



RESEARCH REPORT

Local Jobs and Income Growth: The Quest Center for Entrepreneurs Impacts

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Overview of Results

This report summarizes the results of an evaluation of the impacts the Quest Center for Entrepreneurs in Hutchinson, Kansas has had on both its client firms and on the local economy. The Quest Center provides business services and business advice to small, young firms in the Hutchinson area and also provides facilities to start-up firms which choose to locate there.

The key findings of this study are that:

- A majority of tenant, graduate, and affiliate firms either have located or plan to locate in the Hutchinson community upon leaving the Quest Center, boosting employment and income in the Hutchinson area.
- Nearly 93 percent of client firms were satisfied or very satisfied with their experiences in Quest.
- Nearly 93 percent of client firms believed that Quest had made a positive or very positive impact on their business success.
- Almost 40 percent of sales by Quest firms in 1993 were made to customers outside of Hutchinson and Kansas, bringing income

from other areas and adding employment to the local and state economies.

- Quest Center client firms had 50 full-time employees in 1993, and their activities stimulated the creation of an additional 42 jobs in the local economy.
- Clients of Quest Center paid about \$1.2 million in wages and salaries in 1993, which resulted in over \$2.2 million in total additional income in the Hutchinson economy.
- In addition to serving clients which locate within its facilities, Quest has reached out to offer assistance to local firms which either could not or chose not to locate in Quest. These affiliate firms comprise 26 percent of all clients and account for about 53 percent of total client sales.

The evaluation of the Quest Center suggests that business incubators can be an important part of their communities' economic development programs. By nurturing home-grown businesses through the very difficult start-up stage, Quest helps local entrepreneurs enter the economy without encountering some of the problems and high initial costs which often confront new firms.

Business incubators emerged as a popular economic development tool during the 1980s. By 1991, there

Introduction

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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.

This study examined the characteristics and impacts of a single business incubator, the Quest Center for Entrepreneurs. The Quest Center provides support to firms that locate in its facility and to other firms that affiliate with Quest but are located outside the incubator. This report is on the second of four incubator evaluations funded through the U.S. Department of Agriculture's National Research Initiatives grant program. This research project identifies the direct and total impacts of Quest Center client firms on employment and income in the Hutchinson community. Personal interviews were conducted with the director of Quest and operators of current tenant, graduate, and affiliate firms. The data collected in these interviews are summarized in this report.

About the Quest Center for Entrepreneurs

In response to the loss of manufacturing jobs in the Hutchinson area in the early 1980s, Quest opened its doors and began accepting clients in 1987. Its goals are to create jobs and economic diversity in the city of Hutchinson and in Reno county by facilitating the start-up and growth of small businesses. Quest operates as a quasi-public institution and is governed by a corporate board composed of representatives of local business and government. At present, Quest receives about half of its operating budget from rental payments and fees and half from an economic development fund capitalized by a local sales tax.

Quest provides 21,000 square feet of light manufacturing, commercial, and office space to its tenants, and offers a variety of business services to its tenant, graduate, and affiliate firms. The sample used in this study included 13 current tenants (93 percent), seven graduates (54 percent), and seven affiliates (64 percent). The interviews were conducted in 1993.

Characteristics of Quest Firms²

Most firms associated with Quest are quite young (Figure 1). Twenty firms are no more than five years old, and 15 are no older than three years. Most of these young firms are also small. No firm has more than ten employees, and almost 58 percent of them employ only one person (Figure 2). Fifty-four percent of Quest firms produce either services or manufactured goods (Figure 3). Forty percent of the firms are primarily engaged in retail or wholesale sales. Figure 4 shows the factors which have been most important to the success of firms associated with Quest. Nearly 90 percent of all firms identified customer service and product quality as "important" or "very important" factors, while two-thirds or more cited unique and/or customized products as important to their success.

Firms' Experience in Quest Center

Almost 93 percent of firms were "satisfied" or "very satisfied" with their experience with Quest (Figure 5). Thirty percent of firms encountered some unforeseen problems associated with Quest. Expectations about the level and quality of services not being met was the most frequently cited cause of those problems. Nearly 78 percent of the responding firms believed that the Quest Center manager played an "important" or "very important" role in aiding communication and cooperation among firms (Figure 6). Over 92 percent of firms believed that Quest had a "positive" or "very positive" impact on their business success (Figure 7).

Client firms found most of Quest's services useful. Over one-half of current and former tenants used the business counseling, telephone and answering services, fax, photocopying, and receptionist services at least several times per year (Figure 8). Secretarial support and mailing services were used by at least 40 percent of the firms, while business resource materials and conference rooms were used by several firms.

Economic and Fiscal Impacts of Quest Firms

Firms associated with the Quest Center had 50 full-time employees in 1993 (Figure 9). Expenditures by Quest firms and their employees in the local economy generated an additional 42 jobs, resulting in a total full-time employment impact of 92 jobs in 1993. Clients of Quest, most of them affiliate firms, also hired 48 part-time workers in 1993. Quest firms paid

²For more detailed information about the evaluation of the Quest Center, see Hearn, Markley, and McNamara, *Economic and Fiscal Impacts of the Quest Center for Entrepreneurs*.

about \$1.2 million in wages and salaries in 1993 (Figure 10). When multiplied through employees' purchases, the total income impact in the Hutchinson-area economy was over \$2.2 million in 1993.

Firms producing services accounted for about 43 percent of all Quest firms in 1993. These firms hired 36 percent of all full-time Quest employees (Figure 11) and paid 49 percent of the total wages and salaries (Figure 12). Manufacturing firms, about 11 percent of all Quest firms, employed 32 percent of all full-time employees and paid 31 percent of total wages and salaries in 1993.

Quest firms also generated additional income for state government. The state of Kansas has realized nearly \$337,000 in additional tax revenues, over seven years, as a result of employment and sales by firms nurtured in Quest (Figure 13). Personal income taxes and sales and gross receipts taxes are the two largest sources of additional state revenue, almost \$290,000 combined.

Distribution of the Impacts of Quest Firms

Most sales by Quest Center firms have been within the local community (Figure 14), over \$2.8

million in 1993, while sales out of state were almost \$2.2 million in the same year. Quest firms are bringing income from outside the state to the Hutchinson-area economy. Quest firms hired 96 percent of their employees from the local community (Figure 15). Most of the employment benefits associated with Quest firms are captured by the local community. In addition, 60 percent of those employees earned at least \$5 per hour, and about 17 percent earned over \$10 per hour. About 20 percent of full-time employees were on salary or commission in 1993.

Conclusions

The Quest Center for Entrepreneurs is one example of a business incubator which boosts local economic activity. It provides needed space and services to new businesses in Hutchinson to help them survive the difficulties associated with business start-up. Quest has reached out to other small, young firms in the community which cannot become tenants for some reason and provided them with some of the services they need to survive and prosper. Both tenant and affiliate firms provide an important source of employment and income growth in Hutchinson with the Quest Center's help. Quest is helping to generate a variety of jobs, including manufacturing jobs, in the community and the state. Both areas relied upon the manufacturing sector for employment and income in the past and suffered declines in manufacturing income and employment during the 1980s (Smith). The Quest Center is supporting entrepreneurs in the Hutchinson area, helping to expand and diversify local employment and income.

Figure 1.
Age of Quest Center Firms

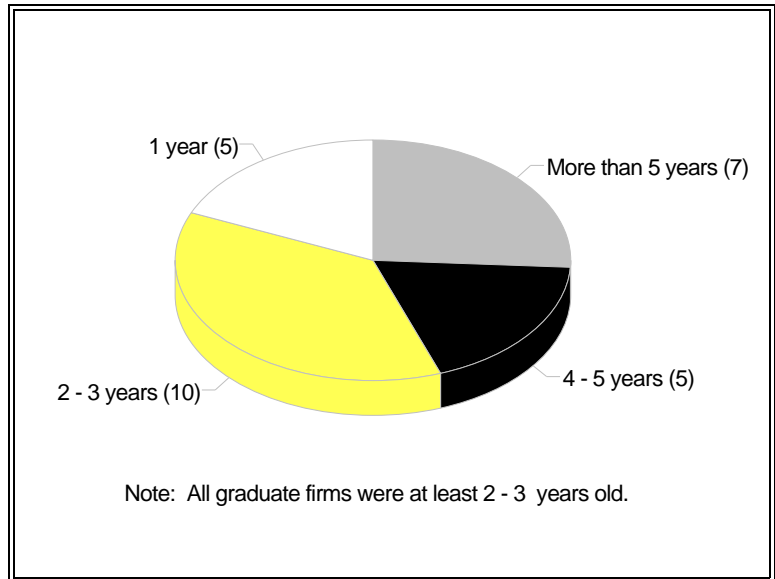


Figure 2.
Distribution of Quest Firms by Number of Employees, 1993

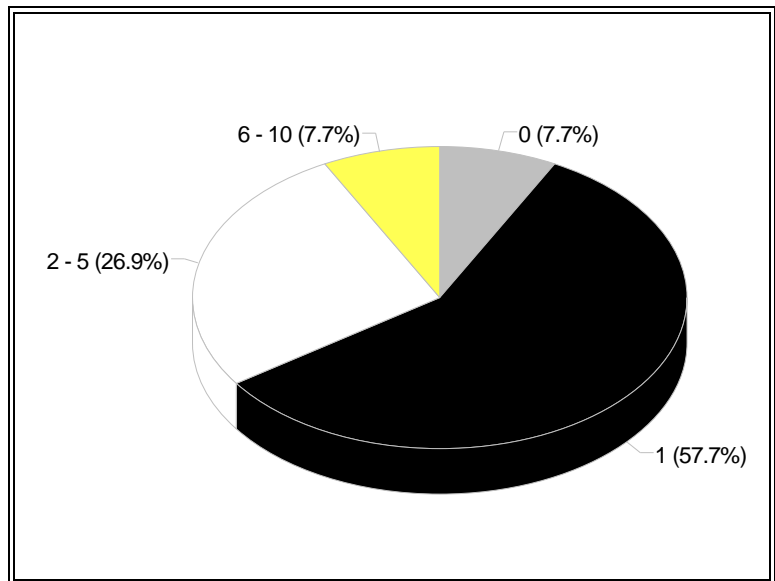


Figure 3.
Distribution of Quest
Firms by Industrial
Sector, 1993

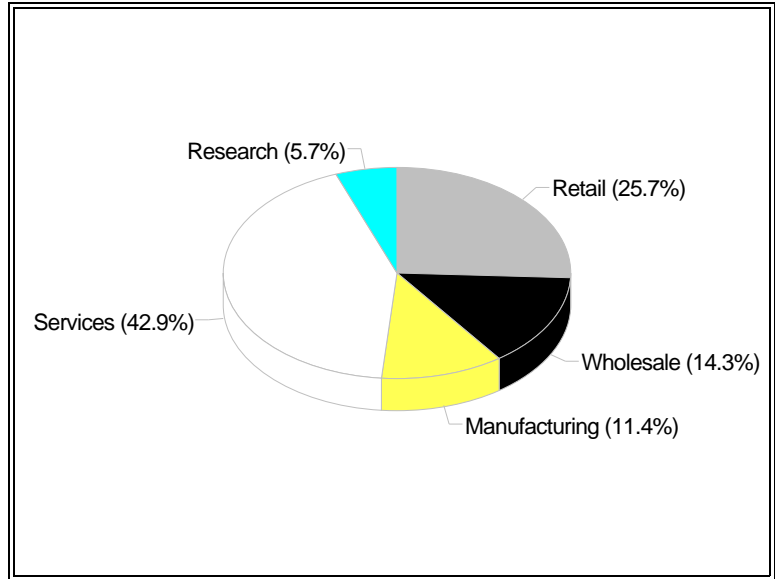


Figure 4.
Factors Important to
Quest Firms' Success

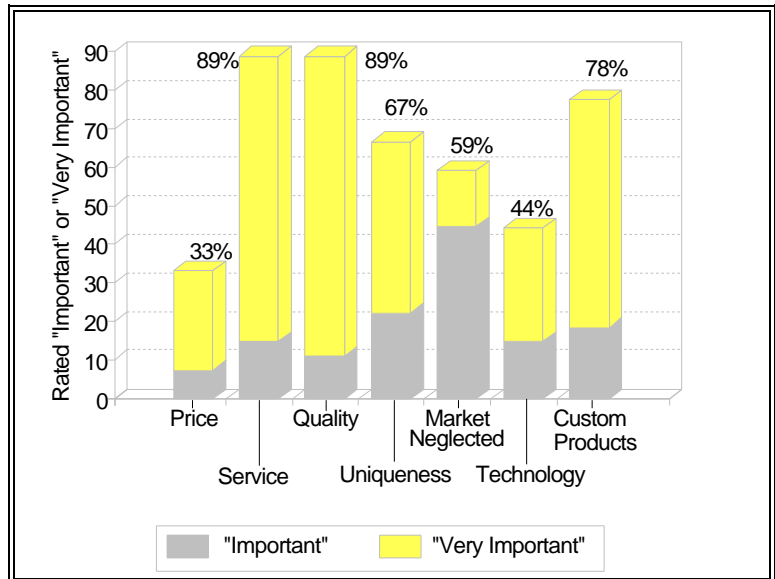


Figure 5.
Firm Satisfaction with
Quest Experience

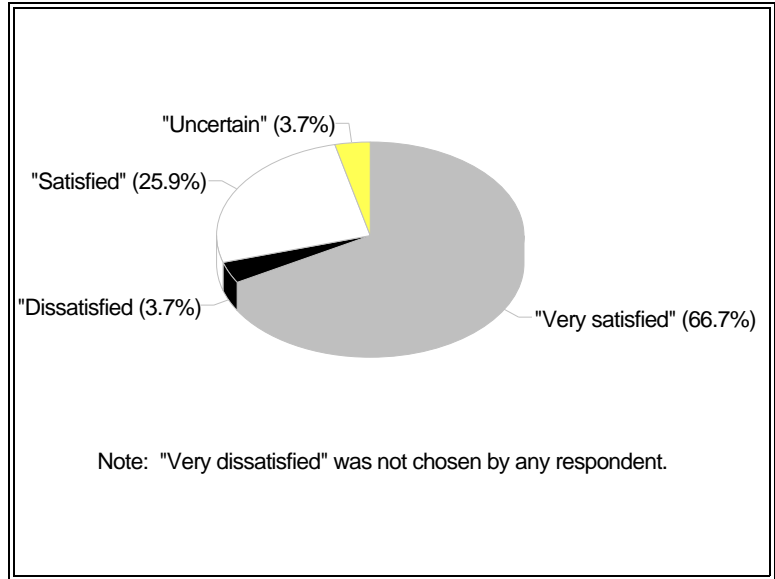


Figure 6.
Importance of Quest
Manager to Firm
Networking

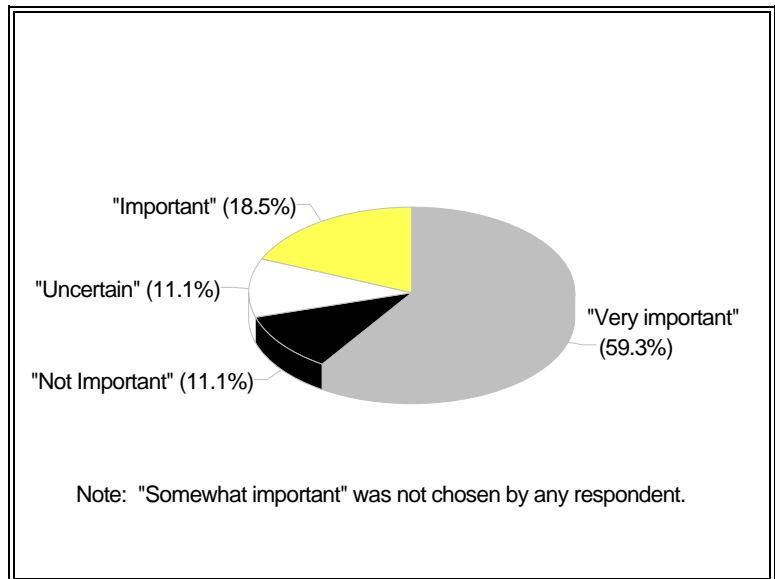


Figure 7.
Impact of Quest on
Firm Success

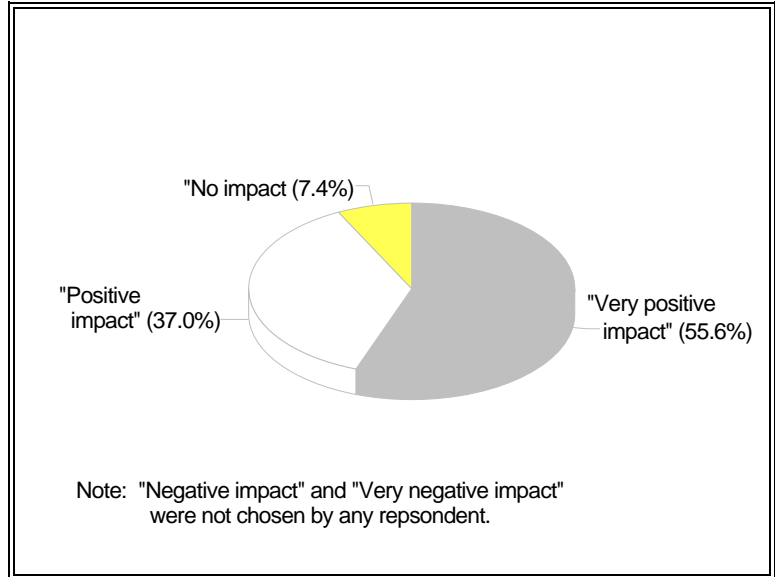


Figure 8.
Firm Use of Services
Offered by Quest

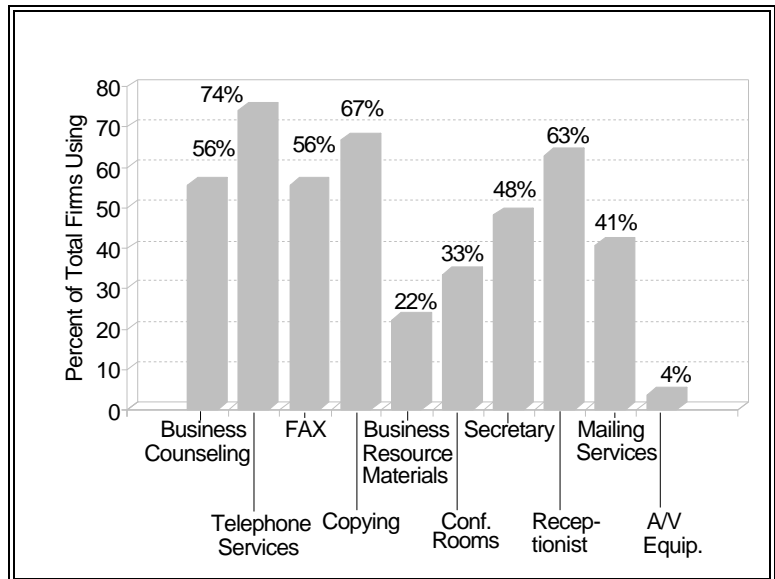


Figure 9.
Direct and Total
Employment Impacts of
Quest Firms

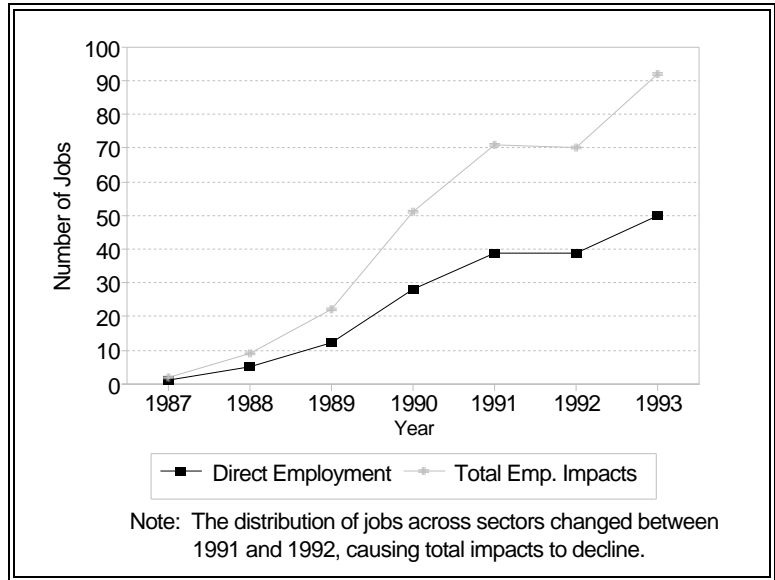


Figure 10.
Direct and Total
Income Impacts of
Quest Firms

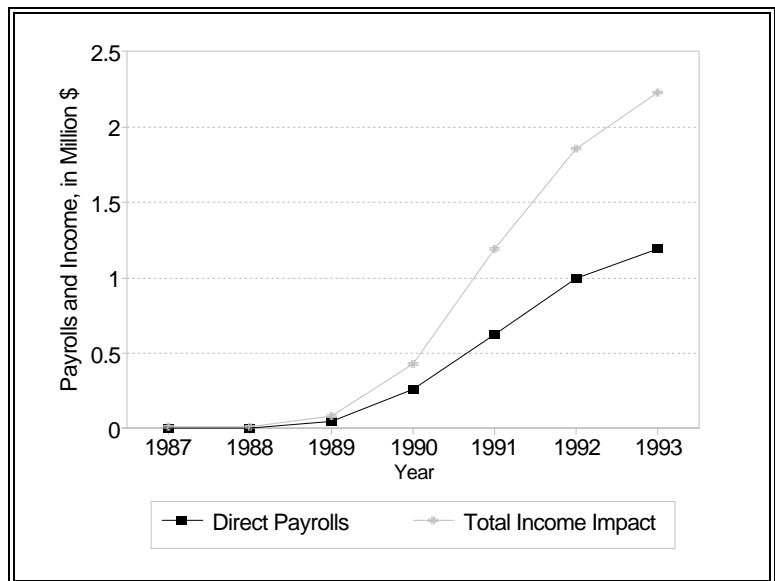


Figure 11.
Quest Firm
Employment, by
Sector, 1993

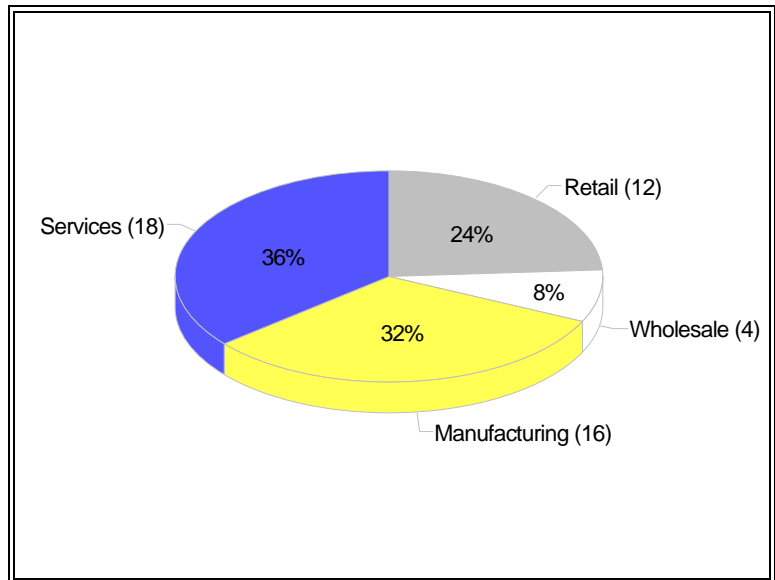


Figure 12.
Quest Firm Salaries and
Wages, by Sector, 1993

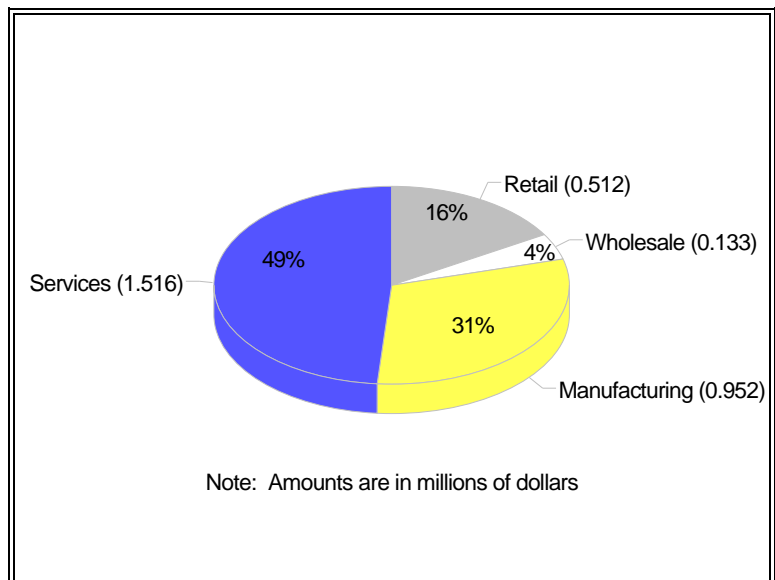


Figure 13.
Impact of Quest Firms
on State Government
Revenues, 1987 - 1993

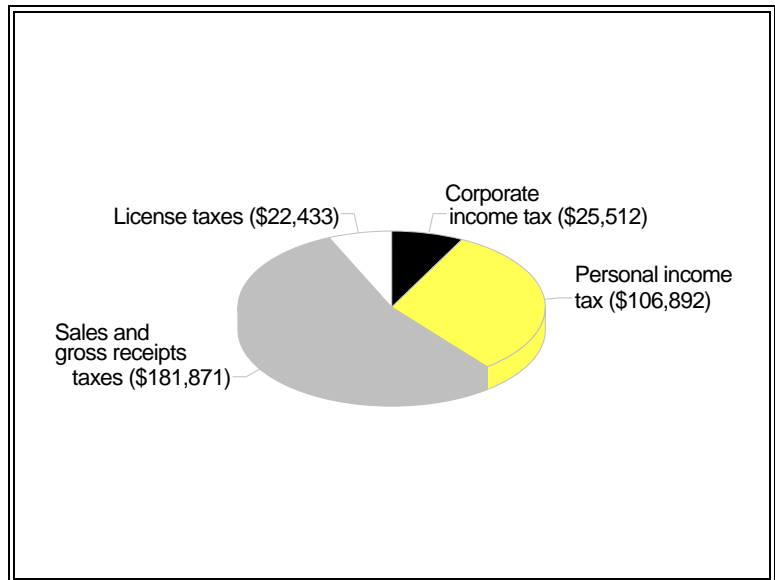


Figure 14.
Quest Firm Sales, by
Location, 1987 - 1993

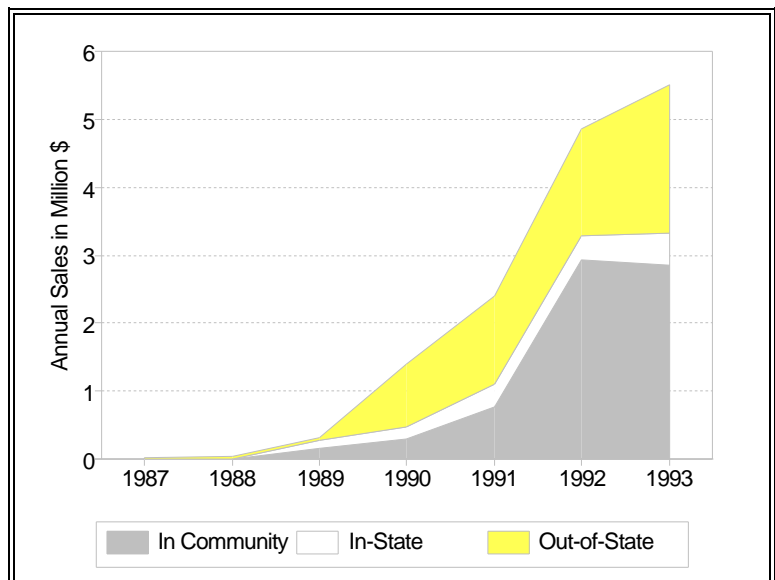
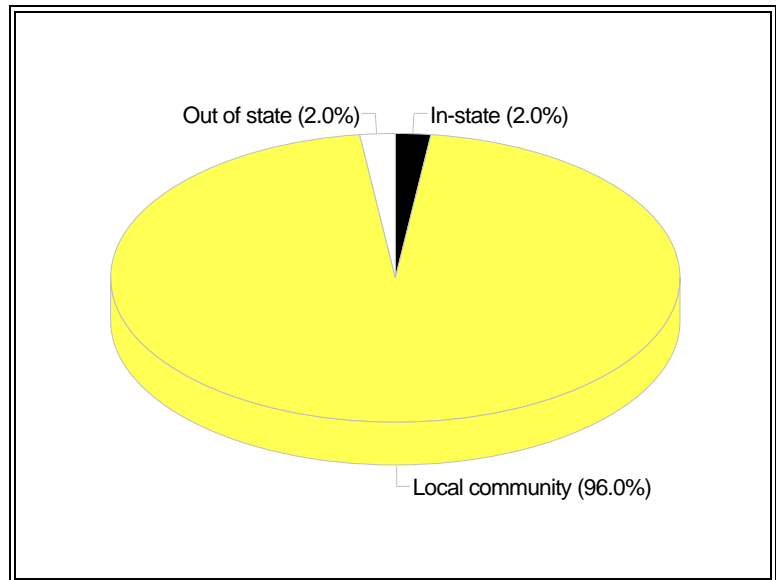


Figure 15.
Quest Firm
Employment, by
Location, 1993



For More Information

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For more information about The Quest Center, contact Richard French, Director, One East Ninth, Hutchinson, KS 67501.

For more information about incubators, contact the National Business Incubation Association, 20 East Circle Drive, Suite 90, Athens, OH 45701.

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