Community and Economic Development in North Carolina and Beyond Blog: Retail Incubators and Main Street Revitalization: Part 1

By CED Program Interns & Students

Article: https://ced.sog.unc.edu/retail-incubators-and-main-street-revitalization-part-1/

This entry was posted on August 18, 2016 and is filed under Downtown & Main Street, Economic Development

Launching a retail business in a downtown storefront is a capital and knowledge intensive endeavor. Equally, Main Streets across North Carolina and the country are struggling to retain and attract vendors, with each new empty window display threatening the economic health of the street as a whole. In this two-part series, we explore how retail incubators can bridge the gap between capital-strapped retailers and empty storefronts.

Like tech and entrepreneurial incubators, the retail-focused model is “designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services that could include physical space, capital, coaching, common services, and networking connections.” Local governments, non-profits and private businesses across the country are developing programs and spaces “to seed downtown buildings with locally formed new businesses.”

Any retailer interested in opening a shop faces high costs. Capital is needed to cover a lease, inventory, location improvements, IT, staffing and marketing, among other expenses. Equally challenging can be maneuvering state and local requirements and building a customer base while managing the day-to-day of a business.

Program-based retail incubators help by providing technical assistance and mentorship as well as capital. These incubators are led primarily by downtown organizations focused on nurturing and sustaining retail businesses for the overall economic health of the downtown core. There are various types of incubators and we will cover the space-based models in Part II.

In 2009, downtown Kalamazoo, MI was fighting a battle to recruit and retain retailers. In a story familiar to many towns, the vibrancy of downtown was being challenged by recession and growing competition from big box retailers and lower-rent strip malls. Unable to convince established retailers to take the risk of opening an additional store in the evolving downtown, economic development officials turned to the promise of retail start-ups. But these start-ups, lacking the necessary resources and expertise, needed help.

The State of Michigan had passed an amendment to the Downtown Development Authority (DDA) Act in 2008 allowing DDAs to create, operate and fund retail business incubators. Downtown Kalamazoo Inc. (DKI) was the first to take advantage of the legislation that “targeted tenants who will provide goods or services that are not available or that are underserved in the downtown nearby” by establishing the Retail Incubation Program.

DKI’s Business Recruitment & Retention Committee managed the program which provided the following support to retail start-ups in downtown:

- 18 months of subsidized rent, incrementally reduced from a maximum of 50% or up to $830 a month. (This might not be permissible under North Carolina law. See discussion later in the post.)
- Training in Merchandise Management, Marketing, Human Resources, Financial Management and Customer Service.

- Business mentoring from a successful downtown business.

Returns to the community were maximized by requiring that participants:

- Attend all of the training sessions.
- Obtain a bookkeeper or CPA deemed acceptable by the program.
- Provide sales, inventory and expense information to the program for macro tracking of downtown retail.
- Be open for business 6 days a week or 50 hours a week.

The program was not tied to a single location but allowed a retailer to occupy any downtown space as long as the property owner agreed to the terms and conditions. “Before store owners started out in one of the spaces they got the types of assistance that have been proven to grow businesses — training, mentors and money.”

In four years, the street-level vacancy rate in Kalamazoo’s downtown dropped from 20-percent to 2-percent. As the program filled key locations with interesting, new retail concepts, business attitudes towards downtown changed. Retail, however, cannot sustain an entire local economy and the city was struggling elsewhere. The tax base continued to decline and the program was ultimately cut in 2013, after all of the participants had graduated.

Similar programs followed suit around Michigan and throughout the country and are still active today, including through the Midland Michigan DDA and the Cudahy Wisconsin DDA.

The Downtown Sioux Falls Retail Incubator Program replicated the model piloted in Kalamazoo (making small adjustments such as requiring retailers to stay open until 8pm) and continues to assist retail businesses eager to launch their business in the central business district. Reallocating funds from an obsolete small business loan program, the program received $100,000 to assist 10 businesses. While any business could benefit from investment capital in the form of a loan or equity, the training and mentorship has proven to be a critical component in stabilizing and growing businesses while integrating them into the fabric of the community. The criteria for selection into the program are simple: *Is this business adding something new to downtown that’s going to generate foot traffic and do they have a solid business plan?* Five stores have opened in the last two years, with products including running gear, regional crafts, high-end groceries and even beer.

The Sioux Falls program is relatively new, and although natural turnover will continue to occur, the vacancy rate has dropped by 2-percentage points since its launch. Property owners are happy because they’re bringing in rents and gaining the relative stability of a program-supported business. Neighboring retailers are happy because the draw of new destinations and increased visual interest are bringing more foot traffic their way.

North Carolina non-profits such as the NC Retail Merchants Associations provide training and support and Business Link North Carolina connects start-ups with mentors. Subsidies for retail businesses are probably not legally permissible in North Carolina, as Tyler Mulligan explains in his blog post, **When May NC Local Governments Pay an Economic Development Incentive?** Loans are a more acceptable alternative as explained in another blog post **here**. Possible exceptions might be officially designated urban redevelopment areas (URAs) where the municipality is fighting blight, or retail facilities in underserved areas that will primarily serve low-income persons.

Program-based retail incubators have been effective, not necessarily because of specific subsidies, but because they coordinate financial support for new retailers with actions to address knowledge and networking gaps. Further study is required to assess the long term efficacy of the programs, which fortunately have been designed with the future in mind and are already collecting the data.

In Part II, we introduce the space-based approach to retail incubation, and how it reimagines the potential of tiny and shared spaces.

Sarah Odio is a Master’s candidate specializing in Economic Development in the UNC-Chapel Hill Department of City and Regional Planning. She is currently a Community Revitalization Fellow with the Development Finance Initiative.