.

Prosperity Initiative - The aim of the Prosperity Initiative is to “encourages businesses, not-for-profit organizations and post-secondary institutions in southern Ontario to undertake projects that will result in a more productive, diversified and competitive economy in the region.”⁸ The program has three program streams which are essentially geared towards the private sector, the non-profit sector, and educational institutions respectively. The program streams are:

- Productivity enhancement
- Regional diversification
- Building a competitive advantage for southern Ontario

For a municipal applicant interested in a business incubation project the productivity enhancement or regional diversification streams appear to be the best choices, although the third stream could be considered depending on the lead applicant for a particular project.

The prosperity initiative contributes a maximum of \$20 million dollars to a successful project, although staff advise that contributions in the range of \$5-7 million dollars are currently more likely to receive approval. Applicants are expected to provide a minimum of 10% of project costs, but a larger contribution with multiple funders is regarded favourably.

⁸ Federal Economic Development Agency for Southern Ontario [Online Dec 2012] http://www.feddevontario.gc.ca/eic/site/723.nsf/eng/h_00398.html



Rural Economic Development (RED) Program

The Rural Economic Development (RED) Program has been offered by the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) since 2001. The objectives of the program are described by OMAFRA as follows:

*"The objectives of the RED Program are to create diversified business climates in rural Ontario; the creation and retention of long-term jobs; a strategic and coordinated local and regional approach for economic development, the creation of alliances and partnerships; and the development of information, tools and resources to enhance rural economic development."*⁹

The program has three areas of focus:

- Support the food processing sector
- Community revitalization
- Improve access to skills training and enhancement

A strong rationale as to how the project supports the areas of focus is recommended, and a discussion with a staff contact is a general best practice with all funders to ensure that this rationale meets the expectations at every level of the organization.

The RED Program will support up to 50% of the eligible expenses of a project, where the total contribution of the provincial government is not more than 50%. Note that the eligible expenses for the RED program do not currently include major capital expenses, and only capital expenses deemed minor by the funding agency, such as renovations for example, are eligible.

Ontario Centres of Excellence (OCE)

Although Ontario Centres of Excellence, a program supported by the Ontario Ministry of Economic Development and Innovation, is not likely a direct funder for the establishment of a business incubator, its mandate is directly relevant to the competitive advantages identified for the water technologies incubator project. The mission of the organization is:

*"OCE's mission is to accelerate innovation through game-changing research leading to successful commercialization and vibrant collaboration between industry and academia, launching the next generation of products and jobs."*¹⁰

⁹ Ontario Ministry of Agriculture, Food and Rural Affairs [Online Dec 2012] <http://www.omafra.gov.on.ca/english/rural/red/live/docs/redguidelinesform.html>

¹⁰ Ontario Centres of Excellence [Online Dec 2012] <http://www.oce-ontario.org/about-oce/our-mission-vision>



OCE staff can search for funding to establish a business incubator and in developing and maintaining strong operational initiatives.

3.2.4.2 Operational Funding

Grant programs are generally oriented to time-bound projects and most do not cover a substantial portion of office or administrative expenses, if any. Therefore, suggested financing options are listed as follows:

- **Rental Income**

A physical space provides an opportunity to generate revenue from rental income as companies and projects acquire space within the facility.

- **Fee for service revenue**

In providing services and facilities that are of longstanding value to clients, business incubators earn rents that are the foundation of their business model and support their viability. In order to ensure strong management, quality of service delivery and client recruitment, dedicated incubator staff are a strong success factor.

- **Partnerships that support shared space, and shared staff**

A success factor for business incubators is a strong lead organization that has a stable source of revenue and a compatible mandate to the incubator. In many cases, business incubators are co-located with a Community Futures Development Corporation or with an educational institution, which can provide added organizational stability and enhance the success of their own programs through proximity to new ventures.

- **Augment base services with time-bound projects**

In order to augment services that are provided to incubator clients, annual or biannual capacity building projects are recommended to service incubator clients (both virtual and physical). Sometimes, the organization that applies for funding for these projects can charge up to a 5% administration fee, which will support the additional administrative burden of operating a project.

3.2.4.3 For Profit Funding

National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP) provides program and operational support for research and development projects for profit-oriented companies and organizations across Canada, including both technical and business-oriented advisory services. This may be a viable funding source for



incubator clients. Project assessment and support are provided by Industrial Technology Advisors (ITAs) who deliver customized services to clients, providing technical advice, referrals and other innovation services as needed.

3.2.5 Office Support Services

While the delivery of business education to small business owners and entrepreneurs with water-related technologies products and services will be a central focus of the incubator, ongoing administrative and office support is also a necessary feature of a physical incubator that must be considered as part of its overall activities. Some of the standard administrative services required by most business incubators are:

Administrative/office assistance: managing clients' accounts, payments, lease agreements and billing; providing clerical support for the incubator and its clients; providing reception services; handling databases related to contacts; and providing information on the incubator and its clients to the public

Facilities maintenance: standard maintenance and repair of major infrastructure and the coordination of maintenance staff; developing and adhering to security procedures; overseeing effective signage

Computer system support: managing and troubleshooting computer systems, backing up databases, and maintaining a website for the incubator

Marketing/public relations: Assisting with copywriting and advertisement production for the incubator and its clients; conceiving and execute marketing strategies for the incubator; and having an active public relations strategy and special events program for the incubator

At the beginning of the incubator's life cycle, the incubator should be focused mainly on real estate and administration. As the incubator develops further competencies in business development stage, a more comprehensive suite of services is provided to all tenants.

3.2.6 Youth Employment and Programming

The incubator can serve an important function in retaining youth in the Brockton area and providing them opportunities to engage in the local economy, with the goal of driving youth business creation and entrepreneurship. The youth engagement process as part of the Municipality of Brockton's *Planning Strategy for Water Cluster Investment Opportunities* (2012) revealed several ways to be engaged in the local water cluster. The incubator can serve to house and promote programs geared towards youth entrepreneurial education and business development administered by other organizations, and administer its own programs to support youth business development. These include:



- The use of the Ministry of Economic Development and Innovation's Summer Company program to support business ventures
- The launch of secondary school student organizations with interests in or links to activity in the water technologies incubation centre
- The linkage of the secondary school's Specialist High Skills Majors Program with the incubation centre
- Hosting conferences, meetings and special events related to new business opportunities in the water sector
- Approaching companies with an interest in youth entrepreneurship in order to create on-site partnerships and program opportunities

The incubator, through partnerships with regional post-secondary institutions (e.g. University of Waterloo or University of Guelph), and local school boards can also act as a source of employment for youth on a co-op, intern, or volunteer basis. Students can be recruited from area high schools, colleges and universities to staff the incubator and assist client companies. These employment opportunities relieve the incubator manager of certain duties and can allow him or her to better assist client companies.

There exist already a number of programs administered by senior levels of government that could assist the incubator in cultivating youth business development employment. These are as follows:

Program: *Youth Entrepreneurship Partnerships (YEP) Program*

Sponsor: Ontario Ministry of Economic Development and Innovation

Website: http://www.ontariocanada.com/ontcan/1medt/smallbiz/en/sb_ye_partnerships_en.jsp

Description: The YEP program provides funding to non-profit organizations (including post-secondary institutions) to provide educational, entrepreneurial and experiential programs for youth up to age 29. The program delivers funding up to \$75,000 for one year, with renewal at the same level at the Ministry's discretion.

Program: *Summer Company*

Sponsor: Ontario Ministry of Economic Development and Innovation

Website: http://www.ontariocanada.com/ontcan/1medt/smallbiz/en/sb_ye_summerco_en.jsp

Description: Summer Company is a program to assist students up to 29 years of age to start and run their own summer business. It is delivered in partnership with local business leaders who deliver business coaching and mentorship, and provides up to \$3,000 in total funding for each accepted business plan.

Program: *Graduate Enterprise Internship*

Sponsor: Federal Economic Development Agency for Southern Ontario (FedDev Ontario)



Website: <http://www.feddevontario.gc.ca/eic/site/723.nsf/eng/00392.html>

Description: The Graduate Enterprise Internship program provides funding to post-secondary institutions to administer and sponsor internship employment and/or mentoring for undergraduate and graduate students in science, technology, mathematics and engineering (STEM) disciplines. It requires that the employing company or SME contribute 50% of the intern's salary to match FedDev Ontario's contribution.

3.3 Partnership and Funding Opportunities

As noted previously, there is a wealth of research, business services, and related initiatives already existing within southwestern Ontario that represents potential partnership opportunities for the incubator initiative in the municipality of Brockton. Securing a broad range of partnerships within and outside of the municipality will be critical to the development of programs delivered by the technologies incubator. These partnerships have the opportunity to enhance quality and reduce costs of education and business support services delivered through the centre. The ability to offer these services through partner organizations will help to ensure that students starting up businesses have a basic foundation in entrepreneurship theory and practice.

The **Saugeen Business Development Corporation** and **Bruce Community Futures Development Corporation** are community based non-profit corporations aimed at encouraging local entrepreneurship and economic development. As part of the federal network of Community Futures Development Corporations, it provides loans to small businesses for capital and operational expenses, and could partner with the incubator to providing financing assistance to graduating firms.

The **Walkerton and District Chamber of Commerce/ Business Improvement Association**, located in downtown Walkerton, provides services and advocacy on behalf of businesses in the Walkerton area. In addition to lobbying and promotional efforts, a chamber of commerce provides cost savings and business development programs for local businesses. The Chamber represents a potential partner for marketing, promotion and networking services offered by the incubator.

University of Guelph, University of Waterloo and **Western University** represent potential partners for the delivery of water technologies and environmental systems programming and seminars as well as potential source of clients or interns in the incubator. Innovative research areas for each university are presented in the following figure.



FIGURE 8: LEADING WATER RESEARCH EXPERTISE BY UNIVERSITY IN THE REGION

| University | Leading Water Research Expertise |
|------------------------|---|
| University of Guelph | Water Reclamation and Reuse Information Centre; Water Resource Engineering; Guelph Institute for the Environment; Controlled Environment Systems Research Facility; ecology@Guelph, Urban System Environmental Design Centre and Ontario Rural Wastewater Centre; and research chairs involved in the nature, delivery and quality of water |
| University of Waterloo | Waterloo Institute for Groundwater Research; Centre for Advancement of Trenchless Technologies; Canadian Water Network; and Natural Sciences and Engineering Research Council of Canada (NSERC) Chair in Water Treatment |
| Western University | Centre for Environment and Sustainability and wastewater technology research |

Beyond the three universities listed, there is also innovative water sector related research occurring at McMaster University, University of Toronto and University of Windsor, which was addressed in the Municipality of Brockton’s *Planning Strategy for Water Cluster Investment Opportunities* (2012) report. Potential programming and seminars could also be provided in the technologies incubator.

Wilfrid Laurier University in Waterloo represents a potential partner for the delivery of business education programming and seminars as well as a potential source of staff or interns for the incubator. The Schlegel Centre for Entrepreneurship provides entrepreneurship education and networking for small business owners and young entrepreneurs.

Sir Sandford Fleming College (Lindsey Campus) also represents a source of knowledge, expertise, and human capital for the incubator. This college is home to the Centre for Alternative Wastewater Treatment, which is comprised of a core group of scientists, researchers and technologists in the alternative wastewater treatment field. The Centre offers courses in the following specialties: environmental technology, ecosystem management, ecological restoration, geographical information systems, and sustainable agriculture. These course offerings could be adapted for delivery in the incubator. Students at Sir Sandford Fleming College represent potential clients for the incubator and potential staff for incubator clients.

Additionally, a technologies incubator in the municipality of Brockton will benefit greatly from securing funding for the operation of the incubator through provincial, federal and private funding sources. As discussed earlier, though rental



revenues and fees administered for services provide a significant portion of revenues for an incubator, grant funding can accelerate an incubator's path to revenue neutrality and profitability and allow it to focus more resources on client service delivery.



4 Operational Plan

In order to successfully incubate businesses providing water related products and services and demonstrate value to its stakeholders and potential clients, a business incubator must itself be a model of a well-run business. As such, this section of the report focuses on operational considerations for a water technologies incubator in the municipality of Brockton, which include issues related to governance, staffing, and client management.

4.1 Governance and Administration

It is recommended the Municipality of Brockton and partners register and establish their new incubator as a not-for-profit corporation. This provides some legal protections for project stakeholders and also maximizes eligibility for government funding programs. It is a relatively simple structure to establish, with a well-defined set of rules to follow from a legal and financial reporting perspective. The not-for-profit structure may be incorporated as a project partner for funding and grant proposals.

Once established as a not-for-profit, the incubator should establish a board of directors. The administration and structure of an incubator's board can go a long way to determining its success or failure. A board plays a key formal role in guiding the operations of a business incubator, but also plays a key role in the selection of tenant companies for the incubator and the provision of outside experience to the services provided by the incubator.

The board of directors for the water technologies incubator should function as both a policy board, which directs the goals and administration of the incubation program, as well as an advisory board, which can provide strategic advice and expertise to the incubator staff and client businesses. For example, a board that includes expertise in accounting, intellectual property law, capital lending and marketing has access to the core set of expertise that the incubator needs to establish. The board should also have between six to eight members. It is recommended that the board be composed of members from the following stakeholder groups:

- One member of Municipal Council
- One member of the Brockton Economic Development Committee
- One member from the Walkerton Clean Water Centre
- One member from either the Saugeen Business Development Corporation or Bruce Community Futures Development Corporation
- A representative of a regional post-secondary educational institution (University of Guelph, University of Waterloo or Western University)



These representatives should be additionally responsible for selecting up to three at-large members as follows:

- Two at-large members with consideration given to individuals with a business background currently practicing in law, accounting, marketing, real estate or finance who are residents/or ratepayers in the South Bruce and Grey region
- Over the long-term, one member should be an entrepreneur who is an incubator graduate

The board should also have an ex-officio non-voting members the manager of the incubator and senior municipal staff member to ensure consistent communication and accountability among all stakeholders in the operation of the incubator.

Ultimately the board of directors will have the following responsibilities:

- Establish a strategic plan with long-term and short-term objectives and performance targets, and monitor progress towards them
- Define staff roles and responsibilities, and recruit and hire senior staff
- Assist with the selection, development and successful graduation of client businesses
- Support the incubator manager in establishing funding and resource networks
- Approve budgets, monitor measures and secure resources
- Support fundraising efforts
- Act as ambassadors for the incubator, sharing its mission and vision at regional networking events and communicating details concerning its purpose and operations to partners
- Serve as liaisons with government partners and other business resource centres
- Appoint additional board directors to fill vacancies
- Ensure that the incubator adheres to all applicable laws, including its own by-laws and policies

More qualitatively, key qualities of potential board members should include:

- A willingness to work directly with clientele
- Responsiveness to organizational needs
- Commitment to the board, including attendance and punctuality at meetings
- A willingness to serve as advisors and consultants to incubator staff

As suggested, the establishment of a governing document, such as a by-law, is also necessary to outline procedural and administrative concerns, the incubator's funding model and mandate, and governance relationships and board roles. This can not only be necessary from a legal perspective, depending on the incubator's relationship to its partners, but can also help to mitigate potential conflicts of interest in the board's governance. The board should meet monthly, with an executive meeting quarterly, and day-to-day operational oversight of the program left to the incubation manager.



4.2 Staffing

Upon determining the board and mandate and tenants for an incubation facility, it is important to immediately identify what resources will be needed for the incubator's ongoing operation. Building upon this document, the most important resource that affects the success or failure of this incubator is its staffing – both in terms of size and skill.

As discussed earlier, it is common to have two to three business incubation staff. Most incubation programs often have a manager with a full/part time administrative coordinator to support him or her. It is this approach that is recommended for the water technologies incubator in the Brockton area over the long term.

The first action of the board of directors for the incubator should be to hire an incubation manager. The manager should have expertise in small business development, project management and applied sciences or engineering. It is common that these managers have entrepreneurial experience themselves. This experience makes them more responsive to the needs of incubator clients. In this instance, familiarity with the business environment in southwestern Ontario would be an asset. Realistically, the manager will be hired on a part-time basis, but the opportunity should lead to a full-time, permanent staff position. Based upon roles at the managerial level, the full-time annual salary equivalent should be in the range of \$70,000- \$80,000 plus benefits. Offering adequate and competitive compensation is important to attract and retain high-quality management.

The core responsibilities of the incubation manager will include:

- Provision of senior-level consultation, guidance and direction to entrepreneurs and small business proprietors on the development of business plans, financial projections and feasibility assessments
- Program management, ensuring adherence to the strategic plan and business plan for the incubator
- Enhancing his/her understanding of applied sciences and/or engineering of water technologies and ecosystems
- Marketing plan development and implementation
- Employee and volunteer administration and management
- Marketing and promotion of services of the technologies incubator to the community
- Networking and relationship building with community partners, including federal and provincial agencies and post-secondary institutions
- Financial management of the incubator, including budgeting, grant applications, and purchasing decisions (in consultation with the board of directors)
- Regularly liaising with the board of directors regarding client performance, incubator operations, and fiscal position of the incubator



Though the manager will be required to support a broad range of service areas, they should focus as much as possible on the provision of client services and business tasks commensurate to their level of expertise and remuneration. However this leaves vacant a number of tasks necessary to the successful operation of an incubator, including secretarial and reception services to handle phone, e-mail and in-person inquiries, scheduling support, and bookkeeping and accounting assistance. It is recommended that the incubator eventually add an administrative coordinator with compensation in the range of \$35,000 plus benefits to perform the following tasks:

- Perform administrative routines, including word processing and compiling necessary reports and presentations, and creating a resource library archive of files
- Coordinate and schedule meeting/training room reservations for internal and external users
- Greet all visitors and inform staff/clients of visitor arrival
- Provide administrative support for meetings, workshops, training and seminars
- Coordinate all other office administrative function to ensure a smooth incubator operation

At this time, it is clear that wherever possible the technologies incubator will need to bring in outside assistance to clients and create a network of partners and resources. In the short term, the Municipality of Brockton and Walkerton Clean Water Centre may need to reallocate or second current staff to fulfil some administrative and operating tasks in the early stages of the incubator's operation in order to reduce the additional cost allocation to this position.

Another potential avenue for staffing is through the use of student interns and volunteers. Provincial and federal programs exist to sponsor the administration of programs and employment of interns in entrepreneurial initiatives. For example, FedDev Ontario offers a *Graduate Enterprise Internship*, through which it will sponsor up to 50% of an intern's salary for employment at a small or medium-sized enterprise (SME).

Ultimately, in-house incubator staff must be flexible and nimble enough to respond to the various tasks at hand in the operation of a new technologies incubator. The nature of incubation is such that there will often be unassigned tasks that emerge as a result of evolving business needs; incubator staff need to be able to train or develop the capacity to learn a wide variety of tasks, from business counselling and mentoring to technology and computer support to administration and finance.

4.3 Client Selection, Management and Graduation

A final area in which the administration of the technologies incubator is critical is in the review and selection of tenants. The board of directors should be able to establish a checklist of requirements to be met by candidates. Depending on the level of demand for the incubator's services, this checklist should be comprised of:



- The presence and quality of a business and growth plan
- A marketable water technologies related product or service
- A commitment to the South Bruce and Grey region and economy
- A general suitability to the focus or goals of the technologies incubator and the Brockton area

As secondary considerations, the checklist should also include:

- The provision of new business opportunities for Brockton area businesses
- The potential to commercialize a technology or service
- Provision of opportunities for low-income groups, youth, and other target demographics
- Increasing overall community competitiveness

There is no single list of criteria for establishing a good tenant; however, successful incubators in Ontario incorporate some combination in evaluating potential candidates.

Earlier in the report a matrix was presented that classified potential incubator tenants by product or service growth potential to the level of business maturity. The classification included anchor tenants (low growth, high maturity), long shots (low growth, low maturity), super stars (high growth, high maturity), and up-and-comers (high growth, low maturity). It is likely that the incubator will be largely focused on up-and-comers as the majority of its tenant base; however, some of the established water sector companies in Ontario could have a local presence depending on the roll out of the open-innovation ecosystem initiative. Up-and-comers are the companies that benefit most from incubation and should be targeted for tenancy.

Ultimately, the manager and board will aim to find a mix of companies with varying levels of business maturity and growth potential. However, there is a short term need to secure tenants and begin to generate revenue which often overshadows the desire to secure an optimal tenant base.

In the medium to long-term, the manager and board will need to establish a graduation protocol for incubator clients. Without this protocol, clients may become too dependent on the technologies incubator for their operational success and become a drain on financial resources. As shown in financial plan, the incubator should also create an incentive for businesses to graduate by gradually increasing the lease rate for each year that a business retains tenancy. In addition, the incubator serves the Municipality of Brockton's economic development goals by graduating successful businesses that can contribute to the economy through the creation of local jobs. As such, a list of graduation criteria should be established whereby a tenant is given notice to leave the technologies facility when two or more of the following benchmarks are met. The business is:



- Outgrowing the incubator facilities and needs its own location. Similarly, a tenant should graduate if and when it accounts for a certain percentage of the rentable space in the facility
- Hiring several employees and creating logistical challenges
- Achieving positive cash flow, whereby revenues are a certain percentage higher than expenses for three consecutive months
- Merging or being acquired by another company
- Obtaining a certain amount of external funding
- Establishing an independent advisory board or board of directors
- On a negative note, failing to pay rent and/or failing to meeting the incubator policies and by-laws agreed upon

In addition, the incubator manager should maintain an ongoing role to assist graduating firms, including the following activities:

- Liaising with local real estate professionals to identify suitable commercial or industrial spaces in the community for graduating businesses
- Maintaining connections for education, networking, promotional, and governance assistance in the activities and operations of the technologies incubator
- Implementing a requirement that graduating firms share benchmark operational and financial data for tracking and performance measurement purposes



5 Financial Plan

The following section summarizes the financial details associated with the launch and operation of a small business incubators focused on the water technologies sector in Brockton. It provides an annual estimate of projected cash flow and income statements for each of three years, assuming that operations commence in 2013. In this financial plan the incubator is structured to achieve a break-even position – and even net revenues – by year three of operations.

5.1 Operating Assumptions

A number of assumptions have had to be made related to both the revenue generation capacity of the proposed incubator and the operating expenses that would be incurred by the incubator. Sections 3 and 4 of the report establish an activities plan and an operational plan for the proposed incubator, upon which many of these assumptions are based.

The primary gap in the analysis is related to the facility. Though a preliminary assessment would suggest that a 10,000 square foot facility would provide adequate room for programming and operations at full build out, there appear to be few existing opportunities in the Municipality to accommodate this level of space. In preliminary discussions, the Walkerton Jail has been forwarded as a potential location for the incubator. As a facility owned by the Province, it is likely that the incubator would be able to occupy space for slightly below market rental rates given the potential to support economic development in the municipality. However, political and logistical challenges remain that may make the jail an inappropriate location for the incubator facility. Further, a location in the East Ridge Business Park likely offers the best potential for the incubator to partner and collaborate with the WCWC, as well as acquire and occupy space at rates that would improve the sustainability of the incubator operation. There are several questions that must be answered in a more detailed business planning exercise:

- Is there existing space in the municipality to house the incubator (either publicly or privately owned)?
- If a new facility is to be constructed, what location will maximize economic development impacts and return on investment?

For the purposes of this analysis, any capital costs associated with construction of a new facility or retrofit of an existing facility are excluded. As such, the first year of the financial analysis is independent of these costs and focuses more on operational revenues and expenses (including capital costs associated with operations and start-up). Though the questions about space still need to be resolved, it is assumed that the incubator will be able to lease 10,000 square feet of space at rates slightly below market rates in the municipality, though actual rates may be as low as zero (or higher) depending on the agency or organization that ultimately owns the space. In order to establish an understanding of the



annual costs to occupy 10,000 square feet in the municipality, a lease rate of \$4 per square foot will be used, suggesting an annual expense of \$40,000 for the incubator (\$3,333 per month).

In addition, Section 3 outlines a range of funding sources to consider in the launch of the incubation facility, as external funding can play a key role in covering the substantial costs of start-up. Previous survey work has identified that incubators in rural Canada require an average of \$275,000 in initial funding to launch their programming¹¹. For the purposes of this study, the initial funding request for start-up of the incubator will be placed at \$250,000.

In order to meet this initial goal, the Municipality of Brockton and its project partners (e.g. WCWC, Saugeen BDC, Bruce CFDC) should apply to the Regional Stream of the Southwest Ontario Development Fund (SWODF), administered by the Ministry of Economic Development and Innovation. Based on estimated project cost, the SWODF may cover up to \$125,000 of these project costs. Again, these start-up costs are only assumed to meet the up-front costs associated with establishing the incubator once a facility has been chosen. The incubator will incur an ongoing cost to lease space on an annual basis, so additional operating subsidies from external sources, such as those outlined in Section 3.2.4, should be explored to cover on-going operational costs beyond the initial funding requests. Further, the project partners may be required to provide funding on an ongoing basis until operational self-sufficiency.

This report provides preliminary guidance on revenue and expenditure calculations and assumptions that can be adjusted as the water technologies incubation program is pursued and project plans progress.

5.2 Revenue Assumptions

As suggested in Section 3, the incubator facility is expected to be relatively small (approximately 10,000 square feet), including approximately 2,000 square feet of non-leasable space (e.g. reception/administrative areas, storage/IT, hot-desking spaces, hallways, and washrooms). Once space is acquired, it is unlikely the incubator will immediately achieve a high rate of occupancy, and may spend the first year of operation with only 1-2 clients (or perhaps even no clients). As a result, it is estimated that the incubator may be able to lease 25% of the total leasable space of 8,000 square feet in year one, with escalation based on demand to 50% and 100% in years two and three respectively. Given its limited size, it is reasonable to suggest that the incubator may achieve full occupancy in this short time frame.

Based on market rates for commercial properties in the area, the lease rates will be set at the lower-end of the scale in year one (\$8 per square foot) moving up \$1 per square foot in each successive year of tenancy to \$10 per square foot by year three. Best practices indicate that escalating rents provide an incentive to graduate for incubator clients, and also

¹¹ Hunt, K., Hayden, J., and Regan, J. (2011, May). Business Incubators in Rural Ontario: Observing Strategies, Considering Pros and Cons. Presentation at OACFDC Conference.



represent increased revenues for the incubator over the course of its operation. Companies may be provided with the opportunity to remain for two additional years at the board's discretion, though rates should continue to be charged at the upper-limits of average commercial lease rates for these companies.

FIGURE 1: PROPOSED FULL-SERVICE PROGRAM REVENUE MIX, YEAR ONE TO YEAR THREE

| Year | Space Leased | Fee Breakdown | Total Annual Revenue |
|--------|-----------------|--|----------------------|
| Year 1 | 25% = 2,000 SF | 2,000 SF @ \$8/SF | \$16,000 |
| Year 2 | 50% = 4,000 SF | 2,000 SF @ \$8/SF 2,000 SF @ \$9/SF | \$34,000 |
| Year 3 | 100% = 8,000 SF | 4,000 SF @ \$8/SF 2,000 SF @ \$9/SF 2,000 SF @ \$10/SF | \$70,000 |

The pre-incubation program described in Section 3 recommends the provision of hot desks that allow temporary and shared access to workspaces and basic incubation services on a per-usage basis. Given that these desks support shared use for only a fixed number of hours per week, the space has the ability to support a large number of clients at any given time, which increases the revenue potential for the incubator. In the case of the Walkerton Water Technologies Incubator, the estimated 500 square feet of space is meant to support three to four hot desks or workspaces, though the space allotted is flexible enough to accommodate additional spaces if applicable. Best practices suggest the lease of these hot desks in a package of hours, with the price per hour decreasing as the number of hours purchased increases. However, the revenue estimates in the figure below uses a package with a fixed rate of \$5 per hour for 40 hours per month (approximately one week) per client.

FIGURE 2: PRE-INCUBATION PROGRAM REVENUE MIX, YEAR ONE TO YEAR THREE

| Year | Number of Pre-Incubation Clients | Total Hours | Total Annual Revenue |
|--------|----------------------------------|-------------|----------------------|
| Year 1 | 5 | 200 | \$12,000 |
| Year 2 | 10 | 400 | \$24,000 |
| Year 3 | 15 | 600 | \$36,000 |

The preliminary plan for the water technologies incubator also includes consideration of space and revenues for the delivery of training programs and seminars. It is expected that with a location close to the Walkerton Clean Water Centre,



the incubator may be able to develop a partnership that would allow it to deliver seminars and programming in the existing meeting and seminar space at the Walkerton Clean Water Centre for minimal cost. As noted in Section 3, there are two streams of programming at the incubator – one focused on pre-incubation clients and one focused on full-service incubation clients. While full-service incubation clients will not be charged additional revenue to attend sessions, pre-incubation clients will be charged 50% of the full cost and external affiliates (e.g. entrepreneurs and small business owners from throughout the region) will be charged full price to attend in-person or virtually.

It is likely that the seminar program for the incubator will be composed of programming developed in-house and programming delivered in partnership with other business service providers in the region (e.g. Saugeen Business Development Corporation) or sector-based organizations (e.g. Walkerton Clean Water Centre). Based on this fact, revenues from the seminars will likely be allocated among a number of different organizations in addition to the incubator. As a result, the preliminary financial plan estimates an average of \$15 net revenue to the incubator for each seminar participant. Assuming this revenue stream and an escalation of the number of seminars per month each year, and estimating average attendance of external affiliates and pre-incubation clients, the seminar program at the incubator may generate the following annual revenues:

FIGURE 3: SEMINAR PROGRAM REVENUE MIX, YEAR ONE TO YEAR THREE

| Year | Number of Affiliate Clients per Seminar | Number of Pre-Incubation Clients per Seminar | Number of Seminars per Year | Total Annual Revenue |
|--------|---|--|-----------------------------|----------------------|
| Year 1 | 5 | 5 | 24 (2/month) | \$2,700 |
| Year 2 | 10 | 10 | 36 (3/month) | \$8,100 |
| Year 3 | 15 | 10 | 48 (4/month) | \$14,400 |

5.3 Expense Assumptions

In terms of expenses related to the water technologies incubator, the following assumptions have been made:

- An incubation business manager and supporting administrator would be hired to provide small business programming services. Though both positions are expected to be full-time over the longer-term, the incubator may be able to leverage a shared staff position with the Municipality or other institutions to fulfill the administrative function over the short-term.



- Significant start-up costs would be incurred in getting a facility ready for occupancy, including computer equipment (e.g. computers, servers), furniture and fixtures, lab equipment, organizational costs (e.g. legal), and pre-operating costs (e.g. advertising, cleaning).
- The incubator would likely require an annual lease cost of \$40,000, assuming slightly lower than market value lease rates. It should be noted that municipal or provincial ownership of a building may result in substantially lower lease rates.
- Operating costs would include computer licenses, facility operation, insurance, office materials, promotion, service contracts, small business resource library, personnel training, and utilities.

The following figures itemize expenses for the first full year of operation. In the second and third year it is expected that expenses would likely increase moderately at 2.5% per year.

FIGURE 4: PROPOSED LABOUR COSTS (YEAR ONE)

| Personnel | Annual Base Salary and Benefits |
|------------------------------------|---------------------------------|
| Incubation Business Manager | \$74,200 |
| Supporting Administration (Shared) | \$18,550 |
| Total | \$87,500 |

FIGURE 5: PROPOSED START-UP COSTS

| Start-up Cost Category | Description | Cost |
|------------------------|--------------------------|----------|
| Equipment | Computers, IT hardware | \$10,000 |
| Equipment | Furniture, fixtures | \$20,000 |
| Equipment | Lab equipment | \$20,000 |
| Organization | Promotions, legal | \$4,000 |
| Pre-operating | Advertising, contracting | \$8,000 |
| Total | | \$62,000 |



FIGURE 6: PROPOSED OPERATING COSTS (YEAR ONE)

| Operating Cost Category | Cost |
|-----------------------------|----------|
| Facility rent ¹² | \$40,000 |
| Computer licenses | \$700 |
| Facility operation | \$1,000 |
| Insurance | \$2,000 |
| Office-related materials | \$2,054 |
| Promotion | \$2,000 |
| Service contracts | \$3,400 |
| Training | \$4,100 |
| Utilities | \$7,200 |
| Total | \$62,454 |

5.4 Income Statement

The combined annual expenses of the incubator under the scenario outlined make it difficult to establish self-sufficiency through programming alone. With that said, the introduction of a combined contribution of \$50,000 from the project partners appears to lead to a scenario where the incubator will be able to generate a slight profit of \$2,211 by the end of the third year. This is based on fairly aggressive revenue growth targets for the incubator through its pre-incubation and full-service incubation client streams, as well as growth in revenues attributed to seminars and corporate sponsorships, and follows a deficit of \$48,705 during the second year. At the end of the third year, the incubator is projected to have a cash balance of \$10,468, suggesting the importance of monitoring financial performance and potential sources of external funding closely to maintain a positive financial standing. It should be noted that without the ongoing support from the project partners over the three-year period, the financial performance of the incubator declines considerably. Without operational funds from the project partners, the projected deficit in year two increases to \$98,705, with the increase in incubator revenues reducing the deficit in year three, but remaining at \$47,789 at year-end.

Overall, the financial assessment shows that a water technology incubator is financially feasible under the preliminary conditions and assumptions in this report.

¹² Assuming lease rates of \$4 per square foot can be negotiated for the facility.



FIGURE 7: INCOME STATEMENT, YEAR ONE TO YEAR THREE

| | Municipality of Brockton Proforma Income Statement For the Year Ended Dec. 31st, 2013 | | Municipality of Brockton Proforma Income Statement For the Year Ended Dec. 31st, 2014 | | Municipality of Brockton Proforma Income Statement For the Year Ended Dec. 31st, 2015 | |
|-----------------------------------|---|----------------|---|-----------------|---|----------------|
| Revenue | | | | | | |
| Funding Partners | \$ | 125,000 | \$ | 50,000 | \$ | 50,000 |
| SWODF | \$ | 125,000 | \$ | - | \$ | - |
| Pre-incubation Program | \$ | 12,000 | \$ | 24,000 | \$ | 36,000 |
| Rental Income (Lease) | \$ | 16,000 | \$ | 34,000 | \$ | 70,000 |
| Seminar Fees | \$ | 2,700 | \$ | 8,100 | \$ | 14,400 |
| Corporate Contribution(s) | \$ | 1,000 | \$ | 1,100 | \$ | 1,210 |
| Total Revenue | \$ | 281,700 | \$ | 117,200 | \$ | 171,610 |
| Expenses | | | | | | |
| Wages and Salaries | \$ | 87,500 | \$ | 89,687 | \$ | 91,930 |
| Benefits | \$ | 12,433 | \$ | 12,744 | \$ | 13,062 |
| Office Rent | \$ | 40,000 | \$ | 40,000 | \$ | 40,000 |
| Equipment | \$ | 50,000 | \$ | - | \$ | - |
| Organization Costs | \$ | 4,000 | \$ | - | \$ | - |
| Pre-operating Costs | \$ | 8,000 | \$ | - | \$ | - |
| Computer Licenses | \$ | 700 | \$ | 718 | \$ | 735 |
| Facility Operation | \$ | 1,000 | \$ | 1,025 | \$ | 1,051 |
| Insurance | \$ | 2,000 | \$ | 2,050 | \$ | 2,101 |
| Office and Related Materials | \$ | 2,054 | \$ | 2,105 | \$ | 2,158 |
| Promotion and Publicity | \$ | 2,000 | \$ | 2,050 | \$ | 2,101 |
| Service Contracts and Inspections | \$ | 3,400 | \$ | 3,485 | \$ | 3,572 |
| Training | \$ | 4,100 | \$ | 4,203 | \$ | 4,308 |
| Utilities | \$ | 7,200 | \$ | 7,380 | \$ | 7,565 |
| HST Remittances | \$ | 351 | \$ | 459 | \$ | 816 |
| Total Expenses | \$ | 224,738 | \$ | 165,905 | \$ | 169,399 |
| Net income | \$ | 56,962 | \$ | (48,705) | \$ | 2,211 |



6 Action Plan

The **RECOMMENDED ACTIONS** that follow are based on the preceding research analysis. These actions require a commitment from the Municipality of Brockton, BEDC and Walkerton Clean Water Centre. The larger actions are grouped into the following strategic directions:

1. Get the Fundamentals in Place
2. Create the Incubator
3. Staff the Incubation Program
4. Govern the Incubator
5. Program the Incubator
6. Promote the Water Cluster
7. Finance the Incubator

The associated actions that serve to implement these goals are prioritized as **IMMEDIATE** (less than one year), **SHORT TERM** (2-3 years), **MEDIUM TERM** (4-5 years). The prioritization of actions is intended to reflect a logical sequence of activities,

Effective implementation of the recommended actions for the Municipality of Brockton must be accompanied by effective performance measurements. Performance measures are a tool to determine how well a job has been done using both qualitative and quantitative information and activities. Performance measurements track quality and performance by:

- Providing public accountability
- Assisting with human resources management
- Using results to improve performance
- Identifying the return on investment

These strategic directions provide a series of potential performance measurements. These performance measures are suggestions to inform the Municipality of Brockton, BEDC, and Walkerton Clean Water Centre administration and could be developed more formally.



Strategic Direction #1: Get the Fundamentals in Place - As a prelude to this larger process, there are a number of immediate actions that should be undertaken to initiate the broader program.

| Recommended Actions | Lead Stakeholders | Timing |
|---|--|-----------|
| 1. Prepare and submit a funding application to help launch the Walkerton Water Technologies Incubator Program. | Municipality of Brockton, Walkerton Clean Water Centre, Saugeen Business Development Corporation, Bruce Community Futures Development Corporation | Immediate |
| <p>Details: Funding is potentially available for the initiation of projects and programs that will help to lay the groundwork for the creation of a water technologies incubator.</p> | | |
| 2. Develop key components of a marketing message. | Municipality of Brockton, Walkerton & District Chamber of Commerce | Immediate |
| <p>Details: The Municipality and WCWC will need to communicate the economic benefit of this incubator project to the community, County of Bruce and Province of Ontario. There will be a need to articulate the links of this project with other local and regional economic development projects.</p> | | |
| 3. Prepare a formal business plan for the proposed Walkerton Water Technologies Incubator. | Walkerton Clean Water Centre | Immediate |
| <p>Details: Much of the content needed to create a formal business plan can be found in this feasibility assessment and the earlier <i>Planning Strategy for Water Cluster Investment Opportunities</i> report. The creation of a formal plan, complete with detailed three year financial projections, will be necessary prior to launching the program and bridging the period between January 2013 and occupancy of physical incubator space.</p> | | |
| <p>Performance Measures:</p> <ul style="list-style-type: none"> ■ Funding applications submitted ■ Formal business plan | | |



Strategic Direction #2: Create the Incubator - The Action Plan envisions the creation of a small, physical incubator as an interim step prior to a larger centre outlined in the report. The physical space provides a focal point for activities and a tangible demonstration of the program's economic benefit to the community.

| Recommended Actions | Lead Stakeholders | Timing |
|---|---|-------------------|
| <p>1. Develop an interim physical incubation and program delivery space by locating in either the WCWC or surplus space owned by the Municipality of Brockton.</p> | <p>Walkerton Clean Water Centre, Municipality of Brockton</p> | <p>Short term</p> |
| <p>Details: The WCWC and Municipality of Brockton should cooperate with each other and provide interim office space for the incubator manager and support staff. It is anticipated that there will be a need for 5,000 to 10,000 sq.ft. of shared facility space dedicated to the water technologies incubator needs, with space set aside for administration and networking space. In the event that the former Walkerton Jail does not receive political approval or interest from municipal decision makers an alternative location will need to be planned. A location at the East Ridge Business Park would have the benefit of immediate access to the WCWC, but would require the construction of a new building.</p> | | |
| <p>2. Develop a technology support strategy for the water technologies incubator facility to identify and put in place technology tools to assist in the facility's operations.</p> | <p>Walkerton Clean Water Centre</p> | <p>Short term</p> |
| <p>Details: The presence of specific Internet-based tools and water related technologies within the incubator may make it more attractive for innovative small business owners and entrepreneurs and may help to facilitate water related activities emerging from the incubator.</p> | | |
| <p>3. Begin planning for the transition to a long-term incubation strategy and program housed in a permanent building.</p> | <p>Walkerton Clean Water Centre</p> | <p>Short term</p> |
| <p>Details: The initial focus of activity needs to be on the launch of an interim location, but the planning of longer-term activities is also essential. The Innovation Lead at the WCWC should lead this process with active assistance from all other local stakeholders.</p> | | |
| <p>Performance Measures:</p> <ul style="list-style-type: none"> ■ Size of physical incubation space secured for the water technologies sector ■ Water technology assisted tools secured for the facility | | |



Strategic Direction #3: Staff the Incubation Program - To effectively deliver the programs and activities envisioned, the water technologies incubation centre will need to recruit a professional staff person capable of playing specific roles within the emerging structure.

| Recommended Actions | Lead Stakeholders | Timing |
|--|--|-------------|
| 1. Hire an incubator manager | Walkerton Clean Water Centre, Municipality of Brockton, Saugeen Business Development Corporation | Short term |
| <p>Details: A mid-career professional with applied sciences and/or engineering experience along with business management experience must be hired to lead the project implementation process. The incubation literature also suggests the manager must have entrepreneurial experience. It would be also preferred to have experience or understanding of southwestern Ontario. Realistically, this position would start as a part-time position; however would lead to a full-time position with an annual salary in the \$70,000 to \$80,000 range.</p> | | |
| 2. Hire an administrative coordinator | Walkerton Clean Water Centre | Medium term |
| <p>Details: An administrative coordinator will be required for the incubator’s operations. In the interim period, this could be provided by a secondment from the Municipality of Brockton or Walkerton Clean Water Centre staff, with the target of hiring a full time staff person with an annual salary at or around \$35,000 over the longer term.</p> | | |
| 3. Identify a role for students and student employment within the program structure. | Walkerton Clean Water Centre, Bluewater District School Board, Bruce Grey Catholic District School Board, University of Guelph, University of Waterloo, Western University | Medium term |
| <p>Details: Co-operative education, internships, summer placements, graduate assistantships and school projects are all sources of student and youth involvement in the technologies incubator. This approach helps address youth engagement and retention efforts that surfaced during the Planning Strategy project.</p> | | |



Performance Measures:

- Incubator manager hired
- Administrative coordinator hired
- Number of students placed either through co-operative education, internship or graduate assistantships at the incubator



Strategic Direction #4: Govern the Incubator – Effective governance of the incubator will rely on appropriate management structures in place.

| Recommended Actions | Lead Stakeholders | Timing |
|---|--|------------|
| 1. Establish the Walkerton Water Technologies Incubator (or similar name) not-for-profit corporation to deliver programs and administer the incubator. | Walkerton Clean Water Centre | Short term |
| Details: A not-for-profit corporation established legal protections for project stakeholders, while maximizing eligibility for government funding programs. | | |
| 2. Establish a formal board of directors. | Walkerton Clean Water Centre, Municipality of Brockton, Saugeen Business Development Corporation/Bruce Community Futures Development Corporation | Short term |
| Details: A small board of directors of six to eight members with the incubator manager serving as an ex officio member is recommended. One seat should be reserved for each of the project stakeholders, with the remainder to be nominated by those stakeholders in order to represent and liaise with key professional service providers (e.g. accountants, lawyers, or bankers). The board should meet monthly, with an executive meeting quarterly and day-to-day operational oversight of the program left to the management staff. | | |
| 3. Use the financial management capacity of a stakeholder organization to coordinate day-to-day financial activity. | Saugeen Business Development Corporation/Bruce Community Futures Development Corporation | Short term |
| Details: Rather than hiring a finance officer, the incubator should leverage a stakeholder's resources (i.e. Saugeen Business Development Corporation/ Bruce Community Futures Development Corporation). Another stakeholder such as a local accounting firm could also serve this role. | | |
| <p>Performance Measures:</p> <ul style="list-style-type: none"> ■ Not-for-profit corporation established ■ Board of directors established ■ Number of stakeholder organizations committed to the incubator's management function | | |



Strategic Direction #5: Program the Incubator – Focus on internal operations and tenants and eventually expand programs. The initial programs will lay the foundation for future expanded programs.

| Recommended Actions | Lead Stakeholders | Timing |
|--|------------------------------|------------|
| <p>1. Develop an incubator tenancy program.</p> <p>Details: The incubator is envisioned as being relatively small (approximately 10,000 sq.ft.) and designed to accommodate 4-6 small companies. It is imperative that these spaces be filled as rapidly as possible with a goal of 25% occupancy by the end of year one. To accomplish this goal, the WCWC and post-secondary institution representatives should commit to identifying and recruiting tenants by the end of the first year of operation.</p> <p>The facility should charge full market rent (in the range of \$8 to \$10 per square foot) and should encourage graduation from the facility over three years, with the option of remaining for up to two additional years at the board's discretion. As this approach may pass beyond the short-term window from the interim facility to an expanded permanent facility, lease agreements must be carefully constructed over the short term to permit flexibility.</p> | Walkerton Clean Water Centre | Short term |
| <p>2. Develop a pre-incubation program</p> <p>Details: A pre-incubation program should be developed consisting of three to four “hot” (i.e. rented to multiple clients) desks or cubicles with Internet and basic advisory services, access to a resource library and discounted seminars, targeted primarily to early-stage water sector – related businesses without a defined business model or service offering as well as businesses who could benefit from having a Walkerton-based office space on a part-time basis. Each pre-incubation client would be offered an initial package of 40 hours per month at a rate of \$5 per hour.</p> | Walkerton Clean Water Centre | Short term |
| <p>3. Develop a suite of incubation support programs</p> <p>Details: The Walkerton Water Technologies Business Incubator should develop a wide-ranging suite of support programs and services to support businesses within the incubator in two streams: a pre-incubation stream for early-stage businesses and a full-service incubation stream for businesses that have established a proof of concept. In the former category, these would include (but not be limited to) programs that would provide the following kinds of support:</p> <ul style="list-style-type: none"> ■ Financial recordkeeping, bookkeeping basics, budgeting, cash flow and financial statements ■ Market research ■ Small business taxation issues ■ Human resources and hiring practices and policies ■ E-business principles | Walkerton Clean Water Centre | Short term |



The full-service program should include the following programs:

- Marketing and promotions strategy
- Facilitated client network
- Sales strategies
- Market development support, including export assistance
- Accessing financial support and other capital
- Support for innovation and new water technologies
- Access to government programs and events
- Tailored (water technologies sector) business coaching

| | | |
|--|---|------------|
| 4. Establish a venture and financing network | Saugeen Business Development Corporation or Bruce Community Futures Development Corporation | Short term |
|--|---|------------|

Details: To facilitate the growth and development of companies participating in the incubation programs, the Walkerton Water Technologies Incubator should move to establish a formal committee or network of lending institutions and other sources of venture and angel funding with an interest in the water sector.

The role of the network is not strictly to provide access to funding, but to provide early and ongoing feedback concerning funding strategies and opportunities to participants in the incubation programs.

| | | |
|---------------------------------------|--|------------|
| 5. Initiate a range of youth programs | Walkerton Clean Water Centre, Bluewater District School Board, Bruce Grey Catholic District School Board, University of Guelph, University of Waterloo, Western University | Short term |
|---------------------------------------|--|------------|

| | | |
|--|--|------------|
| 6. Create a program to pursue outsourcing opportunities. | Walkerton Clean Water Centre, University of Guelph, University of Waterloo, Western University | Short term |
|--|--|------------|

Details: Consultation results revealed as part of the *Planning Strategy for Water Cluster Investment Opportunities* revealed that there may be opportunities to undertake outsourced or project specific work on behalf of these institutions. The Incubator Manager should develop and launch a program through which local companies, students and institutions mobilize their resources to position the incubator as a delivery point for contracted services in the province's water cluster.



| | | |
|--|--|------------|
| 7. Initiate a program to enhance water technologies research linkages with leading researchers at Ontario universities. | Walkerton Clean Water Centre, University of Guelph, University of Waterloo, Western University | Short term |
| <p>Details: The incubator manager should commit to developing and undertaking a program facilitating formal and informal opportunities for collaboration and partnerships all by using Walkerton's incubator as a focal point for interaction and discussion.</p> | | |
| 8. Establish a long term incubator development plan | | |
| <p>Details: The Incubator Manager should develop a formal plan for the creation of a larger incubator and incubation program. This larger space could potentially fill a 10,000 sq.ft. building and accommodate 10 to 15 businesses providing water-related products and services.</p> | | |
| <p>Performance Measures:</p> <ul style="list-style-type: none"> ■ Established incubator tenancy program ■ Established pre-incubation program ■ Established incubator support program ■ Established venture financing network ■ Established youth programs ■ Number of Identified outsourcing opportunities with leading institutions engaged in water technologies research ■ Established water technologies research linkages ■ Established long term incubator development plan | | |



Strategic Direction #6: Promote the Water Cluster – It will become increasingly more important for the Walkerton Water Technologies Incubator to have a larger presence and become better known among potential partners. Once established, promotion and marketing efforts will be ongoing.

| Recommended Actions | Lead Stakeholders | Timing |
|---|------------------------------|-------------|
| 1. Develop and deliver a marketing program to bring companies to the incubation program. | Walkerton Clean Water Centre | Medium term |
| <p>Details: A marketing program must be created that will make researchers aware of the Walkerton Water Technologies Incubator and encourage them to participate. The focus of these efforts will initially be with the University of Guelph, University of Waterloo and Western University, but will ultimately broaden across the water cluster throughout southern Ontario as the program becomes more established.</p> | | |
| 2. Develop and deliver a marketing effort to make participating companies aware of specific activities within the program. | Walkerton Clean Water Centre | Medium term |
| <p>Details: Once there are incubator tenants, there must be an effort to keep them informed of and involved in activities within the broader incubation programs. This effort must be proactive, entrepreneur-focused and cost effective.</p> | | |
| 3. Develop and deliver a marketing effort targeting south Bruce and Grey County youth. | Walkerton Clean Water Centre | Medium term |
| <p>Details: The Incubator Manager must develop marketing efforts targeting the secondary school populations and make them aware of specific opportunities within the incubator.</p> | | |
| <p>Performance Measures:</p> <ul style="list-style-type: none"> ■ Number of companies that have participated in the Incubator’s functions ■ Number of area youth who have participated in the Incubator’s functions | | |



Strategic Direction #7: Finance the Incubator – The intent of the Walkerton Water Technologies Incubator is to operate like a business but function as a not-for-profit. This approach requires planning for long-term sustainability.

| Recommended Actions | Lead Stakeholders | Timing |
|---|---|-------------|
| 1. Prepare detailed budget estimate for an ongoing water technologies incubator. | Walkerton Clean Water Centre, Saugeen Business Development Corporation or Bruce Community Futures Development Corporation | Short term |
| <p>Details: Detailed multi-year financial projections will be needed to adequately plan activities within the available budget. While the budget figures are likely to be significant there are supporting resources available. Funding applications to the Southwestern Ontario Development Fund, FedDev's Prosperity Initiative, OMAFRA's Regional Economic Development program and Ontario Centres of Excellence will need to be prepared by the Walkerton Clean Water Centre, Saugeen Business Development Corporation or Bruce Community Futures Development Corporation. These applications will establish a strong framework and budget for the water technologies incubation activities.</p> | | |
| 2. Build commitment for stakeholder operating grants | Walkerton Clean Water Centre, Saugeen Business Development Corporation or Bruce Community Futures Development Corporation, Municipality of Brockton, Walkerton & District Chamber of Commerce | Short term |
| <p>Details: There is a need for stable, ongoing financial support from local stakeholders. This commitment from local partners enhances the incubator's overall sustainability and is a necessary platform for the delivery of any additional funds from outside sources.</p> | | |
| 3. Establish key ongoing revenue streams to support the incubator's operation. | All stakeholders | Medium term |
| <p>Details: An incubation program can draw on many additional streams of revenue to support its activities, but the contributions fall into three main categories: project funding, rental income or programming income.</p> <p><i>Project funding</i> – an incubation facility can become a facility for project work emerging from the University of Guelph, University of Waterloo or Western University, which will be eligible for a range of funding programs from FedDev, Ministry of Economic Development &</p> | | |



Innovation and Ontario Centres of Excellence. Such funds could provide a large amount of revenue annually with a portion directed to support the incubator's operations and programs.

Rental income - a physical space provides an opportunity to generate revenue from rental income as companies and projects acquire space within the facility.

Programming income - many other incubators have successfully developed policies in which non-resident as well as resident businesses are able to access the incubation resources and programs in exchange for a monthly or annual fee. Off-site businesses across South Bruce and Grey Counties could pay a per-use fee to access ongoing incubation programs through the proposed facility. This would generate annual revenues for the incubation centre. When fees and charges for one-off events and special activities are also factored in, the potential is again significant within the overall scope of the project's budget. Furthermore, if run effectively, this program can represent a growing revenue stream, as more companies enter programs, and as the recognized value of the programs increases, allowing for higher fees.

4. Establish a tax strategy.

Saugeen Business Development Corporation or Bruce Community Futures Development Corporation, professional service (accountant) stakeholder

Medium term

Details: A significant line item in private sector operating budgets is often municipal taxes. Given the participation of local government in this project, there exists an opportunity to strengthen the incubator's overall financial position if arrangements can be made to eliminate or minimize this expense from the incubator's operations.

Performance Measures:

- Detailed budget estimates with cash flow statements
- Dollar value of financial support from local stakeholders
- Dollar values for project funding, rental income and programming income
- Dollar value of municipal tax savings realized