

## Authorization of Investment - Downtown Business Incubator

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Recommended by:	Chief Administrative Officer

## Report Summary

This report provides a recommendation from the Greater Sudbury Development Corporation (GSDC) regarding Council's authorization of an investment of up to \$1,159,177 over four years from the Community Economic Development (CED) Fund to support the establishment of a Downtown Business Incubator.

## Resolution

WHEREAS the agreed terms of partnership between the City of Greater Sudbury Community Development Committee, operating as the Greater Sudbury Development Corporation (or GSDC) and the City of Greater Sudbury state that all funding investments of \$250,000 or greater require authorization of Council;

AND WHEREAS the Downtown Business Incubator advances the City's objectives related to Business Attraction, Development and Retention as well as Economic Capacity and Investment Readiness and Community Vibrancy, and is noted as a strategic goal within the City's *Strategic Plan 2019-2027*;

THEREFORE BE IT RESOLVED that upon recommendation by the Greater Sudbury Development Corporation, the City of Greater Sudbury hereby approves an investment of up to \$1,159,177 over four years (including contributions of \$309,998, \$305,470, \$297,381 and \$246,327 from 2021-2024 respectively), to be funded from the Community Economic Development (CED) Fund;

AND THAT this contribution will support the establishment of the Greater Sudbury Downtown Business Incubator to foster early-stage, innovative, high growth potential business start-ups across a spectrum of sectors and industries as outlined in the report entitled "Authorization of Investment – Downtown Business Incubator", from the Chief Administrative Officer, presented at the City Council meeting on June 15, 2021.

## Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report refers to the goal of supporting Business Attraction, Development and Retention as identified in the City of Greater Sudbury Strategic Plan, and also addresses objectives related to Economic Capacity & Investment Readiness as well as Community Vibrancy. These goals are advanced through the creation of economic development initiatives that support existing businesses, attract new businesses and promote entrepreneurship within our community. Further, under Goal 2.1, the *Strategic Plan 2019-2027* refers

explicitly to “support the establishment of the Downtown Business Incubator, a physical space and associated programming to help new business startups launch and scale-up”. These goals and initiatives align well with the intent of the Downtown Business Incubator, which aims to create a hub of economic activity in Greater Sudbury that supports early stage, innovative, high growth potential business start-ups across a spectrum of sectors/industries while supporting the further development of the community’s growing entrepreneurship and innovation ecosystem.

## **Financial Implications**

If approved, up to \$1,159,177 over four years (\$309,998, \$305,470, \$297,381 and \$246,327 from 2021-2024 respectively) will be funded from the Greater Sudbury Development Corporation’s Community Economic Development Fund, which receives funding through an annual grant from the City of Greater Sudbury.

## **Background**

### **Report Purpose**

The purpose of this report is to seek Council’s authorization for GSDC funding for the establishment of the Downtown Business Incubator. This funding leverages previously approved funds from FedNor to create a hub of economic activity in Greater Sudbury that supports early stage, innovative, high growth potential business start-ups across a spectrum of sectors/industries. If approved, the City of Greater Sudbury, via the GSDC and with the support of the City’s Economic Development division, would collaborate with NORCAT and the Greater Sudbury Chamber of Commerce to establish the Incubator in the downtown core.

### **Project Description**

The Downtown Business Incubator will allow the City of Greater Sudbury’s Regional Business Centre, (which operates as part of the City’s Economic Development division) to collaborate with NORCAT and the Greater Sudbury Chamber of Commerce to establish an Incubator program. This initiative will in turn create a hub of economic activity in Greater Sudbury that supports early stage, innovative, high growth potential business start-ups across a spectrum of sectors/industries. The Downtown Business Incubator will:

- Contribute to sustainable job creation, and provide enhanced economic growth opportunities for Greater Sudbury, while assisting and supporting the further development of Sudbury’s growing entrepreneurship and innovation ecosystem.
- Provide a competitive, application-based program that will focus on innovative high-growth/scalable firms in Greater Sudbury. Successful applicants will be given office space, and access to a number of resources, including mentorship, workshops, subject matter experts, and opportunities to raise capital in order to grow and scale their venture. There will be established check-in points throughout the program where the Program Coordinator and the resident will review milestones and progress.
- Engage participating startup companies committed to a minimum of 20 hours per week and a maximum stay of 12 months in the space. Exceptions may be made to extend the stay, with a hard cap on 24 months. It must be stressed that the Incubator is not simply a new piece of commercial real estate offering discounted space to entrepreneurs, but rather a tailored entrepreneurship support program aimed at maximizing their likelihood of success.
- Build capacity within each startup company so that they can commercialize their product/service, generate early revenue, raise capital, create knowledge-based jobs and graduate into spaces of their own. It will also provide amenities and resources in order to reduce barriers for potential high-growth

firms so that they can concentrate on building and scaling their business and commercializing their product or service.

- Enhance the City's efforts in growing Greater Sudbury's tech ecosystem, retaining and attracting talent as a result of the development of interesting and competitive startups, and attracting and mobilizing capital in the community.
- Focus attention and resources in Downtown Sudbury as a means of encouraging increased foot traffic in the area, contributing to downtown revitalization and helping to foster the startup and growth of new companies that will eventually 'graduate' from the incubator and move into other commercial spaces in the downtown up as they grow.

In addition, the following benefits are also anticipated:

- Talent retention/attraction – more competitive startups will raise more capital and be able to offer competitive salaries to the talent they need to grow their ventures
- Investments in startup companies from outside of the Greater Sudbury region
- The enhancement of the local innovation ecosystem resulting from the resources brought to bear as part of this project and as a result of graduating competitive, high-growth startup ventures.
- Continuing to build on a culture of innovation and entrepreneurialism
- Create a pipeline of eligible startups for the Sudbury Catalyst Fund

This project will have a lasting, positive impact on our community, both in terms of the economic benefits generated from the creation of competitive ventures, and more broadly on the maturing technology and innovation ecosystem present in Greater Sudbury.

## **Opportunity**

In November 2015, the GSDC formally adopted a new economic development strategic plan entitled *From the Ground Up*. One of the goals identified in the Plan is the development of "a robust entrepreneurship ecosystem". In order for entrepreneurs to succeed in their ventures, they need access to the necessary resources. To ensure the success of local entrepreneurs, Objective 1.2 of the Plan seeks to "generate new business start-ups and encourage entrepreneurship in key sectors of the economy". Furthermore, action 1.2.1 states "Develop more virtual and physical business incubation spaces to encourage new business start-ups and increase their success rate, and foster an environment for job creation."

The Downtown Business Incubator will meet the growing needs of our community and aligns well with the City's Economic Support and Recovery initiatives.

The *Post-Viral Pivot* report released in April 2020 by the Innovation Economy Council states that even before COVID-19, Canada's technology startups were part of the vital ecosystem of companies that were leading the country in job creation and economic growth.

Over the years, the need for innovative companies has grown exponentially as people and businesses have had to adopt new technologies to work safely, efficiently and remotely. The shift from traditional to a tech-driven economy is being accelerated by the pandemic and innovations are being adopted out of sheer necessity. This new way of doing things will shape the post-pandemic economy and innovation across all sectors will become even more important than it is today.

The establishment of an Incubator will support and increase the potential success of innovative and tech-enabled companies in our community:

- A 2010 study by National Business Incubation Association (NBIA), found the survival rate for incubated companies, after five years, is 87 percent

- This is significant when compared with a survival rate of 44 percent for companies that did not launch from Incubators.
- Equally important is that 84 percent of companies that graduate from an Incubator stay in the communities where they were incubated.

Greater Sudbury is also one of the few major centres in the province without a dedicated incubation space. Furthermore, the establishment of a business Incubator dovetails well with the establishment of the Sudbury Catalyst Fund as it could create a pipeline of eligible startups for the Fund or potentially house and service start-ups receiving an investment from the Fund.

Through the Incubator, the City of Greater Sudbury has the opportunity to invest in future growth to emerge from the pandemic with new and lasting economic strength.

### **Expected Outcomes and Benefits**

Over the length of the proposed project, it is anticipated that the Incubator will support 30 graduating companies and will create a minimum of 60 knowledge-based jobs. Furthermore, the virtual incubation services will provide increased access to business support services for additional start-ups. With the total project cost of \$2,074,697, the following return on investment can be calculated:

- 1 job created for every \$34,578 invested
- 1 business started, attracted, retained and/or expanded for every \$69,157 invested

To ensure the program is thriving, the following metrics will be collected on participating startups during their participation in the program and up to five years after their graduation:

- Number of jobs created by participating companies
- Number of companies participating in the program
- Number of companies that graduate from the program
- The amount of investment companies receive
- The amount of government funding companies receive

In addition to the measurable benefits listed above, the following benefits are also anticipated:

- Talent retention/attraction – more competitive startups will raise more capital and be able to offer competitive salaries to the talent they need to grow their ventures
- Investments in startup companies from outside of the Sudbury region
- The enhancement of the local innovation ecosystem resulting from the resources brought to bear as part of this project, and as a result of graduating competitive, high-growth startup ventures.
- Continuing to build on a culture of innovation and entrepreneurialism
- Create a pipeline of eligible startups for the Sudbury Catalyst Fund

### **Programming**

While there are other organizations that offer startup and expansion support in the community, none offer the in-depth incubation and support services offered by the Downtown Incubator, including the innovation hub operated by NORCAT.

It should be noted that NORCAT Innovation, a key partner in the project, has been actively engaged and supportive in the development of differentiated incubation services that will be significantly more accelerated, regimented and scheduled than existing programming provided by the Regional Innovation Centre.

Currently, NORCAT Innovation operates a rolling intake process. New startups are connected with mentors and other community resources on an ad hoc or as needed basis. The onus is on the startup founders to follow-up and complete their “homework”. The path forward is loosely defined and staff work at the pace of the founder. There is no obligation to engage with mentors or to participate in intermittently scheduled workshops and startups are welcome to live within the space for indefinite lengths of time.

The Downtown Incubator program will offer similar resources, but they will be delivered in a much more formalized and prescribed way. The Downtown Incubator will adopt a competitive application process to select the six highest quality applicants to participate in the accelerated 12-month cohort of the program. The program will be modeled after the Starter Company Plus program which the Regional Business Centre has successfully delivered since 2017. To remain within the space, participating firms must be actively engaged in programming through their participation in a number of regularly scheduled mandatory and elective workshops, scheduled check-ins with mentors as well as the expectation to set and meet milestones. By adopting a consistent cohort training model that requires founders to participate in mandatory core workshops and select sessions from a number of elective topics, it will allow startups to tailor the training program to their individual needs. The program will provide participating firms with the support to grow and graduate out of the space after 12 months thus regularly growing the pool of businesses seeking new real estate opportunities and contributing to Downtown revitalization.

### **Benefits to Participating Businesses**

According to Innovation, Science & Economic Development Canada statistics, approximately 96% of small businesses (1-99) survive for one full year, 85% survive for three years and 70% survive for 5 years. An Industry Canada study cites that the main reason for business failure is inexperienced management that does not have the knowledge or vision to run their business.

The Incubator will support entrepreneurs in the following areas to increase their likelihood of success:

**Strategic Focus (Leadership, management, planning):** Passion and a great idea are not enough to succeed in business. Successful businesses have leaders with a strategic vision who can communicate effectively, make sound decisions as well as inspire and mobilize a team.

Incubator programming will leverage industry expertise to facilitate workshops and provide mentorship to clients on a variety of specialized topics including business planning, HR practices, leadership, market research, sales & marketing, etc.

**Seeking professional advice:** One of the most common mistakes an entrepreneur can make is not seeking professional advice. Successful business owners are aware of their own strengths and must be open to advice in areas of weaknesses.

The Incubator will create an environment where it is not only accepted but encouraged to seek feedback, support and advice. Through mentoring, programming and a co-working space, entrepreneurs will consistently have access to professional advice from industry experts and experienced entrepreneurs that can help them develop a feasible business model, stay on track and move forward, avoid making mistakes, access data or knowledge that the average business owner cannot, test ideas, create efficiencies, plan for growth, etc.

**Building a personal network:** Networking is essential for thriving and successful businesses. Through networking, entrepreneurs build relationships with others that expand the business’ ability to find new customers, partner and grow. As a business’s network grows, so does its resources and potential for success.

The Incubator will provide entrepreneurs with the opportunity to collaborate and network with like-minded innovative entrepreneurs, mentors, workshop facilitators and community members through a collaborative space, events and engaging programming.

The Regional Business Centre has seen the benefit of fostering these collaborative environments through the weekly programming delivered in the Starter Company Plus program. Participants of the program use each other as sounding boards, promote each other and collaborate on projects.

**Overcoming financial challenges:** By providing amenities and resources at reduced costs during the first year of business, the Incubator will reduce barriers for potential high growth firms so that they can concentrate on building and scaling their business and commercializing their product or service.

Furthermore, Incubator programming and mentors will provide entrepreneurs with access to angel investors and venture capitalists as well as refer them to the appropriate funding and financing sources.

## **Location**

The location is an important consideration in the establishment of an Incubator space. To be successful, the space must be designed to maximize opportunities for “collisions” between program participants and create a dynamic environment that fosters a feeling of creativity, innovation, collaboration and entrepreneurship.

Staff worked with the City’s Real Estate department to identify potential spaces for the Incubator. Using a site selection matrix to ensure a fair and transparent evaluation process, a team of staff convened to evaluate five sites that were identified as available and potentially suitable.

Given the results of the analysis undertaken, staff have selected the most suitable site for the Downtown Business Incubator and will be recommending it to Council to obtain required authorization to enter a lease agreement, pending approval of required funding.

## **Leasehold Improvements**

The preferred location would require up to \$253,847 in leasehold improvements which includes costs associated with architecture, interior design and construction management. Staff will work with the landlord to minimize leasehold improvement costs despite the rising costs in construction material due to COVID-19.

Leasehold improvements necessary to accommodate the functional needs of the Incubator:

- 1 reception desk
- 5 offices (2 Incubator staff, 2 Entrepreneurs In Residence and 1 rotational ecosystem stakeholder)
- 1 small breakout room
- 1 large boardroom for 15-20 people
- Small lounge area
- Large open area that would allow for configurable desks for 12 people (adjustable and movable based on the need of each cohort)
- Kitchen
- Accessible washroom
- 4-6 hot desks

## **Project Timeline**

Staff are proposing the following timeline which includes time needed to complete leasehold improvements, promote the program and finalize programming before the space is ready to welcome its first of five cohorts of participants.

Careful consideration was also given to determine the launch date for the first cohort of the program. Based on the Regional Business Centre’s extensive experience in promoting programs, recruiting and selecting participants and delivering structured programming, it is recommended that the first intake be launched in March 2022 with overlapping training between cohorts to allow for participant schedule flexibility as well as to

encourage networking and collaboration between participants of each cohort.

Project Milestones	Timing	
	Start month/year	End month/year
•Site visits, evaluation and selection	December 2020	April 2021
•Lease review & negotiations	May 2021	May 2021
•GSDC funding approved by Council	June 2021	June 2021
•Prepare and present report to Planning Committee	May 2021	June 2021
•Recruit program staff - Program Coordinator and Marketing & Community Officer	May 2021	June 2021
•By-Law approved by City Council to sign lease agreement	July 2021	July 2021
•Develop marketing materials, branding and online presence •Develop website •Intake form •About Incubator program & FAQ •Translation of content	July 2021	November 2021
•Finalize program •Schedule service providers and facilitators for workshops •Key dates and milestones established for startups •Recruit Entrepreneurs in Residence	July 2021	December 2021
•Space design & leasehold improvements	August 2021	December 2021
•Purchase furniture and other amenities •Begin marketing campaign for Incubator program •Solicit applications for first cohort	December 2021	February 2022
•On-going promotion • Review applications and invite startups into space	January 2021	February 2022
• First cohort starts in space • Programming begins	March 2022	August 2022
• Second cohort starts • Programming Audit	September 2022	February 2023
• Third cohort starts	March 2023	August 2023
• Fourth cohort starts	September 2023	February 2024
• Fifth cohort starts	March 2024	August 2024
• Programming Audit	September 2024	October 2024

## Project Costs

Expenditures	Year 1 2021	Year 2 2022	Year 3 2023	Year 4 2024	Total
<b>Capital Expenses</b>					
Capital Equipment / Furniture / Fixtures	\$102,201	\$95,235	\$19,243	\$8,487	\$225,166
Leasehold Improvements	\$244,351	\$2,500	\$2,500	\$4,496	\$253,847
<b>Operating Expenses</b>					
Marketing	\$56,801	\$35,067	\$33,209	\$24,983	\$150,061
Translation	\$8,500	\$5,500	\$5,500	\$5,500	\$25,000
Programming	\$4,901	\$103,700	\$124,609	\$111,296	\$344,506
Office Supplies & Services	\$7,451	\$47,067	\$47,475	\$36,451	\$138,445
Staffing	\$100,801	\$173,167	\$177,358	\$147,896	\$599,223
Insurance	\$700	\$4,326	\$4,456	\$2,971	\$12,452
Lease & Utilities	\$20,507	\$80,283	\$104,540	\$97,312	\$302,642
Telephone & Internet	\$1,350	\$8,100	\$8,343	\$5,562	\$23,355
<b>Total Expenses</b>	<b>\$547,563</b>	<b>\$554,947</b>	<b>\$527,233</b>	<b>\$444,954</b>	<b>\$2,074,697</b>

## Project Financing

Revenues	Status	Year 1 2021	Year 2 2022	Year 3 2023	Year 4 2024	Total	%
GSDC	Pending	\$309,998	\$305,470	\$297,381	\$246,327	\$1,159,177	56%
FedNor	Confirmed	\$237,564	\$168,127	\$122,002	\$104,227	\$631,920	30%
Greater Sudbury Chamber of Commerce	Confirmed	\$0	\$5,000	\$5,000	\$5,000	\$15,000	1%
Revenue – Rental and Sponsorship	Pending	\$0	\$76,350	\$102,850	\$89,400	\$268,600	13%
<b>Total Expenses</b>		<b>\$547,563</b>	<b>\$554,947</b>	<b>\$527,233</b>	<b>\$444,954</b>	<b>\$2,074,697</b>	

## Due Diligence

In early 2018, the development of a Downtown Business Incubator was identified as a priority by the Greater Sudbury Development Corporation (GSDC) Board of Directors. This priority was reaffirmed by the Board in 2019. As a result, the City of Greater Sudbury, NORCAT and the Greater Sudbury Chamber of Commerce developed a partnership to move the project forward under the coordination of the Economic Development Division's Regional Business Centre.

On December 6<sup>th</sup>, 2018, the GSDC approved an investment from the CED Fund of \$210,493 to establish a business Incubator contingent upon securing matching funds from federal and provincial funding agencies. The City of Greater Sudbury, the lead applicant, worked with the project partners to develop a Phase 1 application which was submitted to FedNor and NOHFC on February 13<sup>th</sup>, 2019. The initial applications were approved by both agencies to move forward to the next phase and a Phase 2 application was subsequently submitted to both agencies on July 8<sup>th</sup>, 2019.

On March 4<sup>th</sup> 2020, FedNor approved the Phase 2 application contingent upon securing necessary funding from NOHFC or an equivalent government source.

On November 2, 2020, approximately 15 months after the Phase 2 application was submitted, staff were informed that the NOHFC Board of Directors declined the proposal. A letter of appeal was submitted in



December 2020, but this request was ultimately declined in April of this year.

Given the challenges with obtaining provincial funding for this program, staff brought forward the updated Downtown Incubator project to the CED Committee for review and consideration of additional funding from the GSDC. At its May 12, 2021 meeting, the GSDC Board of Directors approved an investment of up to \$1,159,177 to support the establishment of the Downtown Business Incubator, subject to authorization by Council (as per the partnership between the GSDC and City Council).

It should be noted that since 2018, staff have prepared for the development of a successful Incubator through the following activities:

- Participation in a variety of Incubator-related workshops hosted by the Economic Developers Association of Canada (EDAC) and the Economic Development Council of Ontario (EDCO)
- Tours of Incubator facilities in other communities to meet with lead staff to discuss programming, services, client relationship management, funding, etc.
- Extensive consultations with the Manager of an Incubator of similar size and scope.

The information provided from these interactions was fundamental in the development of the project plan. Additionally, staff and members of the CED Committee diligently explored opportunities to allow the project to move forward in a cost-effective way. The Committee has been instrumental in providing guidance and carefully reviewing the opportunity over many months.

Furthermore, despite pandemic-related challenges, it remains possible to move forward with the project by:

- Adopting recommended health and safety guidelines should they still be in place in March 2022
- Utilizing technology or a hybrid model to provide training, mentorship and coaching virtually
- Practicing physical distancing within approximately 5,000 sq. ft. of space through the appropriate furniture layout and scattered/scheduled use of space
- Maintaining the proposed 6 participant limit during the first 6-month intake (March 2022) and limiting the number of participants in future overlapping intakes if necessary (Intake 2: September 2022)

## **Next Steps**

Should this investment be authorized by Council, staff will prepare a report to request that Council delegates the authority to negotiate and finalize the lease agreement with the landlord for the preferred location.

## **Resources Cited**

Innovation Economy Council. (2020, August 24). *The Post-Viral Pivot: How Canada's Tech Startups Can Drive the Recovery from COVID-19*. <https://innovationeconomyCouncil.com/reports/the-post-viral-pivot-how-canadas-tech-startups-can-drive-the-recovery-from-covid-19/>