Mixed-use Incubator Handbook:
A Start-up Guide for Incubator Developers

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This report has been prepared by

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www.infodev.org
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This handbook is designed to help you think through the issues involved in establishing an incubator. This first edition will be revised and expanded over time as we determine the target audience and information required.

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1. Introduction to Incubation

Business incubation formally began in the US in the 1960s, and later developed in the UK and Europe through various related forms (eg. Innovation centres, technopoles/science parks). It is recognized as a way of meeting a variety of economic and socio-economic policy needs which can include:

- Employment and wealth creation
- Support for small firms with high growth potential
- Transfer of technology
- Promoting innovation
- Enhancing links between universities, research institutions and the business community
- Industry cluster development
- Assessment of a company’s risk profile

In general, an incubator is a physical location that provides a defined set of services to individuals or small companies. This may include specific types of office space, flexible lease terms, access to technology, financing, and technical assistance (such as marketing, legal, finance, HR, and other business development services). By locating similar or complementary entities in proximity to each other, the incubator may also play a critical role in promoting knowledge transfer, both formally and informally.

Recently in developing countries, and under the guidance and promotion of infoDev, incubation has become an interesting approach to accelerate the development of technologies, industries and business skills. However, it should be noted that the needs of these communities can often be radically different to a more mature corporate environment where education, business training, and public institutional support may be a completely different context to Europe and the United States.

This document is aimed at the context of developing countries, and is intended to be a useful tool for anyone considering setting up an incubator. These are the key questions that should be considered and what we hope to introduce in this booklet:

- Why business incubation?
- What challenges do SMEs face?
- What are the models of incubation?
- What should I consider for my market?
- How do I determine the feasibility of such a concept?
- What are the steps required to get up and running?
2. Why Business Incubation?

Understanding the role that SME’s play in the national economy and providing them with adequate office space doesn’t explain the value proposition of this initiative, or what makes it so unique. Young companies are particularly vulnerable in their early/start-up years, and particularly in Africa where there is a higher percentage of inexperienced workers starting businesses. A lack of exposure to the formal sector’s mature corporate governance (due to a widespread lack of employment opportunities) means that there are a significantly higher percentage of students or inexperienced entrepreneurs trying their luck at starting companies. ICT start-ups tend to attract technology professionals with little business experience. Further, the start-up environment can be significantly more hostile in a developing economy, where services remain inadequate, inaccessible or expensive. In a report quoted by the US Small Business Administration, the data shows that, across sectors, 66 percent of new establishments in the US were still in existence 2 years after their birth, and 44 percent were still in existence 4 years after\(^1\). Other analysts claim failure rates as high as 60 percent in the first five years and some anecdotal evidence in South Africa would even suggest it may reach up to 80%.

Although these rates remain controversial, it’s broadly accepted that incubation programmes can increase survival rates dramatically when programmes are well-run and start-ups pay for services: "Our experience has shown a success rate of 75-81 percent for companies participating in our incubation programmes" says Jill Sawyers, of The Innovation Hub in South Africa. Similar results are found at the Bandwidth Barn in Cape Town (started in 2000) with a tenant success rate of 65%: “In the past five years, of the 142 businesses that have passed through our doors, 111 of them are still in operation. This overall success rate is astonishing considering that most companies come to the Barn with little more than a laptop and a dream,” (Odette Potter, general manager of the UUNET Bandwidth Barn). In addition to the provision of physical space, clearly there are critical interventions that can be made by incubator programs that significantly help these individuals, such as management coaching, mentors, help in preparing effective business plans, administrative services, technical support, business networking, advice on intellectual property, and help in finding sources of financing.

It is clear that the critical success factors for these incubators include:

- **volume** of companies co-located is important as it leads to natural clustering & collaboration
- entrepreneurs will **learn more from each other**, and other businesses, than ‘consultants’
- combining **start-ups with mature companies** in same building encourages collaboration
- **diversified** models (incubation + office rentals) keep programs sustainable and independent
- not being 100% publicly funded keeps incubator **focused** on tenants and services provided
- **strict entry criteria** (focused on innovation & implementation) can ensure high success rates

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\(^1\) Survival & Longevity in the Business Employment Dynamics Database” Amy E. Knaup, Monthly Labor Review, (May05)
• investors/entrepreneurs seeking to make new equity investments can be leveraged as mentors
• businesses seeking future clients can provide discounted professional services
• a strong manager who monitors both mentors and companies is key
• use managers who have entrepreneurial experience and can ‘relate’
• incubation programs can remain lean and cost effective with few employees (2)
• ensuring tenants pay for services screens out those that are not somewhat commercialized
• incubators create a climate of collaboration & networking from the start

3. What Challenges do SMEs face?
Small and Medium sized businesses across Africa face many and varied challenges to their growth and operations. Incubation projects are designed to address the following challenges, which are particularly acute for ICT enterprises:

• Appropriate office space
• Appropriate support services
• Professional networking

Appropriate office space

Poor electrical & water: SMEs need first and foremost an appropriate infrastructure in a building. This consists of dependable and redundant power supply, appropriate electrical installation, power conditioning for sensitive equipment, and water. This is rarely available in the cheaper office rentals that most start-ups and small enterprises can afford.

Expensive Internet: ICT SMEs need good and low cost connectivity to the internet backbone; preferably a fibre optic connection that has less interference or latency than a wireless/satellite link. Most SMEs need to arrange their own wireless or DSL data links which prove to be less reliable and more expensive than if they could pool resources and demand and push for wholesale pricing on bulk connectivity options.

Inflexible lease terms: leases can often be paid as much as three years in advance and do not provide flexibility in terms of changing the terms of the lease, or expanding or contracting into additional space as the company grows or contracts.

Individual Resources: companies generally have to provide their own resources, like generators, receptionists, security, kitchens, water tanks, internet connections as they cannot rely on other building tenants for maintaining shared resources. An ICT SME is going to be much more vulnerable to downtime than other SMEs – it’s like a factory, no power, no income. ICT service industries supporting global customers need a 99% uptime. Building your own infrastructure and environment in an older building is expensive to setup, and expensive to maintain.

Unattractive locations: SMEs will often locate in the cheapest real estate available and this can project a negative image to potential customers – often taking a garage or floor of a house, or locating in a crowded market area. Image is important for an aspiring SME trying
to establish its credibility, especially one that has just a few employees and is seeking to get service contracts from larger corporations.

**Appropriate support services**

Most SMEs are launched by aspiring entrepreneurs who have had no previous experience, possibly even little exposure to a mature corporate environment. The enterprises are not planned appropriately, markets are not assessed, products not commercialized, marketing not adequate or imaginative, and good corporate governance frequently lacking. There is a crisis across Africa due to the nature of a tight labour market and few good opportunities for employment for the annual graduating students where they can watch and learn best practices. Business Plan competitions encourage individuals, understandably but regretfully, to embark on their own projects. They have little access to financial products and services, little training in project management and scheduling, and are unaware of basic business practices like feasibility studies. Worse still, they are unaware of the people, networks and support programs that do exist that could be of assistance.

**Appropriate Professional Networking**

Key to the development of an entrepreneur is their exposure to other professionals. This can be in the form of good employment opportunities that reinforce best practices in business management. But it is frequently a mentoring relationship that exists between an accomplished professional and a bright, ambitious younger person; sharing ideas, techniques, visions, or criticisms. These relationships can frequently develop into funding opportunities, business contracts, or even employment. Whereas this form of industry networking and lobbying is well developed in Europe and the United States, it appears inadequate in Africa, and can be possibly linked to the size of some markets and thus increased competition, rivalry and mistrust.

**4. Understanding the models**

Understanding incubators you must understand the startup cycle of a business.

<table>
<thead>
<tr>
<th>Pre-incubation</th>
<th>Incubation</th>
<th>Post-incubation</th>
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</thead>
<tbody>
<tr>
<td>Idea</td>
<td>Startup</td>
<td>Expansion</td>
</tr>
</tbody>
</table>

The cycles of business can be directly related to the types of interventions that SME developers can participate in. For purposes of clarity, we have defined three types of interventions:

| Germinate    | This is the very earliest stage of intervention, where you are | Ideas |

...
<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-incubation</strong></td>
<td>Helping an individual with an idea. Some incubators can afford this kind of activity where they can access public support or private risk capital. This is often required in high-tech innovation industries and with incubators closely attached to Universities. Sometimes this innovation comes out of need, rather than opportunity, and is very risky.</td>
<td>Expensive, Risky, Public</td>
</tr>
<tr>
<td><strong>Incubate</strong></td>
<td>This is where an idea has graduated to a plan, with a team, and operations have begun. Incubators can help refine the plan, build the team, provide resources and invest in the company. This is also a relatively early intervention, before the company is profitable. Companies are often not able to pay for services, and assistance is general. Also known as ‘acceleration’ this focuses on more mature start-ups (Companies can pay for services, and need targeted assistance).</td>
<td>Start-ups, Expensive, Part-subsidized</td>
</tr>
<tr>
<td><strong>Host</strong></td>
<td>This is where a profitable company merely seeks a particular type of facility. No intervention is required by an incubator, but we include it here as we feel many incubators act as hosts to some companies, for some period of time, and this relationship with mature companies can be a crucial strategy to assist with and subsidize their other programs.</td>
<td>Mature, Safe</td>
</tr>
</tbody>
</table>

**Diagram:**
- **Safe**
- **Profitable**
- **Risky**
- **Expensive**
Most incubators are not single-purpose. They may provide assistance to very early stage companies (germination) as well as mature companies (tenancies). This mixed use model is particularly appropriate where a diversified revenue model is required. To some they perhaps are serving only as a landlord, and to others they are deeply involved providing financial and business development support. The key is to build a model for yourself that allows you to stay flexible both in terms of what type of incubation you provide, and to what kind of companies you incubate.

This flexibility will allow companies within your organization to move from one stage of evolution to another, while remaining a ‘customer’ of the incubator. It also allows you to respond to the market and adapt to the demand that you recognize. This flexibility is often not associated with classical types of incubation, but is driven by the context of the developing economies in which this handbook is focused. An incubator should build flexibility in from the start and be able to act as a landlord to some tenants, while as a germinator/incubator/accelerator to others. A fluid approach can be crucial to survival.

5. Incubator Examples

Some examples of incubators and how they are classified:

<table>
<thead>
<tr>
<th>Name</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIT</td>
<td>germinator</td>
<td>As one of the world’s best-known innovation centres, MIT might not be considered a classic incubator for businesses, but it is a germinator, enabling young people to develop new technologies that could become business opportunities. It is very early-stage germination activities, closely linked to research and innovation and located close to Harvard and Yale Universities in the United States.</td>
</tr>
<tr>
<td>IdeaLab</td>
<td>germinator</td>
<td>A classic example of a US-style dot-com incubator, IdeaLab turns ideas into businesses through a direct, deep and extensive intervention and business development cycle. Huge capital is required to run an incubator of this nature, and companies incubated provide a return on investment by going public or being sold. This exit strategy is not available in many developing countries and thus such capital intensive programs can be limited.</td>
</tr>
<tr>
<td>The Bandwidth Barn</td>
<td>Mixed Use accelerator</td>
<td>The Bandwidth Barn provides business support and infrastructure to small and medium sized ICT businesses in the Western Cape, South Africa. It’s a mixed use incubator with some start-ups and some mature tenants.</td>
</tr>
<tr>
<td>BusyInternet</td>
<td>Mixed use incubator</td>
<td>BusyInternet is also a mixed-use incubator that has acted as incubator, accelerator, landlord to a variety of different clients over the past seven years. Profitable and popular, Busy is best known for its flexibility as a model, and for the public services that it offers to complement the SME services it hosts. Busy has pioneered the ‘broad &amp; shallow’ approach.</td>
</tr>
<tr>
<td>Regus</td>
<td>Landlord</td>
<td>A global network of fully equipped offices and meeting rooms provides businesses of all sizes and stages with exactly the space they need to succeed. But Regus has no integrated social program to help SME’s or to require existing tenants to provide support or networking to others.</td>
</tr>
</tbody>
</table>
6. Understand your Market

Of course, setting up an incubator is 1% about what you want, and 99% about what’s right for the market. So you need to think carefully about the kind of environment you are working in. Here are some key areas to consider:

- **Real Estate**

  The simplest and often most important issue to consider is what the real estate market looks like for SMEs. If there are many spaces available, at low cost, with good services like electricity and internet connectivity, then your facility will be competing directly with the rest of the market. You need to understand this aspect of the environment because most incubators live or die by incorporating some aspect of landlord Real Estate rentals that has little to do with ‘traditional’ incubation. Anchor tenants can serve to protect your revenue stream in the event that government funding or donor support is not forthcoming for other riskier and expensive types of incubation. So if you can determine that there is market demand among SMEs for good office space, with a decent profile and address, and can provide excellent and affordable services like telephone, electricity and internet, and then you have a very strong foundation, or guarantee, that your investors will appreciate. In other words, if all else fails, your business could revert to being a simple landlord/real-estate play, and this can serve as the foundation for investment. In many developing countries it is very difficult for new businesses to find locations that fit the ‘profile’ or image of their target market. It may be difficult to find buildings that are wired with voice or data. And it may be difficult to find places where they can easily access other types of companies and services. So having a very good idea of what the current market is like for a start-up is critical to guaranteeing the profitability of your enterprise. We will look later at how you can determine this.

  Questions to be answered: How much office space exists? What is the nature of that office space? What seems to be lacking? What are the current occupancy rates? What are the average charges for an office? What services are generally provided? What does a cross section of SMEs say they are lacking? What are they willing to pay?

- **Culture**

  Understanding the culture of innovation in your community is also critical as that serves as an important metric both in terms of how you may determine market demand for the kinds of services you will be offering, and also will help you design the level and nature of services that you are considering. In many developed economies, there are established cultures of entrepreneurship, role models, success stories that serve to prepare and educate the broader population. If that is different where you are, then you need to consider building into your program a way to change attitudes and seed cultural changes. Changing awareness in the broader community by providing public programs about opportunities and sharing ideas about new technologies and basic entrepreneurship skills can shape the model you develop: focus on going broad and shallow in your incubation activities because there is a market opportunity (and challenge) within your community. It’s also important to understand the difference of entrepreneurship out of necessity versus entrepreneurship out of opportunity. A good understanding of your community will also enable you to add related services that could subsidize some other incubation activities... if the community aspires to
technology, and positively associates with high-tech, then offering cinemas, restaurants, and other entertainment options around your core business will be a significant business opportunity.

- **Industry**

  What are the key industries and activities that are already established in your economy? How may you play an active role in meeting the demands of those industries? What is the competitive advantage that your economy may present to the increasingly global economy? This is also critical in understanding so that the incubator can fit into an already existing economy. If tourism is the mainstay, then consider shaping the incubator as a retail outlet for tourism start-ups. If trade and agriculture, then consider the location. If high-tech then consider the equipment and resources offered at the centre so that SMEs can take advantage of group access to otherwise inaccessible capital equipment. Understanding the local industries and profiling them are critical to understanding how your facility may serve a community. Whatever industries are targeted by your initiative, these should be profiled: how many companies exist? What percentage could possibly seek services from you? how is it projected to grow over time? Industry-specific incubators are particularly vulnerable, and so if you want a software incubator, or an agri-business incubator, you must understand those industries well as you prepare your business plan.

- **Policy**

  What is the policy framework in which you are considering to operate? What role does government or other public institutions aspire to play in the development of SMEs? What real action or policy has emerged from these aspirations and what can you realistically expect from the public sector in terms of advocacy or financial support for the work that you wish to undertake? A good understanding of what realistically can be expected from the public sector will also help you shape your model, and determine how far you may go in expecting public subsidies to support some of your more non-commercial activities at the centre.

- **Economy**

  Overall, how has the economy performed in the last few years? Is the country growing or contracting? What kind of projections can you make to determine the growth of SMEs to meet demand overtime? Looking at GDP, inflation, and getting some other metrics and understanding of the market is key to be able to approach investors and say that there will be a continuing and growing SME sector that you are going to service. Stagnant economies, or contracting ones, should be a warning sign that you cannot predict growth in this area, and thus your model must be tailored with that in mind.
Here’s a checklist of what you need to know:

<table>
<thead>
<tr>
<th>Real Estate</th>
<th>Culture</th>
<th>Policy</th>
<th>Industry</th>
<th>Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Office spaces</td>
<td>Popular Attitudes</td>
<td>Government Results to Date</td>
<td>Key Industries Target Industries</td>
<td>GDP Growth rates</td>
</tr>
<tr>
<td>Occupancy Rates</td>
<td>Success Stories</td>
<td>Future Predictions</td>
<td>Initial Surveys</td>
<td>Trends</td>
</tr>
<tr>
<td>Quality of Offices</td>
<td>Education Policy</td>
<td>Standard of Services</td>
<td>Projected Growth</td>
<td>Days to startup</td>
</tr>
<tr>
<td>Services offered</td>
<td>Social Change</td>
<td>Public Focus</td>
<td>Known Constraints</td>
<td>Doing Business</td>
</tr>
<tr>
<td>Market Demand</td>
<td></td>
<td>Real Commitment</td>
<td>Requirements</td>
<td>Destination</td>
</tr>
<tr>
<td>Current rates</td>
<td></td>
<td>Demonstrable results</td>
<td></td>
<td>rank</td>
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<tr>
<td>Shop rates</td>
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<tr>
<td>Future Projections</td>
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<td></td>
<td></td>
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<tr>
<td>Planned New build</td>
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</table>

Out of this survey of the market, you would be able to understand what kinds of companies would be attracted to your product, how many there are, what they may pay, what kind of product you should be offering, what blend of services, and whether or not the government and overall economy can be counted on to participate and support your initiative. In the end, you need to rely on your head to do the thinking, but you need to follow your heart in terms of how appropriate the idea is to serve your community, and how well the community will receive and support it. You have to be an entrepreneur to open an incubator, and you need to run it as a business. Incubators that are run as charities will not be driven by their customers and cannot relate to their needs.

Market surveys and counts can look at ICT related businesses and categorize them accordingly. Simple overviews that take into consideration the age, rank and size of companies in a particular sector and can make sensible predictions for the future will give your incubator a good chance to refine its focus and tailor its product offering.
7. **Customize Your Model**

Once you understand the market, you can then proceed to formulate a picture and model of what will be appropriate. In general, you should consider your incubator as a real-estate play, with the ability to survive as a landlord only. Then if that strategy is successful, you can then work out how to subsidize more incubator-like activities. This foundation allows you to be sustainable on your own terms in markets where public support or external financing cannot always be relied on.

If you can identify that there is a market opportunity and match it to a specific group of industries (high tech or service oriented) then you can develop a product that is differentiated in the marketplace and can be easily understood in the media. If you can associate an industry like software, or tourism, or agriculture, then that focus may enable you to attract further collaboration and investment from focused public institutions or universities.

In the event that a university, government or other donor is willing to provide you with substantial and guaranteed funding over a period of time, then you can consider more ‘germination’ like activities where you are taking aspiring entrepreneurs on board (those who are really just starting up with an idea, but are not operational). This is particularly relevant with high-tech companies and truly innovative industries. Locating close to that institution will be critical in this regard.

Without much public or strong institutional support, you move to the other end of the spectrum and create an accelerator model, where you focus on companies that are already able to pay for the services that you offer, and perhaps blend this with retail shopping services in the building that are directly related to the sector you are seeking to serve.

As stated before, all incubators will have a blended approach which allows them to stay flexible, and give them some independence over the program they seek to run. In some cases you may state that x percentage of the building is focused on full-fee paying tenants, and they are leveraged to subsidize the rentals and services offered in your incubation program. It’s critical that you find this blended approach and build flexibility into your model.
8. **Write the Business Plan**

Writing a business plan will systematically record and layout all the assumptions that you have made by looking at the market opportunity and the demand from your target market. In essence, it is both a feasibility study, and a roadmap to move forwards and attract investment. It will be an overall presentation of what you plan to do, what kind of competition may exist in the marketplace, who will be part of your team, which partners you’ve identified, and where you will locate the business. It will also indicate a five year financial plan and proposed investment structure. Here’s an outline of what your business plan should include:

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- Statistics & Indicators
- Macro Economic Indicators
- Target Industry Statistics
- Doing Business Indicators
- Network & Systems Installation
9. Key Considerations

<table>
<thead>
<tr>
<th>Executive Summary</th>
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<tr>
<td>Business Overview</td>
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<table>
<thead>
<tr>
<th>Summary of Financial Information</th>
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<tbody>
<tr>
<td>This summary will indicate the amount required, the investment, the rate of return, expenses, revenues, growth rate, the projected EBITDA and EBITDA margins, cashflow and annual rental yield.</td>
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</table>

<table>
<thead>
<tr>
<th>Summary of Proposed Terms</th>
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</thead>
<tbody>
<tr>
<td>This is a one page summary that outlines the purpose of the funds, the proposed investment amount, the split between equity and debt, the board representation, the shareholding structure, and investor rights.</td>
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</table>

<table>
<thead>
<tr>
<th>Business Opportunity &amp; Highlights</th>
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<tbody>
<tr>
<td>Background Information</td>
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| The Plan | The plan is a more detailed outline of exactly what you will offer to address the issues raised in the previous section. You need to describe what the incubator is, and what model you will setup and explain the services that it will offer. |

| Investment Highlights | Here you highlight the advantages that you have for an investor, which may mean the competitive advantages you posses, the return anticipated, the team you’ve put together, the partnerships and public support you will create, and any barrier to entry for others, and other types of advantages that may accrue to investors (for example to meet their own corporate social responsibilities) |

| Investment Considerations | Here you outline the risks involved. |
### Industry Overview

#### Market Indicators
You should provide a comprehensive and detailed overview of the market, both in your target city or town, but also in the country as a whole. You need to focus on GDP, inflation, days to start a business, as well as other basic facts about the country. This will help investors determine the size of the market, get background information about the direction of the country, and the appetite of the SME sector. You should specifically analyze those industries and markets that are directly relevant to the business you are intending to setup. This should probably include a survey of the real estate market and what is out there and the direction it is heading in. It should also include indicators for any other industries that your incubator will focus on. EG if you intend to be a travel and tour incubator, then you should cover that industry, similarly for ICTs if you are doing that. You should provide macro-economic data for the industry, then specifics for your market, and indicators as to where the industry is going.

#### Market Segmentation
This is an analysis of how your target market is segmented. It shows that you understand how the market is constituted and will help you focus your strategy on one or more parts of that market.

#### Target Market Segment Strategy
This outlines exactly what your strategy will be in creating focus, and meeting the needs of your target market. You need to show how, and which part of the market, will access what kinds of services. Focus will be extremely important, particularly if you want to establish partnerships with other institutions that are industry-related.

#### Participants
This is a summary of all the other participants who are active and providing services to your target market.

#### Sector Analysis
This analyses the strengths and weaknesses of those participants, and what is lacking or saturated in the sector.

#### Competition
This should list your key competitors and identify their strengths and weaknesses.

#### Barriers to Entry
This should be a carefully thought through analysis of why it would be difficult for someone else to enter the market and compete with what you are offering.

### Business Description & Strategy

#### Company Location
This is where you would locate the incubator. Some key options should already be identified at this stage. More than one leaves you with options. Being specific can help people visualize what you are trying to do. It can also help with the costs. Most important, it will help you think through how important the location is to meet your target market. If you are offering retail services to the general public, then being located within easy access to public transportation will be critical. However, that must be balanced with the needs of your incubates and anchor tenants, who may want to have a very ‘upscale’ address where they can bring clients. So the location is critical. Parking is absolutely essential.
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Description</td>
<td>This would be a description of the building layout. How many floors, what kinds of rooms, what common spaces. It should include an architect’s rendering of what the building would look like, along with the proper sizing for rooms etc. This helps to be specific for costs. It also shows the scale of the project. The design is critical to engineer the networking that you are aiming for in the incubator. Having a standalone building is key for branding. Giving visibility to businesses and shops. Integrating public retail outlets and spaces will dramatically affect the design of the building.</td>
</tr>
<tr>
<td>Products &amp; Services</td>
<td>This describes what products and services you may offer at the building.</td>
</tr>
<tr>
<td>Incubator Program</td>
<td>This section could be covered in the previous one, but is so important that it gets its own section. Here you will identify what the incubator program does, and how this differentiates your facility from a pure real estate play. You will identify the program and the services offered, as well as the monitoring and evaluation that you will have in place.</td>
</tr>
<tr>
<td>Competitive Comparison</td>
<td>Outline how your enterprise will compete with anything else similar on the ground in your community.</td>
</tr>
<tr>
<td>Marketing strategy</td>
<td>Outline the positioning statement, pricing strategy and promotion strategy. Give some sense of the flavor of your organization – how formal or informal you will be? What kind of language you may use.</td>
</tr>
<tr>
<td>Strategic Alliances</td>
<td>Outline the alliances you have already, or intend to, setup with government, media, financial institutions, educational institutions, local businesses, local NGOs, ISPs, suppliers, other local or international incubators, and international NGOs and donors.</td>
</tr>
<tr>
<td>Management Summary</td>
<td></td>
</tr>
<tr>
<td>Organization Chart</td>
<td>Provide an organization chart.</td>
</tr>
<tr>
<td>Team Descriptions</td>
<td>Describe the role of each team member and the type of characteristics required for that position. Remember, incubation is mostly about networking smart people. So focus on ‘hospitality’. Focus on hiring people that have great people skills. Focus on people that are good at admin and operations to keep the centre running smoothly. Most industry specific roles (eg. Technology) are much more easily learned than people skills.</td>
</tr>
</tbody>
</table>
### Financial Projections

**Key Financial Assumptions**
You need to list all of the assumptions you are making about the centre. This could include the size of each floor, the number of floors, the average cost to build per square metre, the common spaces, and then expenses, like rent, payroll, electricity, internet. You should indicate what rates you are charging tenants for the services that you provide. Probably some will be commercial tenants paying full rates, and some will be incubates paying subsidized rates. In addition, you should outline what demand you are assuming for these services, which could translate simply into ‘occupancy’ for the spaces that you have. Don’t forget payroll taxes and licensee fees.

**Income Statement**
Do eight years if you can, indicating your revenues, VAT, net revenue, operating expenses, EBITDA, depreciation, EBIT, interest payments, taxes, net income, EBITDA margin, EBIT margin and net income margin.

**Balance Sheet & Cash Flow**
Total assets (inventory, cash and securities, accounts receivable, property, equipment, etc.) and Liabilities (short term and long term debt, accounts payable, accrued expenses etc.)
The Appendix (research data)

<table>
<thead>
<tr>
<th>Rollout Schedule</th>
<th>Include a rollout schedule (see sample version later in this handbook)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Details</td>
<td>Describe in detail the site, provide aerial maps and satellite images with the building in place. Get GPS readings and plot the exact size of your building showing access roads and parking. Do this for as many sites as you have. Use google maps. Outline any issues with tenancies. Describe pros and cons for each particular location. Indicate public accessibility. Consider long-term development of the site.</td>
</tr>
<tr>
<td>Construction Quotations</td>
<td>Set up an excel sheet with about five quotations from a sample of five well-respected construction companies in your area. They should provide per M2 costs for finished build, unfinished build, electrical install, shop electrical install, parking, ceiling, flooring, glazing, internal walls, elevator.</td>
</tr>
<tr>
<td>Equipment list &amp; cost</td>
<td>This should be a detailed list of all the equipment you will buy and/or import, with their associated import duties. This should include electrical fixtures, lighting, flooring, carpets, generator, transformer, fire system, chairs, desks, cleaning equipment, office equipment, trunking, wiring, PCs, etc.</td>
</tr>
<tr>
<td>Meeting Room Rates</td>
<td>If you are offering meeting rooms to the public, you should have a comprehensive list of what other facilities exist and their prices.</td>
</tr>
<tr>
<td>Retail Shop Rental Rates</td>
<td>If you offer retail rentals, you should have samples of other comparable sites and the lease rates being offered in those locations.</td>
</tr>
<tr>
<td>Potential Tenants</td>
<td>You should provide a list of companies that you believe would like to relocate to your facility. You should speak to as many of these as possible about the idea and see if they are willing or not, and how much they would be looking to pay. Try and identify large anchor tenants that would be commercial tenants over the long-term, who could possible co-invest in the building with you. Complement them to your industry focus if you have one.</td>
</tr>
<tr>
<td>Salary Estimates</td>
<td>Do a survey of the market, both public and private sector, to determine what are the current rates for an entry-level employee, driver, security guard, cleaner, graduate, middle manager, senior manager.</td>
</tr>
<tr>
<td>Office Survey</td>
<td>If you will be offering office space, you need to do a survey of your market. Hire some students to cover critical areas of your town. Have them identify the key office buildings, and then inquire as to whether any spaces are available to rent, and at what price, with what services. You need to establish the average rental price that would compare to your facility, as this will determine a key metric for your business model. Also, determining occupancy, and the projected growth or decline of occupancy, is also key to your business plan. You may consider also included a survey of retail services/shops if you intend to offer those in your building as well.</td>
</tr>
<tr>
<td>Target Industry Survey</td>
<td>If your incubator will be focused on one industry (like tourism or technology) then you will also need to do a comprehensive survey of businesses in your community that offer those services. This will allow you to determine the size of your target market, and also to see if the market is growing or contracting. Talking to several of them in</td>
</tr>
</tbody>
</table>
terms of whether they would be interested to move in can give you good data to use in your business plan.

**Lease Proposal**
If possible, enclose a proposed lease agreement/terms for the landlord.

**Macro Economic Indicators**
FDI, GDP, population, size, inflation, days to start a business can all help build a picture of your environment for potential investors to consider.

**Target Industry Statistics**
This is a summary of the industry that you are focusing on.

**Doing Business Indicators**
From World Bank and IFC, you can demonstrate the kind of culture that exists for small businesses to startup.

**Network & Systems Installation**
Get quotes for any expensive items that you would consider for the building, like your network and systems, a generator, a construction quote etc.

**Interviews**
Include transcripts of any interviews you had, as well as a list of the people that you have met during the feasibility, investment plan.

**Profiles**
If you can identify investors, developers or managers that could be substantially involved in this project, and have expressed an interest to be involved, it’s crucial that you profile them.

## 10. Design Smart

![Diagram of a building layout with various sections labeled]

Flexibility and mixed-use may be of critical importance to your location and situation. In this sense here are some key considerations for designing your space:

**Consider a public, retail ground floor**
As a community centre for entrepreneurship, you can leverage that location and brand image to attract more foot traffic by co-locating public retail companies on the ground floor like a shopping mall. This will generate interest and traffic from the community – a commodity that can often be converted into business leads or employment opportunities for your incubates. It also diversifies your business model and introduces additional revenue streams.
Consider your brand & image
The look and feel and flow is critical to how people will perceive your services. The building should be stand-alone and immediately recognizable. The lines should be modern and clean. The logo and name should be aspirational and evocative. Keep it fun.

Parking
Critical, but often inadequately considered! Any anchor tenants with important established customers will require adequate parking for themselves and visitors. Public events will also.

Separate entrances
Sometimes corporate offices may feel more comfortable with their own entrance.

A communal ‘networked’ feel
All incubators will encourage social networking: your building should reflect this by encouraging common spaces and social services like restaurants, bars, food, cafes etc. Also, building an internal courtyard can encourage this sense of community interaction & visibility.

Office floors
Mix your start-ups with your mature companies. Don’t segregate them. Have fewer but longer floors, rather than a taller building with many floors. Encourage people to access others.

Storage
Often forgotten, but storage is critical throughout the building and should be strategically placed, particularly if some companies will have food or any kind of inventory.

Meeting rooms
Make sure you allow generous space for meeting facilities. Companies will need shared spaces to meet clients and run trainings. These should be available on every floor.

Public facilities
Consider access for the public and allowing the community outside your centre access to rent and use shared facilities within the building, like conference rooms.

Wrong
You’re going to get some of this wrong, it’s inevitable, so inform the architect that cabinets, desks, lights, wiring, electrical points should be as flexible as possible and as you settle into serving the community, you will want to move things around. Flexible options like wall trunking and movable desks and walls will be critical to reducing costs later.
11. Incubate

To distinguish yourself from a pure real-estate development, consider how you will integrate any of the following services into your model. These need to be well thought through and clearly described in your plan. Having clear strategies will allow you to set clear measurements of your success.

**Offices**
Provide excellent serviced office space at an affordable rate with flexible leases (or no leases). Consider a sliding scale for companies depending on their maturity and ability to pay. Leverage commercial tenant leases to subsidize the cost of these offices. Provide electricity, internet and voice. Allow tenants to contract or expand into other spaces without signing annual contracts. Provide shared access to resources like printers, faxes, reception, and voicemail.

**Referrals**
The incubator program should have a series of referral services available to the SMEs in their program. Local companies that provide a broad range of business services may provide discounted initial consultations and fees as negotiated by the incubator manager. These companies participate to develop future clients and for their corporate social responsibility program. Each year, the incubator manager will meet with each company in the program and do a needs assessment and remind the incubate of the services available. This is not intended as an active intervention in these companies, more as a resource centre. The idea is NOT to attempt to manage or run these companies, but rather provide resources to remove their bottlenecks when they recognize they have some. Companies and experts would be screened and approved by the incubator team, and made available that can assist with the following areas: business plan writing and market research; marketing & sales; financial planning; legal & HR; business setup and registration.
Mentors
The incubation program should match incubates with local entrepreneurs in a mentoring program. Incubates and mentors must meet every month, but it is up to the pair to determine the structure, format and content of those meetings. The program manager must carefully select and monitor these mentors. The mentors provide advice and will be drawn from the wider business community. A plan should be agreed if possible and written up by the incubate and the Mentor should help determine goals and a timescale and ensure that such objectives are being met. Mentoring can also lead to business opportunities and referrals for the incubates as the Mentor can provide much needed introductions. A simple ‘mentoring guide’ will be written and updated, giving an outline of how a mentoring program could work. Mentors are required to fill out a simple report after every meeting and to always meet with the incubator manager when they visit monthly to share the progress of the company and identify constraints. Incubates will also be required to assess the mentor and their progress after every meeting, although this report is not shared with the mentor.

Support Groups
Incubates could be organized into small groups of ten or less and required to meet monthly to share ideas, experiences, frustrations, services and generally network with each other.

SME toolkit
A CD could be compiled and be made available to incubates and also to SMEs in the wider community that will contain a range of useful materials, including accounting principles and tools, different government forms, lists of resources and companies, sample business plans and other materials. It will also be made available online. This material will be reviewed and updated annually, or on a case-by-case basis, and should be developed in partnership with other NGOs.

Monthly Debates
The centre could host a monthly debate/dialogue where topics that combine technology and business innovation and policy are addressed. Education, health, agriculture, security, policy are among the topics that specialists will be asked to present. Vibrant question and answer sessions will be encouraged, as well as a period of networking after the event. The debates should be recorded and notes made available and online. The debates will be open to the public and should try to help any business person or professional understand the role, impact and opportunity that technology offers for improvements in their field.

Workshops
In addition to the regular monthly debates, there could be a series of events held throughout the year which will focus on special areas of need for SMEs. This will be organized and funded in conjunction with other NGOs and resource centres within the community. Industry experts will be invited to provide insight into specialist needs of the SME community. Topics can range from writing business plans, financial management, human resources, marketing your product, commercial law, project management etc. Attendees will pay to attend these sessions, with discounts for incubates. These events should be collaborative with specialist organizations that have the resources, experts and materials available to deliver quality programs. The Centre will be responsible for coordinating and scheduling, and providing the meeting facilities as well as providing marketing services outreach to the community.
**SME Calendar**

The Incubator Manager could maintain a calendar of all upcoming events for SMEs across the city, as well as coordinating with all the other programs that exist so that any SME requiring information about what programs or events or resources exist that could be of benefit to them are easily available. The Centre will be a clearing house of sorts, ensuring that the community knows where to go to find a comprehensive program of assistance. The manager will coordinate between all the agencies and organizations that provide these services, both commercial or not. This calendar will be published on the Centre’s website.

**Assessments & Contract**

The incubator manager should meet with each company at least once every two months to assess their progress against specific goals and to ensure that they are in compliance with their obligations as an incubatee. Tenants in the incubation program (which can last between 12-24 months) will be required to sign a contract upon entering the incubator agreeing to monthly mentor meetings, and bi-monthly meetings with the incubator manager, as well as certain other responsibilities. If an incubatee fails to meet their obligations, they will be evicted from the program and will also become liable for the associated costs of the program to date. If they graduate, the program will be provided to them at no cost.

**Networking**

The incubation program will also provide a networking service linking incubatees to other businesses and resources within the building and community. The program cannot manage that relationship, but it can use its influence and reputation, and links with the private sector and government to identify possible linkages, and to network foreign investors and companies with local companies and resources. Linkages with other incubators and programs will be part of this networking facility.

In addition to these resources and programs, additional in-house technical support can be provided at competitive rates: database and server co-location, affordable internet rates, and hardware leasing.

### 12. Partners & Investors

**Local Businesses**

Local businesses should be actively involved in the setup and ongoing activities of the incubator. They can provide services (technical, financial, legal etc.) to the tenant companies at discounted rates in anticipation of those companies becoming full-paying customers as they mature. Businesses can also leverage your centre as a location to launch, test or market goods and services to the broader market. Local investors can become involved in mentoring roles as a way of identifying potential investments, not just as potential clients. Mature companies may invest in the incubator because they recognize a corporate social responsibility, and helping SMEs to develop may also broadly help the economy to grow and thus generate tax revenues and more customers across the economy.

**Investment Funds**

Identify all the funds within the community and explain to them the goals of the incubator. Make sure you only meet with decision makers who will ‘understand’ the vision. Other participants are unlikely to entertain any ideas of discounted cash because of the merits of the business.
**Banks**
Important to have on the board and participate so that they can understand the needs of SMEs and develop packages for them, as well as provide financing as those companies seek to expand. If familiar with your business they will also extend credit to the incubator itself in times of need.

**Universities**
Sometimes slow, but frequently a key strategic ally in providing both research and new employees to start-up companies. Incubators can also create transition paths where they take graduate students into an incubation program straight out of the university.

**Government**
Important strategically, to leverage financing and support across the community. Try to give the government a non-executive role in the running or ownership of the company. The incubator can influence them in terms of policy. Government can generate much needed publicity, awareness, credibility and financing for incubators.

**NGOs & Donors**
Meet with the development community and donors and act as a clearing house for their services – a great challenge for these organizations is coordination between and among the different agencies. With a specific focus on SMEs, the incubator can be the local information point, helping SMEs recognize what assistance programs are available. Donors often have difficulty in access to the community and distributing their products and services, and the incubator can link them to a thriving innovative culture.

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### 13. Financials Needed

Ultimately the project will hinge on how impressive your financial model is. Consider different scenarios changing your assumptions sheet. Make it all in a flexible and linked excel sheet so that you can easily change occupancy rates, inflation, currency depreciation, loan repayment schedules.

See what are the key performance indicators for expenses and revenues. Play with the model at length so you understand that a small change in one critical number will dominate your business and make sure that those assumptions are safe. Find where profits lie. Your model will shape your business, indicating to you the scale of your business to reach profitability and how much subsidy you may require from the public sector to attract private participation/ownership.
The financial model should contain the following items:

- Assumptions page (outlining prices, occupancy, costs, etc)
- Payroll calculation
- Operating expenses
- Revenues
- Profit & loss
- Balance sheet
- Capex & Depreciation schedule
- Cashflow & IRR
# 14. Rollout Schedule

365 days to launch an incubator…

<table>
<thead>
<tr>
<th>Days</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>the idea</strong></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>Market review, stakeholder meetings &amp; interviews</td>
</tr>
<tr>
<td>15</td>
<td>Initial Feasibility Study</td>
</tr>
<tr>
<td>20</td>
<td>Meeting with potential partners &amp; investors – decision to proceed</td>
</tr>
<tr>
<td><strong>Build excitement, identify supporters, investors, managers – refine the idea, understand the market</strong></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Full business Plan &amp; Proposed Financials</td>
</tr>
<tr>
<td>60</td>
<td>Stakeholder meeting – decision to proceed</td>
</tr>
<tr>
<td>80</td>
<td>Bridge loan secured, operations begin</td>
</tr>
<tr>
<td><strong>the plan</strong></td>
<td></td>
</tr>
<tr>
<td>90</td>
<td>Rollout Manager &amp; team hired</td>
</tr>
<tr>
<td>90</td>
<td>Registration of new company</td>
</tr>
<tr>
<td>90</td>
<td>Project office opened</td>
</tr>
<tr>
<td>110</td>
<td>Architectural revisions completed</td>
</tr>
<tr>
<td>120</td>
<td>Bill of quantities finalized</td>
</tr>
<tr>
<td>140</td>
<td>Financing secured</td>
</tr>
<tr>
<td><strong>Get your numbers perfect and build a defensible and insightful business proposition</strong></td>
<td></td>
</tr>
<tr>
<td>160</td>
<td>Site demolition, clearing, securing begins</td>
</tr>
<tr>
<td>180</td>
<td>Construction begins</td>
</tr>
<tr>
<td>200</td>
<td>Hiring of key personnel</td>
</tr>
<tr>
<td>200</td>
<td>Accountant hired</td>
</tr>
<tr>
<td>250</td>
<td>Anchor Tenancies secured</td>
</tr>
<tr>
<td>260</td>
<td>Managing Director, Programs &amp; Marketing manager hired</td>
</tr>
<tr>
<td>280</td>
<td>Civil works completed</td>
</tr>
<tr>
<td>290</td>
<td>shop tenancies secured (if appropriate)</td>
</tr>
<tr>
<td>320</td>
<td>Furnishing &amp; fittings</td>
</tr>
<tr>
<td>320</td>
<td>Marketing campaign begins</td>
</tr>
<tr>
<td>320</td>
<td>Incubation strategy &amp; alliances secured</td>
</tr>
<tr>
<td>340</td>
<td>Network &amp; Electricals installation</td>
</tr>
<tr>
<td>340</td>
<td>Remaining management team hired</td>
</tr>
<tr>
<td>340</td>
<td>Electricity &amp; Water connected</td>
</tr>
<tr>
<td><strong>Finalize the concept, secure the funding, identify the early team</strong></td>
<td></td>
</tr>
<tr>
<td>350</td>
<td>Management team offices open</td>
</tr>
<tr>
<td>360</td>
<td>Shops &amp; offices fitted</td>
</tr>
<tr>
<td>360</td>
<td>NOC &amp; servers operational &amp; Internet Fibre connected</td>
</tr>
<tr>
<td>360</td>
<td>External signage completed</td>
</tr>
<tr>
<td>365</td>
<td>Opening Ceremony</td>
</tr>
<tr>
<td>365</td>
<td>Target Industry showcase, awards &amp; Job Fair</td>
</tr>
</tbody>
</table>

*Manage the process; think dependencies; refine the layouts; build awareness & partnerships*
A rollout manager with team should be hired quickly to oversee the construction, project, strategic alliances and hiring of key personnel. This team may become the permanent team based on performance. But this team will focus on logistics and construction/hr experience and will possess excellent project management skills. They will guide and accelerate the schedule while time is taken to find the key managers and personnel.
About infoDev

infoDev is a research, capacity building and advisory service organization that seeks to help developing countries and their international partners use information and communication broadly and effectively as tools of poverty reduction and sustainable economic growth. infoDev is a partnership of international development organizations and other partners, facilitated by a secretariat at the Global Information and Communication Technologies (GICT) Department of the World Bank Group.

infoDev has a global innovation and entrepreneurship network consisting of over 270 business incubators in more than 80 developing countries dedicated to supporting the growth of sustainable small and medium sized enterprises. Business incubators nurture start-up enterprises by providing a common environment for entrepreneurs where they have access to shared infrastructure, coaching, business and financial services, and linkages with domestic and international markets. infoDev's Network has effectively assisted more than 20,000 enterprises which have directly created over 220,000 jobs.

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