

RESEARCH REPORT

Local Jobs and Income Growth: The Decatur Industry and Technology Center Impacts

David H. Hearn, Deborah M. Markley, and Kevin T. McNamara¹

Overview of Results

This report summarizes the results of an evaluation of the impacts of the Decatur Industry and Technology Center (DITC) on both client firms and the local economy. DITC provides facilities, business services, and business advice to small start-up firms which choose to locate there.

The key findings of this study are that:

- Thirty percent of tenant and graduate firms would not have located in Decatur if DITC had not existed.
- A vast majority of tenant and graduate firms either located or plan to locate in the Decatur community upon leaving DITC, boosting employment and income in the Decatur area.
- Nearly 94 percent of tenant and graduate firms were satisfied or very satisfied with their experiences in DITC.
- Over 90 percent of tenant and graduate firms believe that DITC had a positive impact on their business success.
- A majority of sales by DITC tenants and graduates are made to customers outside Decatur and Illinois,

bringing income from other areas to the local and state economies.

- DITC tenants and graduates had 319 employees in 1993, and their activities stimulated an additional 152 jobs in the local economy.
- DITC tenant and graduate firms paid about \$6 million in wages and salaries in 1993, which resulted in about \$8.4 million in total additional income to the Decatur economy.

The evaluation of DITC suggests that business incubators can be an important part of a community's economic development program. By nurturing home-grown businesses through the very difficult start-up stage, DITC provides a way for local entrepreneurs to enter the economy without encountering some of the problems and high initial costs which often confront new firms.

¹The authors are Research Assistant and Rural Development Economists, respectively, Department of Agricultural Economics. The authors wish to acknowledge Dr. Arnold C. Cooper for sharing his insights into entrepreneurial theory and providing a critique of the questionnaire used in this study. We also wish to acknowledge Dr. Roger Beck and Dr. John Carihfield for their assistance providing data for the analysis. Inaki Péna, graduate research assistant, provided assistance with data entry. Funding for this project from the U.S. Department of Agriculture's National Research Initiatives program is gratefully acknowledged.

Introduction

Business incubators emerged as a popular economic development tool during the 1980s. By 1991, there were roughly 450 incubators in rural economies, comprising 28 percent of all incubators in the U.S. (Stenberg, 1993). Business incubators can be important to the long-run health of small or rural economies by helping create jobs and income through support of start-up firms. Business incubators typically provide physical facilities, business services, and/or business advice to newly emerging local businesses. Client firms are able to lower initial operating costs by sharing personnel (e.g., clerical staff) and equipment (e.g., computer, fax) with other businesses. These firms benefit from locating in a facility with other new businesses, where they can share their problems, expertise, and experience.

The Decatur Industry and Technology Center (DITC) study examined the characteristics and impacts of a single business incubator, the Decatur Industry and Technology Center (DITC) in Decatur, Illinois. This report is on the first of four incubator evaluations funded through a National Research Initiatives Program grant of the U.S. Department of Agriculture. This research project identifies the direct and total impacts of DITC firms on employment and income in the Decatur community. Personal interviews were conducted with the director of DITC and operators of current tenant and graduate firms of DITC. The data collected in these interviews are summarized in this report.

About the Decatur Industry and Technology Center

DITC began operations in 1986. With the help of government grants, an abandoned plant, donated to the community by a large manufacturer that had left the area, was refurbished to serve as the DITC. Its goals were to create economic diversity in the community, assist and train entrepreneurs, and earn enough in payments to maintain its facilities and be self-sufficient. DITC is owned by the city of Decatur and managed by the Community Development Corporation of Decatur. It operates without public subsidy of its operating budget.

The incubator has 153,000 square feet of manufacturing (light, medium, or heavy), commercial, and office space, and offers a variety of business services to its clients. A sample of 23 current tenants and eight graduates was used in this study, representing 82 percent of tenants and 73 percent of graduates. The interviews were conducted in October 1993.

Characteristics of DITC Firms²

Most of the firms which are located in or graduated from DITC are quite young (Figure 1). Twenty firms are no more than five years old, and 14 have existed only one or two years. As would be expected of young firms, they are also quite small (Figure 2). Almost 60 percent of firms employ less than five employees, and over 80 percent of them have fewer than 10 employees. Only one firm employs more than 100 people.

Sixty-seven percent of DITC firms produce either services or manufactured goods (Figure 3). Nearly 24 percent engage in wholesale or retail trade. Figure 4 shows the factors which have been most important to the success of DITC firms. Ninety percent or more of all firms cited customer service and product quality as important factors, and 71 percent believed that unique and/or customized products were strong determinants of their success.

Firms' Experience in DITC

Almost 94 percent of firms were "satisfied" or "very satisfied" with their experience in DITC (Figure 5). About 50 percent of firms identified some unforeseen problems associated with DITC. The majority of problems were related to the physical facility, specifically space limitations or inadequacies. Most firms believed that the manager of DITC helped communication and cooperation among firms (Figure 6). Nearly 84 percent of the respondents believed that the DITC manager was "important" or "very important" in this role. Over 90 percent of firms believed that DITC had a "positive" or "very positive" effect on their business success (Figure 7).

Most of the services offered by DITC were useful to the client firms (Figure 8). Over half of current and former tenants used the business counseling, telephone, photocopying, business resource materials, receptionist, and mailing services at least several times per year. The fax, conference rooms, and secretarial services were also used by many of the firms.

Economic and Fiscal Impacts of DITC Firms

DITC clients and graduates employed 319 workers in 1993 (Figure 9). Expenditures by the DITC firms and their employees in the local economy resulted in an additional 152 jobs in the area, for a total impact of 471 jobs in 1993. DITC firms paid wages and salaries to

²For more detailed information about the evaluation of DITC, see Markley and McNamara.

their employees of about \$6 million in 1993 (Figure 10). When multiplied through employees' purchases, the total income impact to the Decatur community was nearly \$8.5 million.

DITC manufacturers accounted for 30 percent of all firms in 1993. These manufacturers hired 70 percent of all employees (Figure 11) and paid 69 percent of total wages and salaries (Figure 12). Firms engaged in producing services, about 37 percent of all firms, employed 16 percent of the total DITC-related workers and paid more than 20 percent of the wages and salaries.

DITC firms also generated benefits for state government. The state realized an estimated \$2.54 million in additional revenue as a result of the employment and sales by the firms nurtured in DITC (Figure 13). Higher personal income and sales taxes paid by the additional workers in the economy were the two largest sources of additional state revenue, over \$1.2 million together.

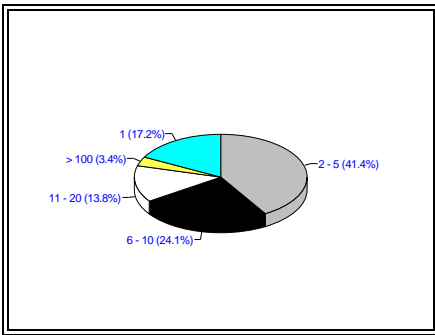
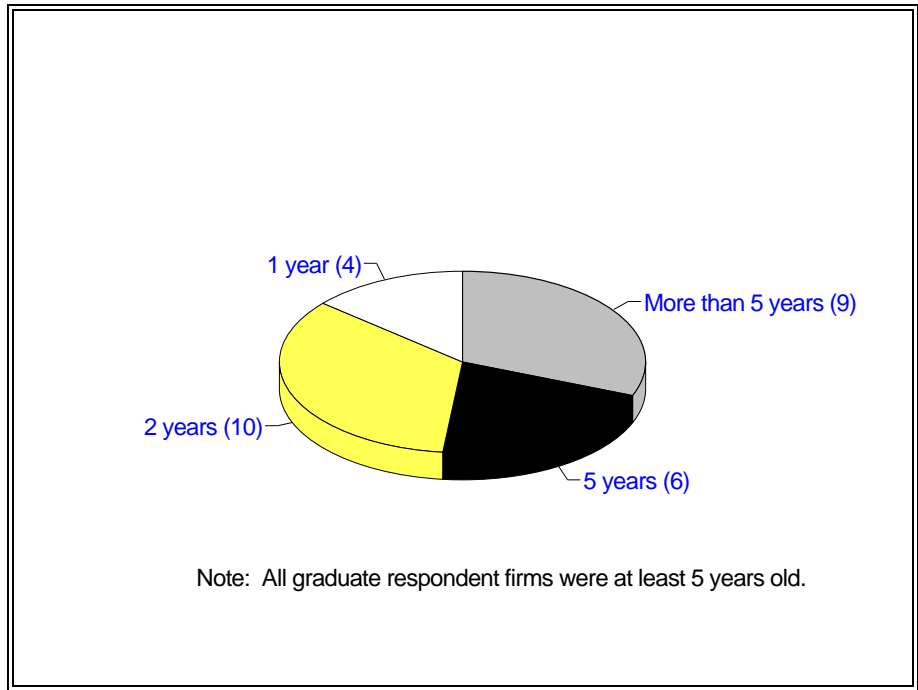
Distribution of the Impacts of DITC

A majority of sales by DITC firms have been to customers outside of Illinois (Figure 14), nearly 80 percent of sales in 1993. DITC firms have brought income from outside the state to the Decatur-area economy. Over 90 percent of the employees of DITC firms were from the Decatur area, with less than one percent hired from out-of-state (Figure 15). Most of the employment benefits associated with DITC firms have been captured by the local community. In addition, nearly 97 percent of these employees earned at least \$5 per hour, and about 31 percent earned over \$10 per hour.

Conclusions

The Decatur Industry and Technology Center is an example of a successful and effective business incubator. It provides needed space and services to newly emerging businesses in the community to nurture them through their difficult early years. With DITC's help, these firms have become engines for employment and income growth in Decatur. Most importantly, the Center is helping to generate manufacturing jobs in the community and the state. Both areas relied heavily on the manufacturing sector for employment in the past (Swonk) and suffered from a decline in heavy manufacturing during the 1980s (Markley and McNamara). DITC is achieving its goals of supporting entrepreneurs, encouraging economic diversity, and increasing employment and income within the local economy.

Figure 1.
Age of DITC Firms



Distribution of DITC Firms by Number of Employees, 1993

Figure 2.

Figure 3.
Distribution of DITC
Firms by Industrial
Sector, 1993

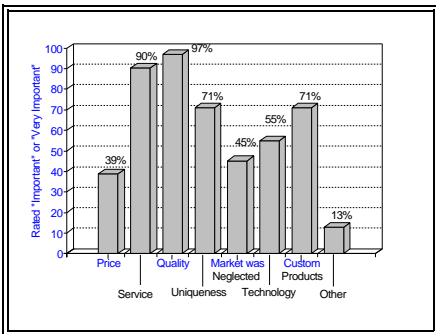
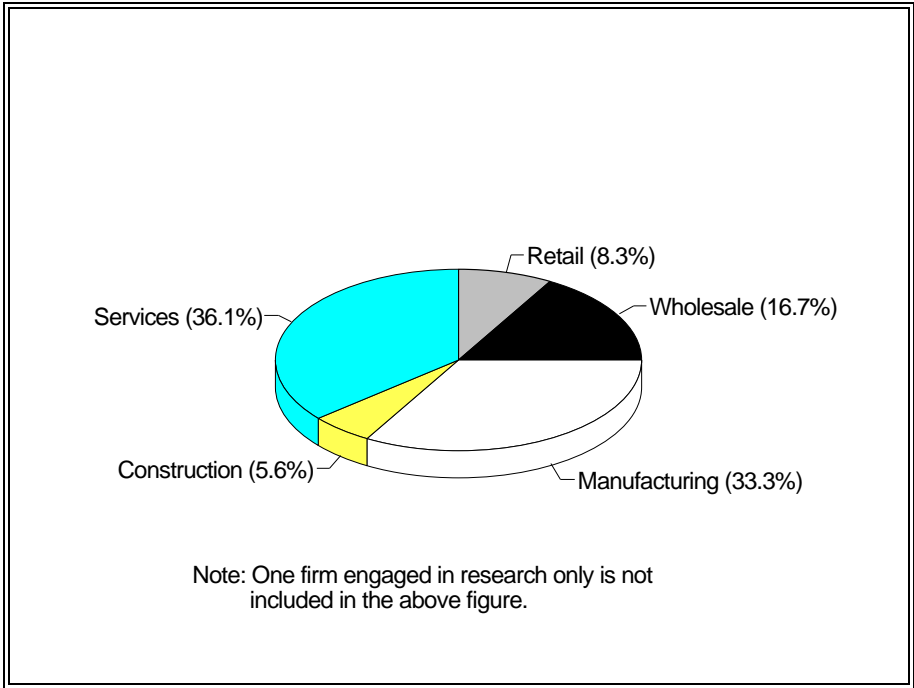


Figure 4.
Factors Important to
DITC Firm Success

Figure 5.
Firm Satisfaction with
DITC Experience

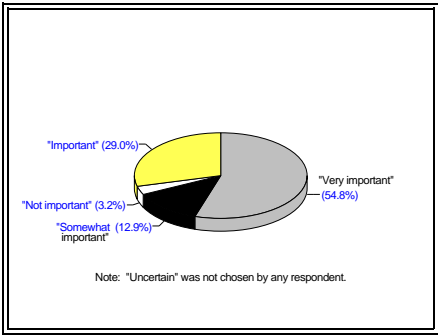
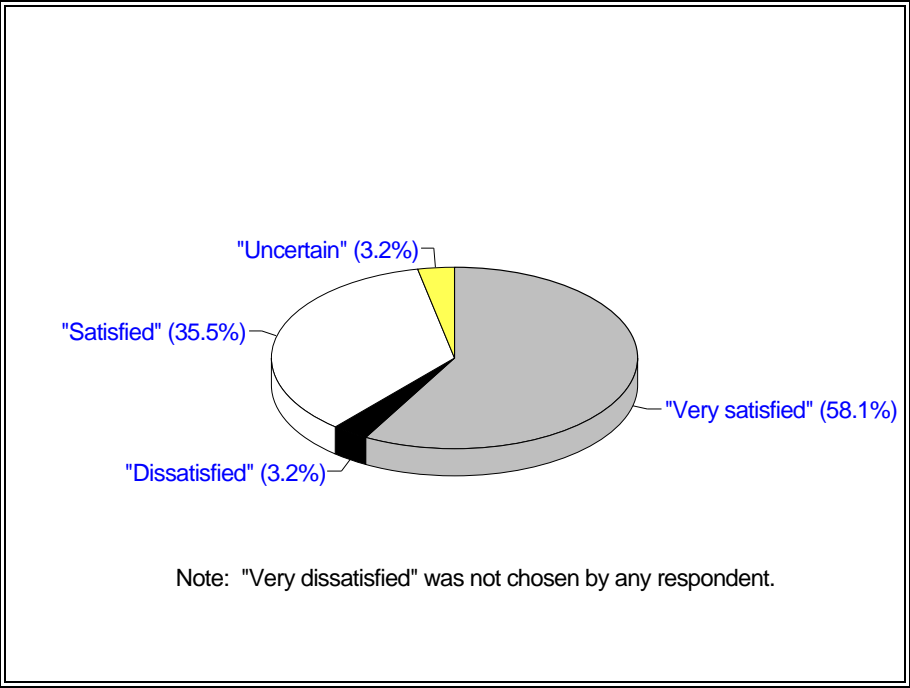


Figure 6.
Importance of DITC
Manager to Firm
Networking

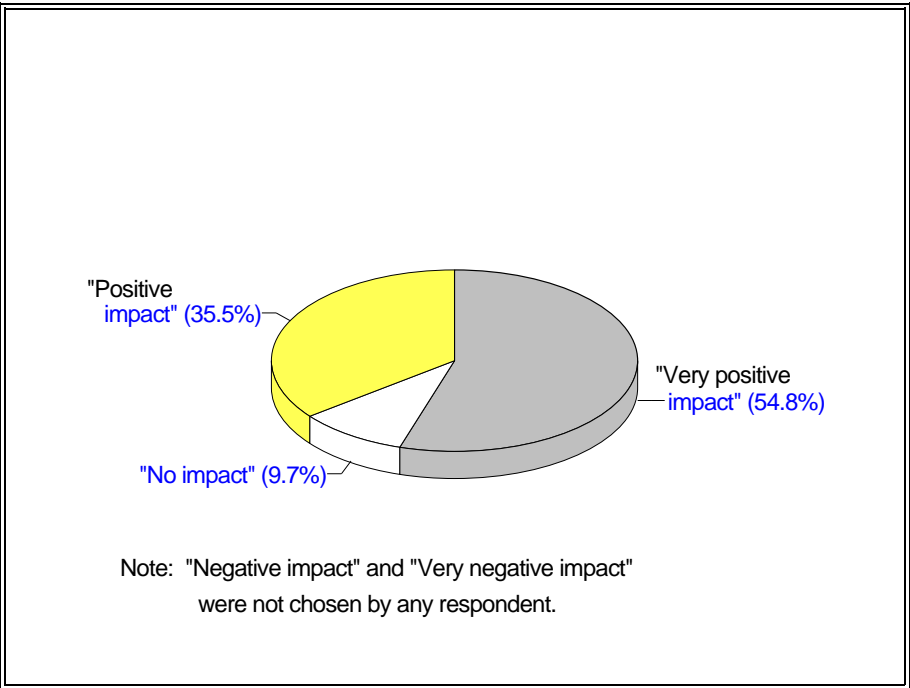


Figure 7.
Impact of DITC on
Firm Success

Figure 8.
Firm Use of Services
Offered by DITC

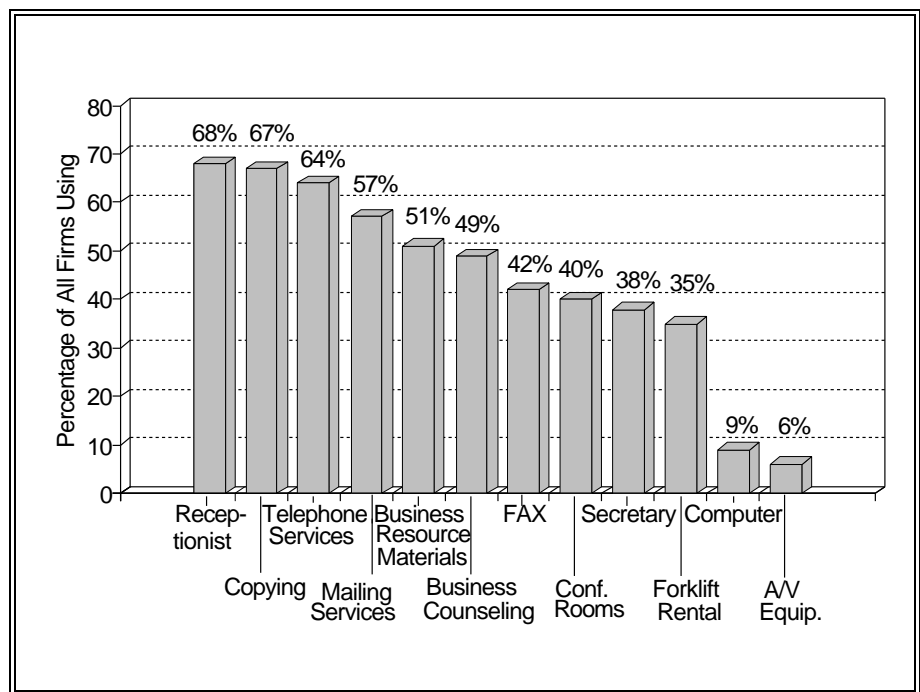


Figure 9.
Direct and Total
Employment Impacts of
DITC Firms

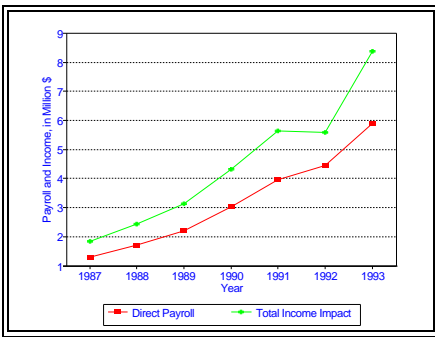
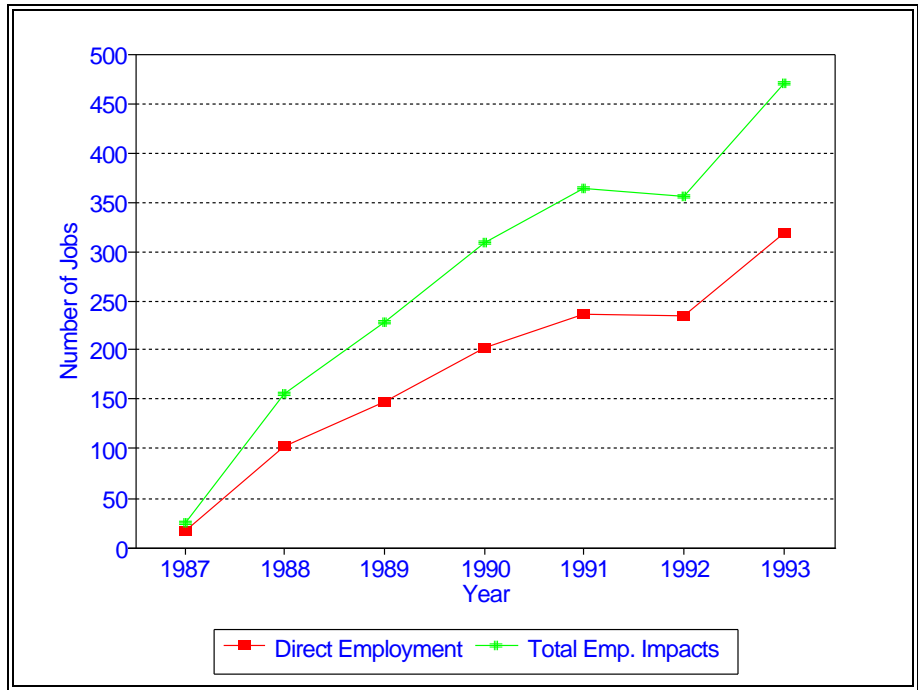


Figure 10.

Direct and Total
Income Impacts of
DITC Firms

Figure 11.
DITC Firm
Employment, by
Sector, 1993

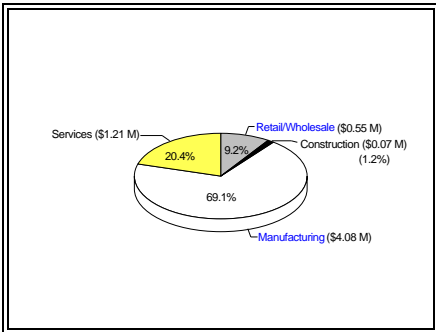
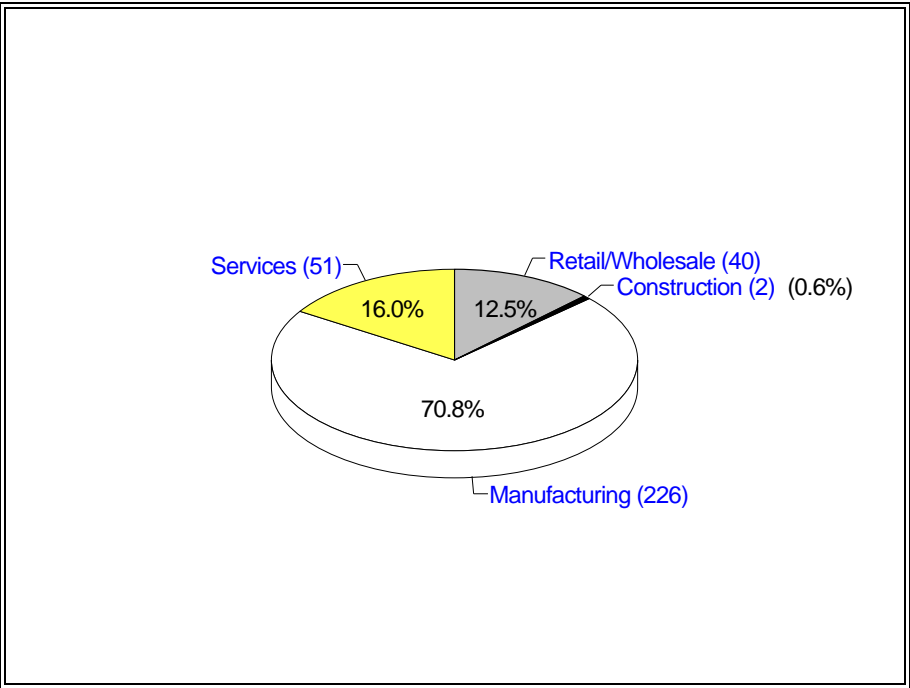


Figure 12.
DITC Firm Salaries and
Wages, by Sector, 1993

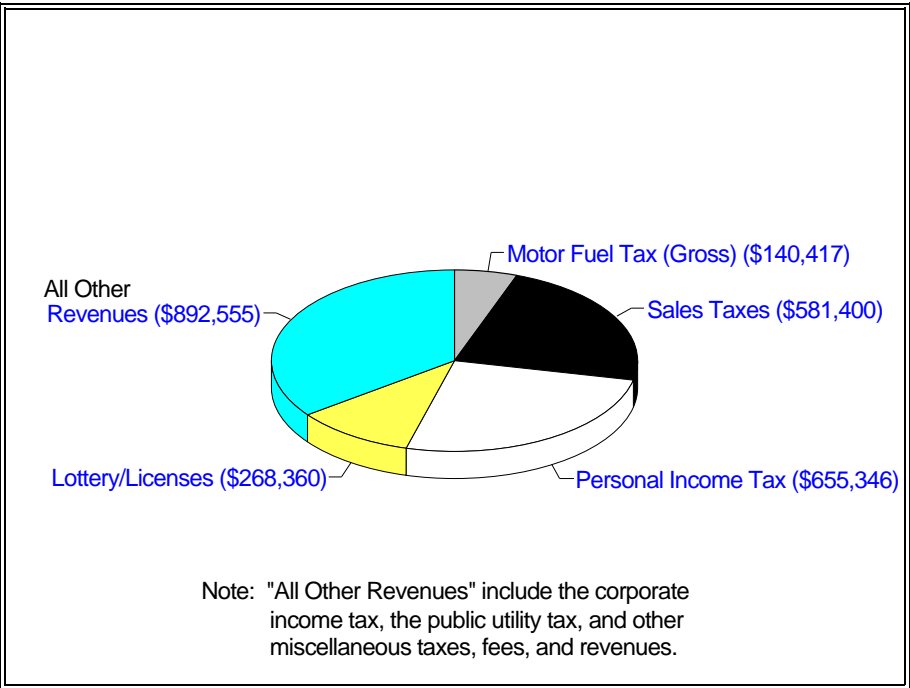


Figure 13.
Impact of DITC Firms
on State Government
Revenues, 1987 - 1993

Figure 14.
DITC Firm Sales, by
Location, 1987 - 1993

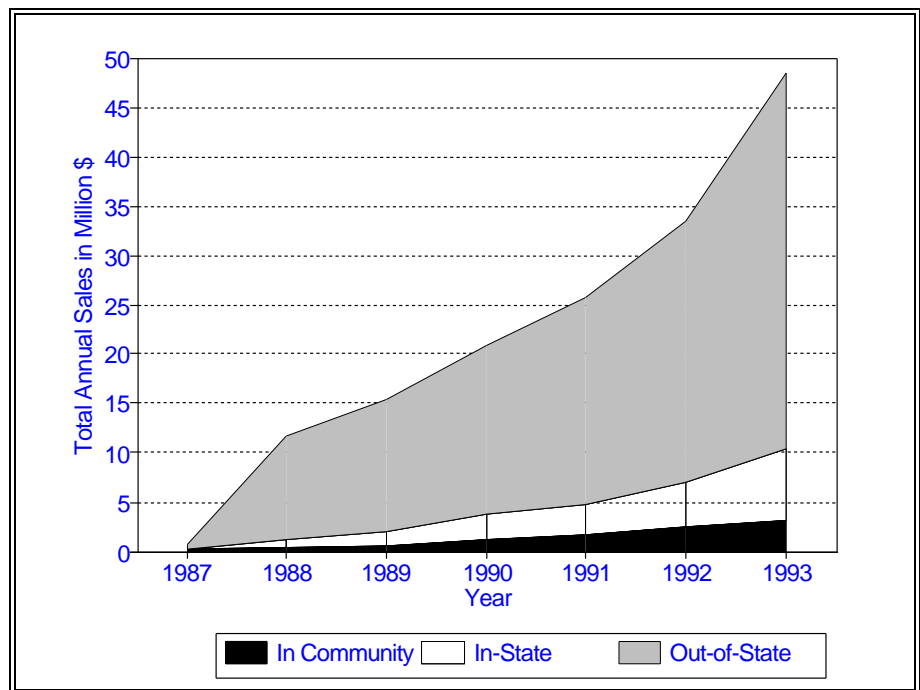
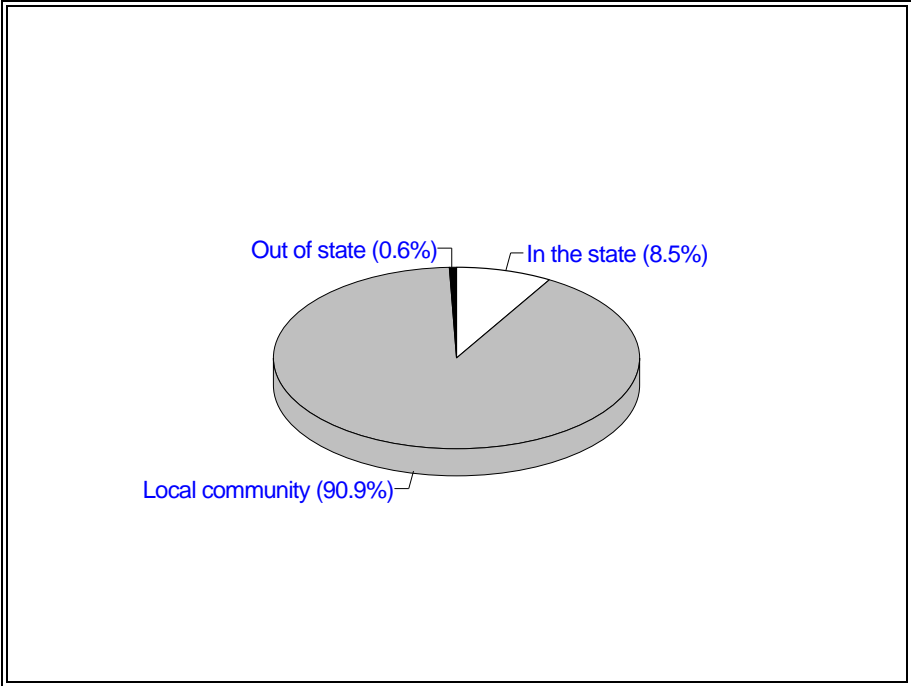


Figure 15.
DITC Firm
Employment, by
Location, 1993



For More Information

For more information about this study, contact Deborah M. Markley or Kevin T. McNamara, Department of Agricultural Economics, 1145 Krannert Building, Purdue University, West Lafayette, IN 47907-1145.

For more information about the Decatur Industry and Technology Center, contact Cam McKinney, Director, 2121 S. Imboden Court, Decatur, IL 62521.

For more information about incubators, contact the National Business Incubation Association, 20 East Circle Drive, Suite 190, Athens, OH 45701.

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