

# Rural Research Report



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by Mim Evans

The author is Executive Director of Genoa Main Street, Inc., a nonprofit organization whose mission is the preservation and growth of downtown Genoa, Illinois. Prior to her present position, she was a consultant for the private and public sector on a variety of projects, including the economic feasibility of large-scale public improvements and private real estate development, community revitalization programs, reuse of existing buildings, and economic development projects.

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Stipes Hall 518  
Western Illinois University  
Macomb, IL 61455-1390  
309.298.2237

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## Rural Community Finds Small Business Incubator Leads to Downtown Economic Development Success

Genoa, Illinois (pop. 4,169 in 2000), had vacant downtown commercial space. Facing tough competition from other towns also attempting to recruit businesses, the City decided to grow its own new businesses. Genoa Main Street, Inc., a local nonprofit downtown preservation and improvement organization, created Genoa Springboard (Springboard), a small business incubator, to encourage start-up businesses and improve their chance of success. Springboard offers new businesses quality, affordable downtown space and the guidance of a panel of business professionals. The program has had the added benefit of creating an entrepreneur-friendly image for the city. This has resulted in several new businesses locating in vacant downtown spaces outside of the incubator. Finally, the technical assistance available to Springboard tenants is also offered to other downtown businesses to promote business retention. Rural communities looking for an economic development tool with multiple positive outcomes might also explore starting a small business incubator.

### Setting

Genoa is located in north-central Illinois, approximately 15 miles north of DeKalb and an equidistance between Rockford and Elgin. It was founded 175 years ago and served as a service center for the surrounding rural area. Agriculture was the main industry and remains an important part of the economy. Over the years Genoa has also been home to a variety of small manufacturers. In recent years, the area attracted other residents who commute to jobs in the far west suburbs of Chicago.

The industrial base has weakened over time as manufacturers left for a variety of reasons. A few smaller light industrial firms have taken up residence, making up a small portion of the lost jobs.

The downtown area has followed a common pattern. Big box retailers arrived in larger communities within a reasonable driving distance resulting in the failure of many local retailers. Other locally owned businesses closed as their owners reached retirement age. Some of the buildings became home to marginal businesses, which turned over frequently. Maintenance of the buildings declined.

By the early 1990s, downtown Genoa had become irrelevant for much of the population and an eyesore to be avoided. Concerned residents and business owners began a sustained effort to restore the downtown area as a place to do business and as the focal point of the community. Thanks to their efforts, Genoa was designated a Main Street Community in 1996 with the founding of Genoa Main Street, Inc. (GMS). The Main Street Approach has been used ever since as the primary road map to downtown improvement.

Over the past ten years, downtown Genoa became a specialty shopping destination. Professional offices provided financial and medical services for the community. A full schedule of special events, a monthly Open Air Market, and public improvements helped re-create a vibrant community center.

The current nationwide economic recession hit downtown Genoa in early 2008. Over a two-month period, several businesses closed and the largest retailer downtown relocated.

## Incubator as Catalyst

GMS searched for ways to distinguish Genoa from other communities. The decision was that downtown Genoa should create an image as a center for entrepreneurship. The community should be viewed as open to innovation and welcoming to entrepreneurs. The focus would be on startups, not on luring businesses from other communities or competing for new outlets of existing companies. Genoa would grow its own businesses to provide a steady stream of new businesses to fill downtown space.

GMS embarked on developing a small business incubator as a way to encourage start-up businesses. The mission statement for the project had to clearly reflect the sponsoring organization's role in the community. The mission was not to generate a few new businesses; it was to establish Genoa as a center for entrepreneurship and differentiate it from other communities. The incubator was the means to achieve that goal. A steady flow of new businesses and more prosperous existing businesses would be evidence of having achieved that goal.

**Anticipated Benefits to the Community.** Genoa Springboard was to become a center for innovation,

In response, GMS began an aggressive campaign to recruit businesses. Visits to other communities revealed that Genoa had little unique to offer a prospective business, and the competition from other communities was stiff.

Numerous recruiting visits and an evaluation of downtown Genoa's competitive position made clear that it would be difficult to attract enough new businesses to significantly improve the situation.

attracting business startups to downtown Genoa and the greater Genoa area. Specifically, Springboard would accomplish the following objectives:

- Encourage the growth of new businesses.
- Fill unmet demand for goods and services in the market area.
- Fill downtown commercial space.
- Generate additional tax revenue.
- Generate additional traffic for existing businesses by bringing new customers downtown.

**Anticipated Benefits to Tenants.** Businesses that start in an incubator have a higher success rate than those that do not. Springboard would provide the following benefits to businesses:

- Lower costs for rent, utilities, and common area expenses
- Mentoring from professionals in a variety of fields
- Synergy created by grouping businesses together

## Implementation

A timeline of nine months was anticipated from the decision to go forward to a grand opening. While most tasks proceeded fairly smoothly, it took much longer to secure a building than anticipated. The final timeline from inception to opening was approximately 12 months.

**Selecting a Name and Logo.** An early step in implementing the proposed incubator was to select a name and logo. The name had to convey the purpose of the project as well as appeal to prospective tenants. A springboard is a starting place that makes it easier to reach great heights. Thus, Springboard was selected as the name for the project. Genoa was added to publicize the location of the project.

The logo design was done in colors and a style that suggest growth and show the bounce the project would give to the tenants and downtown.



**Building Support.** The incubator concept was presented to existing downtown merchants. There was concern that they might see new businesses with lower overhead and technical assistance as having an unfair competitive advantage. This proved not to be true. Existing merchants supported the project because of the benefits of new customers coming downtown

and the need to fill vacant space. The City Council also supported the project. The entrepreneurial image that would be created for the community dovetailed with the City's economic development efforts. Local press coverage was positive, with praise given for the innovative approach.

**The Task Force.** A special task force was created to manage the project. The scope of the project was too much for a standing committee with other responsibilities. Individuals with special expertise were needed for the project, and they were not currently active in the organization. High profile participants would also give the project more credibility. These people were more likely to be interested in joining a specific task force than a general committee.

Task force members were selectively drawn from the following:

- Finance
- Marketing
- Advertising
- Insurance
- Legal
- Real estate
- Universities and colleges
- Chamber of Commerce
- City and county government
- Economic development
- Small business management

Recruiting task force members proved relatively easy. The project was presented as an opportunity to be part of a unique economic development effort. No financial commitment or formal time commitment was required. GMS's past projects had received extensive positive press coverage and were popular with the general public. Participation in the project was seen as a way to have one's business or organization associated with positive publicity. The initial task force members were asked to assist in recruiting additional members. Thus, the task force was built incrementally.

Once the task force was complete, meetings were held to familiarize all members with the concept and develop a plan for going forward. As the project moved from theory to implementation, two groups emerged. Members representing local businesses and organizations became very involved in the work of implementing the project. Members representing larger businesses and organizations based outside of Genoa lent credibility to the project and provided contacts and publicity as needed.

**Management Structure.** Genoa Springboard is operated by Genoa Main Street, Inc. This makes Springboard part of an existing 501(c)(3) organization with tax exempt status.

Thus, the time and expense of establishing a separate legal entity was avoided.

GMS leases the building from the owner and subleases it to the tenants. Building owners who were initially reluctant to be involved in the project were persuaded by GMS's record of stability and success. Each tenant signs an individual lease. GMS collects the rents from the tenants and also pays rent to the building owner. All tenant needs are addressed to GMS. GMS, in turn, either takes care of them or approaches the building owner to address them. This eliminates the need for the building owner to deal with the issues of multiple tenants, collect rents from multiple tenants, or lease space to start-up businesses with no track record. Tenants pay an affordable flat monthly rent that includes all utilities and maintenance. The fixed monthly expense is easier for the tenants' bookkeeping and future planning for expenses. The all-inclusive flat rate also simplifies administration for GMS.

The rental rate paid by each tenant varies depending on the amount of space occupied. The rates are relatively high on a per square foot basis but much lower than any of the tenants would find if they had to lease an entire building independently, which would be necessary in order to find a similar location. Thus, the tenant can afford more desirable space at lower costs. GMS can pay the rent to the building owner because the combined tenant rents cover the overall building rent.

Day-to-day operation of the businesses is the responsibility of the tenants. GMS staff oversees management of the project with the assistance of volunteers. A panel of mentors is assigned to each business, and the panel reflects the specific needs of each business. For example, one business may need help with bookkeeping, while another needs more marketing advice. The mentor panel is responsible for meeting with the business owner on a regular basis to review performance and suggest actions to be taken. Formal meetings take place quarterly with frequent informal communication between mentors and business owners.

**Graduation Strategies.** There are two main options for the long-term operation of Springboard. The first is to have the tenants move out of the building and into market rate space when they achieve economic success. New tenants would then be able to move into the available space. The second option is to leave the initial tenants in place but have them lease directly from the building owner at market rates. GMS would then lease a different vacant building as incubator space and locate new tenants there.

It was decided that the decision on which model to use would have to depend on the circumstances at the time that leases expired. If the initial Springboard tenants outgrow their relatively small incubator spaces, then they would move on to

other market rate buildings. However, if they are successful in their incubator spaces and do not want or need additional space, GMS would allow them to stay in place at market rates. This has the additional advantage of enabling GMS to select another vacant building that could be brought back into use.

**Planning for Success.** Small business incubators often fail because the incubator itself is not a sound business, not because the tenant businesses fail. Therefore, it is important that the incubator's management and finances be clearly thought out.

Springboard was designed to require a minimal financial investment and relatively little day-to-day management. Projections of operating costs were used to structure tenant rents. Tenant rents were kept affordable by utilizing the project's nonprofit status and GMS's strong track record to negotiate a reasonable building lease rate. A reduced rate for computer and telephone service allowed these services to be included in the tenants' rent. Thus, the following were the major expenses to be considered:

- Building rent
- Utilities
- Insurance
- Maintenance

The incubator's small size did not require an on-site manager. Springboard's location within a few blocks of the GMS office allows easy access to take care of problems that arise. A fund of \$3,000 was set aside for the project. It was funded from GMS reserves generated by donations and fundraisers. The fund covered building improvements and rent GMS paid to the building owner prior to beginning to receive tenant rent payments.

**Publicity.** Several types of publicity were used to attract potential tenants. A *PowerPoint* presentation was prepared to explain the concept and highlight all the businesses and organizations supporting the project. The presentation was shown at business expos and at a variety of meetings, with press releases printed in many newspapers. The press releases generated several interviews and an editorial. Springboard was also featured in the newsletters of several area organizations, including the County Economic Development Corporation and the Chamber of Commerce. A handout was compiled and widely distributed at events and area businesses. Springboard was featured on the GMS website; task force members distributed information to their clientele; and banks, SBA offices, and SCORE chapters displayed Springboard information. All these materials were prepared in-house. All newspaper and radio publicity was in the form of press releases, articles, and interviews and therefore free of charge.

**The Building.** The task force had to decide whether to locate Springboard in the best space available or to try to put a less desirable space back in use. The best space available was selected in order to give both the incubator and the tenants the highest chances for success. While rescuing a "difficult to fill building" is tempting, the mission of the project can only be achieved if the project succeeds. Selecting an undesirable location would have placed both Springboard and the tenants at a disadvantage.

It was difficult to decide when GMS should commit to a specific space. Postponing commitment for as long as possible minimized the risk of having to pay rent before confirmed tenants were found. Also, GMS wanted to select the best available space for the tenants and that was impossible without knowing the tenants. Therefore, several months were spent trying to attract tenants without a firm space.

Ultimately, postponing committing to a space did not work. Prospective tenants had a difficult time envisioning themselves operating in the incubator without an actual space to examine. Tenant rents could not be firmed up without knowing the lease rate on the building. Therefore, it became apparent that the project could not move ahead without a commitment on a space. Once GMS had a space under its control, tenants were much quicker to commit to the project.

Some building improvements were required prior to opening. The space was subdivided to accommodate multiple tenants. The task force had to decide whether to subdivide the space and improve it prior to leasing it to tenants or to wait until after the space was leased and tailoring it to the tenants' needs. It was found that a certain amount of preparation was necessary for people to be able to envision what their space might be like. However, final modifications were made only after tenants had signed leases. The building did not need extensive repairs.

The building owner paid for some cosmetic improvements to the exterior. Signage was an additional expense. Local sign ordinances proved challenging when trying to effectively sign a single building for multiple tenants. Costs were kept down by negotiating discounts on building materials. Much of the labor was performed by volunteers. Professionals were hired for tasks requiring a higher level of expertise.

**Leases.** Two types of leases were necessary: one between GMS and the building owner and one between GMS and each of the tenants.

**Building Lease.** The length of the lease between GMS and the building owner was important. A short-term lease may not give Springboard tenants who sign later leases enough time to establish their businesses before GMS's building lease expires. However, a long-term lease could become a

serious burden for GMS if ultimately the project is not financially viable. The solution was a lease with flexible renewal options, allowing GMS the ability to accommodate a tenant who comes in later in the initial lease period.

The lease with the building owner had to allow for subleasing of space. The building owner wanted to retain the right to approve sublessees. The lease was written to avoid excessive delays by specifying a short time frame for decisionmaking or the sublessee is presumed approved. In addition, the building owner's right to reject a sublessee must be based on clearly understood criteria. The lease also allows modifications to the building to accommodate a variety of tenants.

**Tenant Leases.** The lease between GMS and each tenant lists the specific activities in which tenants may engage. It also states that the on-site business will be the tenant's primary occupation for the term of the lease.

The lease addresses the relationships between tenants. It ensures that one tenant does not infringe on another's ability to do business in any way. Potential areas of conflict are hours of operation, the hours during which certain activities will occur, and deliveries. Use of any common areas is spelled out, including restrooms, kitchen, main entry, front windows, parking, and loading dock.

The lease requires the tenant to provide records of how the business is performing and to participate in regular evaluations of the business. In addition, the tenant agrees to comply with the recommendations of the mentoring panel unless to do so would result in an unbearable expense. GMS has the right to terminate the tenant's lease with reasonable notice if the business is not making adequate progress. The tenant must give adequate notice of their desire to renew the lease in order to give GMS time to make a decision with regard to renewal of the lease with the building owner. The lease states that GMS does not endorse the tenant businesses.

**Application Process.** The publicity for Genoa Springboard brought in a number of interested applicants. Many were not a good fit for the project for the following reasons:

- Inadequate capitalization of the proposed business
- Inability to demonstrate market support for the business
- Need for specialized space
- Need for a larger space

Interested parties who were not a good fit for Springboard were assisted in other ways. Some were shown other available downtown space. Several leased space and have become successful anchors of the downtown business community. Others were referred to existing businesses who might be good partners, resulting in some interesting ventures between existing businesses and home-based businesses. Others were encouraged to test the market for their products and services at the downtown area's monthly Open Air Market and are now regular vendors.

Applicants were initially screened over the phone. Those who were still interested and considered potentially suitable for the project were asked to complete a brief pre-application. The pre-application was reviewed by task force members. The next step was an interview with task force members. Applicants were asked to provide a business plan if one existed. If not, they were asked to address the questions usually covered in a business plan and provide a set of financial projections and a statement of the financial resources available to the proposed business. Applicants were required to have the financial resources to cover their expenses for their first quarter of operation. In addition, the new business venture had to be the applicant's full-time occupation. Based on this information, the suitability of the building for the proposed business, and the likelihood of the business benefiting by being in the incubator, a decision was made as to whether or not to invite the applicant to become a Springboard tenant.

The building was large enough to accommodate up to three businesses, depending on their individual space requirements. Ultimately, the space was divided between two applicants who were selected to be the first Springboard tenants. They are an accounting and tax services firm and a dry cleaner/tailor.

## Outcomes

Genoa Springboard has succeeded beyond expectations. The positive effects came much sooner than anticipated and have been broader than anticipated.

**Positive Image.** Springboard created an image of Genoa as a center for innovation. The publicity generated by this project was extensive and long lasting. The program attracted

the attention of individuals, organizations, and businesses and raised Genoa's visibility in a positive way. Many newspaper and magazine articles appeared. The project was presented in a variety of venues. As a result, many people with start-up ideas or existing businesses located elsewhere continue to inquire about locating in downtown Genoa.

**Industry Focus.** Springboard initially focused on retail businesses. Retail activities attract a larger number of people, thus benefiting the existing businesses downtown. Retailers generate more activity on the street, creating a more exciting and interesting environment for visitors. Retailers also generate sales tax revenue. The downtown's vacant buildings had been occupied by retailers, creating a desire for retailers to return to the community. Finally, retailers often need more assistance to succeed and, thus, are more likely to benefit from the incubator's services.

This industry focus changed as the project progressed. Publicity surrounding the proposed incubator project generated enough interest from retailers that most of the space well-suited to retail was leased while Springboard was still on the drawing board. Consequently, the industry focus shifted to professional services. This use allowed the project to locate in a building that was not prime retail space. In addition, with available space on Main Street nearly full, GMS began looking for new uses for off Main Street space. Thus, Springboard tenants are businesses that could eventually move into available larger vacant spaces located away from Main Street.

**Declining Vacancy Rates.** Springboard attracted applicants long before it was ready for occupancy. Early applicants were directed to other buildings and were assisted in making arrangements to lease space. Prospective tenants continued to inquire about space in the incubator even after all space was filled. These prospects were shown

other space downtown and were assisted with lease negotiations. As a result, the vacancy rate on Main Street is now virtually zero.

**Improved Business Climate.** The business climate in downtown Genoa has improved. Many businesses are experiencing growth in spite of the nationwide economic recession. No businesses have left Main Street since the beginning of the Springboard effort two years ago. A critical mass of businesses now exists, and existing businesses benefit from the increased customer traffic. Several businesses and properties that had been on the market for some time were sold.

**Success of the Tenants.** After approximately eight months of operation, Springboard tenants are pleased with the progress of their businesses. They have good working relationships with the mentors assigned to them, although follow-through on the implementation of suggestions varies. Both businesses are profitable and growing.

**Expansion of the Program.** The Springboard program has been expanded to assist existing downtown businesses. Some of the technical support initially developed for Springboard tenants has been offered to other businesses. For example, ten existing downtown businesses received low-cost marketing advice from a task force member. Some existing businesses are working with mentors to address problems and as a sounding board.

## Conclusion

A small business incubator has proved to be a successful catalyst for economic development. Rural communities can tap the resources of professionals and organizations in a broad geographic area to assist in making the project a reality. The benefits of the project include a raised profile for the community, a positive image as a place to locate a business, decreased vacancy rates, strengthened performance for existing businesses, and the development of new businesses that will grow over time.

Genoa Springboard is approaching the end of its initial lease term with its current tenants. Genoa Main Street, Inc. is evaluating its options for growing the program. The focus is likely to shift to off Main Street space because there is no longer any space available on Main Street. There will also be consideration of how to improve service to existing businesses.

The Genoa Springboard model has attracted attention statewide. Several communities have requested information as they consider ways to attract new businesses and strengthen existing businesses. The county has expressed interest in looking at Genoa Springboard as a model to be encouraged countywide.

Genoa Springboard has demonstrated that a small business incubator can be an effective tool for promoting downtown economic development in rural communities. Additional information can be obtained by contacting Genoa Main Street, Inc. Complete contact information is available at [genoamainstreet.org](http://genoamainstreet.org).

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