



woodTEK

BUSINESS DEVELOPMENT CENTRE



VALUE-ADDED WOOD INCUBATOR

Business Plan

August 27, 2001

A PROUD COMMUNITY PROJECT



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I. Executive Summary

The Prince George region has experienced a sudden and severe loss of jobs in the wood fiber industry. These job losses are projected to continue to erode the work force for the near term. Despite record wood fiber production figures, the consolidation of the industry and the impact of mechanization are two primary indicators that this region must take a pro-active response to generate net new jobs in the wood industry. To do so the workforce must be trained, significant assistance is required to establish an environment for the creation of a new entrepreneur class in value added wood craftsmanship, and new methods are needed to close the gap between high volume fiber processing business of the major producers and the small volume raw material needs of the wood craftsman and added value lumber processor.

The Value Added Wood Incubator for Prince George will bridge that gap and will be the epi-center of a new business environment.

This Value Added Wood Incubator will generate an average of 8 to 10 new businesses every three year which, in turn, will generate an average of 18 net new jobs per year for the first five years and more than 25 jobs per year for the long term. In addition to new companies and new jobs, the development of a new class of wood craftsmen will give the region a stronger diversification of industries and will retain significantly higher margins of value from our greatest natural resources.

This Business Plan describes the development and early operational phases of the Value Added Wood Incubator (adaptive re-use of a 27,400 sq ft. vacant manufacturing facility) and the services and facilities that will assist and nurture the tenant companies that occupy space within the Incubator and other new ventures within the Prince George region. This plan emphasizes that the programs (the portfolio of management assistance services) will be the most critical component of this economic development initiative. The management assistance services described in this plan are divided into four types of services – core (fulfillment) services, management services, technical and business training, and office practice services. The reader should pay special attention to the core (fulfillment) services description.

The core (fulfillment) services will be the unique feature of the Value Added Wood Incubator. To establish an environment for the Prince George region to proactively encourage and support prospective entrepreneurs this business incubator must provide a way to make ample quantities of lumber, sized to the typical dimensions of a wood craftsman, and kiln processed to furniture and flooring grade raw material. Ample quantities of lumber for the new business venture are relatively small quantities and regular supply of these quantities. Ample quantities to the lumber producers are relatively large quantities offered periodically. This Business Incubator will bridge the gap between the large producer and the new business venture. This Business Incubator will provide services to process this

lumber to meet the specifications of wood craftsman and added value wood products and, by doing so, add value to that lumber.

This plan will marry quality services with a facility to offer a comprehensive portfolio of resources to the entrepreneur. However, it will take time to generate a culture of entrepreneurship in the wood industry. To provide that time, this Business Incubator will also seek out of the regions for a portion of that processed lumber to ensure that the supply of raw material can be kept in constant supply to the entrepreneur as well as meet the bulk order needs of the major producers. Out of region sales will also create links with out of the region markets that will produce critical market information that will generate opportunities for new wood products and services from which the local entrepreneur will be encouraged to respond.

The Value Added Wood Incubator will be an economic development initiative of the Community Futures Development Corporation and the College of New Caledonia. These two organizations will be the prime stakeholders in this program. The College will mesh its' Wood Technology Center's Training and Equipment resources with the incubator's services. The Community Futures Development Corporation will focus on the facility and the core (fulfillment) services.

It will take a grant investment of between \$4.65 and \$5.17 million to acquire, renovate, and expand the facilities; purchase production equipment; develop the core services; begin acquiring and processing lumber; staff the incubator, and support the program and facility operations for the first three years. This investment will produce an average of 18 net new jobs per year for the long term, support the development of eight to ten new businesses every three years, and enable the incubator to financially self sustain beginning with the fourth year of operation. The long-term job development and the diversification of the business base of the Prince George region is a significant return on this investment.

The Value Added Wood Incubator will be incorporated as a private, not for profit entity and will be governed by a representative group of civic and business leaders including representation of the College, Community Futures, major producers, local professional service firms, and government.

This plan follows an extensive feasibility process and more than one year of discussion and review of a Steering Committee representing a cross section of the economic development, educational institutions, and the business community. Over 40 local executives of this Region's business community were involved in the feasibility study. Among the Steering Committee, the participating stakeholder organizations, and the business leaders who participated in the feasibility process there was a near unanimous support for the development of a Value Added Wood Incubator in Prince George. A Business Incubator is a complementary fit to the College's Wood Technology Center. Most important, this Incubator will be a significant response, albeit one of many economic development initiatives that this region will need to invest in to overcome the sudden and severe loss of jobs in the

wood industry. This job loss has been evident for a number of years and is projected to continue for the near term. The economic development needs of the Prince George region are great. The Value Added Wood Incubator is a major step forward to meet that challenge.

This plan estimates the development phase to take one year and the Value Added Wood Incubator to begin operations in less than two years.

II. Vision of the Value Added Wood Incubator

VISION: THE VISION OF THE VALUE ADDED WOOD INCUBATOR IS TO STIMULATE THE DEVELOPMENT OF STRONG, GROWING, PROFITABLE VALUE ADDED WOOD MANUFACTURING BUSINESSES OPERATING WITHIN A SYNERGISTIC, MUTUALLY SUPPORTING CLUSTER OF VALUE ADDED FIRMS IN THE PRINCE GEORGE AREA.

GOAL: THE DEVELOPMENT OF AN OPERATIONAL VALUE ADDED WOOD BUSINESS INCUBATOR OCCUPYING 30,000 SQUARE FEET WITH CORE (FULFILLMENT) SERVICES, CLIENTS, AND TENANTS. THIS BUSINESS INCUBATOR WILL PROVIDE ACCESS TO SUPPORT SERVICES AS IT HAS THE POTENTIAL TO ACT AS THE HUB FOR VALUE ADDED ACTIVITIES WITHIN THE AREA (MENTION THAT IT WILL HOUSE LOCAL VALUE ADDED SERVICE PROVIDERS AND PROGRAMS: VALUE ADDED ASSESSMENT PROGRAM, CENTRAL INTERIOR WOOD PROCESSORS ASSOCIATION, FORINTEK CANADA, FIBRE FACILITATOR, WOODWORKS, WOODLINKS, ETC)

PHASE ONE: THE DEVELOPMENT OF AN INCUBATOR OCCUPYING 12,000 SQUARE FEET IN ORDER TO DEMONSTRATE THE POTENTIAL OF THIS TYPE OF ENDEAVOUR AND THE RESULTING COMMUNITY, ECONOMIC, AND SYNERGISTIC BENEFITS.

The Value Added Wood Incubator for Prince George will be located at the former Daesung Facility located on 1.8 hectares of the Danson Industrial Park. This facility would be the facility for the Value Added Wood Incubator and will provide 27,400 sq. ft. to house a set of business services and to provide leaseable space to some of the new business ventures that this Incubator will significantly assist and nurture. Within the first three years of operation, this Incubator will be expanded to a minimum of 43,000 sq. ft. to accommodate more new companies and to reach the minimum size required to financially sustain and develop the incubator for the long term (refer to the April, 2000 Feasibility Study for an explanation of "minimum size required"). In North America, over the past 15 years, Business Incubators of this size have produced an average of 18 to 20 net new jobs per year employed by the tenant and client companies of the Incubator (estimating the creation of a minimum of three new business ventures each year, of which, 10 to 12 of these new companies will lease space at the incubator at any one time). These are the average job creation results of successful business incubators of comparable size within communities of comparable demographics as the Prince George region.

While 18 to 20 net new jobs per year does not seem to be a dramatic economic development boost for a region with relatively high unemployment, the cumulative effect of new jobs per year developed via a relative diverse set and increasing number of new companies is significant. This level of result will establish the Value Added Wood Incubator as one of the critical components of an overall economic development plan for the region. As much as an individual's wealth can

be accumulated by long term compound earnings, this Incubator will be a generator of net new jobs and new companies that will produce a solid core of entrepreneurs who, in turn, will produce compound rates of job development long after they “graduate” from the Incubator.

It will take more than a facility to make this incubator successful over the long term. To be successful, an incubator facility must be matched with a comprehensive portfolio of management, technical, training, and office practice services. This facility will house a set of business incubation services that will be the key component of business development success and will make this Incubator a truly unique small business resource in this region. There will be four sets of services provided via this Incubator:

- 1) Core (Fulfillment) Services**
- 2) Wood Technology Training**
- 3) Management Assistance**
- 4) Office Practice Services**

Both the Core (Fulfillment) services and the Wood Technology Training will be the “heart and soul” of this incubator – each will be vital to the development of a culture of entrepreneurship for this region. As was described in the Feasibility Study (April, 2000) and restated in this Business Plan, the Prince George region is rich in wood fiber resources and bulk production and processing of the fiber, but the resource alone does not create the culture of entrepreneurship. The history of this area as a major lumber company region does not create a work force with the skills for the type of market opportunities that small businesses serve in the wood industries. This area does not have enough small business activity serving market niches for value added wood products and services to set an example for others to be encouraged and assisted in starting new companies. It will take a proactive set of services to build a critical mass of new businesses serving market niches with value added wood products and services. The Value Added Wood Incubator will use the services to establish a high profile in the community and will employ the Core (fulfillment) Services and the Wood Technology Training to generate a culture of small business development in value added wood products and services. All four sets of services will be described in more detail later on in this document.

In addition to a suitable facility and a comprehensive set of management assistance services, successful incubators are led by key stakeholders known as “Champions” of the incubator.

Community Futures Development Corporation and the College of New Caledonia to manage the incubator and to generate and manage a comprehensive set of business assistance services of the business incubator. Community Futures Development Corporation will take the lead role of facility developer and principal supervisor of the day-to-day management of the facility, the core (fulfillment) services, and the oversight of the incubator economic development and financial objectives. The College of New Caledonia will lead the development and management of the Wood Technology Training and the Management Assistance Services.

III. Need for the Value Added Wood Incubator

Overview of the forest industry:

The forest industry in BC is in a period of significant transition – a crisis some would argue. While the global market for manufactured wood products is growing rapidly, and despite owning some of the best wood fiber in the world, BC's forest industry market share has declined in market share of that market over the last several years. (Note: Again in 2000, as in 1999, the major lumber producers are on course to set record gross production volume. The need for new economic development initiatives such as the Value Added Wood Incubator, stems from a reduction in the workforce with the primary forest industry)

This decline in market share is most readily apparent within the primary dimension lumber market, which has historically represented the vast majority of BC's forest products output. There are several reasons for this phenomenon, the most frequently cited being the U.S. Softwood Lumber Agreement, and the European certified lumber initiative, and the downturn in the Asian economy. Another contributing factor is that raw material and labor costs have risen to the point where BC's forest industry is in the process of consolidation and is following a trend line wherein more production will be achieved with fewer workers. Despite some varying opinions as to the state of the forest industry in the Prince George region, the fact remains that the commodity lumber companies, which have been BC's primary economic driver for decades, can no longer be relied upon as heavily to propel the majority of the Prince George workforce to higher levels of prosperity in the future.

Economic Trends:

The consolidation activity over the past five plus years has resulted in sudden and severe job losses for this region through shifts in mechanization to reduce the need for production staff and the elimination of management and administrative positions from the elimination of duplicate and overlapping job responsibilities from the merger of two large corporations.

Clearly, a change in strategic thinking, focus and direction is required if the forest industry in BC is to grow and flourish. One of the more promising strategies being promoted to revive the wood manufacturing segment of BC's economy is to more fully exploit the inherent value of the fiber by developing more value-added businesses dedicated to producing lower-volume but higher-value finished wood products. In response to the broad range of perceptions we have encountered regarding the concept of value-added businesses, it may be helpful to provide a working definition of the term "value-added wood manufacturing" as it is used in the naming of the Value Added Wood Incubator.

Core issue: “Drive to add value”:

Many perceive a value-added enterprise to be what is often referred to as a “re-manufacturer”. That is, a business that takes basic, dimensional lumber and performs some relatively minor operations — drilling holes, cutting to size, finger-jointing, etc. — to produce slightly modified lumber of a higher grade, varied shape or different size. The end result is an improved product for sure, but still basic construction grade lumber nonetheless. Such operations typically require a fairly large facility (2,000 to 3,000 square meters), have 20 or more employees, and experience the price of raw materials (wood fiber) to be the largest component of their cost of sales – in some cases as high as 80%. They are primarily market-focused.

In contrast, the “high-end”, value-added companies we foresee becoming clients of a Business Incubator in Prince George would most likely be relatively small operations occupying 100 to 300 square meters, employing less than 10, and whose raw material component ranges from 10 to 20% of the total manufacturing costs. Typically these will be consumer oriented products whose profit margin is less impacted by the underlying cost of fiber, but more dependent upon the design, engineering, craftsmanship, packaging and marketing that goes into the production process. They are primarily production-focused, serving niche markets.

While the decision to expand the depth and breadth of the value-added wood manufacturing segment of the economy may seem fairly basic, determining how to achieve this goal is much more challenging. The difficulty arises from trying to establish new entrepreneurial businesses featuring new and different product lines within an environment that is dominated by an industrial infrastructure, a cultural and sociological mindset, and a plethora of technologies and governmental regulations that have been developed almost exclusively around the model of large companies that produce very high volumes of a limited variety of basic commodity products.

Competitive advantages of the region:

There are several factors that we consider to be strong competitive advantages in favor of launching a successful Incubator in this region:

Awareness of the problem and strong community support– we saw substantial evidence, during the feasibility study work, that most business, community and government leaders recognize and acknowledge that alternative economic drivers must be developed. This community has spent over a year exploring a number of possible economic development initiatives and has come to the conclusion that a Business Incubator would be a logical addition and complement to a handful of related initiatives; e.g. the Wood Technology Center, etc. We have a broad base of support for the Value Added Wood Incubator.

An abundant supply of natural resources – in close proximity to Prince George there exists a vast supply of some of the best wood fiber in the world. Furthermore, many species – primarily birch, cedar and poplar – are currently unused by the primary lumber companies and could be profitably utilized by many high-end, value-added manufacturers without being burdened by the restrictions of the U.S. Softwood Lumber Agreement. The U.S. Softwood Lumber Agreement has expired and it is expected that a revised agreement/arrangement might provide the Canadian forest industry with a better position due to the countermanding pressures that could be applied in response to the terms proposed by the U.S. government. However, in any event, much needs to be done to organize the supply chain and price points, as well as to sort out the details regarding quantity, quality, and sub types within the birch, poplar, and cedar species.

A plentiful, available labor pool – because of the recent consolidations and plant closings by primary lumber companies, there exists large numbers of available, unemployed workers in Prince George to provide adequate staffing levels for any new businesses that may emerge. While a large labor pool exists, it must be recognized that this is both a competitive strength (in numbers and work ethic) and a weakness (in lack of wood craftsmanship skills and small business experience). The work force skills within the primary forest industry would likely not apply to most of the probable value-added business opportunities. Much planning will be required to coordinate the CNC Wood Technology Center's training programs with the emerging new business ventures to provide the needed job and business management skills.

An excellent transportation system – Being part of Canada's extensive rail system as well as having accessible air transportation favors Prince George.

Available educational support – the community has ready access to local college and university curricula that is supportive of the forest industry and that seems willing to address the technical training and business education needs of entrepreneurs entering the value-added sector.

Available sources of funding – there are several governmental funding sources available with an apparent willingness to support new business initiatives within the value-added wood manufacturing industry segment.

Obstacles facing small and fledgling producers:

However, in addition to the positive factors listed above, we also note some fairly major issues and challenges that most new value-added wood manufacturers will undoubtedly face – competitive *disadvantages* – that must be addressed and overcome via the Core (fulfillment) Services, the Technology Training Programs, and the Management Assistance Service Program of the Value Added Wood Incubator:

Access to fiber – it is paradoxical that close proximity to abundant supplies of high-quality wood fiber was the first item mentioned under the aforementioned list of competitive *advantages*, and yet having access to that fiber is seen as a major hurdle for value-added wood manufacturers in BC. The fact remains, however, that the provincially controlled timber harvesting regulations, which are heavily slanted toward the needs and activities of the primary dimension lumber mills, and, can make it very difficult for a small value-added wood manufacturer to have reliable access to good quality fiber.

Historically, the fiber access issues confronting a small wood manufacturer have been many. Only holders of government issued and allocated timber licenses have direct access to fiber growing in the forest. Acquiring a timber license can be a long, tedious, time-consuming, cumbersome process; furthermore harvesting the timber once a license is obtained can be a quite difficult and costly proposition when done on a small scale.

Consequently, it is primarily the large lumber companies that control the vast majority of the timber licenses and decide what wood is harvested for processing into dimension lumber. Thus, in most instances, a value-added wood manufacturer must rely upon one of the primary lumber producers to acquire its fiber. Unfortunately, due to a lack of significant business incentives, most primary producers are disinclined to negotiate with a smaller, secondary wood manufacturer who typically enters the transaction with very little bargaining leverage. The Value Added Wood Incubator will develop core (fulfillment) services to serve as the principal buyer and inventory storer for a collective group of small business clients.

We hear several explanations for the primary lumber mills' reluctance to deal with the smaller value-added companies:

- Primary producers' entire operations – from which trees they harvest to how they sort the logs that supply their mills to what size lumber they produce to how they dispose of their waste – are totally geared to maximizing their profits. It is unrealistic to expect them to alter their standard operating procedures, even slightly, to accommodate the needs of a small operator. This rationale can be applied anywhere along the production cycle from the cabinet maker who would like to extract some uncut or discarded birch trees from a primary producer's cut block, to the veneer operation who would like to

- extract the prime logs before they get directed to the sawmill, to the furniture maker who wants only clear grade pine boards.
- Primary producers can't risk allowing a small operator to harvest selected trees from their licensed tracts because of the liability issues that may result.
 - A primary producer can't afford to sell a small operator any raw logs unless they could replace this portion of their allocation at market price, because doing so would reduce the amount of timber that primary producer can process under the provincially controlled Annual Allowable Cut (AAC) regulations.
 - The only way a primary producer will deal with smaller operators is if they have a licensed timber quota, which can be "traded" with the primary producer in exchange for a supply of processed lumber on their terms.
 - Small operators usually have cash flow problems and can't be relied upon to pay their bills on a timely basis.
 - Primary producers can't be bothered with the inherent inefficiencies of having to deal with many small operators – they prefer working with a few larger customers who can generate higher profits.
 - Primary producers simply don't want to assist any other wood producer who they view as potential competition.

It should be noted here that we recognize some contrary opinions wherein some primary producers have cited a number of recent and current examples where they have devised procedures to provide small businesses with a supply of logs. How did this happen? It was the result of the concerted effort by those small businesses to "relationship build" with the primary producer. With regard to this plan, the importance of relationship building with the primary producers is paramount. The Incubator Manager will serve as the intermediary with the primary producers and devote a significant amount of time and effort to develop a supply arrangement that involves advocating new government incentives for the primary producers, building relationships that solicit a fiber supply within the existing regulations and price points, and determining how to have the primary producers invest in a profitable business position within the Incubator.

We also observed some recent legislative changes that should be encouraging to proponents of developing a strong high-end, value-added wood manufacturing industry in Prince George. In 1999, the Prince George Regional Office of the Ministry of Forests issued a letter stating that, to encourage major licensees to supply birch to secondary manufacturers, a primary producer's AAC will not be negatively impacted by sales of birch harvested from their licensed timber tracts. We also learned that some small independent saw millers and sort yards in the region have been successful in obtaining logs, both deciduous and coniferous, from farmers and woodlot owners who may provide a good alternative source of

fiber for small, secondary operators. Also, several individuals we interviewed, who are familiar with management of some of the large, primary producers, stated that they have perceived a recent, positive change in attitude toward the secondary wood manufacturing industry, "... because they can feel the winds of change a-blowin'."

Access to capital –almost every small operator we spoke with indicated that they've had difficulty obtaining loans at affordable rates and with favorable payback schedules. Certainly this mantra is fairly common among most new small business owners. Nonetheless, it must be acknowledged that many of the entrepreneurs who would qualify as potential Incubator clients will most likely not be able to pass the usual tests of creditworthiness; therefore accommodations will be required if the objective is to provide them financial assistance.

Access to a qualified, skilled work force – again, it is ironic that one of the areas cited as being advantageous, is also considered to be a potential hurdle. The problem lies in the fact that while a large number of unemployed workers may exist, many of them lack the necessary technical skills required of a small value-added wood manufacturing company, let alone the business education or acumen to become a successful entrepreneur. Logging experience or knowledge of operating large sawmill machinery does not necessarily translate well to understanding the intricacies of running fine woodworking equipment or the craftsmanship that goes into building finished consumer products. Also, because of the prevalence of primary dimension lumber production throughout Prince George's history, there appears to be a pervasive union-based attitude among many of the workforce, and there are relatively few substantial mentors or intergenerational examples of value-added wood manufacturing entrepreneurs to serve as examples to a new generation of woodworkers.

Lack of consumer product expertise – because of the large company/commodity product background of much of Prince George's workforce, there is an overall general lack of expertise about how to effectively design, engineer, develop and then package and ship finished consumer products. Similarly lacking is experience in advertising and marketing locally produced consumer wood products to a global marketplace.

Possible lack of major industry support – it is difficult to ascertain the level of support that the Incubator concept will ultimately receive from the primary lumber companies in the Prince George region. Naturally the forest industry leaders will publicly say that they fully support the initiative. However, history has shown that in most similar economic development initiatives in the United States with lumber as the focal point, the major players rarely step forward with substantial, tangible continuing support. They typically don't do anything significant to assist unless they are approached in the correct manner and presented with a proposal that, at least in part, appeals to their interests. A major challenge of the Incubator will be to formulate an action plan to present to the primary lumber producers that considers

not just *how* they can help, but also clearly illustrates *why* they should help and how it can be meaningful to them on a long-term basis.

IV. How the Value Added Wood Incubator will Achieve Its' Vision

This Business Plan addresses the Market Plan, the Corporate Structure, and the Sources and Uses of Capital in subsequent sections. Each of these areas is vitally important to the success of the Value Added Wood Incubator. Nevertheless, in this section of the Plan we will address the Service Program (the “heart and soul” of the incubation process) and the Facility (gives the incubator a profile and a financial base).

The Service Program:

As was mentioned above, the Value Added Wood Incubator will have four categories of service:

Category one: Core (fulfillment) Services

The core (fulfillment) services will be the unique feature of the Value Added Wood Incubator. The two objectives of the services are to give the small entrepreneur access to fiber and to have that fiber in “lumber form” equal to the raw material specifications of a small added value wood craftsman. To meet these two objectives the Incubator Management team will need to provide services such as (but not limited to):

Core Service #1: Negotiating a method(s) to purchase the minimum amount of fiber necessary to meet the needs of the major producers at a price equal or slightly above a major producer’s cost to harvest, deliver, and (for a portion of the order) cut into traditional dimensional sizes. This will require the Incubator Manager to build relationships with the local major producers, to include representatives of the local major producers on the Incubator Board and Advisor team, and to establish an internal financing program to acquire and store the lumber and logs. The storage, most likely, will be on the property of the Incubator. The financing will, most likely, be funded by a government grant and loan program and administered as a revolving loan to the Incubator.

The dominant fiber purchased will, most likely, be birch. However, other hardwoods and Douglas Fir must be included in the purchases. The Value Added Wood Incubator will handle this service directly via its’ management staff and the financing will be organized as a revolving loan to the Incubator via Community Futures Development Corporation.

The challenge to this service is to keep inventories turning, average inventory days low, and cost of product at a reasonable price to the small local end user.

Each of the following five core (fulfillment) services help the Incubator to meet these challenges.

Core Service #2: Kiln drying to furniture grade moisture content, the kiln drying process that the major producers employ does not meet the specifications for the typical small wood craftsman entrepreneur.

Whereas the acquisition and inventory of fiber is handled directly by the Incubator staff, the kiln drying service must be subcontracted. The subcontract can take two forms:

Option one: The subcontractor will enter into a long-term lease with the Incubator to be the “turn key” operator of the Incubator kiln. This lease will place cost of the repair and modification the kiln to meet the specifications of furniture grade lumber on the lessee. The lessee, in return for a beneficial lease rate, will be able to use the kiln for their own existing lumber business and also give VIP service to the tenant and client companies of the Incubator as well as direct kiln services to the Incubator management to add value to portions of their bulk inventory supply.

Option two: The subcontractor has their own kiln and can offer the service at a better cost than repairing and modifying the Incubator’s kiln. In this case, the Incubator kiln will be used as a lease unit for rental to a tenant company for their own business purposes.

A subcontractor must meet the following criteria:

- a. Owner/operator of a local company.
- b. Well experienced in kiln operations.
- c. Have their own need for the kiln. (the needs of the Incubator and its’ clients will, most likely, not be sufficient to support the throughput needs of a kiln operator).
- d. Have the financial ability to serve customers on a standard deposit, balance on delivery, credit terms to qualified customers, etc.

The Business Incubator has identified _____ as a candidate for a qualified kiln operator, sub-dimensional saw mill, and tenant company of the incubator for the purposes of turn key managing the kiln and saw mill core services.

Core Service #3: Cutting to sub-dimensional sizes and sorting into kit form.

The major producers do not cut lumber to dimensional sizes suitable for small wood craftsman (furniture, flooring, etc.). Therefore, as with the kiln services, the Incubator will seek a subcontractor (ideally, the same subcontractor for both saw mill and kiln services) to cut lumber and logs into dimensions for furniture and flooring needs. We have identified three basic types of customers for kiln dried and sub dimensional cut lumber:

- a. The Incubator tenant and client companies.
(new local business owners)
- b. Out of the region distributors and businesses seeking raw material.
- c. The Incubator, itself, as a channel (niche) marketer to the out of the region distributors and businesses.

Selling this raw material to out of the region distributors and businesses will serve two important purposes:

- Easier for the Incubator to negotiate larger bulk purchases from the local producer by increasing inventory turn over.
- Ability to make a small profit margin on out of the region sales, thus, producing net revenue to support incubator operations and have the option to lower the price to the incubator tenant and client companies.
- Will keep the local region connected to the market demands of the international market.
- Give the local program the time to develop a significant local demand for this raw material – it will be years before the local demand could meet the bulk purchase requirements.

Core Service #4: Establishing market channels for sub-dimensional kits and finished products.

This service will be coordinated by the Incubator Management staff but subcontracted to a company with the experience as sales representative of wood products, as raw material for production. This service will be paid for by a combination of fees and commissions, wherein the fees are paid as a minimum guarantee against commissions until such time as commissions are sufficient to support the full cost of the service. This service will eventually be a net profit unit of the Incubator and will be a leading generator of additional core (fulfillment) services recommended to meet the specifications of this market as well as improve the quality and variety of options of raw material.

NOTE: EVERY STEP WE MAKE TO IMPROVE THE RAW MATERIAL BASED ON OUT OF THE REGION MARKET INFORMATION WILL BE ANOTHER STEP TO DEVELOPING THE LOCAL CULTURE FOR THE DEVELOPMENT OF SUCCESSFUL NEW BUSINESSES IN THE REGION.

For example, the out of region customers may ask and pay a premium for the sub dimensional lumber to be end to end or side to side grain matched. If so, the volume and predictability of such orders will give the incubator the ability to also offer this service to the local small business.

For example, the out of region customers may ask for new sub dimensions, coatings and finishes, sub assemblies, etc. Each request, if of such volume to warrant the tooling and staffing, will take the value added chain another link toward ultimate custom value. Each link forward will help to develop new local business venture opportunities.

So, to review:

The first four core services will be the most valuable services provided by the Value Added Wood Incubator. These first four services are important because they meet multiple objectives:

- Give access to fiber.
- Raise the price point of the fiber to the customer and, by doing so; give the local entrepreneur an increased margin of profit.
- Encourage new business ventures.
- Provide the time for the number of new business ventures to grow in demand for raw material to meet bulk purchase demands.
- Give the incubator a source of “hard money” revenue.
- Provide information on market opportunities that should serve as a guide to the development of Wood Technology Training content.

Core Service #5: Provide special financing programs to assist the local tenant companies and client companies of the Incubator to support purchase orders.

A number of local and provincial agencies offer forms of financing that are structured to promote the development of small and mid size companies. The Community Futures Development Corporation is one such agency and is a leader in providing special financing programs to the Prince George region. Therefore, the staff and governing board of Community Futures are well qualified and experienced in developing and managing special financing programs and will take the lead in developing a new adaptation to their existing programs to accommodate the tenant companies and client companies of the Value Added Wood Incubator. This program will be identified as the Value Added Wood Incubator Purchase Order Financing Program. The objective is to have area banks, local and regional foundations, and corporations contribute a minimum of \$600,000 to a special loan pool.

The funds would be restricted to:

- Short term (90 to 210 days) financing of specific certified purchase orders.
- One year inventory loans wherein the inventory purchase was necessary to meet the obligations of a certified purchase order but in excess of the requirements of the purchase order in order to meet the proper price point of raw materials to serve the purchase order.
- Combinations of purchase order and inventory financing. The loans will be made at a higher rate than a typical loan at a lending institution to offset the borrower's lack of collateral. Community Futures will manage this loan through its' existing review committees and governing structure. Community Futures will charge an application fee and share this fee revenue with the Incubator. There are many examples of similar "non bank" lending programs that exclusively serve the development of clusters of related businesses. To mention a few:
 - Shorebank Development Bank in Cleveland's Glenville Incubator,
 - Shorebank Development Bank in Chicago's Southside Incubator,
 - SPEDD's Incubator Network in Pittsburgh, Focus Hope Project in Detroit.

These programs have achieved rates of return and have controlled loan losses that exceed the performance of traditional small business lending programs of their local banks.

Core Service # 6: Renting out equipment to qualified tenant and client companies of the Incubator to permit them to fulfill purchase orders.

It is assumed that the Value Added Wood Incubator Board of Directors will successfully negotiate for the Daesung facility and most of the capital equipment that was left in the facility. The facility and equipment are current and have had limited use. Some of this equipment will be available for shared use by the tenant and client companies of the program. Some of this equipment (kiln, for example) will be turnkey operated by tenant and client companies of the program.

However, it should be noted that:

- Value Added Wood Incubator will focus on providing kiln and saw services and will be very conservative in providing other shared equipment opportunities. The Incubator will not assume significant costs to cover the liabilities associated with shared use of equipment with inherent major liabilities. The Incubator will first seek lease arrangements with single operators and require that these single operators, in turn, provide services for the clients of the Incubator.
- The College's Wood Technology Center will have shared use programs for the capital equipment located at the College.

These are the six services that will make the Value Added Wood Incubator unique and successful. These six services will be created in direct response to the findings of the feasibility study:

- The small entrepreneur cannot get easy access to raw material lumber.
- The raw lumber must be dried to a moisture content suitable for furniture grade, flooring, finished product use.
- Sub-dimensional sizes in kit form are necessary to supply product directly from the core (fulfillment) service to the user market (thereby creating immediate income for the Incubator while the level of demand builds for this material from the entrepreneurs being cultivated within the Incubator) and for resale in relatively smaller quantities to new entrepreneurs.
- The Incubator will require immediate purchase orders to sustain the turnover of the lumber supply while developing a local demand for the component material and to give the new entrepreneur a small quantity supply in the early stages of their development.
- The Incubator Manager will attempt generate orders for finished product by leading the market to the prospective entrepreneur rather than depending on the local entrepreneur to take new products to the market.
- The Incubator will provide the critical short term, purchase order financing to new business ventures at a lower level of collateral support, but probably at a higher interest rate, than required by a bank.
- The Incubator will provide its tenant and client companies access to capital production equipment on an hour-by-hour rental rate.

How to finance and operate this set of six core services (Refer to the Budget Section of this Plan)—some critical assumptions:

1. The raw material lumber will be sold and delivered to the Incubator by the major lumber companies at the same price offered to a large lumber customer. By providing a large customer price, the major lumber companies will demonstrate their support for the Incubator. The Incubator will be the purchaser of these bulk orders, will store this inventory at the Incubator, and will determine what portion of the bulk order to process via kilning and sawing to prepare raw material for the local entrepreneur and the out of region services. It is expected that these services will be subsidized via grants for the first few years of operation in order to make adjustments to market demand and to provide the time to build sufficient market demand to turn a profit. In the long term, this service will be a major net revenue producer for the Incubator.

2. The Incubator will pay for the kilning and the sub-dimensional cutting services of a portion of the bulk orders. The kilning operation and the sub-dimensional sawmill services will be subcontracted as turn key services and the turn key operator will be required to consider the Incubator to be a VIP customer. It is understood that the turnkey operators will also be using the equipment for the operation of their own independent business.
3. The Incubator will generate a net profit for these services via the markup of the sub-dimensional cut and kiln-dried lumber.
4. It will take \$300,000 in grants to enable the Incubator to maintain an inventory of desired lumber and the subcontracted kiln and sawing operations. Following the first three years of operational losses (covered by the grant funds) the Incubator will begin to generate a gross profit from this service. That gross profit is estimated to provide \$125,000 to support the Incubator in years four and five.
5. There will be a 9% bad debt factor and 10% waste and loss on all raw material processed and sold by the Incubator as a cost of doing business. These anticipated losses would be offset by mark up rates to the local and out of region customers.
6. The non-bank fund will raise \$375,000 from five participating banks and \$225,000 in grants to support the Non Bank financing program.

Category Two: Wood Technology Training Services:

The College of New Caledonia has, independent of the development of the Incubator, prepared plans and has begun fund raising for the development and operation of a Wood Technology Training Program. These plans detail the size and location of the Training Center, the capital equipment requirements, and the curriculum. It is anticipated that the incubator will have significant support from major corporations to contribute equipment, maintain an equipment replacement process to keep pace with changing technologies, and to support the training faculty.

So, we have the opportunity to have the Wood Technology Training Center affiliate with the Value Added Wood Incubator. How will the two programs align?

Here are the plans:

- The College will be well represented on the governing board of the Incubator.
- The Training Center Director and the Incubator Director will be asked to submit annual plans to reflect changes in the Training Center curriculum to accommodate custom training needs of the Incubator client and tenant companies.

- The Training Center will implement policies for shared use of certain equipment made available to Incubator client and tenant companies for specific short-term production needs.
- Training Center programs will be offered at the college-based Training Center with some special custom programs offered at the Incubator.
- The College will also take the lead in providing a portfolio of small business assistance training programs, seminars, workshops, and individual technical and management assistance services. These programs and services will be developed as a combination of the existing credit and non credit program offerings of the College and as new program developments evolving from the recommendations of the Incubator Manager and Board to the College. The College recognizes the need to develop a portfolio of training and services that serve as the direct management assistance services for the Incubator Tenant and Client Companies.
- The management assistance services and programs will be “heavily weighted” with marketing and sales, cash flow management, product design and new product evaluation, and business financing.

The College will make every effort to generate grant funding to develop and offer a set of direct management assistance services and establish training program costs that provide the tenant and client companies of the Incubators with “special rates”.

For the purposes of this Business Plan it is important to note that the impact of the Wood Technology Center to the Business Incubator will be measured by:

- The ability of the incubator to give incubator tenant and client companies supervised and technically assisted access to their equipment for the production of various product components to fulfill purchase orders.
- The ability of the training curriculum of the incubator to directly assist the business plan development of prospective entrepreneurs.
- The ability of the incubator faculty to offer technical assistance with specific purchase orders of the incubator tenants.
- The ability to organize the equipment for the small business owner versus the equipment needs of a large lumber company.

Category Three: Management Assistance Services

As mentioned above, the College of New Caledonia will take primary responsibility to develop and manage a set of training services and coordinate the development of a portfolio of technical assistance services with special attention to the Incubator clients and tenant companies.

Also, The Incubator Manager will spend the majority of his/her time delivering one-on-one direct client assistance as an integral part of the Management Assistance Service portfolio. The Management Assistance Services that are the most popular among the tenant and client companies of Incubators are as follows:

- Development of a marketing and sales strategy and the coordination of trial sell activities to test this strategy.
- Providing a panel review or Community Futures Development Corporation Finance and Lending Committee to award non-bank financing for purchase orders.
- Providing a “shadow board” to monitor the progress of the company via a consistent set of criteria (See Attachment one for one example of a set of consistent criteria).
- Providing a channel marketing research and procurement service.

It will be necessary to send the Incubator Manager for core (fulfillment) and management services training. The National Business Incubator Association has a list of consulting firms and training institute programs to support the training of the Manager. Pittsburgh Gateways Corporation (the firm that conducted the feasibility study and participated in the development of this plan) can also provide this training service.

The Training will typically be comprised of three, 3-day sessions and will cost approximately \$10,500 plus travel costs (estimated \$12, 600). The Manager will return from such training with a package of management assistance services that serve each of the four management assistant services listed above.

Assumptions:

1. The Incubator will provide marketing and sales services for an estimated 20 entrepreneur prospects per year. The Incubator will charge an average of \$500 for this service (a loss leader service that will require an average of 40 hours per client).
2. The Incubator Manager will assemble a Task Force of approximately seven area civic and business leaders that will meet monthly to review the progress of the tenant and client companies against a set of criteria. The Incubator Manager will prepare progress reports for this Task Force and will assist the tenant and client companies in preparing the information required by the Task Force to evaluate the progress of each tenant and client company. The Task Force will provide referral and resources to the participating companies. This service will be free for the client until the client company reaches the third stage of the “stagegate” review process. The Incubator Manager will administer this service, the Task Force members will volunteer their time, and the participating companies will prepare the majority of the information reports.
3. The Incubator Manager will be a voting member of the review panel of a Non bank financing program organized by Community Futures. This review panel will meet on demand. The eligible applicant will be a tenant company or client company of the Incubator that produces a confirmed purchase order and an analysis of the itemized costs and gross profit of the order. The typical financing arrangements will be:
 - finance the direct costs of the order
 - finance through the estimated time of the production process and approximately 60 days from the time of delivery and acceptance
 - option to finance the full production run if the volume of the run exceeds the purchase order but is the minimum amount necessary to meet the best gross profit margin
 - the applicant can provide collateral to support at least ½ of the financed amount
 - the applicant has a specific plan to sell the balance of the inventory produced with \$600,000 to lend, it is estimated that the program will be able to handle approximately six loans per year

4. The Incubator will contract with a channel market representative to solicit orders for sub-dimensional cuts of lumber, kit packaged sub-dimensional products, sub-contracted components of finished products, and finished products. The contract will include a retainer and a commission. It is expected that the channel marketer representative will have strong contacts in the United States and Asia. The contract is estimated to cost approximately \$3,000 per month retainer and a 12% commission on products sold. Pittsburgh Gateways Corporation or an equivalent consultant will assist the Incubator Board of Directors with the identification of a number of candidate market representatives.

Category Four: Office Practice Services

These are the most common set of Incubator services. The trouble with most incubators is that they offer *only* office practice services. Nevertheless, such services are important and the Value Added Wood Incubator will offer the following:

- Phone system with voice mail
- Central Office equipment
 - Photocopier
 - Locked mail boxes
 - Locked package storage room
 - Fax
 - Express mail discounts and software labeling and tracking system
 - Conference room holding up to 12 people
 - A product exhibit area
 - Kitchenette with refrigerator and coffee/tea/beverage service
- A loading dock equipment
 - Fork lift
 - Storage bins

An Administrative Assistant will be responsible for the management of the Office Practice Services as well as the delivery of word processing services, and the regular expansion of the service program (travel arrangements, catering, power point presentations, conferencing equipment, graphics services, mailing services, procurement services, web page development, etc.)

It will be the objective of the Administrative Assistant to develop and administer the Office Practice Services program to generate a minimum of 75 cents net income per square foot of Incubator space as a benchmark. These services will be made available to tenant companies and client companies of the program.

The Facility

As per the recommendation of the Feasibility Study, the Daesung Facility was the only facility that met the specifications for adaptive reuse as a business incubator. (Refer to Attachment F of the Feasibility Report to review the list of criteria and page 26 of the Feasibility Report to see the list of facilities.). The Consultants, the Steering Committee, and the staff of Community Futures endorsed the Daesung Facility.

A Description of the Daesung Facility

The Daesung Facility provides less net rentable space (27,400 sq. ft.) than is required (43,000 sq. ft.) to generate enough income to support a basic multi tenant facility and supporting incubator. Therefore, we plan to expand the facility by no less than 15,600 sq. ft. with construction to begin following the second full year of operation of the Incubator and contingent on the leasing demands placed on the facility through the first two years of operation. At this facility, expansion would be relatively easy. The site is graded and the facility is designed to easily expand with a wing off the main building.

The Daesung Facility has a previous use that closely matches the operation of the incubator services as recommended in the Feasibility Report. Therefore, there will be no anticipated changes in the power supply.

The property is paved, fenced, has 8 outside yard lights, and has 58 car plug ins. The facility is sprinklered, has a kiln, overhead crane, trimming machine, trim saws, banding machine, debarker, and chopping machine.

The superstructure is well maintained and has no visible evidence of any required maintenance or repair to the roof, heating systems, washrooms, or lighting systems.

The facility is current, has a poured concrete slab with reinforced machine foundations, insulated enameled steel sandwich panels on a pre-engineered steel frame and arch, interior walls are enameled steel panels and interior painted drywall with suspended acoustical tile over the office and restroom areas. The electric is 2000 amp 3 phase, the lights are mercury vapor in the factory and fluorescent in the offices. Factory is gas hot water space heat, office is electric baseboard, and Office has warm and cool air conditioning. There are 26 washroom/restroom fixtures.

This facility is usable as the incubator with some relatively minor interior office partitions of drywall to accommodate tenant company offices and support incubator shared office practice center including a small conference room.

The site is on a 1.8-hectare parcel of land located within the Danson Industrial park. The British Columbia rail line runs past the west lot line and can accommodate a spur track. The lot is cleared with a natural gravel base. Approximately 50 m x 75 m area is paved and landscaped. Services to the property include electricity, telephone, natural gas, municipal water, and sanitary sewer. Both Penn Road and Algoma Crescent (property fronts both streets) are two lanes with curbing. The frontage is chain linked fenced and the back site boundaries are partially fenced.

Over the past 15 years of Business Incubation Development, Management and Consulting responsibilities, the Consultants who conducted the Feasibility Study have inspected well over 200 candidate incubation facilities throughout North America. They rated this facility as one of the best they had inspected for adaptive reuse as an incubator. We plan to meet or exceed the purchase terms listed.

Acquisition/Expansion

Seller's Asking price is \$ 2,500,000

Our estimates for renovation/expansion are:

Facility expansion of 15,600 sq. ft.	\$ 778,200
Interior partitioning – 730 sq ft.	\$ 59,150
Equipment purchases	\$ 155,000

Owner's Leasing Price is:

Property and building	\$264,000/yr
Approximate lease per sq. ft.	\$9.64/yr

The Consultant's Recommendations is to **Lease with an Option to Purchase** (Option Two in the 'Budgets' portion of the Business Plan):

According to our calculation, the market rate for shop space in a new building in the Prince George Region is \$8.25 per sq ft. per year. However, the lease price for this property is \$9.64 per sq ft. per year.

In our opinion, their offer to lease would be higher than market rate and, therefore, not acceptable. In order for the Incubator to earn money on the rental of the property, it is expected that the incubator will extract \$2.00 for every sq. ft. leased to support the incubator staff and support the assistance programs. We will deduct this amount (\$2.00) from the per sq. ft. lease market rate and, therefore, set \$6.25 as our lease offer with an option to purchase.

Therefore, we plan to offer to lease the property for \$171,000 per year (27,400 sq. ft. x \$6.25.) Using their conversion rate of 9.4 (converting the lease rate to a facility purchase price) we plan to raise grant funds to support an offer of \$1.6 million for the purchase of the property and buildings and a price of \$155,000 for all the equipment in the building (See Attachment J – of the Feasibility Study - for list of equipment).

(Note: We arrived at \$155,000 for all the equipment by selecting those items that we believe are essential to the core (fulfillment) services and making that price the offer for all the equipment. It is unlikely that Daesung can cost justify the removal of the balance of the equipment and would, therefore, accept this offer. (Note: the replacement value of the all the equipment is well over \$400,000.)

We plan to offer to lease the property from Daesung for a three-year period and seek an option purchase price (no higher than \$1.6 million) and lease the equipment (no higher than \$16,500 per year) with an option to purchase the equipment (no higher than \$155,000). We will negotiate that a portion of the lease funds paid to Daesung be credited against the purchase option price (approximately 25% of the lease price – estimated to be \$42,000 per year) to offset what we save Daesung in current overhead expenses (utility costs, insurance, maintenance, etc. to maintain an empty facility.) This lease with an option to purchase will give the Incubator time to raise all the funds necessary to trigger a purchase of the facilities and property and prepare for the expansion plans.

Following the lease, when the property is purchased at the recommended price and no down payment is made, we will assume a twenty-year mortgage with an 8% fixed mortgage rate. Therefore, a \$1.755 million purchase at 8% for 20 years will require a \$14,680 per month payment plus taxes.

For the Facilities Development Plan (included in the Operational Budget attached) we have assumed:

1. A three-year lease (monthly lease payments of \$14,250) with an exercised purchase option (monthly mortgage payments of \$13,800 assuming a credit of \$128,250 off of the \$1.755 million option price).
2. A per square foot rental rate to incubation tenant companies and core (fulfillment) service companies of \$8.25 per sq. ft. and a net rent payment to the owner of \$6.25 per sq. ft.
3. A rental plan that has 25% pre-leased and a 35% occupancy at the end of year one, a 50% occupancy at the end of year 2, and a 70% occupancy at the end of year three.
4. The addition of a wing of 15,600 sq. ft. begun in year 3 and opened in mid-year 4 (to be used as either the Wood Technology Center Shops of CNC or tenant company rental units).
5. A 9% bad debt rate.
6. Taxes will begin at \$20,000 and will gradually return to the \$36,000 now paid by Daesung. If this tax abatement is not possible, these figures need to be adjusted.
7. Utility costs are \$3.40 per sq. ft. per year with all vacancy pro rated as utility costs borne by the Incubator (outside lights included).
8. A maintenance cost of \$1.85 per sq. ft. per year (including snow removal)
9. A net rentable to gross sq. ft. factor of 85%.
10. A grant will pay 100% of the addition of 15,600 sq. ft.

11. The budget section includes grant subsidies. We are planning that the stakeholders will raise a minimum of \$1.7 million to support the facility (acquisition, renovation, and operation subsidy).

For planning purposes, this budget has been set to adjust to any one of the following conditions:

- a. The level of grant support raised by the stakeholders exceeds \$1.7 million
- b. Delays or advances in the timing of the purchase
- c. Changes in the acquisition costs and/or lease terms via the negotiation process

This facility will house the kiln and saw mill core (fulfillment) services (one tenant company), the Incubation Management team (1200 sq. ft.), tenant company shop space (six companies), and start up offices and small shops (5 companies) once expanded. The facility will be leased with a combination of one, two, and three-year leases. Tenant companies will “graduate” from the incubator facility somewhere between their third and fifth year of operation.

The entering company will have an average of two employees and will require between 400 and 1200 sq ft. The graduating company will occupy more than 2,500 sq ft. and leave to occupy more than 6,000 sq. ft. At the time of “graduation” the tenant company will have an average of 12 employees and will be requiring 2 new employees per year for the next five years. These statistics are based on the patterns of growth of companies in North American Incubators with manufacturing based, business cluster focus.

V. Marketing Plan

This Incubator will be marketed via its' services first and facilities second. It is the quality of the service program that will make this incubator successful and locally unique. The theme of the following seven marketing activities is that the Marketing Program should be based on featuring the services. The key to the success of this Marketing Program is the application of consistent marketing activities on a regular/clockwork basis with one on one customer attention.

Market Plan element one – The brochure and the monthly follow up letters.

The incubator will prepare a brochure booklet that will be called the Value Added Wood Incubator Passport Program – your passport to services. This brochure will include a complete description of the core, management, and office practices services with a referral to the Wood Technology Center program brochure. More important, this brochure will provide specific first steps and special offers for the prospective entrepreneur to visit the Incubator and receive some sample service activity. This brochure will invite the prospective entrepreneur to “take a taste of the service program”. Some examples:

1. Meet with a market assistant to have a 90-minute discussion on the assessment of your business concept from the view of the market. Work with the assistant during this session to construct a way to develop a market plan and to get applicable market information. Discuss the typical ways other similar companies have approach the market and sales plan for your business.
2. Meet with a market assistant to have a 90-minute discussion on setting prices for your products and services. Learn how to construct prices from a market perspective as compared with a cost plus formula.
3. Have your business account reviewed and reconciled by a bookkeeper.
4. Meet with a graphics designer to discuss a comprehensive and consistent image for your business.
5. Receive a 90-minute tour of all the services and facilities of this incubator.

Tasting services via a series of invitations to participate should be the primary mode of recruiting tenant and client companies to the incubator.

How to distribute the brochure:

Rule one: Don't let them sit in brochure racks or on tables for people to take. They must be given to someone who, in turn, gives a contact name and address.

Rule two: It is the responsibility of the staff, the clients, the board, the stakeholders, commercial loan officers, economic development officials, college administration and faculty, and the service providers to distribute the brochures, one by one, when the recipient appears to be an eligible candidate.

Rule three: The brochure is the first document. The recipient is to receive monthly offers to taste a service – one-page announcements sent by email or mail.

Rule four: The recipient is to receive monthly press releases that announce some recent development of the clients of the Wood Incubator.

The brochure, the invitations, and the press releases are the responsibility of the Program Assistant.

Market Plan element two – The Outreach Program.

The Incubator Manager will organize four annual workshops – open to the public, free enrollment, evening sessions. These sessions will focus on the types of topics that are reflected in the year's best selling business books:

Learn the 18 patterns of success of top entrepreneurs (and the 9 ways most entrepreneurs fail).

Ten ways to improve your company's market and sale activities.

Learn the top market opportunities in wood craftsmanship to U.S., Canadian, and Asian markets.

Give your business a legal audit – take a confidential checklist review of your business' legal health

Each workshop will be sponsored via the Incubator, local civic and business organizations, grant funds, and the College of New Caledonia. The workshops will cost \$2,000 for the speaker, \$1,000 for speaker travel costs, \$1,000 for local ads, \$200 light refreshments, and \$200 for workshop materials. It is assumed that the room will be contributed. These workshops will attract an average of 70 people and will produce 7 client prospects per session.

Market Plan element three - The Proactive Calling Program.

The Incubator Manager will allocate four hours per week to soliciting appointments with key civic and business leaders, commercial loan officers, economic development staff, clergy, and college business and engineering faculty to update them on the program and to ask for client referrals. This will take discipline to maintain, but is essential to the success of the program. One hour to make the next week's appointments, three hours to handle two appointments per week.

Market Plan element four – The Core (core (fulfillment)) Service “top six”.

The Core Services will be the main attraction of wood craftsmen. These will generate client prospects by word of mouth and via the brochure.

Market Plan element five - The Facility.

The Facility will raise the profile of the incubator.

Market Plan element six – The channel market consultants and sales representatives.

The Manager needs to be in regular contact with the channel marketers. These representatives, if properly functioning, should generate market needs either match the services of the incubator or not. The Manager should want to learn of all the market feedback on needs and not just those needs that can presently be fulfilled by the Incubator and its' clients. The information on other needs will periodically show a pattern of demand that will warrant the response of the Prince George region. These needs should be communicated via the monthly press release sent to all those who were given a brochure, mentioned at all workshops, discussed at each Board Meeting, etc.

Market Plan element seven – the development of the service program.

The development of new core, management, training, and office practice services provides new tools for management and provides another avenue to attract an interested participant.

VI. Summary of the Capital Required to Develop and Maintain the Incubator

The total capital required to purchase the facility, the shop equipment, the office equipment, finance the incubator inventory of fiber and process services (kilning, sawing), subsidize the facility operations for three years, subsidize the incubator management, train staff, expand the facility to 43,000 sq. ft., and support the development phase is a net total of between \$3.5 million assuming a \$1.2 million mortgage (Option 3), \$4.65 million assuming no mortgage and an early purchase of the facility (Option 1), and \$5.17 million assuming no mortgage and a lease period before the purchase of the facility (Option 2). This plan shows the incubator breaking even in year four (\$23,400 profit), making 167,100 in year five, and having the potential at full occupancy of generating more than \$300,000 per year. (Refer to Budget Sections for 5 year Operating Plan and the Capital Budget.

Some of the individual capital requirements are:

The facility lease period \$171,250 per year for three years.

The facility acquisition including all legal/tax costs assuming lease period credits \$1,600,000 less \$126,000 in credits from the lease.

Facility renovation including all engineering and general contractor costs \$126,000.

The equipment lease period \$16,200 each year for three years.

The equipment acquisition assuming the lease period credits \$155,000 less \$12,400 lease credits

Net Subsidy of the core (fulfillment) services:

Access to lumber & kiln and sawing subcontracted services \$300,000.

Non-bank financing \$600,000.

Channel marketing services \$26,000.

Staff training \$23,100.

Early technical assistance to the client service program \$21,000.

Net subsidy for the Seven Market activities \$32,600.

Facility Management early stage development and operations, Business Incubation management and support staff and net subsidy of general program operations (between \$1.02 and \$1.58 million).

Fund raising assistance \$10,000 to \$12,000.

Miscellaneous factor of 5% to all capital cost estimates \$50,800.

VII. Tenant Selection

There will be four types of tenant companies under lease agreement at the Incubator:

- 1) **New start up companies** with a plan to develop an added value wood product or service. This type of company will have one or two owners and will occupy an office and a small workshop. This Incubator will accommodate approximately five of these types of operations. These clients will, in effect, be the “farm team” for future growth. These tenant companies will stay three to five years and grow from about 400 to 500 sq. ft. to about 2,500 to 3,000 sq. ft. in three years. They will add about 6 to 8 employees while in the facility. They will graduate from the facility due to a space expansion that the incubator can no longer accommodate (about 6,000 sq ft).
- 2) **Existing small company** with the need for kiln and saw mill equipment and with the experience and capacity to serve the kiln and sawing needs of the Incubator core services and the individual tenant companies. This company will remain at the Incubator for the long term. It is expected that the Incubator will accommodate one or two of these types of companies and will allocate 8,000 sq ft to these companies.
- 3) **New and existing small businesses** with plans to operate mid size production facilities. These companies will lease between 2,000 and 3,000 sq ft to begin and stay in the incubator less than three years due to the need to expand. This incubator will accommodate between three and four of this type of company.
- 4) **New and existing service companies** with plans to serve the growing cluster of new added value wood entrepreneurs. These companies will only need sets of offices and will, most likely occupy no more than 320 sq ft. This incubator will accommodate between two to four service companies. Some examples of eligible service companies are branch offices of large international distributors or wood products wanting a presence in Prince George area even though their initial interest is not based in serving the new entrepreneurs, exporters/importers that include wood products in their portfolio, market consultants with expertise in small business service, wood product researchers, etc.

Tenant eligibility requirements include:

- Active participation in one or more services of the Incubator
- A written plan (no format required) that demonstrates to the Incubator Manager that they are a complementary fit to the tenant company base and are a direct application of adding value to wood raw material and/or products

- Will not substantially interfere (noise, odor, hazardous conditions, environmental regulations, dust, utility management, product movement, exterior storage, traffic, etc) with the other tenant companies and local regulations
- Give evidence of sufficient capital to meet the lease obligations
- A written plan (no format required) that demonstrates interest in growth beyond a typical “mom & pop” business

Tenant recruitment program includes all seven elements of the Marketing Plan as described in Section V of this Plan. However, it is important to note that the Incubator Manager will implement a “full-court press” lease lead follow-up program as described below:

(INSERT LEASE Follow UP PLAN HERE)

VIII. Corporate Structure

The stakeholders (Community Futures Development Corporation and College of New Caledonia) will form a new corporate entity to own or lease the Incubator, to contract with joint venture partners to operate the kiln and saw mill services, to receive or contract for grant funding, and to employ the Incubator staff. In the U.S. the corresponding structure would be a private, non-profit, 501-C (3) corporation created as a supporting organization to colleges and public/quasi-public economic development entities.

- The corporate entity will have a Board of Directors with no more than 11 members and an executive committee comprised of four Board members plus the Incubator Manager. The executive committee will have Board members representing Community Futures and the College of New Caledonia, an attorney, and a representative from a major production company.
- Board Composition/Board Member Profile
 1. Legal advice & counsel: pro bono
 2. High profile: Shaker and mover with stakeholders
 3. Financial: detail work with the staff & accountant
 4. University Relations: protect against changes in administration and potential conflicts in day-to-day management.
 5. Fund Raiser: local, regional, provincial
 6. Entrepreneur: new paradigm, "renegade success", multiple
 7. Experience
 8. Link to an Advisory Group: Significant involvement in service Delivery
 9. An experienced 501C3 Manager: risk taker, innovative
- We believe that a majority of the Board of Directors should be comprised of representatives and appointees of the stakeholders, along with a representative from a major lumber company, a representative from the government funders (local and provincial), legal counsel, a participating bank chief operating officer, and a member from the community at large.
- The executive committee will meet monthly and the Board will meet four times per year

- The first Board Meeting should be the principle organization meeting and will cover the following agenda items

Overview of the By-Laws

- Statement of Purpose
- Number of Board Members
- Number of Meetings
- Quorum
- Teleconference Meetings

Board Officers

- Secretary (should be a staff member serving both the Board and Corporation)
- Treasurer (should be two representatives, one from the staff and one from the Board)
- Incubator Manager as a Board Member?

Indemnification

- Directors and Officers Insurance? (there are significant limitations on the coverage)

Board Committees

- Lease Administration, Tenant/Client Recruitment, Funding, Development, Budget, Long Range Planning
- Personnel, Tenant/Client Services, Nominations
- Advisory Committee?

Staffing

- Staff Reviews (Incubator Manager only)

Conflict of Interest Policy

A Primary Policy Package

1. Tenant/Client Eligibility
2. Leasing Document
3. Authority to permit the staff to execute leases within specific Rent, term, lease-hold participation, etc. parameters
4. Response to overdue rent/fee payments
5. Staff reviews
6. Check writing/approval authority
7. Board Member Involvement

- Attendance, automatic exit, excused absences
- Committee chair as a mandatory duty
- Participate as a Mentor/Service provider
- Statement on Client and Tenant referrals

Review and approval of funding applications

The staff will be comprised of a full time Incubator Manager/Director and a full time Program Assistant. The Incubator Manager is expected to be employed in approximately six months before the anticipated date of the opening of the Incubator. Staff start dates will depend on the availability of funding during the development phase. Staff job descriptions are listed in the Attachment section of this Plan. The employment process will be administered by the Incubator Steering Committee.

IX. Use of Consultants

Consultants will be used for development phase fund raising, staff training, early stage technical assistants with the development of a service program, early stage management assistance with the first few tenant company prospects, and channel marketing as a core service. The staff training process may very well include the early stage technical assistance with the service program and first tenant company prospects if the Incubator Manager brings a level of business development experience to the position. It is estimated that each of the consultant tasks will consist of the following tasks and timetable:

- a. Development phase fund raising
Assistance with proposal writing (8 person days)
Attending meetings with prospective funders as a member of the local development team to “pitch” the plan (8 person days, two trips)
- b. Staff training (11 person days, one trip)
Three, three day sessions – two of which are at the consultants offices and one of which is in Prince George with prospective service providers and prospective clients
The training sessions will include the Manager, the Assistant, and representatives from the College and Community Futures – up to 5 people.
The training topics will be focused on tenant recruitment, development of core (fulfillment) services, and development of management assistance services, direct tenant company assistance, facility management, business cluster development, and revenue generation.
- c. Technical Assistance (between 3 days, one trip and 12 days, three trips).
At the need of the Incubator Manager/Director, the consultant will come to Prince George to work directly with the staff and the prospective service providers and tenant/client companies, and Board of Directors to develop the program and to assist the clients.
- d. Channel Marketing (a flat fee of \$3,000 per month less commission earned, estimated to cost \$26,000 over a 2 year period). The sub contracting of channel marketing services wherein the consultant serves as a direct sales rep to the core (fulfillment) service program for the sale and distribution of raw material and finished product out of the region. The Channel Marketers will be a key selection for the success of the overall program.

The Channel Marketers must meet the following criteria:

- experience in export/import of wood products
- experience in the sale and distribution of high volumes of wood products to mid-size and large companies
- can present a contact list of sales representatives in industries that have a significant volume demand for wood products
- can present a plan to represent the sales of volumes of products that match the capacity of the Incubator to produce
- can present a method for receiving regular information on wood products needs seeking suppliers

The selection of consultants will be determined by the Incubator Development Steering Committee and the staff of Community Futures Development Corporation. The support of the consultants to assist with the development phase will be the biggest challenge to the project since this expenditure will be required in advance of the larger fund raising process. It is anticipated that local contributions of between \$7,000 and \$10,000 will cover this element of the consulting budget.

X. Risks and Contingency Plans

While we see no evidence that these scenarios will occur, it is important to identify the major issues that could become “fatal flaws” to the success of this program. We have identified seven such risks to this project:

1. Not raising the level of grant funds necessary to sustain the project. This project will require a minimum of \$ _____ to make the plan workable. Without sufficient grant funds this project should not proceed unless one of the following resources emerges to substitute for grant funds:
 - a local company acquires the facility and equipment and gives the incubator a flexible lease at a rate that permits the incubator to generate a minimum of \$2.00 per sq. ft.
 - the facility owner leases the facilities to the incubator as the program sub leases space to tenant companies. This would significantly reduce the operating losses since this plan has the program leasing the whole facility from day one.
2. The Incubator enters a three-year lease with an option to purchase and ends up not raising the funds to purchase the facility.
 - the program can sustain operations without a purchase but will require about \$200,000 additional subsidy and will operate at a very thin profit margin
 - a local company acquires the facility (refer to the above strategy)
3. The Channel Marketer contract does not produce the required sales volume
 - the Incubator Manager must closely monitor this contract and have terms to quickly terminate the relationship and take action to replace the consultant
 - the Incubator Manager must allocate time at the beginning of his or her employment to take direct steps to also seek suppliers
4. The incubator cannot locate a qualified operator to lease and manage the kiln and sawing services
 - if the grant funds have been raised to sustain operations, the Incubator can decide to directly employ an operator
 - the equipment can be sold and the services can be subcontracted

5. The “Majors” don’t cooperate with the program to acquire bulk orders of lumber and the program has no regular access to raw materials
 - these arrangements must be worked out prior to any lease or purchase agreement on a facility. With no agreement for raw material supply this program should be suspended

 - civic leaders should take this issue to a public forum if there is a lack of cooperation from the major producers – it is important, critical to the long term success in building a base of new entrepreneurs

6. The price points to acquire raw material, process the fiber into sub dimensional sizes and kiln dry to a furniture and flooring grade moisture content are too high to begin the process of out of region sales
 - these price points must be carefully analyzed by a number of experienced lumber producers to ensure that the cost calculations are valid. The price points for local added value businesses have a wider range of price since the cost of raw materials can be as high as 50 per cent of the cost of goods sold. However, the price to sell raw material out of the region in sub dimensional sizes with furniture grade kiln processing does not have a wide margin of error. A team must be assembled to carefully evaluate the costs involved to produce this material and sales representatives must validate these numbers.

 - Grant income must be applied to the capital investment required to lower the cost of processing

7. The Prince George region does not produce a sufficient level of new business leads for added value wood products and services
 - the incubator can maintain its’ focus on added value wood products but the client eligibility can be relaxed to enroll other types of new businesses

 - the incubator can adjust its’ tenant eligibility to include more existing added value wood companies to take more facility resources

 - the incubator can give increasing space to the core (fulfillment) service activities and increase the influence of core (fulfillment) services as the primary use of the incubator

XI. Budgets

A. Five Year Operating Plan (Including Development Phase)

B. Capital Budget

C. Budget Notes

1. Rental Income is calculated at:

$27,400 \times .35 \times \8.25 (year one)

$27,400 \times .50 \times 8.25$ (year two)

$27,400 \times .70 \times 8.25$ (year three)

$27,400 \times .85 \times 8.25$ (year four)

$43,000 \times .85 \times .70 \times 8.25$ (year five) *

$43,000 \times .85 \times 9.00$ (at full occupancy) *

* In year four, additional space will allow for increased number of tenants.

2..Utilities Reimbursement is calculated at Square feet leased times \$3.40 (Utilities) plus square feet leased times \$1.85 (Maintenance and repair) each year

3. Office Practice and Management fees are calculated as square feet leased time \$0.75

4. Staff salaries for the Director and the Assistant are \$78,000 and \$39,000 respectively with a Employment Benefits rate of 28%
During the development phase the employees will work 6 months and the annual increases are set at 4%.

5. Rent facility and equipment

$27,400 \text{ times } \$6.25$ for the facility and the equipment is rented at \$16,200

6. Consultants

Development phase for fund raising is \$10,000 and \$13,000 for channel marketing subsidy, Year one costs are \$21,000 for technical assistance and \$13,000 for channel marketing subsidy, Years two through five is \$5,000 for various legal and accounting support.

7. Utilities expenses are calculated at $27,400 \times .85 \times \5.25 , each year for years one through four and calculated at $43,000 \times .85 \times .70 \times 5.25$ for year five. The amounts include an average escalation and budgeted over five years.

8. Marketing Elements

\$15,000 for the Brochure and press releases

\$17,600 each year for outreach activities

\$ 5,000 each year after the first year for marketing materials

9. Core services, lumber for resell

Sales are estimated at \$195,000 over three years

The purchase, storage, and processing (kiln and saw) will cost an average \$123,000 each year

Sales income will exceed expense income in year four and become a significant source of revenue to the Incubator in the long term

10. Loan expense is calculated at 1% of the principle of the loan amount outstanding

11. Equipment expense does not include the purchase of the primary shop and office equipment. The figures in the operating budget are for replacement and supplement equipment

12. Capital budget options

Option 1 Early purchase of the facility and equipment (no mortgage)

Option 2 Lease the facility for three years, then purchasing

*recommended course of action

* assumes a payment of \$171,000/ year for three years and the purchase of the building at \$1,474,000 (credit of 126,000 from the three year rental) with no mortgage.

Option 3 Early purchase with partial mortgage (\$1.2 million)

XII. Attachments

Staff Job Descriptions

Incubator Manager/Director

Qualifications

1. Experience with the preparation of comprehensive business plans
2. Experience with marketing, public relations, and media relations. Ability to effectively write and experience with public speaking.
3. Experience in small business operations preferred
4. working knowledge of basic facility management skills and techniques including lease negotiation and administration
5. Understanding of budgeting and cash flow analysis.
6. Ability to develop and maintain good rapport with tenants, board of directors, stakeholders, media, politicians, and staff.

Desirable qualities

1. Excellent interpersonal skills to facilitate communication with entrepreneurs, community leaders, and business professionals
2. Capability to develop and maintain a strong network of small business resources
3. Creative problem solver
4. Ability to effectively execute a volume of varying tasks and deadlines.
5. Selling skills
6. Detail oriented

Basic Responsibilities

1. Generate prospects for facility rental
2. Exhibit incubator via tours, demonstrations, and community presentations
3. Manage the physical plant maintenance and repair
4. Administer the core services, management assistance, and office practice service program.
5. Execute lease agreements
6. Periodically meet with tenants to assess management needs and subsequently assist in the tenant and client company business development.
7. Supervise staff and oversee referral services
8. Manage the Board meetings

Duties

1. Develop and administer an articulated program to generate a sufficient number of prospective tenant company leads. Use the Program Plan Track Program as a guide.
2. Conduct facility tours.
3. Assemble a comprehensive program of technical, management, and office program services via referral, direct client assistance, sub-contracted agreements, data access services, and contribution. These services should meet the following conditions and specifications:
 - a. Includes management services that respond to the most typical service requests of new business owners.
 - b. All services should be structured to incorporate a fee system for the recovery of costs
 - c. The service program includes a plan to involve outside personnel and professional organizations to handle a portion of the service program.
4. Directly supervise staff
5. Develop a facility management program that responds to the maintenance and repair of the facility, the security of the buildings and grounds, and periodic renovation and expansion of the facilities.
6. Administer the lease agreements
7. Generate increased tenant and client company utilization of the core, management, and office practice service programs
8. Maintain all appropriate records: financial bookkeeping, internal tenant company invoices, service records, job creation statistics, utility and maintenance records, visitor registration, service requests, etc.
9. Solicit funding for program and facility development
10. Invoice and collect apportioned costs and fees and rent payments from tenant companies and fees from client companies.

Administrative Assistant

1. As secretary, responsible for Word Processing, Clerical functions, and organization of the Incubator's Office and Core Services.
2. As receptionist, responsible for switchboard operation, reception of visitors, conducting tours of the facility and tenant company operations, and processing of incoming and out going mail and supplies and vendors
3. As Incubator assistant, responsible for the delivery of professional fee based Office Practice services using the Incubator Plan as a guide.
4. As Incubator assistant, responsible for the administration of procedures for the maintenance, security, and repair of the facility
5. As Incubator assistant, responsible for collecting rent and fees from tenant companies and client companies.
6. As Incubator assistant, responsible for assisting with the administration of tenant company leases and business assistance services.
7. As Incubator assistant, responsible for the proper recording and reporting of incidents within the facility and grounds that might require contact with insurance, police, fire, medical, legal, municipal, and other assistance agencies and companies

Prepare all required reports and maintain a comprehensive set of records on all tenant and client activity.

Budget Spreadsheets Attached

*These spreadsheet refer to information provided on pages 25, 26, 27 & 31 of the Business Plan.

Page 46 – Operational Budget (Capital Budget Option Two)

Page 47 – Capital Budget (expenses only)

Option One: Early Purchase of the Facility and Equipment

Option Two: Lease the Facility for 3 Year, Then Purchase (no mortgage)

Option Three: Early Purchase of the Facility with a Partial Mortgage (1.2 million; page 26 contains detailed information about the mortgage).