



# Corpus Christi and Coastal Bend Economic Pulse

College of Business and EDA University Center  
Texas A&M University-Corpus Christi

2013 | No. 4

---

## The Business of Incubating Businesses

*By Jim Lee*

The Coastal Bend Innovation Center has helped with the development of nearly 100 new local business ventures since its inception in 2009. While some of those startups have thrived, others have probably failed. A large number of those firms operate in high-tech or “green” manufacturing industries, which the region lacks. As important as being a platform for entrepreneurship activity, the Center’s close tie to its university has also created an environment for training tomorrow’s business professionals.

For many people, the American dream is nothing more than the opportunity to start a business. The freedom to engage in entrepreneurial activity also helps make the United States the most competitive nation in the world, according to most rankings of economic development. Small businesses are the backbone of every local community. Nearly all firms start out small. Today’s multinational corporations as large as Wal-Mart, Microsoft and McDonald’s were all sole proprietorships or family-run businesses of the past. What separates these business icons from the rest of the business community is their founders’ creative mind and innovative ideas.

According to the New Economic Growth theory put forth by Paul Romer now at New York University, innovations in the form of products or ideas are the key drivers for long-term economic growth. Michael Porter of Harvard University also emphasizes the role of innovations in determining regional competitiveness. Today, innovations in the United States take place primarily in the high-tech industries of telecommunication and computing, which have generated relatively more high-paying jobs than other industries have.

### **From Innovation to Business Practice**

The objective of business incubation is to bring technology applications or innovative ideas out of research labs and into the marketplace. An incubator center is not only where new enterprises take shape, but also where creative ideas collide. Its role in regional economic development was highlighted in the Bold Future of the Coastal Bend strategic plan, which is the outcome of a multi-year community project aimed at promoting sustainable economic growth and enhancing the overall quality of life in the region. One of the Bold Future initiatives is to expand the programs of the then newly established Coastal Bend Innovation Center (CBBIC) as the sole business incubator in the region.

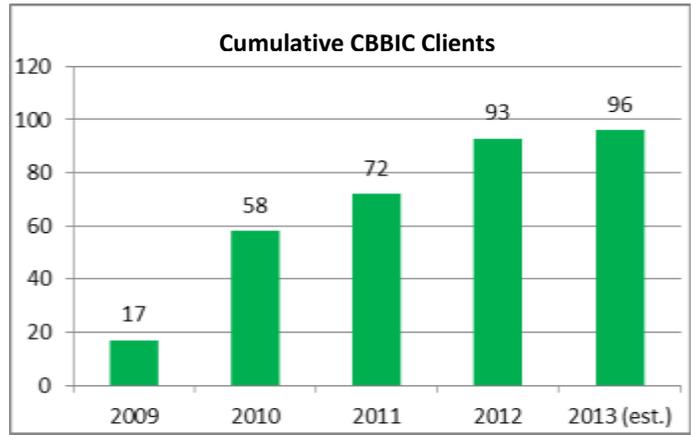
In late 2010, the Center moved to the former three-story Wells Fargo office building in Flour Bluff. The move was made possible by the support of federal grants from the Economic Development Administration (EDA), funding from the State of Texas, and a grant from the City of Corpus Christi. With this new facility, business activity has continued to expand over the years along with an increasing number of clients.

### **Risky Business**

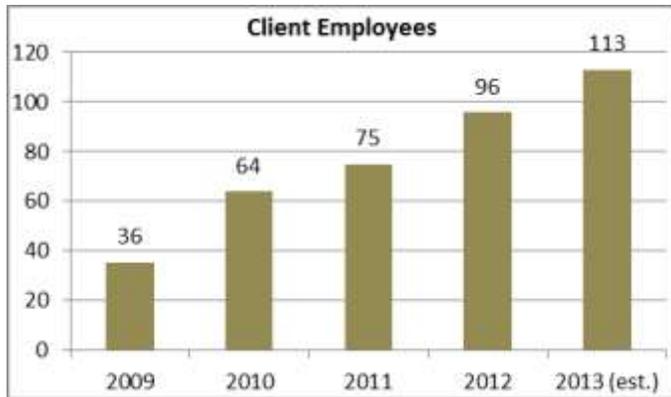
The CBBIC has nurtured the development of 96 local business ventures, one at a time. During its first year of operation in 2009, the Center was home to 8 resident clients. By July 2013, the number of residents increased more than fourfold to 25, including graduated clients. With an EDA grant, the CBBIC building is currently under another phase of major renovation, which includes the development of a Green Center. The completion of this infrastructure project will further expand its incubation programs.

The bar chart on the right shows the cumulative number of firms affiliated with the CBBIC since 2009. By mid-2013, the Center had served 96 clients, which included business firms and non-profit organizations, residents and non-resident affiliates. Three resident firms had graduated from its incubation program.

Besides the increasing number of firms that the Center has served, those new startups have on average grown in size over time. The total size of private equity capital raised by its active clients together reached approximately \$3.5 million by the end of 2012. They also received a total of approximately \$1 million in government grants.



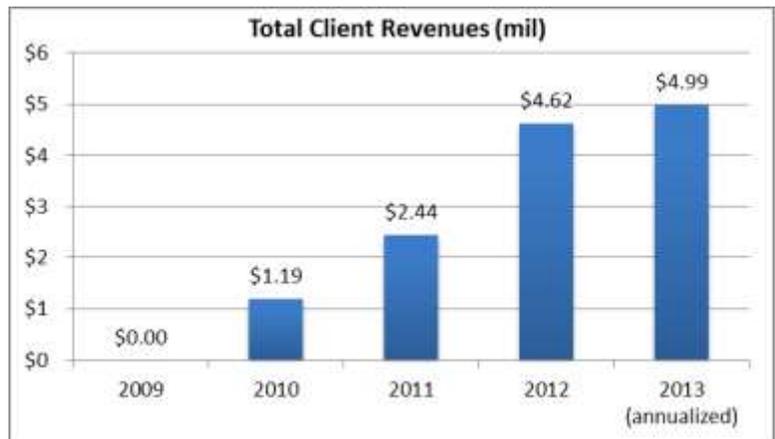
Business incubation is, after all, a risky business. The willingness to assume risk is the very nature of entrepreneurship, and the Center is also a place for survival of the fittest. According to the CBBIC, although the majority of its resident clients will eventually mature, more than half of its overall clients are no longer active for different reasons. Some of them, particularly non-residents, have perhaps failed.



The bar chart on the left shows the numbers of full-time-equivalent job positions associated with those active clients since 2009. The numbers include the business owners who work for their own businesses. The average number of employees per firm was approximately 3.

Along with the expansion of overall employment among those businesses, their revenues have trended upward. As shown in the bar chart below, their revenues altogether more than doubled each year through 2012. The average revenue per firm was about \$170,000 in 2013.

As apparent in exhibit on the right, the overall size of business activity at the CBBIC has continued to expand since the Center opened its door in 2009. However, this historical growth pattern also reflects the so-called law of diminishing returns largely as a result of the space and other resource constraints at the three-story CBBIC building. The completion of the Green Center would substantially expand its facilities in terms of space and infrastructure.



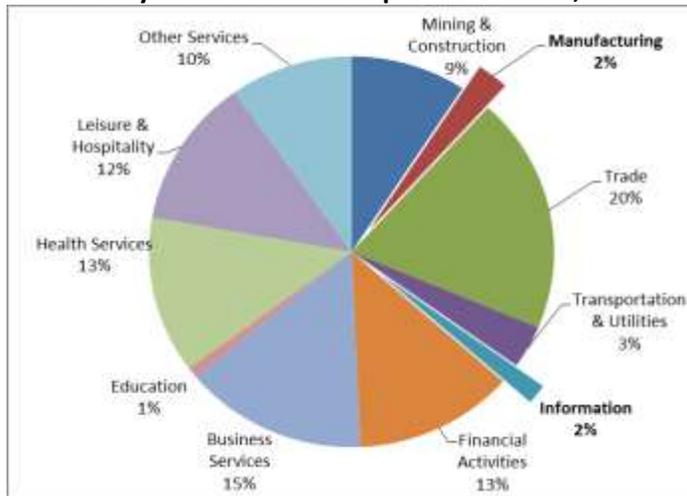
### Industry Clusters

The CBBIC, however, has never been perceived by community leaders as an engine to churn out massive amounts of jobs. So, the success of its business incubation program should not be evaluated solely on the basis of the number of employees associated with its business clients, or their current financial performance. Rather the primary objective of a typical business incubator is to promote the development of firms in some targeted industries that will potentially enhance regional competitiveness.

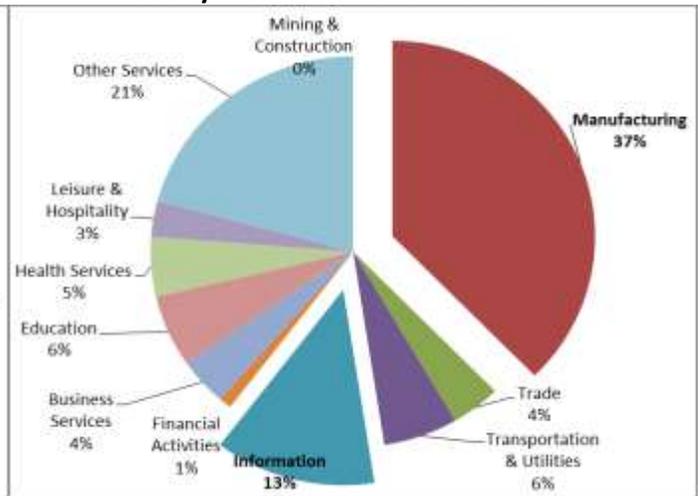
The pie charts in the following page illustrate how the economic profile of the CBBIC compares to that of the region as a whole. The chart on the left shows the distribution of business establishments across different private industries in the Corpus Christi MSA in 2012. The most popular industry is trade. Retailers and wholesalers together accounted for one in five local businesses. By contrast, product manufacturing as opposed to any type of service accounts for a

mere 2 percent of all businesses in the region. This local business pattern resembles the economic landscape of a typical U.S. community.

**Industry Distribution of Corpus Christi MSA, 2012**



**Industry Distribution of CBBIC Clients**



In sharp contrast to the regional economic profile, the pie chart on the right shows the distribution of the cumulative total of 96 business clients currently associated with the CBBIC. Notably, manufacturing accounts for nearly 40 percent of the activity at the Center. This sector is attributable mostly to the design and commercialization of high-tech products. Among those manufacturing-oriented firms, more than 10 are involved in the production of green energy or environmental products. As opposed to their trivial share in the region, 13 percent of firms at the Center engage in software engineering, which belongs to the information sector.

Overall, the industries represented by the CBBIC complement instead of overlap with the existing industries in the region. More importantly, the majority of the new ventures at the Center are in either the high-tech sector that enhances regional competitiveness, or “green” industries that promote sustainable economic development.

One measure of innovation is the number of patents granted. The column chart in the next page shows the numbers of patents issued in the Corpus Christi MSA between 2007 and 2011. The aggregate numbers include patents applied by research corporations such as Celanese. For each year, the second column shows the number of individually owned patents, which increased from 6 in 2007 to 12 in 2011. According to the chart, individuals have contributed much of the recent increase in patents issued within the region.

### Incubation of Young Professionals

The Center is part of the College of Business at Texas A&M University-Corpus Christi. Its incubation program has mutually benefitted both the Center’s business clients and the university. Running a business requires the knowledge of accounting, marketing, management and finance. Some clients’ business issues have been treated as real-world case studies or projects for students in a number of business classes at the university.

As important as being an incubator for new business ventures, the CBBIC has become a breeding ground for young business professionals. In addition to volunteers, the Center has employed more than 40 senior and graduate students in different areas, including graphic design and, of course, different business disciplines. A total of 13 MBA students have received full scholarships that enable them to gain invaluable practicum experience to prepare them for a successful professional career.

### Globalized Workforce

One of the long-term strategic actions of the University is to internationalize the campus community with an inclusive culture and a diverse student body. Largely due to its professional degrees, foreign students now account for more than 20 percent of the undergraduate enrollment in its business programs, as compared to 5 percent for the rest of the university. For the graduate business programs, as many as 40 percent of the students are from overseas. This extent of internationalization is reflected by the CBBIC’s student staff, which has representations from more than 10 countries in various parts of Latin America, Europe and Asia, in addition to the U.S.

*College of Business, Unit 5808*  
*6300 Ocean Drive*  
*Corpus Christi, Texas 78412*  
**USA**

Return Service Requested:  
Please send corrected  
mailing label to the above  
address

2013 No. 4

Page 4

**Economic Pulse**

Texas A&M University-Corpus Christi, College of Business  
Dr. John Gamble, Dean, College of Business



**Editor:**  
Jim Lee  
Chief Economist  
EDA University Center

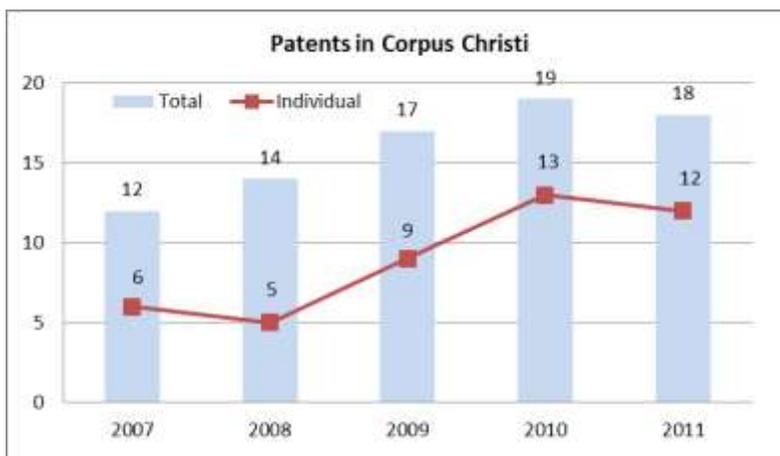
**Assistant to the Editor:**  
Shawn Elizondo

Corpus Christi and Coastal Bend Economic Pulse is a joint publication of the College of Business, Office of Business & Economic Research, and EDA University Center at Texas A&M University-Corpus Christi. Material may be reprinted if the source is properly credited.

For past issues of this newsletter or information about the Corpus Christi or Coastal Bend economy, visit us online at [pulse.cob.tamucc.edu](http://pulse.cob.tamucc.edu) or [coastalbendinnovation.com/eda](http://coastalbendinnovation.com/eda).

Any opinions expressed or implied are solely those of the original authors and do not reflect the views of the College of Business or Texas A&M University-Corpus Christi. Please send correspondence to Jim Lee, (361) 825-5831 or email [jim.lee@tamucc.edu](mailto:jim.lee@tamucc.edu).

(continued)



Cultures and customs tend to differ across countries. According to a seminal study recently conducted by professors Quamrul Ashraf and Oded Galor, cultural diversity, as opposed to cultural assimilation, is conducive to the generation of creative ideas. They also supported their so-called “out of Africa” hypothesis with empirical evidence, which shows a positive relationship between cultural diversity up to some level and economic development. The internationally diverse staff at the CBBIC is a reflection of the workforce among today’s thriving businesses, most of which rely on a global supply chain that integrates enterprises around the globe.