



## STAFF REPORT ACTION REQUIRED

### Collaborating For Competitiveness: Building Toronto's Incubation Network (Implementation Action #1)

<b>Date:</b>	February 22, 2013
<b>To:</b>	Economic Development Committee
<b>From:</b>	General Manager, Economic Development & Culture
<b>Wards:</b>	All Wards
<b>Reference Number:</b>	

#### SUMMARY

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The recently adopted Economic Development Strategy, *Collaborating for Competitiveness*, identifies small business growth as one of the core strategies for advancing job growth in the City. This Report seeks to strengthen the City's programs directed at the incubation component of small business encouragement: better focused support for the incubation network and approval in principle to help expand the Toronto Food Business Incubator beyond its pilot stage.

The Business Incubation & Commercialization (BIC) program supports small business success through community partners that offer an array of targeted entrepreneurial incubation programs, services, and resources. These include, among others, private office/ studio space, shared industrial equipment, business advisory/ mentoring services, product development support, market testing, access to capital, and networking opportunities. The city commissioned a consultant to undertake a review of the BIC Program to improve effectiveness, enhance flexibility, and build capacity for growth.

The Toronto Food Business Incubator (TFBI) currently plays a small but key role in the BIC program, providing entrepreneurs with food production space and business advisory support. TFBI is now at a critical juncture. Increasing demand for entry into the program, combined with a need by existing client companies to grow and expand operations, has created a challenge for this pilot incubator. TFBI must move to larger space to enable long term sustainability or close its doors to a growing number of start-up and early stage food entrepreneurs. A growth and investment strategy is required to facilitate this move and to ensure business incubation programs and services continue to

be provided to accelerate the success of new and emerging food businesses in Toronto - one of the largest production centres in North America.

## **RECOMMENDATIONS**

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### **The General Manager, Economic Development & Culture recommends that:**

1. City Council authorize the General Manager Economic Development & Culture to develop terms and conditions for the Business Incubation & Commercialization program substantially based on the framework presented in this report, with such terms and conditions, and revisions thereto, in a form acceptable to the City Solicitor.
2. City Council request the General Manager Economic Development & Culture, in consultation with the Deputy City Manager and Chief Financial Officer, to bring forward a recommended funding approach for the Business Incubation & Commercialization program for consideration in the 2014 budget cycle.
3. City Council support the growth and expansion of the Toronto Food Business Incubator and direct the General Manager Economic Development & Culture to consult with the Deputy City Manager and Chief Financial Officer on possible financial approaches to support the development of the Toronto Food Business Incubator and report to Executive Committee.
4. The General Manager of Economic Development & Culture or his/her designate consult with provincial and regional agri-food stakeholders on a potential network of provincial commercialization centres and the role the Toronto Food Business Incubator and its proposed new facility could play in the Toronto region and Golden Horseshoe area.
5. The General Manager of Economic Development & Culture provide an annual report to the City's Economic Development Committee on the status of the Business Incubation and Commercialization program.

### **Financial Impact**

There are no immediate financial impacts associated with this report beyond what has been approved in the 2013 Operating Budget. The current BIC program is included in the Operating Budget for Economic Development & Culture and entirely supported by annual funding provided by the Toronto Port Lands Company (TPLC) and indexed for inflation, as directed by Council at its meeting of October 29 and 30, 2008. For 2013, TPLC is providing \$1,399,100 for the incubator program.

There are no current City resources provided for the start-up of new or expanded business incubator projects. The operating costs of the existing incubators are supported by their small business participants.

The Deputy City Manager and Chief Financial Officer have reviewed this report and agree with the financial impact information.

## **DECISION HISTORY**

The genesis of the BIC program dates back to the late 1980's, when the Toronto Port Lands Company (TPLC), then known as Toronto Economic Development Corporation (TEDCO), was directed by its shareholder (City of Toronto) to oversee and fund business incubation activity. Since that time, TPLC/ TEDCO has provided professional and financial support to the Toronto Fashion Incubator (TFI), Toronto Business Development Centre (TBDC), and the pilot Toronto Food Business Incubator (TFBI). These incubators are known as the "legacy incubators".

In October 2008, Council approved a New Model To Enhance Toronto's Economic Competitiveness. Among other matters, the new model amended the mandate for the Economic Development & Culture (EDC) division by transferring the BIC program from TPLC/TEDCO to EDC, effective January 1, 2009, including staff resources to support the development of business incubation in Toronto. This new model included a provision for the program to continue to be funded by TPLC, pursuant to an Assumption and Services Agreement. The City continues to provide contributions to the legacy incubators, as well as other organizations, that change from year to year, to support a range of business incubation activities across the city.

The TFI was Toronto's first official incubator, and was created through the support of the City of Toronto's Economic Development Division, to stimulate business growth and job creation in the fashion industry. TFI was incorporated in 1987 and was the first fashion incubator in the world. Shortly thereafter (1990), the TBDC was created as an agency of the City to stimulate the growth and development of small business. TBDC has since incorporated as a not-for-profit agency and continues to deliver business incubation programs and services to a broad mix of business initiatives.

From 2001 to 2006, the City and TPLC /TEDCO worked together to expand the BIC program through a food business development/ commercialization centre. In 2007, a small (2,000 sq. ft.) pilot food processing incubator was launched in Ward 5 to confirm market demand and to test/ refine operational procedures. TFBI has been a successful pilot, nurturing and supporting numerous start-up food companies, and now has a waiting list of pre-screened candidates. At its meeting of October 7, 2011, the Economic Development Committee requested the General Manager, Economic Development & Culture, to explore opportunities through Build Toronto and other strategic partners to relocate TFBI to larger premises to support job creation and new company formation.

## BACKGROUND

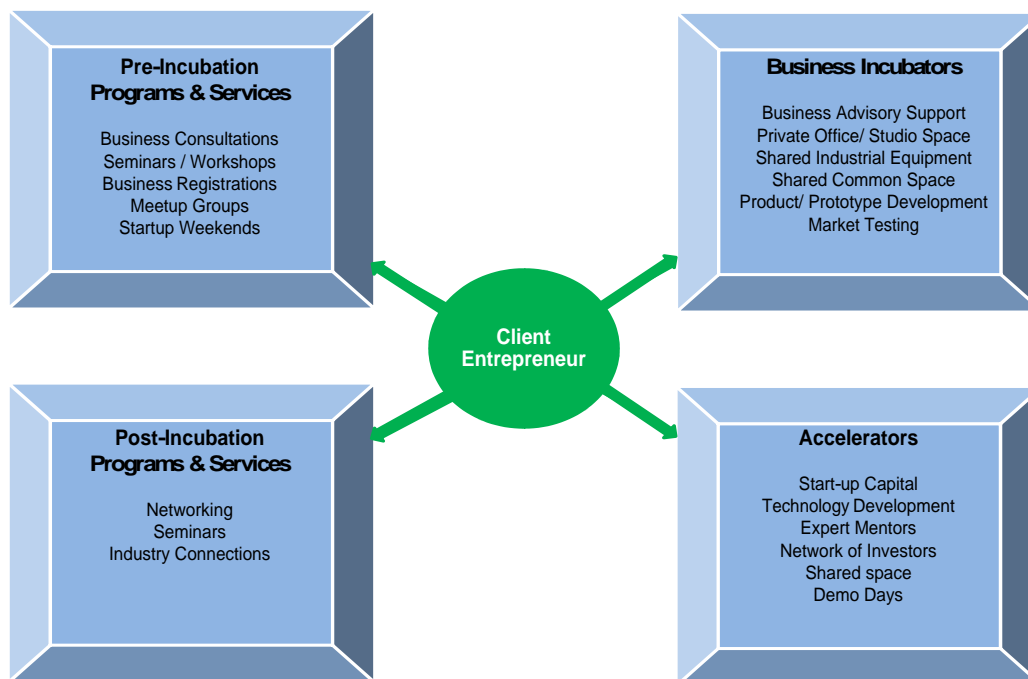
### Toronto's Start-up Ecosystem and Business Incubation

Toronto has a dynamic entrepreneurial ecosystem that supports start-up and early stage companies through an array of programs and services delivered by public, private, and academic organizations. In the fall 2012, Start-up Genome, a collaborative R&D project focussed on global start-up ecosystems, identified Toronto as one of the top 20 start-up ecosystems in the world. This enabling environment supports residents interested in starting a business, existing businesses looking to grow, or global entrepreneurs seeking to invest or expand into the North American market.

There are various opportunities to access small business support across the city's start-up ecosystem. (See Exhibit 1). These access points link to one another to create an integrated network, from pre-incubation programs and services, to business incubators and accelerators, to post incubation services. A small business can connect anywhere within the network, and may interact with one or many of the organizations that provide these respective programs and services. Where a small business interacts within the ecosystem will be subject to numerous variables that could include stage in the business cycle, type of business, and cash flow/ start-up capital.

#### Exhibit 1

#### Client Access to Start-up Ecosystem



Incubators and accelerators are recognized world wide for their key role in the start-up ecosystem. They advance business formation, create and retain jobs, commercialize technologies, and accelerate the delivery of new products and services to the marketplace. Although there are some fundamental differences between an incubator and an accelerator, their mission and outcome is the same – to support the success of a startup business. They both provide the tools, knowledge, and skills to grow a business.

Incubators are typically governed and operated by a not-for-profit organization. They provide programs and services that can extend up to three years to ensure the business is financially viable and free standing. Incubators can focus on sector specific (eg: fashion/ food) businesses or accommodate a mix of business initiatives. Alternatively, accelerator programs are generally provided by the private sector. They operate within a compressed time frame (typically four months), fund high value technologies in exchange for equity, optimize industry collaboration, and provide access to a network of investors (angel/ venture capital).

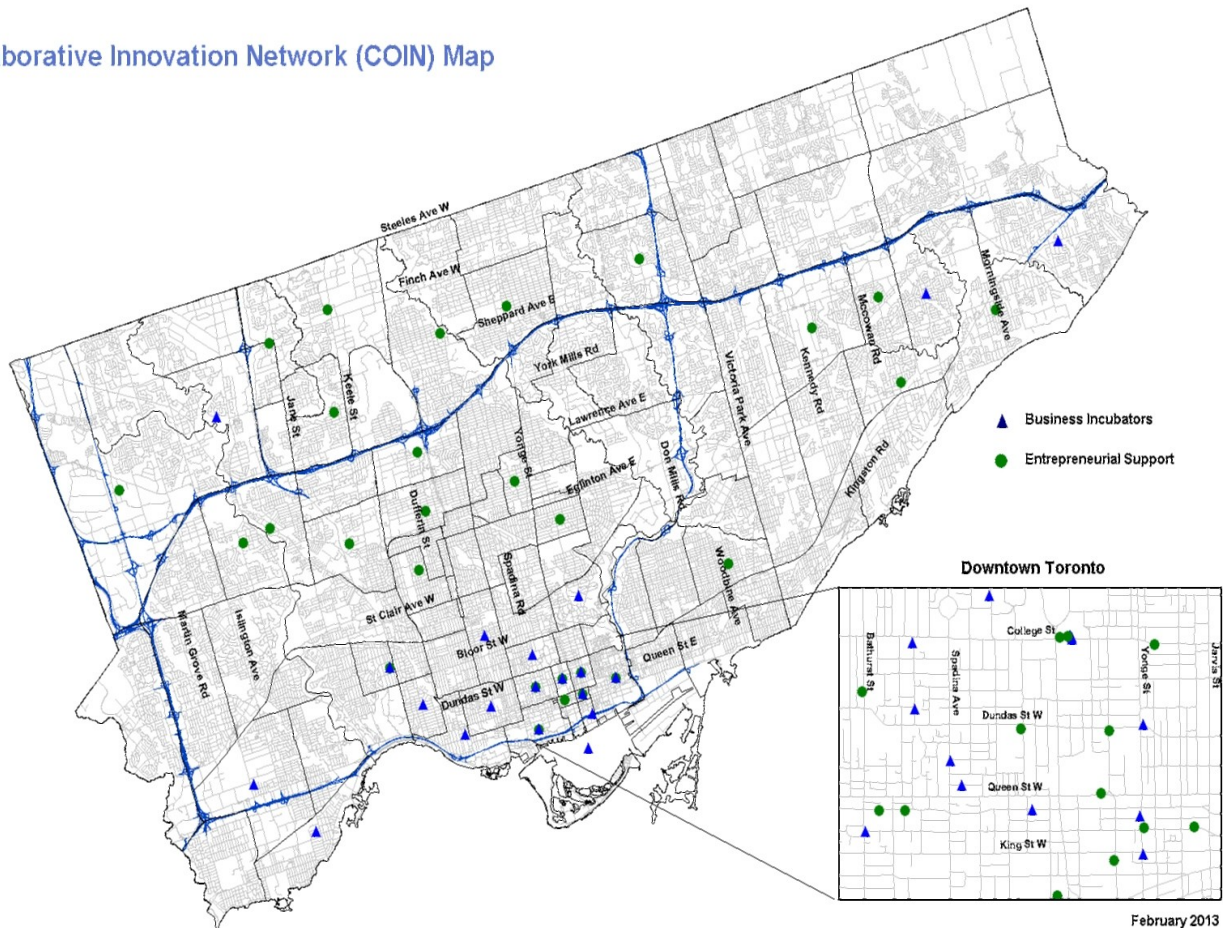
A key component of the start-up ecosystem is mentors. They support and guide start-up entrepreneurs with the experience and expertise required to move their idea to market. Mentors help entrepreneurs navigate a myriad of issues around product development, marketing, sales, and financing. They often have a rich source of industry contacts and referrals that bring tremendous value as entrepreneurs develop and launch their product.

When the BIC program was transferred to EDC in 2009, several community stakeholder consultations were convened to brainstorm and explore ideas on how to build capacity in the start-up ecosystem and create a "brushfire" of business incubators across the city. Three themes emerged: support for the City to take a leadership role; the need for collaboration among organizations providing small business support, and an inventory of business incubation programs and services across the city.

Based on these findings, a strategy was initiated to expand business incubation into the city's neighbourhoods and communities. At the centre of the strategy is a Collaborative Innovation Network (COIN) designed to bring together people, ideas, programs, services, and opportunities to advance entrepreneurship in the City of Toronto. The COIN provides a public-private sector approach to catalyze and support expanded business incubation across the city and is comprised of business incubators as well as organizations that provide some type of entrepreneurial support. These organizations are identified in Attachment No. 1. A snapshot of the landscape at this time indicates there are 56 existing incubators across the city, 7 proposed incubators, and another 26 organizations that deliver a variety of entrepreneurial programs and services at 48 different locations across the city. The geographic distribution of these programs and services is shown in Exhibit 2.

## Exhibit 2

### Collaborative Innovation Network (COIN) Map



## BUSINESS INCUBATORS SUPPORT SMALL BUSINESS SUCCESS

City Council recently adopted the "Collaborating for Competitiveness" strategy to accelerate economic growth and job creation in Toronto. It is premised on four key strategies and specific actions to advance Toronto's competitiveness in the global marketplace.

Encouraging business investment and formation by helping small and medium size enterprises form and prosper is a principle tenet of the strategy and recognizes the need to advance this large segment of the economy. More than 75% of all business establishments in Toronto have less than 10 employees, employ approximately 270,000 people, and generate an estimated \$18.1 B GDP. Small business drives Toronto's local economy. They create jobs, build wealth, and in most cases, lead innovation. Providing the infrastructure to support small business is a key piece to supporting economic growth and job creation.

As recognized in the strategy, business incubators play a pivotal role. They provide targeted programs and services that embrace a broad and open concept along the incubation value chain – from pre-incubation to post incubation. Through technical expertise, networks, tools, and a social capital environment, incubators dramatically enhance the success of entrepreneurs as they work to move their ideas into viable, successful new businesses that create jobs, revitalize neighbourhoods, and commercialize new products, services and technologies that grow our economy.

Industry research indicates a significant increase in the rate of success for those businesses that graduate from an incubator. In a recent 2011 study conducted by the US Department of Commerce and Economic Development Administration (EDA), the average five year survival rate for incubator graduates was 75%. Moreover, an estimated 84% of companies that graduate from an incubator stay in the local community. In addition to small business success, incubators have a proven track record for job creation. In a 2009 EDA study, business incubators were found to provide communities with the most effective means of creating jobs, and at less cost than any other type of public works infrastructure project.

The BIC program supports a number of business incubation initiatives across the city, including TFBI. As a pilot, TFBI has been very successful. The incubator's clients create jobs, innovate, and commercialize new food products. The pilot incubator is now at a crossroad. It is literally bursting at its seams, however, larger premises are required to ensure long term sustainability. Without a new location, TFBI will be forced to close its doors to a growing number of entrepreneurs seeking to invest in a food enterprise in Toronto.

## **BUSINESS INCUBATION PROGRAM REVIEW & RECOMMENDED FRAMEWORK**

Since its transfer to EDC, the BIC program has leveraged existing resources (eg: Toronto Public Library, Employment Centres) to deliver business incubation programs and forged community partnerships that have provided opportunities and solutions for propelling Toronto's entrepreneurs forward. These community partnerships provide effective and cost-efficient business incubation programs and services. Effectively engaging our community partners and leveraging their resources builds capacity for small business success. For the 2010/2011 reference year, the city's incubator partners:

- supported 379 on-site client companies, involving 620 full-time equivalent jobs;
- served more than 18,350 entrepreneurs;
- delivered 169 products / services/ technologies to the marketplace;
- leveraged \$1.3M for innovation and commercialization.

As noted above, the city's BIC program has a proven track record of success. However, the program was last reviewed in 2004 under the purview of TEDCO. The economic environment has changed significantly since that time, and there is increased demand for

entrepreneurial programs, services and resources that support start-up and early stage business success in all industry sectors, through all stages of the business cycle, and across the city. This challenging economic environment and new alignment with EDC, presents an opportunity to revisit the BIC program.

The city commissioned a consultant to undertake a review of the BIC Program to explore opportunities to improve its effectiveness, enhance its flexibility, and build capacity for growth. The ten specific recommendations contained in the report provide the basis for a renewed framework to formalize and expand this important city program within the EDC structure. This framework is intended to strengthen the current program and position it as a key driver in the city's entrepreneurial ecosystem. It provides the building blocks for developing terms and conditions for a renewed BIC program.

Based on the BIC program review and subsequent consultations and research as part of the Collaborating For Competitiveness strategy, the following provides a recommended framework for a renewed BIC program comprised of six core elements.

**Mandate:** A focussed and concise mandate will clearly articulate the city's support for business incubation programs and services to support start-up and early stage business success. The following mandate shall apply to the BIC program.

*"The City of Toronto recognizes the value of entrepreneurs in creating a vibrant economy and their need for assistance in the formative years of their business. Toronto's Business Incubation & Commercialization program is designed to support and encourage a range of business incubation activities that build capacity in key economic sectors and support community economic goals. The City is committed to supporting start-up and early stage companies by increasing the number, scale, and effectiveness of both incubator facilities and incubation programs and services throughout the City. Toronto will be the preferred place for entrepreneurs to start and grow a business."*

**Structure:** The BIC program will support three inter-dependent business incubation streams to meet demand for community/ service and high value companies at various stages in the business cycle. This shall include:

1. distributed community pre-incubation programs (eg: Toronto Public Library seminar series);
2. place-based incubator programs (eg: Toronto Fashion Incubator);
3. post incubation programs (eg: networking/ industry connections).



**City Financial Contributions:**

The city's financial contribution to business incubation programs will be managed by guiding principles using three graduated contribution categories (based on the incubator's number of years in operation). This will enable the city to leverage program resources, seize new opportunities, and enhance program flexibility. Based on this approach, a maximum city contribution will be established for:

1. **seed funds** - to support initiatives to create a new incubator;
2. **developmental funds** - to support initiatives for incubators less than five years old;
3. **next stage funds** – to support initiatives for incubators more than five years old.

**Partnership Criteria:**

The city will use a mix of the following criteria to determine eligibility for a financial contribution.

1. Registered not-for-profit organization located in the City of Toronto with a vision/ mandate consistent with the BIC program.
2. Board of Directors with diverse industry expertise.
3. Strategic Plan that guides the growth and development of the organization.
4. Corporate policies and procedures related to matters such as Conflict of Interest and Procurement.
5. Management capacity and expertise to provide business incubation programs and services.
6. Financial capacity and diverse funding base to implement business incubation programs and services.
7. Strategic partnerships that demonstrates industry/ stakeholder support.
8. Demonstrated demand for services and capacity to source candidate companies.
9. Strong commitment to tracking success measures.
10. Community/ industry traction.

**Program Metrics:** Key success measures will be collected and reported annually by incubators that receive financial support from the City, and shall include, among others:

1. number of on-site client companies;
2. number of on-site jobs created;
3. number of graduated companies;
4. number of off-site entrepreneurs served;
5. number of jobs created by graduates and off-site entrepreneurs.

**Communications:** A communications strategy will be developed to promote the BIC program to a wide audience that includes both internal and external stakeholders. The strategy will incorporate communication materials that reflect a BIC program identity and updates to the city's website. The strategy will leverage the Collaborative Innovation Network to maintain a central presence in the incubator community, build partner relations, and raise the program's profile.

The new framework for the BIC program described herein specifically supports the following action item contained in the recently adopted "Collaborating for Competitiveness" strategy:

**Action C.1.1: Work with seasoned entrepreneurs, industry associations, and business organizations to establish wider networks of incubators, accelerators and mentors.**

By supporting our business incubation community partners, these organizations can continue to grow and expand to help small and medium size enterprises form and prosper.

## **Relocation of the Toronto Food Business Incubator**

One of the recommendations of the program review is to focus on development and support for place-based incubators, as they build capacity in key economic sectors and enhance the city's economic competitiveness. TFBI began as a pilot project to ascertain demand by the food industry for small business advisory and technical support. The incubator bridges agriculture, food, education and training, innovation, and small business support for start-up and early stage food producers.

As a pilot, TFBI has been successful in identifying a significant unfilled need. The incubator's clients create jobs, innovate, and commercialize new food products. The pilot incubator is now at a crossroad. The current configuration/ design and capacity cannot accommodate food entrepreneurs through the various stages of the business cycle and is too small to provide the scale economies needed to be a sustainable contributor to Toronto's economy. Larger premises are required to facilitate production-size batches,

increase line speed, enhance productivity, meet client orders, and ensure long term sustainability. Without a new location, TFBI will be forced to close its doors to a growing number of entrepreneurs seeking to invest in a food enterprise in Toronto by year end 2013.

TFBI updated their Strategic Plan in 2011 to guide the organization's growth and development. The TFBI Board of Directors are seeking assistance from the City to advance the incubator beyond its pilot phase to larger premises, ensuring continued support for growth and innovation in Toronto's food sector. Over a 10-year period, conservative estimates indicate TFBI could support, in a larger facility (15,000 sq.ft.), over 100 companies that create/retain an estimated 540 jobs, and generate an estimated \$26M GDP.

The TFBI Board of Directors has been undertaking a site search over the past 18 months to relocate from their current 2,000 sq.ft. premises to larger space. Their requirements include food grade production space, loading bay(s), some office space, parking, and access to major highways and public transit.

With food grade space at a premium in Toronto, TFBI has had difficulties finding suitable leased premises for relocation at a reasonable lease rate. Over the past year, various members of the TFBI Board of Directors have investigated over 20 different sites across the City. The search for suitable premises included potential opportunities through Build Toronto, Toronto Port Lands Company, and Toronto Realty Services.

An alternative to leased premises is for the TFBI to purchase a building in the range of 14,000 to 20,000 sq. ft.

In either case, as a relatively new and expanding non-profit organization, a leasing or lending situation will require a City guarantee and/or some other type of financial support to make the expansion feasible.

TFBI is a key piece of the city's BIC program, supporting the growth and development of start-up and early stage food enterprises in a highly regulated industry that employs over 58,000 people in more than 700 food and beverage processing firms across the City. Most of these firms are small to medium sized enterprises (SME's). As strict health and safety regulations, shrinking margins due to high energy and transportation costs, a strong Canadian dollar, and a lack of skilled labour continue to erode the industry, building the infrastructure to support development of innovative food products and processes will be crucial to the future growth of the food cluster.

Several major urban centres that have a food cluster smaller than Toronto have aggressively pursued the infrastructure required to support small business food entrepreneurs, including New York (two food incubators), New Jersey, Ohio, San Francisco, Indiana, and Minneapolis. These organizations are typically supported by local governments or economic development agencies. With relocation support from the city, TFBI will seek financial support from Federal and Provincial programmes and

continue to provide programs and services that nurture the success of small food enterprises - the backbone of Toronto's leading food and beverage industry.

Over the past several years, city staff, provincial representatives, Ontario's food producers, and other agri-food stakeholders have been engaged in a conversation on how to enhance innovation and commercialization in Ontario's food sector. This has resulted in a number of policy/ discussion papers, such as "*Food & Farming: An Action Plan 2021*" presented to the city's Economic Development Committee last year. Recently, the city's food and beverage sector specialist has been engaged in preliminary discussions with food industry stakeholders on developing a policy document on the growth of the food industry over the next five years, including a network of food commercialization centres across Ontario. It will be important for city staff to continue to be part of these discussions, particularly with respect to the role TFBI and its proposed new facility could play in the Toronto region and Ontario's Golden Horseshoe.

## **CONCLUSION**

The BIC program review included a comparative analysis of business incubation in major urban centres. This research revealed a significant volume of activity in cities and regions across Canada, North America, and around the world, as they actively and rapidly build infrastructure and capacity to attract entrepreneurs. These findings reinforce the need for Toronto to continue to move forward with a cohesive business incubation strategy that enhances the local entrepreneurial ecosystem and promotes company formation, job creation, and innovation. As such, it is a very suitable first action plan to implement the *Collaborating for Competitiveness Strategy*.

## **CONTACT**

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## **SIGNATURE**

Michael H. Williams, General Manager  
Economic Development & Culture

## **ATTACHMENTS**

Attachment No. 1 Collaborative Innovation Network – List of Organizations