Suite 2

Business Incubator Operations

03 Planning an Incubator

Trainee Manual Part 1

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Introduction to the Training Program

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INTRODUCTION TO THE TRAINING PROGRAM

This is the trainee manual for Module 3 Part 1 – out of 11 modules in total - of *info*Dev's State-of-the-Art Business Incubation Training Program for Business Incubator Managers in Developing Countries.

*info*Dev (www.infodev.org) is a research, capacity building and advisory services program, coordinated and served by an expert Secretariat hosted by the World Bank Group. It helps developing countries and their international partners use innovation and information and communication technologies (ICT) effectively as tools for poverty reduction and sustainable social and economic development. *info*Dev is a leader in business incubation of technology-enabled enterprises. *info*Dev's global business incubation network reaches close to 300 business incubators, more than 20,000 small and medium enterprises, and has helped create over 200,000 jobs across 87 developing countries[1].

*info*Dev has found that high quality leadership is a key factor determining the probability of success for an incubator. *info*Dev therefore seeks to increase the capacity of business incubation managers – and their stakeholders – through one-on-one technical assistance, regional and topical peer-to-peer networks, the bi-annual Global Forum on Innovation and Entrepreneurship, and its web-based networking and knowledge-sharing tool www.idisc.net. This training program was designed in direct response to repeated requests from *info*Dev's technology entrepreneurship community for an in-depth business incubation training program relevant to the developing country context.

This training program is the first-of-its-kind, drawing from the lessons, models, and examples in business incubation from across Africa, East Asia and the Pacific, Europe and Central Asia, Latin America & the Caribbean, Middle East & North Africa, and South Asia. More than 30 experts contributed directly to the writing of the training modules, and the materials were tested with more than 300 professionals in developing countries all of whom provided inputs to the final design.

This training program is designed for business incubation managers and other business incubation stakeholders wishing to increase their understanding and know-how of the business incubation process. It consists of 11 training modules ranging from basic introductory topics designed for professionals new to business incubation, to specialized topics such as Technology Commercialization and Virtual Business Incubation Services.

[1] Source: *info*Dev activities from 2002 to 2009 - http://www.infodev.org/en/Article.473.html

The modules include:

SUITE 1 – BUSINESS INCUBATION BASICS

Module 1 – Business Incubation Definitions and Principles

This module provides an introduction to business incubation. It introduces key definitions and presents the main principles and good practices of business incubation. It aims to equip current and future incubator managers and policy makers with the knowledge, skills and understanding of the fundamentals of business incubation in order to effectively foster and encourage businesses.

Module 2 – Business Incubator Models, Including Success Factors

This module aims to illustrate various business incubator models based on practical examples of incubators from all over the world. The ultimate goal of this module is to empower current and future incubator managers with a thorough understanding of the various business incubator models and their critical success factors as well as to help them identify the best model to adopt for their own incubator to be successful.

SUITE 2 – BUSINESS INCUBATOR OPERATIONS

Module 3 – Planning an Incubator

This module, which divided in two parts, covers assessing the feasibility and designing the business model for an incubator. The first part is aimed at providing a thorough understanding of developing a feasibility study. This includes the steps to undertake a pre-feasibility study, the components that it should address, as well as how to gauge the market need and decide whether an incubator is the most appropriate solution. The second part of the module focuses on business planning to establish the incubator business model.

Module 4 – Marketing and Stakeholder Management

This module is designed to support efficient and effective communication of the incubator with key customers and other stakeholders based on a good understanding of the market place. This is important since it will help the incubator to establish and increase its reputation as a sustainable organization that fulfils its mission.

The first part of the module focuses on identifying, assessing, and reaching customers/ stakeholders, as well as potential ally organizations providing business support services to enterprises; while the second part is dedicated to defining the incubator's value proposition and engaging marketing channels.

Module 5 – Financing an Incubator

The first part of this module aims to guide current and future business incubator managers through mastering the incubator's financial data (such as costs and revenues) in order to enable them to identify the financing needs of the organization as well as to explore potential sources of financing.

Building on the first part, the second part of the module is dedicated to demonstrating, to current

and future business incubator managers, how to develop a fundraising strategy and to monitor the financial performance of an incubator.

Module 6 – Managing the Incubator
This module provides current and future business incubator managers with an overview of sound management practices for a successful incubator.

The first part addresses the topics of incubator policies and governance and the second part is dedicated to operations and human resources management.

Module 7 – Monitoring, Evaluation and Benchmarking
This module aims to provide incubator managers with the required information, skills and insights to develop their own monitoring and evaluation system and to carry out benchmarking activities.

The first part of the module is dedicated to helping the incubator manager understand the added value of monitoring and evaluating the performances of his/her incubator; defining relevant and adequate performance indicators; and exploring how to monitor and evaluate, notably by studying existing tools and methodologies.

The second part focuses on empowering the business incubator manager to use the data collected through monitoring and evaluation activities to compare the business incubator's performance with those of similar organizations.

SUITE 3 – ADVANCED INCUBATOR MANAGEMENT

Module 8 – Implementing a Mentoring Program
This module provides, in its first part, a conceptual framework for gaining a thorough understanding of the mentoring process and its purposes from three perspectives: that of the business incubator, the mentor, and the mentee.

The second part of the module focuses on how to implement a mentoring program.

Module 9 – Deals and Financing for Incubator Clients
This module aims to provide a thorough understanding of the alternative sources of financing for incubator clients by notably describing programs and processes that will enable the incubator manager to assist his/her clients in accessing financing.

The first part focuses on preparing incubatees to engage in the process of accessing financing while developing the capacity of the incubator to assist incubatees in accessing financing. The second part of the training module explores financing from the perspective of both the incubatees and the incubator.

Module 10 – Technology Commercialization through Incubation
This module describes technology commercialization divided in two parts. The first relating to

challenges and lessons learned associated with this process as well as how to manage expectations regarding the results of technology commercialization. This part also concerns the role of the incubator in facilitating technology commercialization in the pre-incubation phase.

The second part of this module focuses on the role of the incubator in technology commercialization in both the incubation and the growth phases.

Module 11 – Setting Up Virtual Services

The first part of this module provides a conceptual framework for understanding virtual services. It is designed for current and future business incubator managers who are considering virtual incubation either as a stand-alone business model or as part of their overall incubator service portfolio to extend their current service offering.

In its second part, the module aims to guide current and future business incubator managers and help them to decide if virtual incubation is the right solution for their incubator. The module then explores the most common challenges and how to address them.

Figure 1 groups the modules by preferred level of experience and suggested module sequence.

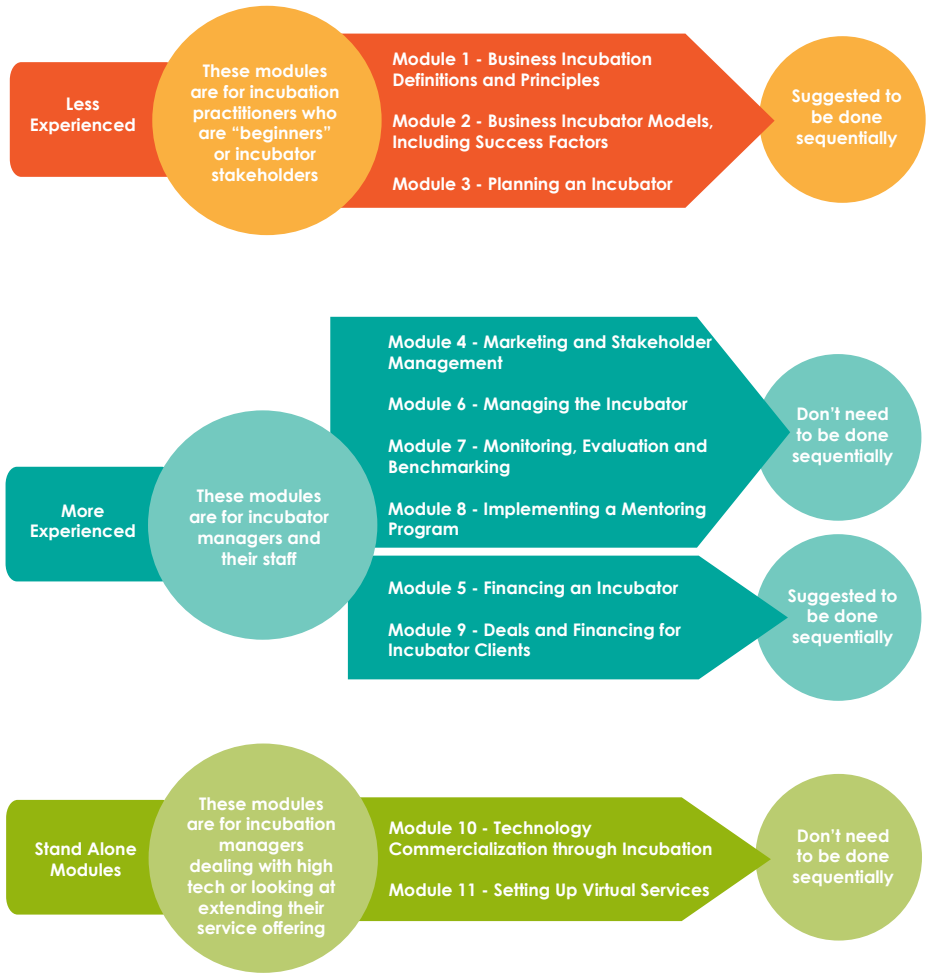

Figure 1 – Module Selection and Sequence

Acknowledgements

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Module Objectives

The overall objectives of this module are to (1) provide a thorough understanding of planning and implementing a feasibility study for an incubator and (2) to show how business planning can be used to establish the incubator business model.

TRAINEE TRAINING OBJECTIVES

The training module is structured in two parts:

Part 1 is aimed primarily at individuals or stakeholder working groups who will investigate the potential for establishing a business incubator. It will examine the steps involved in determining the viability of establishing an incubator by means of a feasibility study. By the end of Part 1 of the training module, the trainees will be able to:

- Undertake a feasibility study for an incubator focusing, in particular, on market analysis and stakeholder support;
- Ask the essential questions to ensure the sustainability of the planned incubator, notably whether an incubator is the right solution;
- Use the feasibility study results to select the right target market and strategic direction for their incubator;
- Explore the physical layout options for the incubator, by taking into consideration the important issues when planning aspects such as the physical location and the size of their incubator;
- Design the services to be offered, determining which are most appropriate and understanding how to set prices; and
- Describe the skills set required for managing and running an incubator.

Part 2 is aimed at incubator stakeholder working groups or future incubation managers who have completed the feasibility study for an incubator and/or have taken the decision to go ahead with the establishment of an incubator. The aim is, building on the results of the feasibility study, to develop a business plan for the incubator.

By the end of Part 2 of the training module, the trainees will be able to:

- Develop powerful vision and mission statements for the incubator and all its stakeholders; and
- Prepare an effective business plan for an incubator based on the vision and mission statements.

Introduction to this Module

Establishing an incubator is a significant, long-term investment. Effective planning is a key factor in ensuring the future success of such an initiative and the return on investment for the principle stakeholders. The incubator should focus on areas in which there is a market need and an opportunity for growth. To this end, this training module will provide the stakeholder working group responsible with a systematic approach to planning an incubator, from the development of a feasibility study to a full business plan and the establishment of optimal operational strategies.

The module is designed to be practical in nature providing future incubation managers with the tools required to complete each stage of the planning process. Relevant case study examples are included in order to provide stakeholder working groups with a variety of insights and perspectives from different incubators that have been through the planning process and have resulted in the establishment of successful incubators. Additional information regarding starting an incubator may be found by consulting the *info*Dev Incubator Support Center (iDisc)[2].

[2] http://www.idisc.net/en/Topic.1.html and http://www.idisc.net/en/Article.38686.html and http://www.idisc.net/en/Article.86.html

Component 1 (Part 1 Training):

Feasibility Study Planning

COMPONENT INDEX

Section 1.1: Pre-Feasibility Study
Section 1.2: Components of a Feasibility Study
Section 1.3: Understanding the Market Need (incl. Stakeholder Analysis)
Section 1.4: Compiling the Results of a Market Research Study
Section 1.5: How to assess when an incubator is not the appropriate solution

COMPONENT OBJECTIVES

This component is designed to take the trainees through a step-by-step process which will enable them to assess whether an incubator is the appropriate intervention mechanism.

At the end of this component, trainees should:

- Understand the importance of putting together the right team to plan an incubator, who should be involved in such a team and what their initial tasks should be;
- Know what is involved in a feasibility study, how long it takes to complete, who should complete it, and, in the case of market research, how this should be undertaken; and
- Be able to interpret the results of the feasibility study to arrive at a 'Go' or 'No-Go' decision on whether or not to proceed with the establishment of an incubator.

Section 1.1: Pre-Feasibility Study

Section 1.1.1: Putting together the right team to plan an incubator

*info*Dev launched the Incubator Program[3] in 2002 to strengthen the capacity of business incubators in developing economies to pursue incubation goals, including the creation of new jobs, the launch and scale of local businesses, growth in tax revenues, increased economic diversification, and the promotion of indigenous technologies. *info*Dev has mobilized about US$20 million for the initiative, supporting close to 100 institutions in more than 50 countries. Investments were made in grants for incubator organizations, as well as in technical assistance in the form of advice, international workshops and conferences, and the facilitation of regional and global networks of incubators. These investments included notably planning grants for the design and execution of new organizations. Based on *info*Dev's experience, business incubators must be planned as part of an innovation and entrepreneurship eco-system comprised of all the actors that impact on the ability of entrepreneurs to start and grow their business, as represented by Figure 2.

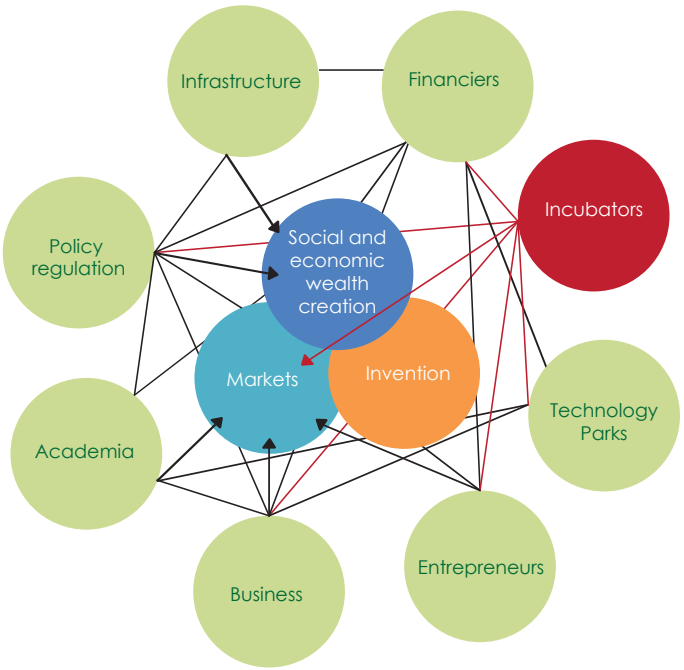

Figure 2 - Innovation & Entrepreneurship Ecosystem

This eco-system includes academia, financiers, industry and government; it may also include other organizations such as non-governmental organizations (NGOs) and business development service providers (BDSP) who may take the initiative of planning an incubator. From their experience in supporting more than 300 business incubators across 80 developing countries, *info*Dev has found that it is important to reach out to this broad set of stakeholders at the start of the feasibility assessment

[3] Source : *info*Dev – Incubator Initiative : http://www.idisc.net/en/Page.MEIA.Incubator.Overview.html

to map out entrepreneurial opportunities, understand the barriers to the growth of innovative enterprises, understand what services are currently available to early-stage enterprises, to get buy-in for the business incubator concept, and to explore potential partnerships. At this stage, it is important to illustrate the notion of the eco-system (one weak link weakens the whole system) and what a business incubator means to each stakeholder in the system. For example, incubators can be a source of: pooled lower risk start-up investment opportunities for financiers, clients for technology parks, innovative products/services for larger companies and information for policymakers on barriers to entrepreneurship and Small and Medium Sized Enterprise (SME) growth.

The initiative for setting up an incubator can come from either the private or the public sector or from both. Development of a competitive domestic private sector is critical for social and economic wealth creation. It does not matter particularly whether the initiative is championed by a local development body, by local politicians, universities, the Chamber of Industry and Commerce, one or more large local companies, an association of managers or other well-known people and so on. What is essential is that a group of stakeholders comes together which has the driving force to create and organize an effective and efficient operation. This entails teamwork requiring the collaboration and co-operation of a number of bodies and local authorities with a view to mobilizing human intellectual, technological and financial potential etc. Together they should have the capacity to heighten awareness and mobilize all representative forces in their areas and create a collaborative body.

The efficient running of an incubator requires extensive resources, financial and otherwise in both the short and long-term. The initiators of such a scheme should therefore also make sure they obtain support, even of the passive kind, from anyone who is in a position to prejudice the implementation of the project. The trick is to enable the maximum number of people and bodies to claim part of the merit if the project is a success.

Section 1.1.2: Setting up a stakeholder working group

The best starting point for exploring the feasibility of an incubator is to set up a stakeholder working group within which all relevant players should be represented. Ideally this stakeholder working group should include key players who could form a future Public-Private Partnership to support the incubator if it goes ahead.

The stakeholder working group would typically involve stakeholders from:

- Local government
- Public or Private local economic development authorities
- Universities/Research Institutes
- Private Sector
- Finance Sector
- Other enterprise development organizations
- Sector specific fields which are strong in the area (such as ICT or agro-food)

The initial tasks of this stakeholder working group should include the following steps:

- Discussing opportunities and constraints for SME growth in the innovation and entrepreneurship ecosystem;
- Reaching a consensus on the basic concept and objectives of an incubator;
- Setting a timeframe and tasks for the preliminary work to be carried out to assess the feasibility of creating an incubator;
- Learning more about business incubation as a concept and in application;
- Securing resources for feasibility study planning;
- Implementing a feasibility study; and
- Deciding on results and planning the next phase of development.

Section 1.1.3: Learning and capacity building

*info*Dev stresses the importance of progressive and on-going learning about business incubation. In order to better direct feasibility study research and make informed decisions about the findings it is important that the stakeholder working group understands key incubator concepts and trends.

This learning process can be facilitated through:

• **Online training resources:** *info*Dev has developed a comprehensive online business incubation toolkit (www.idisc.net) which includes many useful case studies of different incubator concepts in practice.

• **Incubator study tours:** Existing incubators in similar environments bring a breadth and depth of experience to help stakeholders. They help avoid mistakes and share what has been learnt elsewhere, in similar and differing environments.

• **Keeping up-to-date with emerging trends,** notably through incubator networks and events. Active involvement in incubator networks such as *info*Dev, NBIA in the USA and EBN in Europe, are important for the exchange of expertise, access to specialized experts, the establishment of joint (national and international) projects and activities, and to pioneer new forms of incubation and entrepreneurship support. Attendance at international incubation conferences provides useful insights into key trends as well as opportunities to network with incubation leaders. At the local community level, awareness-raising workshops for stakeholders and policy makers are a good way to start the learning process and to develop important networks with other practitioners, stakeholders and policy makers as well as striving for a high degree of ownership from the outset. Subscribing to *info*Dev's networking platform www.idisc.net is a good way to be kept abreast of the latest developments and to network with other business incubators.

Section 1.2: Components of a Feasibility Study

> The NBIA suggests that: *"Providing detailed answers to critical questions, a feasibility study helps business incubator developers decide whether a business incubator will prove effective in a particular setting, by determining if the proposed project has a solid market, sound financial base, strong community support, and true champions. Beyond that a feasibility study identifies obstacles that business incubator organizers might have to overcome and offers options for surmounting them. It also may look at whether a proposed business incubator will further a community's broader economic development goals."*[4]

Feasibility studies typically take from two to six months, reflecting the intricacy of the process and the need to raise awareness and commitment. It takes time for ideas to percolate through a community and stakeholders may not come forward until they are convinced of the worth of a project. Studies can be completed more quickly, but risk missing important nuances, or being incomplete.

Often consultants are engaged to conduct a feasibility study and subsequent business plan, if capability does not exist locally, or if an independent opinion is required. They sometimes also act as advisors to local stakeholders or local consultants who undertake the study. If consultants are used they should endeavor to build local capacity so that they are no longer required. They can be an important resource for the establishment phase, for targeted capacity building, or as a part of the initial management team to establish the business incubator and steadily transfer knowledge and control to a local management team.

Section 1.2.1: Planning - Feasibility Study

The initial planning stage for the business incubator consists of the collection and preliminary study of information on the social, economic, political, business, technological, and cultural situation in the area planned for its implementation and the possible influences of these factors on the business incubator. Awareness of these variables will help define the general strategies and objectives for the incubator.

A critical aspect of a feasibility study is to make sure that there is a market opportunity for the entrepreneurs that are being targeted and that there is a pool of potential entrepreneurs.

[4] Source : A Comprehensive Guide to Business Incubation, NBIA, 2004.

A feasibility study needs to include:

- Analysis of the market opportunities for growth, i.e. does the area have a competitive advantage in a certain sector?;
- Analysis of the pool of entrepreneurs that could be potential clients for the incubator and of their barriers to success (e.g. regulatory and labor aspects, infrastructure, skills, finance, and equipment);
- Mapping of organizations that provide services to entrepreneurs, as well as their strengths, weaknesses, target segments and pricing strategies, resulting in a gap analysis of the services that are currently being provided in the market place;
- Analysis of the ease of access to and cost of basic infrastructure and services for small businesses such as office space, electricity, internet and telecom services, and copying; and
- Outreach to representatives of all actors in the innovation and entrepreneurship ecosystem to raise awareness and build stakeholder buy-in and potential for partnership.

Section 1.2.2: Topics in a feasibility study

Feasibility studies typically examine the following core topics, at a minimum:

- Stakeholder 'buy in' – community support and project champions;
- Market – the composition of the operating area's entrepreneurial pool and needs of prospective clients, now and into the future;
- Facilities and Services – including leasing arrangements (building for free) and suitability of building such as location, office size, and meeting rooms, and ICT infrastructure;
- Availability of skills required to manage and run the incubator; and
- Financial Feasibility – both short and long-term, including establishment costs.

An example of the contents for a feasibility study is provided in Table 1.

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1. Executive Summary

2. Introduction

3. Local Environment, Support and Conditions
- 3.1. Local Innovation Support Ecosystem
- 3.2. Community Leaders and Business Operators
- 3.3. Local Business Trends & Opportunities
- 3.4. Conclusions on Local Environment & Conditions

4. Deal Flow
- 4.1. Market Segments
- 4.2. Prospects
- 4.3. Deal Flow for an Incubator
- 4.4. Deal Flow Pipeline
- 4.5. Examples of Possible Clients
- 4.6. Deal Flow Conclusions
- 4.7. Services to be Provided (e.g.; bookkeeping; legal; mentoring and coaching; training)

5. Incubator Model
- 5.1. Recommendation on the Incubator Objectives
- 5.2. Suggestion for the Incubator Business Model

6. Ownership, Governance and Management
- 6.1. Project Champions
- 6.2. Ownership, Governance & Management
  - 6.2.1. Board Representation
- 6.3. Day-to-Day Management
- 6.4. Incubator Personnel
- 6.5. Advisory Board

7. Location and Facilities
- 7.1. Layout for the Building including Amenities: Reception, Offices, Meeting rooms, Training rooms, Cafeteria, etc.
- 7.2. Proposed Location
- 7.3. Fit Out and Facilities
- 7.4. Conclusion

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8. Indicative Financial Outlook

- 8.1. Basis of Financial Viability
- 8.2. For-Profit versus Not-for-Profit?
- 8.3. Business Model
- 8.4. Financial Projections
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  - 8.4.3. Cash Flow Summary
  - 8.4.4. Main Assumptions
- 8.5. Scenarios
  - 8.5.1. Different Numbers of Clients
  - 8.5.2. Different Incubation Fees, Royalties or Equities
  - 8.5.3. Securing an Anchor Tenant or Not
- 8.6. Viability
- 8.7. Seed Funding Required
- 8.8. Sources of Funding

9. Implementation

- 9.1. Incubator Development and Implementation
- 9.2. Entry and Exit Criteria and Arrangements
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  - 9.2.2. Client Tenure and Business Milestones
  - 9.2.3. Exit Criteria and Arrangements
- 9.3. Service Providers and their Offering
- 9.4. Job Descriptions
- 9.5. Operational Plan
- 9.6. Establishment Support
- 9.7. Handling Intellectual Property
- 9.8. Marketing Strategy
  - 9.8.1. Market Segmentation
  - 9.8.2. Marketing Strategy

10. Evaluation and Performance Monitoring

- 10.1. Reporting and Monitoring
- 10.2. Performance Monitoring - Outcomes
- 10.3. Critical Success Factors
  - 10.3.1. Generic Success Factors
  - 10.3.2. Factors Specific to the Development and Success of the Proposed Incubator

Table 1 - Comprehensive Contents Index for an Incubator Feasibility Study

Section 1.3: Understanding the Market Need (including Stakeholder Analysis)

The analysis of local market conditions and prospective deal flow is arguably the most important element of the feasibility study. Without convincing market information it will be difficult to get local stakeholders fully on board and without their support it will be almost impossible to secure future financing. Market data will also help suggest the optimal incubator business model and provide a good indication of the best physical location for an incubator if a physical infrastructure is required. Some key considerations to understand local market needs are explored in detail below.[5]

Section 1.3.1: Knowing your market

What is the target market?

- Start-up companies pre- or post-revenue – which is the most likely or feasible to target;
- R&D organizations and researchers post proof-of-concept stage of development;
- Individuals or companies past proof of concept stage, but prior to prototype and institutional funding; and/or
- A combination of the above.

R&D Commercialization (Spin Out) Benchmarks?

- Some projects could also come from other sources than universities e.g. spin-outs from corporate environments or independent entrepreneurs. In fact many university associated incubators do NOT get the majority of their tenants from the universities themselves. For example, in Europe only 11.2% of European incubator tenants come from universities and R&D institutes.[6]
- How large is the market targeted? Is there a critical mass to justify establishing an incubator? Who else is already competing in the marketplace?

Continued on following page

[5] Adapted from *info*Dev Incubator Manager Training Suite 3, Washington

[6] Source: CSES Benchmarking in Europe Survey 2002

What segments or niches are being targeted?

- Is it all high tech, or particular industry segments, or mixed use?
- What are the characteristics, needs and locations of the segments or niches?

Responding to market demand or creating a new market?

- Are pre-incubation programs required to increase target market size e.g. targeting pre-sales companies?

Section 1.3.2: Methodology for market research

Market research is a process of finding and analyzing information for the purpose of completing a feasibility study or business plan. The process is comprised of several key tasks that are best summarized by the following: 1) identify the information that is needed, 2) profile potential sources for that information, 3) outline an approach to finding that information, 4) gather the information and finally, 5) organize the information in a format that will provide useful conclusions on the potential market.

This section will focus on the third task which is the most challenging task to complete and the most less understood. Market information can be categorized as secondary and primary market data. Secondary market data comes from existing market information such as local economic data, industry sector surveys and publications, online databases, information from local chambers of commerce, newspapers, and magazines. Secondary market data is useful in particular for providing quantitative macro-level information such as the overall size of the market, market trends, emerging and growth industry sectors, geographical disparity of economic activity, and data on business fertility/birth and death/exit rates by industry sector. From analyzing local economic data it is possible to indicate where the best market potential exists and from there to identify potential target markets.

Secondary market data is normally supplemented with primary market data. Primary market data is generated through a comprehensive needs analysis, or demand survey which aims to further quantify the size of the potential market, its characteristics and needs, now and in the future.

There are three essential elements in a needs analysis:[7]

1. Survey design;
2. Consultations; and
3. Focus groups with potential clients.

[7] Ibid

1. Survey design

This entails determining who should be surveyed, how the data is to be gathered, and the development of the survey instrument and analysis framework. It is not always easy to determine who should be surveyed. Two broad categories of individuals exist and it is important to be aware of the characteristics of both:

- Business aspirants or intenders – those who wish to establish a business now or in the future, students for example. This is the future market for business incubation. The main problem with this set of people is that they do not know what they do not know, also they may have unrealistic expectations and, furthermore, only a proportion will have the necessary commitment to follow through and embark on a business venture in the future. In other words, this group is an unreliable source of data.
- New start-ups or existing businesses – those who have already started a business. Some of these individuals might be in the business incubation market, but others will no longer need support. These individuals are a source of good information as they have gone through the process. However, the businesses they are involved with might not become clients and, if conditions change substantially, they may not be representative of the future market.

2. Consultations

Consultation with stakeholders, business leaders, organizations providing support to businesses and other intermediary organizations (feeder channels) will generate qualitative and quantitative data on the market, along with information necessary for the other feasibility study topics.

3. Focus groups with potential clients

Holding focus groups with up to 12 potential clients in a group is a good way of exploring issues in more depth and gathering qualitative data. They often follow a survey to test ideas as to the design of a business incubator.

[8] Ibid

A needs analysis should address the following issues:

- **Lack of knowledge and understanding** – Individuals may have a limited knowledge and understanding about business incubation. Raising awareness is critical.

- **New industries and new market for business incubation** – The business incubator may be targeting new industries with very few (if any) businesses in the market when the feasibility study is conducted. This makes it difficult to assess the potential size of the market and requires careful judgment of other factors and strategies to stimulate development of the industry.

- **Qualifying expressions of interest in business incubation** – In a needs analysis survey, many people may say they are interested in using business incubator services, but only a percentage follow through, and then only a further percentage will be selected by the incubator. It is hard to judge how many expressions of interest will convert into clients, but typical benchmarks in the industry range from around 5% for high technology oriented business incubation, to 20% for non high technology incubation. If the sample has been filtered already from a generic business support service to select for growth oriented clients, then the percentage can be far higher.

- **Insufficient demand** – Although there may be strong interest in development of a business incubator there may be too few innovators and entrepreneurs to support it or the ability to increase such deal flow in the long-term. The feasibility study will need to consider options for enhancing critical mass or highlighting alternative or more appropriate methods of support.

- **Research expertise required** – A quality interviewer with a good knowledge of the subject is essential. A good tip[8] is to use cascading consultations where respondents identify others that you can talk to.[9]

[8] Ibid

[9] Note: This research may also be perceived as awareness raising as many of the interviewees may by unfamiliar with the concept of incubation. The results may also contribute to finding the first potential clients of an incubator.

Section 1.4: Compiling the Results of a Market Research Study

Both secondary and primary research methods are complimentary. The secondary market research will provide important macro-economic data which will lead to the identification of target market segments that can be analyzed in more depth through primary research. The primary research brings direct contact with potential entrepreneurs and provides crucial additional information about their business capabilities and needs. This will answer questions such as what kind of services should the incubator include in its portfolio; is a physical incubator required or will virtual incubation suffice; what level of financing will be required?

The input from these primary and secondary sources of information will directly contribute to making a "go" or "no-go" decision regarding the incubator establishment. If the decision is "go," the market information obtained will provide the basis for selecting, inter alia, the business model, the service portfolio, the organizational structure and resource planning of the incubator.

Section 1.4.1: Stakeholder 'buy in' – community support and project champions[10]

Through face-to-face interviews with business, government and community leaders a feasibility study: gauges the extent of community support and longer-term ownership, identifies potential champions, helps raise awareness about business incubation, identifies potential partners and alliances, and identifies strengths and weaknesses of the initiative.

The market analysis may show feasibility from a purely market perspective, but unless there is good community support, knowledge and understanding, with champions wanting to take on the challenge and having the necessary capability, the business incubator may not be feasible.

Commonly stakeholders may be very enthusiastic, but unless they understand business incubation they may have unrealistic expectations, anticipating outcomes and impact in only a few years, rather than over a far longer period (10 years being more realistic). Expectations and ownership need to be managed from the outset and feasibility interviews are a good way to start the process.

Section 1.4.2: Services offered

Building upon the needs analysis, the feasibility study should indicate potential services that could be offered to meet the specific entrepreneur needs identified. It should also consider the facilities these services may require. The provision of services, depending on the stages of enterprise development (from nascent entrepreneur to owner-manager of an established business) and the type of business incubation (e.g. pre-incubation or virtual incubation), is addressed in great detail in Module 1 "Business Incubation Definitions and Principles" of the training program. Further information about types of business incubators can also be found on iDisc.[11]

[10] Adapted from *info*Dev Incubator Manager Training Suite 3, Washington

[11] Source: http://www.idisc.net/en/Article.38689.html

The aim of this section is to give an overview of some of the most useful business incubation services. The services may be delivered by the business incubator or by allied organizations. Partnerships or alliances with other organizations can help to avoid duplication of services and ensure the generation of income by the provision of added-value services. This can benefit both organizations since the incubator can offer a wider range of services with the resources it has at its disposal and it is also important for the attraction of clients. Services are commonly delivered incrementally, starting with core business incubation services or more broad-based pre-business incubation services. Together they all help to maximize the critical mass that can be achieved. The objective of carrying out a feasibility study is to determine the viability of an incubator. In the course of this analysis aspects such as the ease of access to and cost of basic infrastructure and services for small businesses, such as office space, internet and telecom services, may be assessed in order to evaluate what added value the planned incubator can bring to the innovation and entrepreneurship ecosystem and hence avoid any duplication.

From the *info*Dev Monitoring and Evaluation Impact Assessment (MEIA) Study[12], Figure 3 provides a good overview of the types of services business incubators generally provide to their clients.

[12] Source: *info*Dev – Monitoring, Evaluation & Impact Assessment Study - http://www.idisc.net/en/Page.MEIA.Study.Overview.html

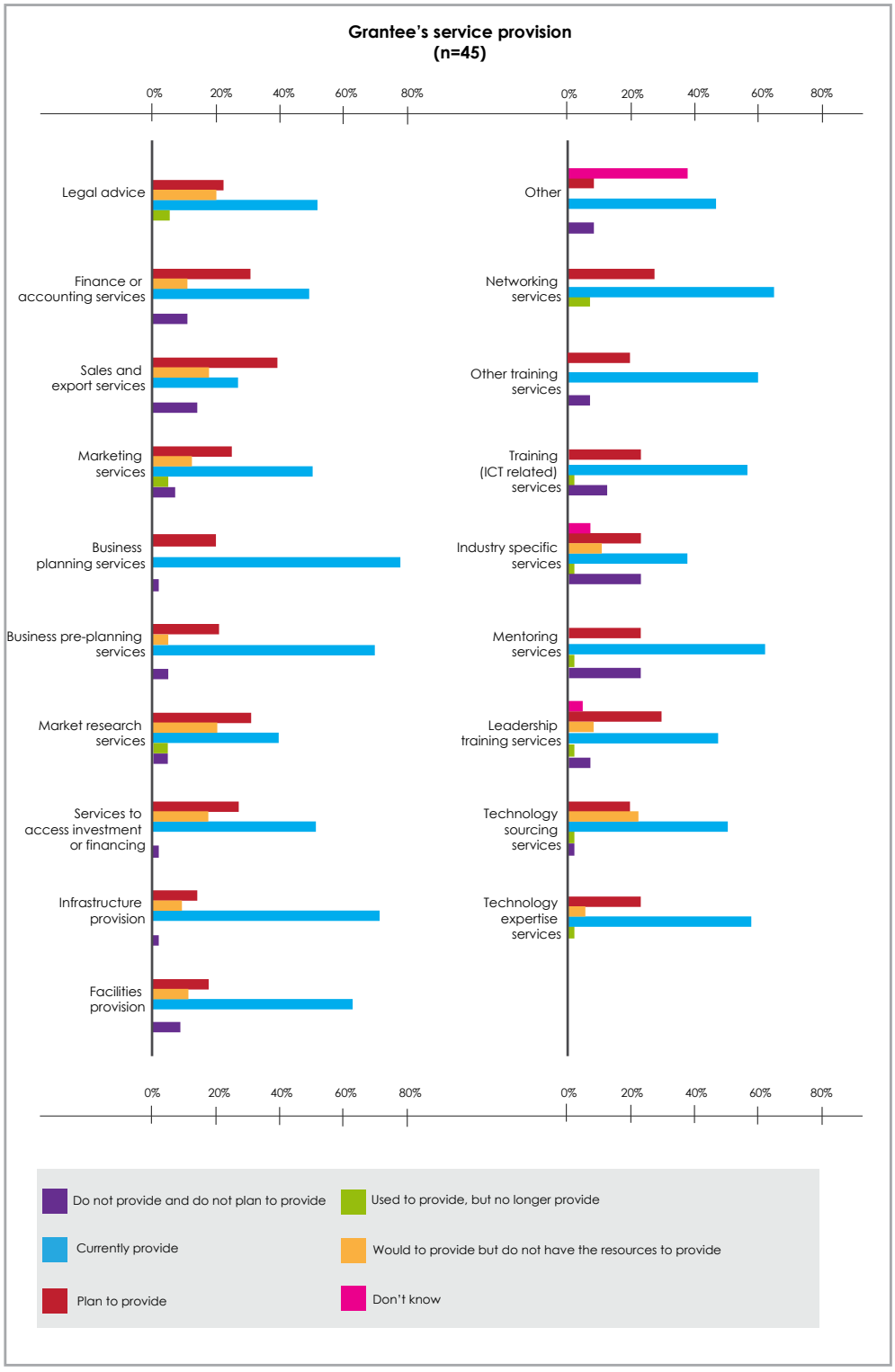


Figure 3 - Business incubation services overview [13]

[13] Source: *info*Dev – Monitoring, Evaluation & Impact Assessment Study - http://www.idisc.net/en/Page.MEIA.Study.Overview.html

Figure 3 shows that Grantees focus mainly on business planning, pre-planning, and helping clients to network outside of the grantee organization. Services that have been discontinued could be due to a change in focus of the incubator for example due to changes in incubatee needs.

Figure 4, also taken from the same study, illustrates that business incubation services vary widely, depending on the individual context of each incubator.

Also, the MEIA study reports that 93% of *info*Dev grantees indicate that they have a website, which enables some of them to offer virtual incubation as a way to scale their organizations at low cost or to reach isolated or distant communities that would not typically have access to their services. The *info*Dev grantees used their funds to provide their clients a number of ranges of services which, among others, includes:

- Business pre-planning, business planning, mentoring and ICT training services; and
- Networking services, often at no charge.

The MEIA study summarizes that:

- "The incubation organizations in *info*Dev's portfolio operate a range of service models. There are no universal models of business incubation – there are a range of effective responses to nurturing high-growth enterprises, and incubators succeed by adapting to local barriers to innovation and entrepreneurship.

- Virtual and remote business incubation models can scale business incubation services by using outreach services and the Internet, for example, as lower-cost channels for a significantly larger client base. This channel holds particular promise in countries where Internet penetration is increasing and geography remains a significant barrier to accessing incubation services."[14]

[14] Idem

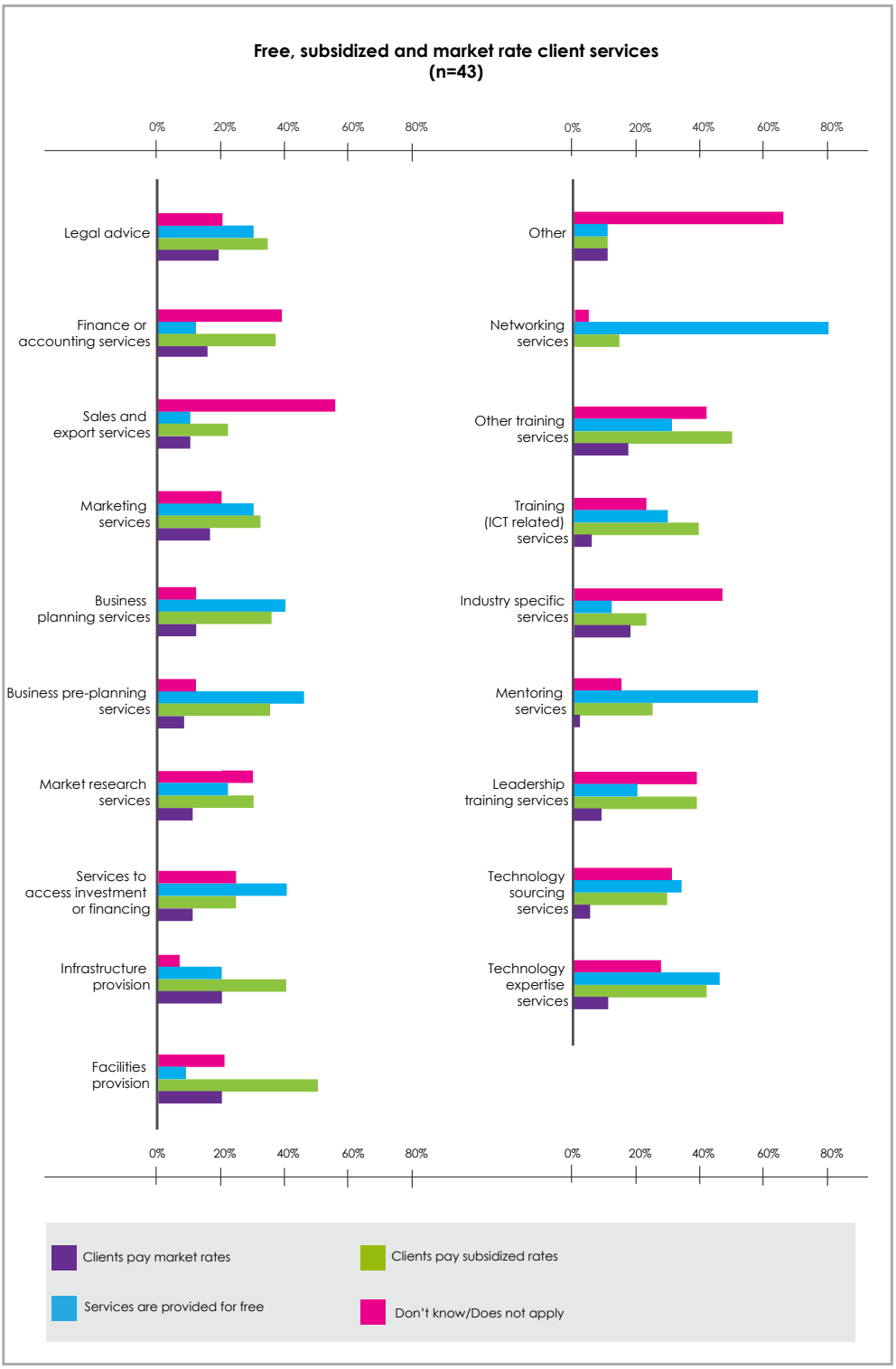


Figure 4 - Fee, subsidized and market rate client services offered by *info*Dev grantees[15]

[15] Idem

Section 1.4.3: An overview of facility-related considerations

Location

The geographical location of the incubator is of paramount importance:

1. The main criteria for selecting the location should be taken from evidence gathered through an entrepreneur survey conducted as part of the feasibility study. All too often it is the case that the existence of an available building, dictates the location, rather than the needs of the target entrepreneurs which should always come first.

2. The area surrounding the incubator should be evaluated in order to identify the existence of available services such as those relating to ICT, utilities, accessibility including transport links and financial services. In particular, extensive parking space could be highlighted (experience has shown that the estimates of requirements in this aspect are almost always exceeded). Free car parking and easy access without traffic congestion are commonly very important to clients.

3. The premises should be situated in surroundings favorable to its operations. In the case of technology-based incubators for instance, it is important that they be located near universities or research centers (giving them access to relevant staff, students, labs and other specialized facilities).

Type of building

Careful attention should be paid to the type of building chosen to host the incubator. In addition to the consideration of structural soundness, it would be important to exclude buildings contaminated with substances such as asbestos.

To the question of whether to use a new or an old building, one general answer does not exist. It depends on the situation in the location proposed. For example, in Europe a large number of incubators use old buildings since refurbishment of an old building in a suitable area turned out to be the most cost effective solution. In Europe many cities have abandoned industrial buildings in good locations; however, this may not be the case in developing countries.

Unfortunately the availability of funding often dictates whether an incubator will be newly built or located in a refurbished building. Incubators are frequently installed in already constructed buildings as it is seen to be the most cost effective solution. Many buildings can be refitted for a new purpose given that they are structurally sound.

Whether a building is new or refurbished, is not the critical factor what is important is that the building can serve the needs of its users:

- If the building needs to be redesigned to meet the specific needs of the incubator, it could require investments that the supporting institution may not be in a position to finance. In some cases, especially with older buildings it could cost just as much or even more to renovate than it would to build new facilities.

- One benefit in opting to renovate a building is the advantage of using a facility that is underutilized.

- It is important, however, that the appearance of the premises is representative of the image that the incubator and its enterprises wish to project. For example, an ICT incubator would fit well in a high-tech building.

- In all scenarios the building/refurbishment costs per square meter should be kept as low as possible in order to minimize the eventual subsidization of the required rental area.

- Building/refurbishment can also be programmed as a two or three stage process, so that the project may take 10 years to complete, but the construction follows the growth trajectory of the incubator and the number of tenants.

Incubator development in allocated buildings

In some cases, a building is provided by one stakeholder involved in the incubator development and other options cannot be considered. It may also be that the building allocated does not meet the needs required for the incubator. In this case there are some important issues that should be considered in order that a suitable solution can be found.

This is a very difficult situation to be in. It is also rather context specific. The following recommendations can be made:

1. The importance of the involvement of all stakeholders in the feasibility and planning process should be stressed as a means to avoid the proposal of unsuitable buildings. In this way, all parties should be aware of the facility selection criteria developed.

2. The suitability of the building is critical to the successful functioning of the incubator. Therefore, it would be important to make considerable efforts to justify a change of building. It would not be recommended to go ahead in an unsuitable building.

3. If there is another more adequate building or location, conducting a feasibility study or at least an SME or client needs analysis survey and study is recommended, so that an evidence based case can be made for changing from an unsuitable building.

4. Analysis of why the building is wrong and why an alternative is better, perhaps using an external incubation expert to bring objective credibility to the case, can be carried out. Presenting this to stakeholders can also help them understand why the proposed building should not be used and how the alternative will be better.

5. Often, the choice of incubator building is a very political situation. In this case, making contact with political power at the highest level (such as the Prime Minister or State Minister) is recommended in order to get the right building at the right price from government, overturning bureaucratic decisions.

6. Making the criteria understandable to all parties involved may also help to convince the "imposing shareholder" that his proposal will not help the incubator to become successful. This is often a time consuming process.

Size of the incubator

When exploring what the size of an incubator should be, the following aspects should be considered:

- There is no one-size-fits-all solution or indeed one space that fits all types of client;
- The size required and determined by a feasibility study depends on the type of incubation and the local culture and context. Hence, the appropriate size may vary widely from one incubator to another one even if both are based in the same city;
- The most appropriate size for each incubator is the one that enables the incubator to accommodate the critical mass of clients;
- Moreover, the ideal size for one incubator should allow for clients' expansion on site, bearing in mind that incubation should focus on growth oriented clients. For example, a business might only need 10-20 square meters when it starts, but within the common three to four year incubation period, it may well grow and require 60-100 square meters; and
- It is ideal if units of varied sizes exist, ranging from 10 to 100 square meters per incubatee, along with policies allowing people to take multiple units as they expand. Experience has proved that incubators do not work as well when all the units are exactly the same size.

Making sure that the incubator has enough space to incubate the critical mass of businesses is key. The amount of space required will of course depend on the type of incubator. For example, an ICT incubator may require less space than a manufacturing incubator. All too often incubators only allow for 20 square meters as an average per client, which leads to incubators that are far too small to incubate businesses in adequate conditions. In Germany for example, quite a significant number of incubatees require more than 100 square meters, mostly due to the fact that manufacturing businesses during the incubation period may require 200 to 300 square meters. The incubator must have enough space to incubate such companies if required. Moreover, providing all clients with a 20 square meter space may mean that the businesses need to leave the incubator far too early and for the wrong reason. It means they will leave because the company has outgrown the 20 square meters of space, rather than because they have reached a suitable development stage that would allow establishment outside the incubator.

A sustainability plan will also influence the overall size of the building, assuming an incubator needs to work for financial self-sustainability. Again, it varies from situation to situation: 3-4000 square meters is commonly cited as the minimum size in the USA and Europe, whereas in China with different cost and rent structures 10000 square meters is required and in Australia 1500 square meters is the average.

People often compromise on size using a building that is far too small and in this way compromise self-sustainability. This can lead to a downward spiral of financial problems, declining services, declining quality of entrepreneurs and in the worst case the eventual cessation of activities. The feasibility study should allow the stakeholder working group to work out with careful modeling the costs and revenue potential of the incubator, which may vary widely from economy to economy and from one local situation to another one. In this case, it is to be noted that anchor tenants are a significant source of sustainable income for the incubator and may require quite a large space. Hence, allowing the incubator to provide larger space to these companies is critical to its financial sustainability.

As a general rule of thumb, an incubator should be able to have 20 to 30 tenant businesses. Experience has proved that incubators having less than 20 to 30 tenants have had major difficulties in reaching sustainability (because the revenues generated from the tenant companies were not enough to cover the incubator's operating costs). A critical point to add is the fact that most incubatees value the networking effect between incubated businesses. In cases where there are less than 20 tenants, the networking effect between businesses will not be maximized.

In practice, EBN reported for the year 2008 that the average number of tenants incubated by their members is 30 businesses, as illustrated by Figure 5.

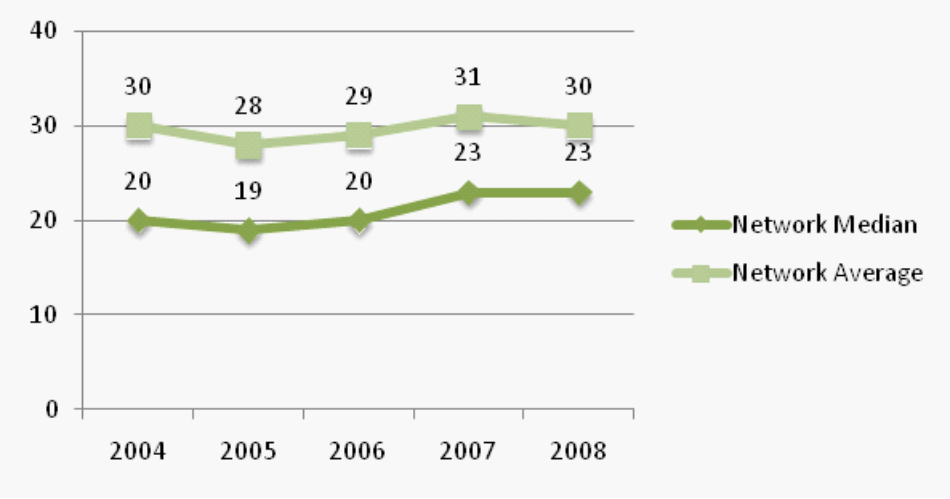
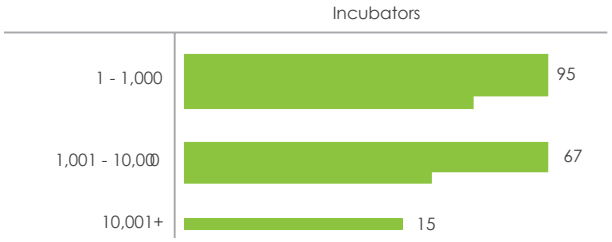


Figure 5 – Average number of tenants in EBN incubators[16]

*info*Dev's Incubator Support Center iDisc has a database that contains data collected from the iDISC member directory. This contains statistics on incubator size in square meters which has been reproduced in Figure 6. It shows that the majority of incubators fall in the bracket 1-1000 square meters, with the average size being 8449 square meters.

[16] Source: *info*Dev – EBN BIC Observatory 2009, The BIC Network in 2008 Facts and Figures - http://quality.ebn.be



# Reporting	177
Min	1
Mean	8,449
Max	593,641
Total	1,495,619

Figure 6 - Variation of incubator size in square meters according to iDisc members directory statistics[17]

ICT Infrastructure

Good telecommunications and broadband infrastructure is highly desirable in today's marketplace. Access to logistics services and parking facilities is also important. Reliable electricity can be a challenge in some less developed areas, but is critical in order for both the incubator and the incubatees to carry out their daily operations. Information and telecommunication (IT) systems are a prerequisite to having adequate internet and telecom access, crucial to any businesses. One type of infrastructure that is required by an incubator is a secure IT network in which companies can store their data. It is important, however, that the system be truly secure, with periodic backups and a contingency plan for critical situations. Computers, phones, copy machines, fax machines are necessary to carry out professional work and make the most out of the IT system's set up. The MEIA study establishes that *info*Dev grantees used ICT for the following activities: to offer clients research and reference material (15%), e-mail and Internet access (13%), publication business opportunities (13%), and toolkit development (12%).[18]

Note: The potential size of the facilities can vary considerably depending on the location of the incubator, if an existing building is offered free of charge or is heavily subsidized, however the size should be driven by the need for services i.e. the potential deal flow. Incubators tend to be smaller in less developed geographical areas with the exception of China where some of the largest incubators in the world are located. Size is also influenced by the revenue model of the incubator with incubators depending on rental income tending to be larger than incubators of other revenue models.

[17] Source: http://www.idisc.net/en/Statistics.html

[18] Source : *info*Dev – Monitoring, Evaluation & Impact Assessment Study
http://www.idisc.net/en/Page.MEIA.Study.Overview.html

Structure and arrangements of facilities

Generally, creativity in design is required with the aim to piggyback on other initiatives wherever possible:

- As a general rule, buildings need to be suitable for flexible configuration, in a location that is good for business (for the clients), and where possible free and debt minimized.

- The main recommendation should be to maximize rentable space for incubators following a rental model, with adequate board, conference and meeting rooms depending on the needs of clients, which will vary depending on the type of incubation and the local context.

Incubator floor plans depend greatly on the type of incubator being planned. An ICT incubator may require little additional equipment beyond computers and a "typical office" floor plan would be sufficient: aisle in the middle, offices (of different sizes) to either side, services somewhere in the centre of the space. It is even better if office sizes can be changed (building grid to allow for this). For this type of incubator, too much "science" is often put into the floor plan. Just the opposite is the case for mixed incubators also hosting manufacturing businesses (including bio-/medicine technology and the like). For such incubators, a detailed plan taking factors like sterile environments, floor loads, noise, and transportation into account is required.

Note: In developing countries, it is often that incubators are established in already existing facilities, so discussing floor plans might not be relevant.

One of the greatest benefits offered to companies by the incubation process is the opportunity to network and partner with other businesses. Interaction among different companies results in an enriched learning process and the sharing of contact networks. This is facilitated in part through a well designed incubator floor plan. The provision of common areas such as meeting room facilities and coffee areas are an important consideration in particular to stimulate networking and interaction between client companies. Open meeting areas, coffee bars and restaurants provide space for the people who circulate through the incubator to come into contact with one another, building informal contacts that can build the relationships between the client companies and incubator management.

In general, the smallest division within an incubator could be a private office. However many incubators that work with smaller companies that require little physical space allow different companies to share the same space. Small 'hot-desk' spaces equipped simply with a desk and basic communications access (telephone and internet) should be provided for potential entrepreneurs who require such facilities, in particular during the pre-incubation period. This shared space could also work well for companies that have some degree of synergy between their operations. In the case of multi-sector incubators,

providing a fully prepared room is a complex task since the needs of businesses vary significantly. Table 2 provides some considerations regarding the particular features that can be included in specific areas.

AREAS	FEATURES
COMMON AREAS/ROOMS	The incubator should have common areas linked to the different types of services offered such as: an auditorium/ training room, meeting rooms, reception area, workshops, printing and copy centre, cafeteria, and parking areas.
MEETING ROOMS	Incubatees require rooms for internal meetings and appointments with clients/suppliers. If space is available, the best option is to install smaller support rooms instead of a single large meeting room, since this makes a more efficient use of the available physical space.
RECEPTION	The main entrance to the incubator is important in generating a good impression among clients and controlling access to the building. This area of the building should be equipped with clear indications of the different areas of the building, a news board, areas of activity of the resident companies and, basic information on the incubator and its partners, together with seating for clients.
EVENTS AREA	It is a common practice for incubators to organize events including such activities as exhibitions and receptions. These facilities are generally used by the incubator itself, by the client companies, and other stakeholders such as institutional partners. One alternative is to have a sufficiently large entrance hall/reception area with the flexibility needed to hold such events in that area.
TECHNICAL WORKSHOPS	Depending on the nature of the incubator, there may be a need for specialized workshops. The workshops could also be prepared to provide complementary services, such as technical consulting or building maintenance.
REDUNDANT AREA	The flexibility of the modular system demands that modules be readily available to meet the needs of expanding businesses. Since it is difficult to control demand for incubator services, free modules must always be available so that the incubator can respond rapidly to new business opportunities that may appear during the selection process.

AREAS	FEATURES
LABORATORIES	Depending on the specific nature of the incubator, laboratories may be needed for activities such as product development and analyses among others. Such specialized facilities may require significant investment, but could be essential for companies operating in the chemical and biotechnology fields. Another alternative would be to form agreements with local universities and research centers to utilize their facilities.
PRINTING AND COPY CENTRE	The availability of shared high quality printing and copying equipment is very useful to companies and management, reducing costs and parallel investments by the companies.
STORAGE	In order to avoid storage of material and equipment in unsuitable locations, it is important for the smooth operation of the incubator to reserve specific areas for this purpose.
PARKING	In many cases it is important that the incubator has available parking, since the client companies will need to provide easy access for their clients. This may need to be available 24 hours a day depending on the type of business.
CORRIDORS	Some collaborations begin in informal conversations between offices in incubator corridors. For this reason, wide, well-lit and ventilated corridors are important for creating an environment suited to interaction among people. From a design perspective, corridors in the centre of the building, rather than on the edges, helps maximize rental space. Large atriums waste space, but in some cultures such as China they are very important for branding and positioning.
CAFETERIA/RESTAURANT	A restaurant or cafeteria can have a number of benefits. It facilitates interaction among companies, while also serving as an informal space for meeting clients. Furthermore, it can be a valuable facility that attracts companies to the incubator, particularly if such facilities are not available in its immediate facility.
KITCHEN AREA	The incubator should have a simple kitchen equipped with a sink, refrigerator and equipment that can be used to prepare warm food, such as a microwave oven. The design of this area should give due consideration to its potential for fostering interaction among people.
LOCKER ROOM	The incubator may need to provide a place for changing clothes and taking a shower. The most common solution, where possible, is to adapt the bathrooms for this purpose.

AREAS	FEATURES
24-HOUR ACCESS	An aspect of importance to most client companies is 24-hour access to their offices. Management may have to issue regulations on access to common areas, which may not be available after hours.
SECURITY SYSTEM	Since some incubators are accessible 24 hours a day and many people are constantly circulating throughout the building, it is essential that an efficient security system be installed. Here, the final solution will depend on the operation and layout of the incubator. The greater the automation of this system, the less the impact on the operating costs of the incubator.
SPECIAL FACILITIES	Depending on the sector(s) served by the incubator, there may be a need for special facilities. This is particularly true in areas such as biotechnology or pharmaceuticals.
FACILITIES FOR THE DISABLED	It is recommended that the incubator should ensure easy access for all to the facilities, including access ramps, doors wide enough for wheelchairs and special bathroom facilities.

Table 2 – Facilities' features

Further information about how to address the physical infrastructure needs of the incubator's potential clients can be found on iDisc.[19]

[19] Source: http://www.idisc.net/en/Article.127.html

Section 1.5: How to assess when an incubator is not the appropriate solution

The end result of the feasibility study should be to provide information in a format which will enable the stakeholder working group to make a 'Go' or 'No-Go' decision on whether or not to proceed with establishing an incubator. Not all feasibility studies deliver a positive outcome, but even negative results should be construed positively in that they prevent potentially imprudent and costly investments and in some cases indicate more appropriate development interventions for the area.

So how should the results of the feasibility study be interpreted? Returning to the original objectives of a feasibility study, NBIA identifies four key success factors which provide a useful basis for Go / No- Go decision making.

Does the proposed incubator project have:

1. A solid market;
2. A sound financial base;
3. Strong community support; and
4. True champions?

1. Solid market: what does the market analysis show?

- Is there a deal flow now and in the future?
- Is there a critical mass to justify an incubator being established?
- What size of incubator is justified by the market?
- How many tenants does the incubator need?
- What are the key market requirements? Can the incubator fulfill them?

Decision: Go / No-Go

2. Sound financial base:

- Have the start-up and short and long-term costs been clearly established?
- Has a clear business model for sustainability emerged from the feasibility study?
- Is there a clear financial commitment to support the start up and initial operation costs of the incubator to provide ongoing support (depending on business model)?

Decision: Go / No-Go

3. Strong community support

- Does the incubator fit within the economic development priorities and local innovation support eco-system of the community?
- How well is the incubator project supported by key stakeholders in the community?
- Are they willing to support the project politically and financially?

Decision: Go / No-Go

4. True champions

- Who is/are the project's champion(s)?
- Is the community behind them?
- Do they have the knowledge and experience to run a successful incubator operation?[20]

Decision: Go / No-Go

Further information about how to assess if an incubator is an appropriate solution may be found on iDisc.[21]

If a 'Go' response cannot be clearly and unanimously provided by the stakeholder working group in each of these fundamental areas, then only two possible conclusions can emerge:

- Either further research is required in order to obtain an affirmative response; or
- An incubator may not be the most appropriate solution for the community in question.

In the latter case where the feasibility study shows that an incubator is not a feasible solution, although this may be a disappointing result for project champions in the short term, in the long term it saves a considerable amount of wasted resources in terms of both time and money.

[20] Note: Additional information on the profile of the incubation management team provided in the Part 2 Training Module 6.

[21] Source: http://www.idisc.net/en/Article.38387.html

COMPONENT CONCLUSIONS

When planning the establishment of a business incubator, initial steps are required to explore the feasibility of the incubator concept.

The feasibility study is the tool that enables the stakeholder working group to analyze the market opportunities for growth, to identify the pool of entrepreneurs and their barriers to success who could potentially become clients for the incubator, to map the other business support organizations from the area and their activities, to analyze the access and cost of basic infrastructures and services for small businesses already existing in the area as well as to raise awareness and build stakeholder buy-in.

The feasibility study findings also provide information that it is necessary to refer to, when defining a robust business plan for the incubator.

Further information about conducting a feasibility study can be found on iDisc.[22]

[22] Source: http://www.idisc.net/en/Article.38686.html

Case Studies

www.infodev.org
www.idisc.net

Planning an incubator as the local solution to foster local economical development

Incubator Name: Inkubator d.o.o., Sezana, Slovenia.
Sector: General Business Incubator
This Case Study Examines: How the organized efforts of local stakeholders may contribute to the creation of an incubator, new enterprises, jobs, and growth in the area concerned.
Date: October 2009

PART I

SUMMARY

Problem
Economic development is a local issue. In developing areas, the main problem faced is the limited number of economical actors to generate sufficient activities to lead to an overall local economic development.

Solution
To enable local economic development, fostering entrepreneurship and the development of small businesses is key. This has to be done at local level by local stakeholders and use a solution adapted to local needs i.e. planning an incubator to support entrepreneurs and foster the establishment and development of businesses in a given area.

PART II

BACKGROUND

In 1991, following a crisis in the manufacturing sector leading to the bankruptcy of a number local firms, the municipality of Sezana had to deal with several issues:
1. The high unemployment rate within the manufacturing sector;
2. The fact that the municipality was the default owner of the bankrupted companies' buildings; and
3. The critical economical situation in the area.

The initiative to set up an incubator
The municipality of Sezana approached a leading consultancy firm focused on services for SMEs, Sloveneta d.o.o., to propose a partnership in which the factory buildings from the bankrupt companies would be developed into a business incubator. The idea was to found a local institution encouraging the creation and development of small businesses with the aim to tackle the three issues mentioned above.

The stakeholders 'buy-in'

The municipality and consultancy partners received the financial support of the Slovenian Ministry of Economy which co-financed the feasibility study and business plan of the incubator to be established in Sezana.

The ownership and management of the incubator

The incubator management relied on the original partnership between the municipality and Sloveneta with the municipality owning 80% and the consultancy firm the remaining 20%. The daily management of the business incubator was carried out by Sloveneta, as the managing partner of the consortium.

The funding of the incubator and its equipment

The buildings were available from the beginning, since the idea was to make use of the abandoned factories. However, they would need to be renovated in order to develop suitable conditions that would meet the needs of the incubator. Therefore, the owners of the incubator decided to sell the machinery left from the factories in order to generate income that would allow them to buy the equipment necessary for the incubator to begin operation.

Due to its geographical location, on the border with Italy, the municipality of Sezana approached its Italian partners to set-up cross-border cooperation projects within the framework of the European Union programs. The cross-border partnership received the equivalent of 360,000 Euros which permitted the refurbishment and enlargement of the factory premises into a 7,000 square meter flexible incubation space.

In the years that followed, the incubator, which was named "Inkubator" received an additional 200,000 Euros of EU co-financing to set-up an infrastructure dedicated to small businesses within the incubator site and create a "small business zone".

In 2006, Inkubator received a co-financing of 1.5 million Euros from the EU and national ministries amounting to a total investment of three million Euros to build a 2,500 square meter Business and Innovation Centre (BIC) dedicated to innovative companies.

The hosting of incubatees

The incubation space was made available to incubatees a subsidized rate for the first two years increasing over time, but remaining below market rates.

The office space made available was furnished by the incubatees themselves to suit their needs.

The services offered to the incubator's client companies

The incubator staff circulated a questionnaire among their current and potential client base to assess their business support services needs. The incubator then developed services to meet the needs identified.

T**he incubator offers several services including:**

- Analysis and evaluation of the technological, market and financial aspects of a project;
- A package of services for developing entrepreneurial skills;
- Assistance in the preparation of business plans;
- Support in raising financial resources;
- Coaching for companies in their first few years of development;
- Establishing connections between companies and knowledge centers;
- Cross-border cooperation for SMEs in the field of internationalization; and
- Introducing innovation to existing companies.

TIMELINE OF EVENTS

1991: The municipality of Sezana finds itself the owner of a number buildings from bankrupted manufacturing factories.

1992: Establishment of the incubator.

1997: The incubator receives EU funds under the framework of the Cross Border Co-operation (CBC) program.

1998: The EU funds enable the reconstruction and enlargement of the incubator.

2002-2005: First phase of moving graduate companies to the post-incubation zone.

2006: The focus of the incubator shifts from entrepreneurship and job creation to innovation and added value. In this context, it joined the European Business and Innovation Centre Network (EBN) and opened the Business and Innovation Centre (BIC) of Sezana.

OUTCOME AND CONCLUSIONS

Inkubator d.o.o. has had support from both public and partner organizations from the start, first of all from the municipality of Sezana and the consultancy firm Sloveneta, but also from international partnerships built in the context of the incubator's participation in European Union programs.

The results of its past 17 years of operation can be summarized as follows:

- 84 graduates
- 350 jobs created
- 10,000 square meters of incubation space
- 40 current incubatees including 20 start-ups and 20 post incubatees
- 235 employees/ jobs

- 46 offices/ service units/ laboratories
- 21 production units
- Between 7 and 14 storage rooms
- Three class rooms
- Two seminar rooms
- One conference room
- One conference hall
- One restaurant

PART III

LINKS

Inkubator d.o.o. website: http://www.inkubator.si/eng
Miroslav Glas, Entrepreneurship Development Centre, Ljublijana 2001. Adapted from the World Bank LED Web site: http://web.worldbank.org/

REFERENCES

The material for this case study was contributed by the current Incubator Director, Mr Stojan Gorup. The information above is extracted from firsthand experience and personal involvement in the establishment of Inkubator d.o.o.

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The importance of having a vision for the incubator

Incubator Name: BIOS Business Incubator, Osijek, Croatia.
Sector: General Business Incubator
This Case Study Examines: The crucial importance of defining a vision for the incubator to plan its operations.
Date: October 2009

PART I

SUMMARY

Problem:
Some may consider that having a building that offers office space to enterprises is key to planning an incubator and allow the organization to operate.
However, without a clear plan drawing up a framework under which the incubator can operate and raising awareness about its mission, the incubator's usefulness and added value to the area might be severely affected.

Solution:
The business incubator manager must clearly identify a vision for the incubator through the incubator's business plan addressing the following aspects:

- The incubator's mission;
- The incubator's goals and objectives; and
- The incubator's activities.

PART II

BACKGROUND

The incubator of the city of Osijek, in Croatia, was first established in 1997 within two buildings comprising a total of 1067.38 square meters. Despite having available space to carry out incubation activities, the incubator did not start functioning until 2002.

Indeed, when appointed as the new manager of the business incubator, Mr. Igor Medic produced the incubator's business plan to clearly identify the vision he had for the incubator: "A creative and

stimulating business atmosphere where new entrepreneurs are provided with adequate growth and development conditions".

The incubator's business plan – main aspects:

The market analysis

The BIOS incubator carried out market research within the network of incubators in Croatia in order to identify the business support needs and expectations, from their current and potential client companies.

The results of the survey identified two main business support needs/ expectations from Croatian companies:

- To be able to rent office space for a rent below the market price; and
- To have access to traditional business support services.

The incubator's mission:

Supporting SME development by providing office space, production facilities, and other business-related services in the most critical development phases. By carrying out these activities, the incubator aims to contribute to economic development and to decrease the unemployment rate in Osijek.

The incubator's goals:

- To contribute to local economic development;
- To promote local SMEs and provide assistance to support the development of new businesses;
- To increase the survival rate of businesses in the market;
- To decrease start-up market failure probability;
- To enable cost-efficient business set-up and growth processes;
- To provide business consulting, educational, technical assistance and other services to the incubator's tenants and other SMEs in the area of Osijek;
- To foster innovations and the development of new technologies;
- To foster the commercialization of scientific research; and
- To contribute to the reduction of the unemployment rate in Croatia.

The incubator's service offer:

- Business facilities made available at a lease renting price;
- Organizational and business consulting assistance;
- Entrepreneurial and technology education;
- Know-how and technology transfer;
- Assistance to the development of tenants' business plans;
- Market research and promotion;
- Business skills development;

- Licensing mediation, management and project management education;
- Certification consulting assistance;
- Joint marketing efforts and access to trade fairs and exhibitions;
- Entrepreneurship promotion and networking;
- Additional services (web design, printing and graphic design, etc.);
- Computer assistance and broadband Internet usage;
- Audiovisual equipment and conference room lease;
- Access to fax and photocopy machines;
- Accounting and legal consulting assistance;
- Administrative services; and
- Presentation of tenants' businesses on the incubator web portal (www.inkubator.hr).

The incubator's management team implementation objectives:

- To promote entrepreneurship and an entrepreneurial spirit through the promotion of the BIOS incubator as a single contact point for any entrepreneurial related queries;
- To attract tenants through various means including local TV shows, radio and newspapers;
- To promote the incubator via the incubator's website and at events, as well as through the incubator's partners such as the institute supporting unemployed people, the authorities in charge of the city and county of Osijek, as well as credit institutions and banks;
- To reach an 80% occupancy rate within two years; and
- To increase the incubation space available within BIOS.

In 2005, BIOS applied to receive funds from the European Union (925,286.02 Euros) to complete the city's contribution of 510,000 Euros in order to reach an overall investment of just over 1,434,774 Euros to build 2000 square meters of new premises dedicated to creating a technological department.

TIMELINE OF EVENTS

1997: Setting-up of BIOS.

2002: The creation of the business plan, which allowed the new manager to properly initiate incubation activities.

2009: Inauguration of a new technological department incubating 13 companies.

OUTCOME AND CONCLUSIONS

As far as the three implementation goals are concerned::

- BIOS has been awarded the 2008 award for "best incubator" in Croatia.
- The incubator reached an occupancy rate of over 80% within two years.
- Since 1st May 2009, 13 new companies are hosted in the new technological department (meaning that an occupancy rate of over 85% has been reached).

In 2009, with the initial vision of the incubator having been realized, the new manager needed to define new goals for BIOS through a new business plan identifying a strategy for the short, middle, and long-term.

The new vision for the incubator focuses on the following:

- Facilitating and enabling start-ups' access to funding (through business angels, venture capitalists, banks, government subsidies, EU funds, etc.);
- Increasing cooperation with universities in order to enhance technology commercialization and the emergence of successful spin-offs in response to the high demand from university-based companies; and
- Developing new projects such as the setting up of a virtual incubator to solve the space issue (not enough incubation space available for the current demand).

PART III

LINKS

BIOS website: http://www.inkubator.hr/2.html
BIOS profile: http://www.idisc.net/en/Incubator.241.html

REFERENCES

The material for this case study was contributed by Mr Tomislav Seric, Director of BIOS. The information above is from firsthand experience.

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Le Kef Essor Tecnologique

Incubator Name: Le Kef, Tunisia.
Sector: General Incubator
This Case Study Examines: The establishment of a network of incubators in the Kef area of Tunisia.
Date: January 2010

PART I

SUMMARY

Problem:

In similarity to other areas in Tunisia, the area of Le Kef suffers from:

- A high unemployment rate and has large concentration of low skilled jobs;
- Emigration of young, ambitious, and highly qualified people to other areas with better opportunities;
- An absence of strong and well-established employers in the area; and
- A lack of critical mass for enterprise pre-incubation.

SOLUTION

The agency for the promotion of industry API (Agence pour la Promotion de l'Industrie decided to put in place a network of incubators (in areas with characteristics such as those in Le Kef) to accelerate the process of creation, growth and consolidation of innovative companies detecting and fostering the entrepreneurial capacities of the citizens. The main task of the incubators concerns the transfer of managerial skills to entrepreneurs.

An incubator provide should provide the following a set of tools:

- Facilitate the technical and commercial partners searches;
- Facilitate the integration of new businesses into the local, national and international markets;
- Provide economic data required by study projects (monographs and professional records, etc.); and
- Provide logistical support to enable entrepreneurs to operate (a secretarial service, office space for accommodation equipped with furniture and broadband internet connection, washroom facilities and shared services including a photocopier, phone, fax, meeting room, computer room, cleaning and babysitting).

PART II

BACKGROUND

Tunisia is a country located to the north of the Mediterranean African coast, whose capital is Tunis. It is the smallest country of the Maghreb covering an area of 165,000 km ² and possessing a population estimated at around 10.3 million inhabitants. The Sahara desert covers approximately 40% of the country, whereas the rest is fertile and productive agricultural land. Kef is an area located in the northwest of Tunisia near the border with Algeria. It has around 300,000 inhabitants of which 100,000 live in the capital city, Kef. In the Kef area, 70% of economic production is related to agriculture, mainly olive oil and wheat production. The presence of industry is minimal. In the early years of the millennium, there were only 50 enterprises which employed more than 50 people.

The problems that needed to be tackled included the following:

- Insufficient innovative ideas, and a restricted and competitive market for traditional projects;
- Difficulties for SMEs to access finance (particularly from banks);
- Lack of capacity for self-financing and obtaining funds, especially for young people; and
- The absence of knowledge about sponsorship programs.

”Le KEF Essor Technologique” was created in October 2004 under the supervision of the Ministry of Industry, Energy and SMEs, as part of a national strategy for the encouragement of the business creation through providing training and accommodation. This strategy is implemented by API, an agency that belongs to the Tunisian Ministry of Industry. The incubator, named “Le Kef“, was one of the first incubators set-up in Tunisia, to foster the innovation and entrepreneurship ecosystem of Le Kef area. The national strategy to encourage entrepreneurship follows an agreement between API and the Tunisian Academic system to encourage young technical university students to set-up their own business. This set of incubators has the following characteristics:

- It follows an integrated model for the development of the area that allows the local economic actors to participate in the creation of enterprises; and
- It also uses a networking model with standardized procedures for 24 incubators covering the 24 provinces of Tunisia.

This strategy aims to encourage entrepreneurship through incubation all over the country to increase the figure of enterprise creation in Tunisia by 50%.

Some characteristics of the "Le Kef" incubator include:

- It was built in the one of the ISETs (Higher Institutes of Technical Studies), located on the Boulifa Kef –Tunisia campus. All incubators established as part of the national strategy are physically located at ISET campuses to allow efficient technology transfer from the research carried out by the students to their businesses. The students attending ISETs are its expected users and will be able to take advantage of its excellent location, infrastructure and business coaching to realize their business project.
- It covers an area of 1,650 square meters.
- Its reception capacity includes 10 offices and two workshops: six offices of 20 square meters and four offices of 50 square meters each.

The following services are available:

- Incubation;
- Information & Guidance;
- Training and Coaching;
- Accommodation; and
- Funding (a financial package is made available to entrepreneurs worth 200 Euros/ month).

Since its creation, the "Le Kef" incubator participated actively in the promotion of an entrepreneurial culture, especially in the industrial areas and services linked to the area of agriculture. This was particularly because the absence of this culture was always the origin of the lack of new enterprises in the area. The events entitled "Wednesdays for the creation of enterprises" for instance, are monthly demonstrations whose objective is to enhance the entrepreneurial culture amongst the young people of the area. It is an opportunity to make the pre-incubation services known to the young people, i.e. to develop a business plan, to seek financing from banks and financial support organizations from the province.

TIMELINE OF EVENTS

2004: Launch of "Le Kef" incubator.
2007: Completion of the incubator building.
2009: "Le Kef" launches its first business plans Competition.

OUTCOME AND CONCLUSIONS

Since its launch in October 2004, and up to the end of 2009, Le Kef Essor Technologique has accomplished the following:

- The total investments made amount to 572,480.62 US$.
- Two annual training sessions on the development of a business plan for young entrepreneurs with a total of 312 attendees, were carried out. A total of 26 robust and coherent business plans have been produced.
- Out of the 69 incubated businesses over the same period, 32 graduated from the incubator.
- The total number of jobs created over the five-year period was 112.
- The incubator organized 27 events entitled “Wednesdays for the creation of enterprises”, which attracted a total of 250 participants.

PART III

LINKS

API website: www.tunisieindustrie.nat.tn

REFERENCES

The material for this case study was contributed by Mr Alvaro Simón de Blas, Director General of BIC EURONOVA S.A. The information above is from firsthand experience, i.e. obtained through the technical assistance mission realized in the context of the contract between API and PTA (Technological Park of Andalusia) Spain.

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Annex: Maputo Business Incubator Feasibility Study Summary[48]

[48] *info*Dev - An ICT Center and Business Incubator for Mozambique: Stakeholder meeting held in Maputo - http://www.idisc.net/en/Article.38627.html

12/13/2007

THE GHANA EXPERIENCE

- opened 2001; 5 businesses in one
- cybercafe; copycentre; offices; conference; restaurant
- added an ISP in 2005 (now 40% revenues)
- profitable from the start, but only 8% return
- very popular brand: 800 visitors daily
- shallow & broad incubation approach
  - no reliable source of public funding
  - not many ICT startup companies
  - basic business skills lacking; basic services needed
  - critical to create the environment for innovation & learning
  - unique access to the youth through the building & brand

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MAPUTO BUSINESS INCUBATOR

3

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PROPOSAL FOR MAPUTO

- **Simplicity** is key (run the building; not the businesses)
- **Volume** is key (bigger space than Ghana)
- **Flexibility** is key: mixed revenues/programs/networking
- **Public** involvement: key to making the investment attractive, and for awareness/leadership

- Keep incubation simple; accelerate, don't germinate!

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MAPUTO BUSINESS INCUBATOR

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FEASIBILITY STUDY EARLY 2007
over 50 interviews conducted
220 office spaces visited: over 50 samples
sample pricing of retail shop rentals
listing of 87 ICT companies in Maputo
3 conceptual designs by local architect
initial estimates from 4 construction companies
identification of potential sponsors/tenants
5-yr Financial plan developed
infoDev & IFC Maputo Business Incubator Feasibility Study – Mark Davies 2007
infoDev
IFC
MAPUTO BUSINESS INCUBATOR
5


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KEY CONCLUSIONS
Support from both public and private sector
Not a large ICT industry; must be mixed-use
Shortage of Office space in Maputo
infoDev & IFC Maputo Business Incubator Feasibility Study – Mark Davies 2007
infoDev
IFC
MAPUTO BUSINESS INCUBATOR
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12/13/2007

OFFICE SHORTAGE IN MAPUTO

- 220 locations visited
- 50 datapoints achieved
- prices vary dramatically ($6-42/m2)
- only four buildings 'appropriate' for SME high-tech startups (JAT, TimesSq, Tiger, 33)
- 99% occupancy; average $16/m2
- Demand is high, availablity low
- new office developments (FACIM) soon

infoDev & IFC Maputo Business Incubator Feasibilty Study – Mark Davies 2007

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MAPUTO BUSINESS INCUBATOR

7

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THE LOCATIO

1 hectare site
Base N'Tchinga

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MAPUTO BUSINESS INCUBATOR

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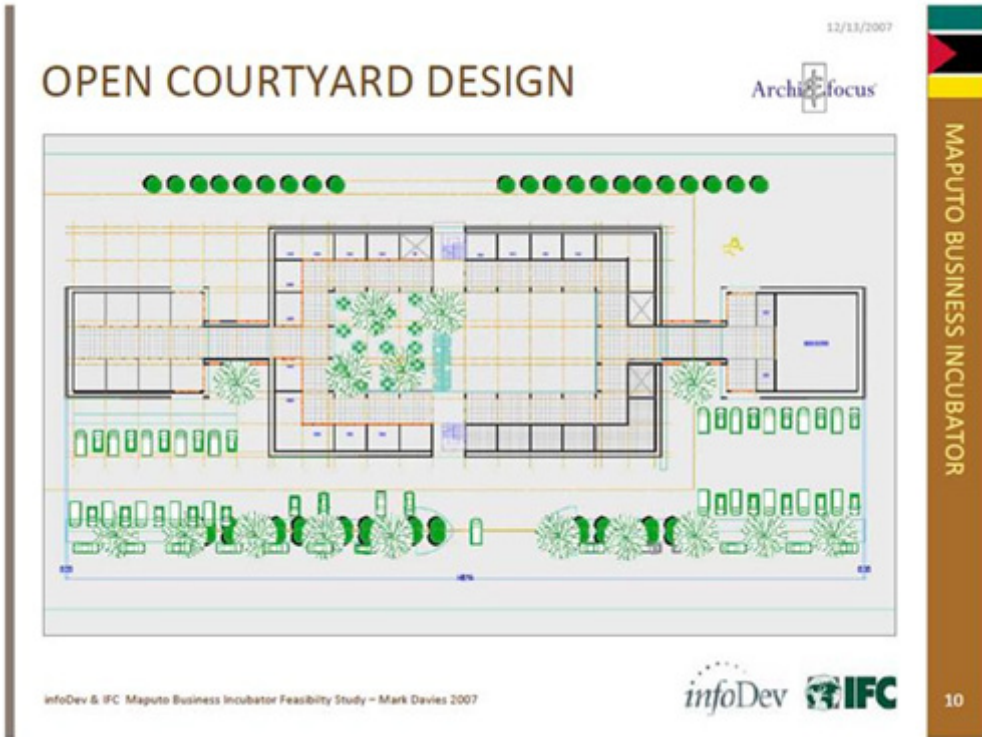
MICTI
MEDIA CENTER
THE BUILDING
Archi focus
MAPUTO BUSINESS INCUBATOR
infoDev & IFC Maputo Business Incubator Feasibility Study – Mark Davies 2007
infoDev
IFC
9


12/13/2007
OPEN COURTYARD DESIGN
Archi focus
MAPUTO BUSINESS INCUBATOR
infoDev & IFC Maputo Business Incubator Feasibility Study – Mark Davies 2007
infoDev
IFC
10


12/13/2007
OTHER DESIGNS
MICTI
MICTI TECHNIK CENTRO
Archi focus
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infoDev
IFC
MAPUTO BUSINESS INCUBATOR
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THE SERVICES
Offices
Incubator
Shops
infoDev & IFC Maputo Business Incubator Feasibilty Study – Mark Davies 2007
infoDev
IFC
MAPUTO BUSINESS INCUBATOR
12

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THE GROUND FLOOR - SHOPS

Mostly Business Services / Technology

mcel · TELEDATA · SAHARA · BRITHOL MICHCOMA MOÇAMBIQUE LIMITADA · FedEx · netcabo moçambique · DHL · vodacom · BYTES & PIECES

Millennium bank

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MAPUTO BUSINESS INCUBATOR

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INCUBATOR OFFICES

- 40 offices
- 25m2
- $350/month
- Flexible leases
- Shared resources
- Reception
- Voicemail
- Internet
- Meeting rooms

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MAPUTO BUSINESS INCUBATOR

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INCUBATOR PROGRAM
A great manager is key!
mentors
support groups
referrals
offices
assessments
networking
incubatee
sme toolkit
monthly debates
workshops
sme calendar
infoDev & IFC Maputo Business Incubator Feasibility Study – Mark Davies 2007
infoDev
IFC
MAPUTO BUSINESS INCUBATOR
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COMMERCIAL OFFICE SPACE
State of the art
Fibre Networks
Custom Buildout
Private Entrance
$16/m2
TELEDATA
Microsoft
NOKIA
Connecting People
HUAWEI
infoDev & IFC Maputo Business Incubator Feasibility Study – Mark Davies 2007
infoDev
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MAPUTO BUSINESS INCUBATOR
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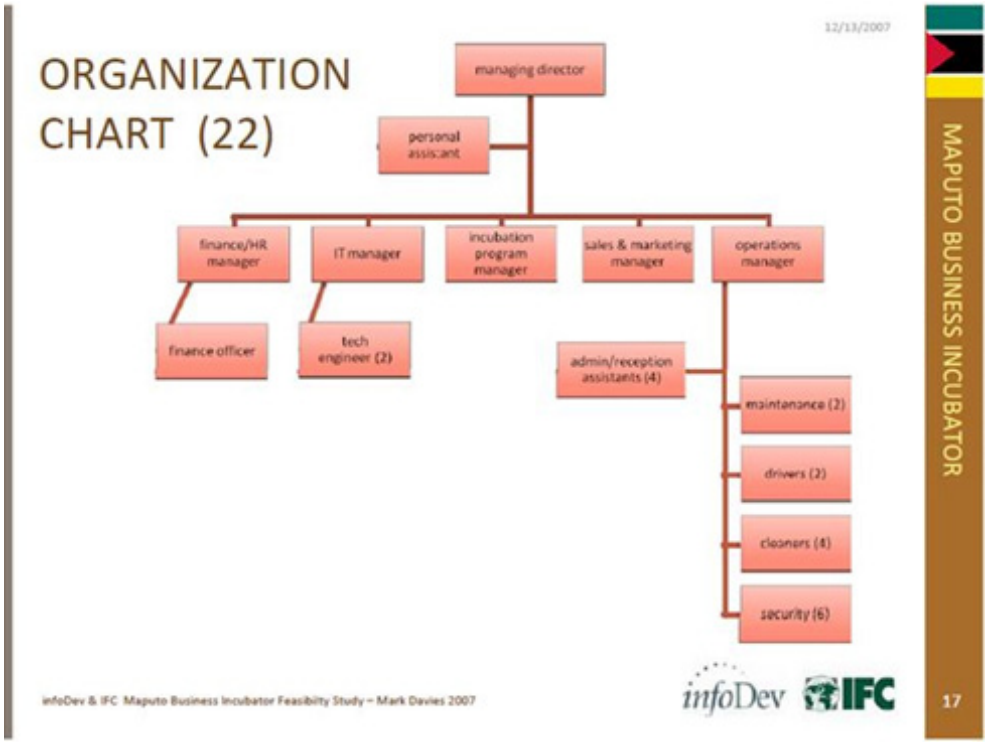
12/13/2007
ORGANIZATION CHART (22)
managing director
personal assistant
finance/HR manager
IT manager
incubation program manager
sales & marketing manager
operations manager
finance officer
tech engineer (2)
admin/reception assistants (4)
maintenance (2)
drivers (2)
cleaners (4)
security (6)
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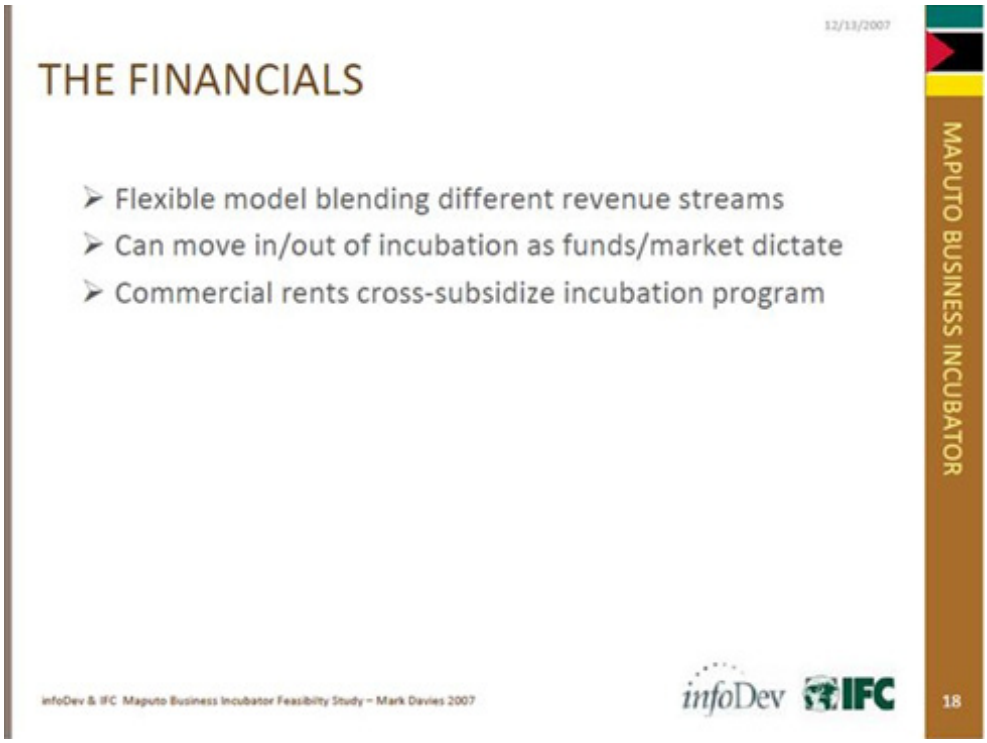
MAPUTO BUSINESS INCUBATOR
17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THE FINANCIALS
Flexible model blending different revenue streams
Can move in/out of incubation as funds/market dictate
Commercial rents cross-subsidize incubation program
infoDev & IFC Maputo Business Incubator Feasibilty Study – Mark Davies 2007
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MAPUTO BUSINESS INCUBATOR
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PROJECT COST

4 floors (6,000 m2 x $550)	3,300,000
auditorium	220,500
external areas	100,000
network & datacentre	300,000
software	20,000
office equipment	50,000
power equipment	200,000
airconditioning	40,000
furniture/fixtures	200,000
vehicle	15,000
contingency	181,025
working capital	100,000
startup	168,347
$USD	**4,894,872**

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MAPUTO BUSINESS INCUBATOR

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Assumptions

26 November 2007

Maputo Technology Centre

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8
days in year	365							
months per year	12							
working days per month	21.7							
annual inflation	13%	10%	6%	6%	6%	6%	6%	6%
annual lease increase	3%	3%	3%	3%	3%	3%	3%	3%
bandwidth price decreases	6%	6%	6%	6%	6%	6%	6%	6%
exchange rate to $	26	28	30	32	34	36	38	40
total size of each floor	1,500 m2							
number of floors	4		parking floors	0	auditorium m2	300		
cost to build $/m2	550		cost to build $/m2	350	cost to build $/m2	735		
retail rentals m2	70%	1,050 m2						
corp rentals m2	80%	2,400 m2			external m2	2,000		
incubator rentals m2	70%	1,050 m2			cost to build $/m2	50		
management space m2	10%	150 m2						
retail rental $/m2	24	24.7	25.5	26.2	27.0	27.8	28.7	29.5
corp rental $/m2	16	16.5	17.0	17.5	18.0	18.5	19.1	19.7
incubator rental $/m2	12	12.4	12.7	13.1	13.5	13.9	14.3	14.8
retail shops occupancy	60%	80%	90%	90%	90%	90%	90%	90%
corp rentals occupancy	50%	75%	90%	90%	90%	90%	90%	90%
incubator occupancy	50%	75%	90%	90%	90%	90%	90%	90%
auditorium rentals/week	2	3	3	3	3	3	3	3
auditorium cost/day $	250	258	265	273	281	290	299	307
rack rentals in NOC	1	3	4	5	6	7	8	9
monthly rack rental rate	600	618	637	656	675	696	716	738
bandwidth customers (64K)	10	25	40	50	50	50	50	50
cost per 64K	300	282	265	249	234	220	207	195
wsale bwidth cost ($per 2mb)	6,641	6,243	5,868	5,516	5,185	4,874	4,582	4,307
margin ($ per Kbps)	92	87	82	77	72	68	64	60
electricity charges $/KWH								
KWH usage/month	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
long term loan rate	6%		avg incubator office m2	24 m2				
short term loan rate	20%							

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KEY ASSUMPTIONS

- 4 floors, each with 1,500m2
- cost to build averages $550m2
- two top floors 'unfinished'

- Office rentals start at **$16/m2** ($20 after 8 years)
- Retail Shop rentals start at **$24/m2** ($30 after 8 yrs)
- Incubator rental start at **$12/m2** ($15 in 8 yrs)

- Occupancy (first year; 90% in year 3):
  - offices 50%
  - shops 60%
  - incubator 50%

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	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
revenue								
retail	181,440	249,178	288,735	297,397	306,318	315,508	324,973	334,722
corporate	230,400	355,968	439,976	453,176	466,771	480,774	495,197	510,053
incubator	75,600	116,802	144,367	148,698	153,159	157,754	162,487	167,361
other	54,294	98,790	121,750	138,956	147,082	155,943	165,555	175,932
gross revenues	**541,734**	**820,738**	**994,828**	**1,038,227**	**1,073,331**	**1,109,979**	**1,148,212**	**1,188,069**
VAT & Sales Tax	0	0	0	0	0	0	0	0
net revenues	**541,734**	**820,738**	**994,828**	**1,038,227**	**1,073,331**	**1,109,979**	**1,148,212**	**1,188,069**
operating expenses								
electricity	36,000	38,160	40,450	42,877	45,449	48,176	51,067	54,131
rent	0	0	0	0	0	0	0	0
bandwidth	19,924	21,120	22,387	23,730	25,154	26,663	28,263	29,959
maintenance	27,600	29,256	31,011	32,872	34,844	36,935	39,151	41,500
other	58,760	62,286	66,023	69,984	74,183	78,634	83,352	88,353
payroll	200,568	212,602	225,358	238,880	253,212	268,405	284,510	301,580
contingency	10,286	10,903	11,557	12,250	12,985	13,764	14,590	15,466
total	**353,138**	**374,326**	**396,786**	**420,593**	**445,829**	**472,578**	**500,933**	**530,989**
EBITDA	**188,596**	**446,411**	**598,043**	**617,634**	**627,502**	**637,401**	**647,279**	**657,080**
dd&a	378,292	378,292	378,292	378,292	378,292	378,292	378,292	378,292
EBIT	**-189,696**	**68,119**	**219,750**	**239,342**	**249,210**	**259,109**	**268,987**	**278,788**
interest	66,974	48,000	48,000	48,000	48,000	48,000	48,000	48,000
EBT	**-256,670**	**20,119**	**171,750**	**191,342**	**201,210**	**211,109**	**220,987**	**230,788**
taxes	0	6,438	54,960	61,229	64,387	67,555	70,716	73,852
net income	**-256,670**	**13,681**	**116,790**	**130,112**	**136,823**	**143,554**	**150,271**	**156,936**
EBITDA margin	34.8%	54.4%	60.1%	59.5%	58.5%	57.4%	56.4%	55.3%
EBIT margin	-35.0%	8.3%	22.1%	23.1%	23.2%	23.3%	23.4%	23.5%
net income margin	-47.4%	1.7%	11.7%	12.5%	12.7%	12.9%	13.1%	13.2%

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NOT ATTRACTIVE AS A PURE PRIVATE PLAY

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- $8,000,000 in gross revenues in 8 years
- $590,000 **net** income over 8 years
- 8yr average margins:
- 55% EBITDA; 14% EBIT; 4% net income
- **7% IRR**

- **The public sector must participate to make this an attractive business for the private sector to run**

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FUNDING PROPOSAL

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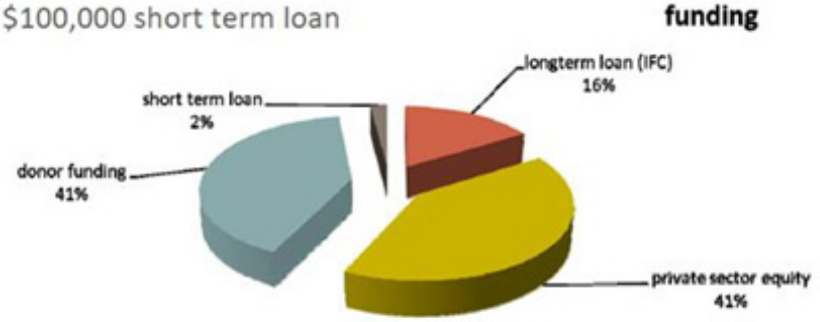
$800,000 long-term loan from IFC
$2,000,000 grant from public sector/donors
$2,000,000 from private investment
$100,000 short term loan



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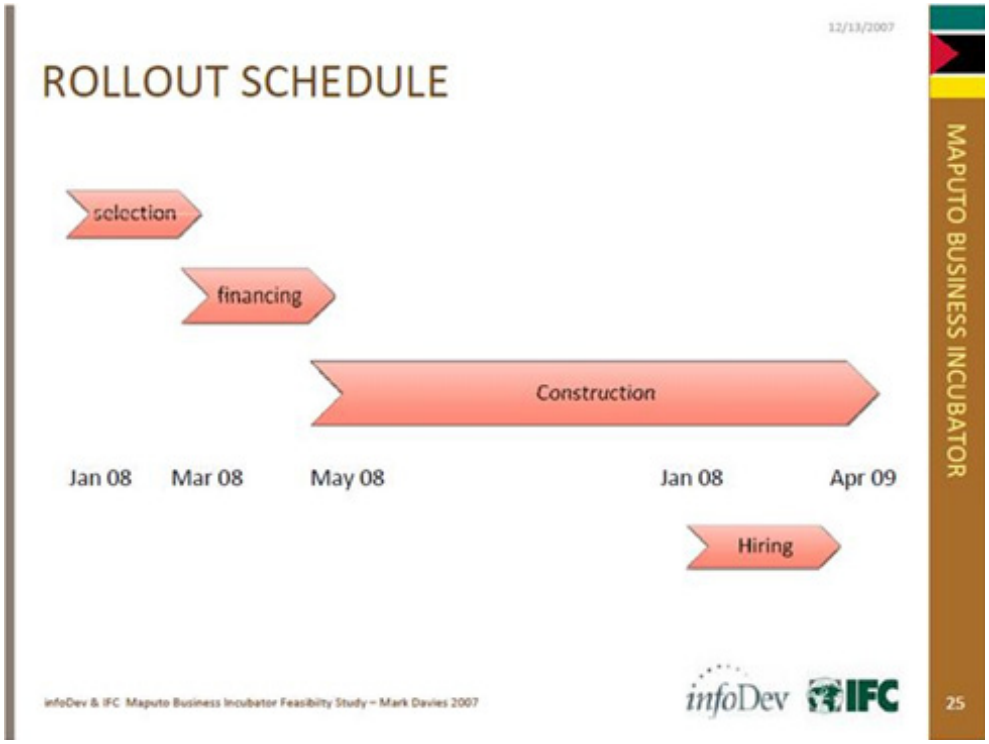
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ROLLOUT SCHEDULE
selection
financing
Construction
Jan 08
Mar 08
May 08
Jan 08
Apr 09
Hiring
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THE RISKS
lease term too short to realize decent ROI
sudden influx of office space in Maputo
not enough companies to rent
location not as attractive as CBD
construction significantly more than $550/m2
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