April 30, 2009

TO: Distribution
FR: Jim Greenwood, President, Greenwood Consulting Group, Inc.
RE: Survey of Incubators regarding impact of economic recession

Beginning in the fourth quarter of 2008, both the domestic and international economies went into the worst recession in decades. Like many industries, the incubator industry wondered how it would be impacted by this recession. Starting in mid November 2008, Greenwood Consulting Group, Inc. (GCGI), whose principals have been in the incubator industry for over 25 years, undertook a survey of incubators to ask how the recession was impacting them.

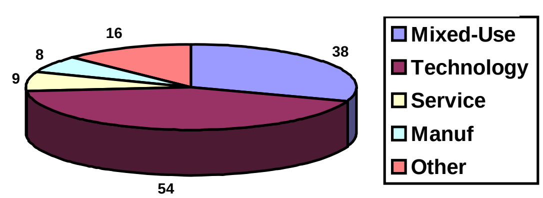
The survey was made available electronically through the SurveyMethods website (www.surveymethods.com). GCGI contacted a random, but not scientifically selected, subset of incubators that are members of the National Business Incubation Association (www.nbia.org), and asked them to complete the survey. A second request was sent to the same list of incubators, after the 2008 Holiday Season, to increase participation in the survey.

Ultimately, representatives of 93 incubators responded to this survey. This is about 20% of those incubators contacted by GCGI, which is far above the average response rate to such a survey, and demonstrates how this industry strives to be responsive and helpful to its fellow incubation programs.

Demographics of the Respondents

Figure 1 shows the types of incubators represented in this survey. Surprisingly, about 60% of respondents said their incubator is technology oriented, compared with only 42% who said their incubator was mixed-use (respondents could indicate multiple categories, so the total of all categories exceeds 100%). According to NBIA, the number of mixed-use incubators exceeds those that are technology oriented.[1] It is not clear why greater numbers of technology incubators responded to the survey.

Figure 1. Types of Incubators Responding



More than half of the survey respondents said their incubators were in urban areas. While the urban dominance is not surprising, the magnitude of that dominance was unexpected. Urban incubators exceeded the next largest category of respondents by more than a 2-to-1 margin: 56% of respondents came from urban incubators, while only 22%

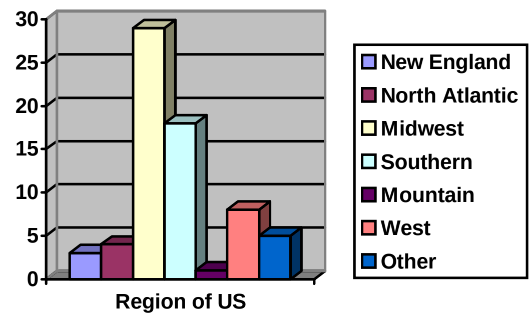
[1] 2006 State of the Incubation Industry, Figure 6, shows mixed-use and technology represent 54% and 39% of North American incubators, respectively

came from suburban ones. Rural incubators represented 12% of respondents and 10% gave “other” as their location, so there is a clear urban emphasis in the survey results.

GCGI surveyed international members of NBIA as well as domestic ones. About 26% of responses came from outside of the United States, with Canadian incubators representing less than a third of the international responses.

Among U.S. incubator responses, most came from the Midwest. Figure 2 shows the geographic distribution. Once again, it is unclear why the Midwest is over represented among those who responded to the survey.

Figure 2. U.S. Regions of Responses



Finally, the incubators represented in the survey serve a moderate number of companies, with about half of them having 11 to 25 clients/tenants, as shown in Figure 3. However, the physical size of survey respondent incubators is relatively large, with about 44% having 30,000 or more gross square feet of space. Figure 4 shows the size distribution of respondent incubators.

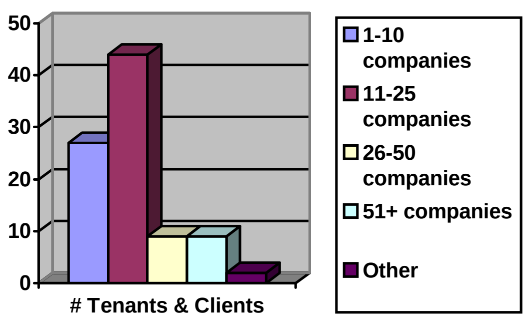


Figure 3. Respondents Client Base

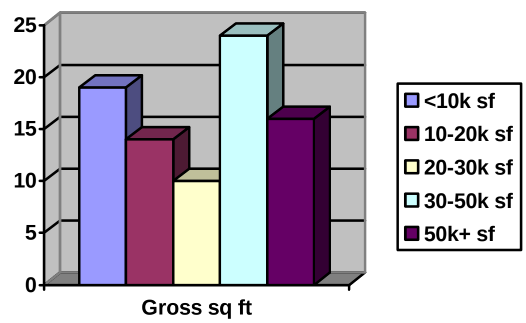


Figure 4. Incubator Sizes Represented

Impact of the Current Recession on Incubators

A slight majority of survey respondents report that the recession has impacted their incubators. About 53% of respondents said their incubator has been impacted, while 47% said it has not.

Those who reported an impact were asked to indicate the nature of the change they had seen. The most common impact was “level of interest in the incubator”: about 37% said that they had seen fewer inquiries from entrepreneurs and small businesses about becoming part of the incubator. The fraction of survey respondents who selected each of the six possible answers to this question is shown below:

37% Fewer inquiries about joining the incubator
31% Applicants generally requesting less space
29% Existing applicants slower to join the incubator
29% Applicants more resistant to incubator's prices for space and/or services
29% Applicants want to "seize the opportunity" and move quickly into the incubator, lease more space, etc.
24% Other

Note that all impacts listed are negative except the second to last one: it indicates that more than one-fourth of the surveyed incubators impacted by the current recession felt the impact was positive in that entrepreneurs and small companies wanted to take advantage of the opportunities that had emerged during the recession.

Survey respondents were asked if prospective tenants and clients were reacting differently, as the recession continues. About half (49%) of the respondents who answered this question said that potential tenants and clients were less likely to join the incubator. Only 17% said they thought potential tenants and clients were more likely to join the incubator as the recession lingers; taken together, the responses to these two questions suggests that there is an impact on the market for business incubation by the current recession, and that impact overall is negative. The answers to this and the previous question suggest that the overall impact of the recession on the market for incubators is negative. Although there is some evidence that the recession puts people in the position of starting businesses (perhaps as they are laid off from employment elsewhere), this seems to be more than offset by negative factors (e.g., less able to raise funds to start a business, more conservative outlook) that reduce the overall demand for incubators.

In response to the recession, what changes have incubators made to their programs and services? That survey question garnered a mixture of responses, but Figure 5 shows one dominates all the others: incubators are adding new services to help clients and tenants weather the recession. Two-thirds of survey respondents (66%) who answered this question are taking proactive steps to provide additional or different services to their tenants and clients. GCGI finds this to be one of the strongest conclusions from this survey: incubators are not ignoring the changed economic conditions and their impact on entrepreneurs and small businesses, but instead are implementing new services to help client survive and even thrive during the recession.

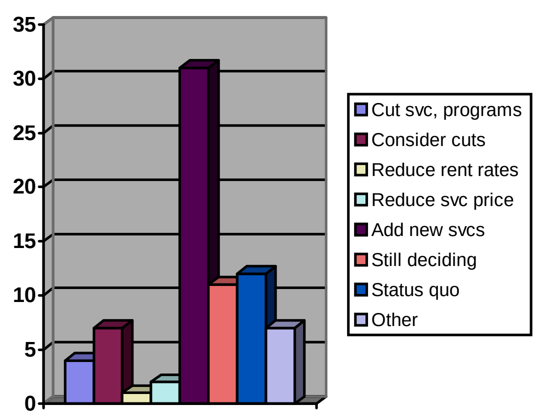


Figure 5. Responses to Recession

As stated earlier, about 47% of survey respondents said the recession was not impacting the level of interest in their incubation programs. GCGI asked those respondents why there was no impact. The following summarizes their responses:

44%	Other
30%	Entrepreneurs & small businesses find ways around problems
30%	Our incubator tenants/clients are in industries not affected by the current economic/financial crises
19%	Our local/regional economy is so strong it offsets International or national problems
2%	Our incubator is able to protect our tenants/clients from ill-effects of these crises
2%	Small businesses are immune to International and national economic and financial conditions

The catch-all category of "other" captured a number of responses, with the most common and interesting ones including:

- It is too early to say if/when the impact will occur
- The question asked if there was a change in interest in the incubator, not whether tenants/clients have been impacted
- Level of interest is the same but the issues are different now: cash flow, fund raising and survival
- Applications for the incubator have increased as companies try to cut overhead by using our shared services
- Wet lab space is at a premium in our community, so we still have strong demand

GCGI finds it a concern that only 2% of respondents felt that their incubator was able to protect tenants/clients from the recession. Perhaps this reflects in part that we all are in "uncharted waters," where no one knows for sure what will help or not given the uniqueness of this recession. For whatever reason, those who said the recession had not changed the level of interest in their incubators said so because of external variables, like having a recession-resistant local economy, or entrepreneurs' much-touted ability to be nimble and flexible in the face of uncertainty.

Recession Impact on U.S. vs. Foreign Incubators

Of the 93 respondents to the GCGI survey, 68 represented incubators in the United States. When responses for only U.S. incubators are compared with those for foreign incubators, the outcomes are somewhat different than reported above. Note in this section that the 93 overall respondents are discussed as two subgroups: 68 who represent U.S. incubators, and 25 who represent foreign incubators.

One noticeable difference is the fraction of respondents who feel the recession is impacting their programs. As shown in the following table, more foreign incubators (56%) felt their programs were impacted by the recession compared to US incubators

(51%). One possible explanation for this is that we believe foreign incubators are newer, and therefore less stable and probably less able to weather changes in demand. They also may be in countries where entrepreneurship is relatively new, these business owners are less likely to have experienced recessions and other economic downturns, and therefore foreign incubator clients might react more dramatically to this recession than their counterparts in the United States.

	Foreign Respondents	US Respondents
Incubator Impacted	56%	51%
Incubator Not Impacted	44%	49%

The following table shows differences in the impact felt by foreign survey respondents versus only those in the US. While the results are similar in a number of categories, the differences are dramatic in others. For example, foreign incubators (compared to U.S. incubators) are seeing applicants move slower to join the incubator and, when they do, they are much more likely to take less space. However, when it comes to having clients who want to “seize the opportunity” during the recession, foreign incubators are much more likely to experience this in comparison to U.S. incubators. Therefore, when compared to U.S. programs, foreign incubators may have seen a greater decline in the numbers of new clients and the space they occupy, but those clients who are joining the incubator are more likely to be envisioning an opportunity to start or grow a business during the recession.

	Foreign Respondents	US Respondents
Fewer inquiries about joining the incubator	36%	37%
Existing applicants slower to join the incubator	21	31
Applicants generally requesting less space	21	34
Applicants more resistant to prices for space &/or srvcs	29	29
Applicants want to “seize the opportunity,” move quickly into the incubator, lease more space, etc.	36	26
Other	29	23

Foreign and U.S. incubators also are different in some of their responses to the impact of the recession on their programs. As the following table shows, foreign programs are more likely to have decided how they were going to respond to the recession, and have made those changes: note that only 15% of foreign incubators were still trying to decide how to respond (vs. 26% of U.S. incubators), and only 15% of foreign incubators were maintaining the status quo, versus 29% of U.S. incubators. U.S. incubators were less likely to use price cutting as a response to the recession, with no U.S. incubators cutting rental rates (vs. 8% of foreign incubators) and only 3% cutting service prices (vs. 8% of foreign incubators). However, there is consistency among both foreign and U.S. incubators in the focus on adding new services to help tenants and clients cope with (and perhaps exploit) the recession.

	Foreign Respondents	US Respondents
Cutting services, programs, costs	8%	9%
Considering such cuts	15	15
Reducing rental rates	8	0
Reducing service prices	8	3
Adding new services	69	65
Still deciding how to respond	15	26
Maintaining status quo for now	15	29
Other	31	9

Summary & Conclusions

Just over half of respondents to this survey indicate that their incubator's clients and tenants are being impacted by the recession, although some of those who say they are not being impacted now believe it is only a matter of time until they are. The negative impacts on incubators reported most are fewer inquiries about joining the incubator program, tenants renting less space, resistance to prices for space and services, and applicants being slower to join the incubator. As the recession continues, a majority of survey respondents felt more negative impacts than positive ones were occurring to their incubators.

Incubators who report that the recession has not impacted them or their tenants/clients give primarily "external" reasons for this, such as the natural adaptability of entrepreneurs to changing conditions and the recession-resistant nature of the area's economy—a mere 2% say it is because the incubator itself is able to protect the tenants and clients from the ill-effects of the recession. However, most incubators that have seen an impact are responding to the recession proactively, by adding new services to help their clients/tenants weather the recession. The other positive indicator coming from this survey is that 29% of survey respondents sat the recession has had a positive impact in that some incubator applicants are trying to "seize this opportunity" and use the incubator to help increase their ability to do so.

U.S. incubators are experiencing different impacts of the recession compared to foreign incubators, with foreign incubators more likely to see clients being slow to commit to joining the incubator and leasing less space when they do. Foreign incubators also are more likely to cut their prices during the recession. However, foreign incubators are more likely to have new clients joining their programs to pursue opportunities created by the recession.

As a follow on to this survey, GCGI recommends several future actions:

First, it would be beneficial to develop a database of new services that incubators are implementing to help tenants/clients during the recession, so that other incubators might also try them.

Second, an assessment of how useful those new services are in helping incubator tenants/clients would help other communities decide whether to implement similar services.

Third, a follow up survey would help in understanding whether the impacts seen in the first few months (and reported here) continued during the recession, get worse, or diminish.

GCGI would like to thank the representatives of the 93 incubators throughout the world who participated in this attempt to understand the impact of the current recession on the incubator industry.