Undertaking a feasibility study

Good Practice

A feasibility study is an important and necessary step, to design the business incubator and assess whether or not and how an incubator might be feasible. The NBIA notes: "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."[1] This article contains information and guidance about how to undertake a feasibility study. (See also Feasibility Studies Guideline)

Objective

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.

Key Issues

Initial design of a good practice business incubator involves at least four key steps:

1. Formation of a development team – a stakeholder group, task force or steering committee
2. Learning about business incubation
3. Securing resources for planning
4. Planning – typically a feasibility study.

Following the feasibility study, the development team needs to make decisions as to whether or not to proceed. Not all feasibility studies deliver a positive outcome, but can prevent potentially unwise and costly investments and point to more appropriate investments.

Planning is not just a one off event and, once up and running, business incubators need to continue to monitor their relevance, utility and impact, with monitoring and evaluation systems that indicate where change is required.

Development Team

The development team should attempt to represent a Public Private Partnership involving all stakeholders and relevant sectors, including:

[1] A Comprehensive Guide to Business Incubation, NBIA, 2004.

- Government
- Universities/Vocational institutions
- Private Sector
- Finance sector
- Other enterprise development initiatives
- Relevant sector initiatives, for instance in the ICT industry.

Development Team Requirements

Two essential skills must be included when planning a business incubator that can overcome the challenges

1. Talent; and
2. Knowledge.

Talent involves building a team of people who are gifted with values, vision, competence and leadership. This is vital for successful incubator implementation and is a complex task. The people who can implement a business incubator must have the same characteristics as their future incubator entrepreneurs:

- Entrepreneurial capacity and an innovative character,
- Risk taking that is both bold yet responsible;
- Persistence and a strong belief that challenges can be overcome;
- Ability to network, build relationships and build leadership capacity; and
- Many other qualities found in those who are leaders

Learning and capacity building

Progressive and on-going learning about business incubation is an important part of the development process and one which allows stakeholders to make informed decisions. Along with literature, web sites, visits to other business incubators, networking and conferences, specialized consultants have a role to play building local capacity.

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.

Developing a business incubator is not easy. Existing incubators in similar environments bring a breadth and depth of experience to help local stakeholders. They help avoid mistakes and share what has been learnt elsewhere, in similar and differing environments.

Often consultants are engaged to conduct a feasibility study and subsequent business planning, if capability does not exist locally, or if an independent opinion is required, although sometimes they 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.

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 and cultural situation in the region 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 analysis of the local conditions and the market for business incubation. A feasibility study needs to include:

- Analyses of the entrepreneurial pool of potential clients, linkages to universities, the support services network, the availability of suitable building space, and financial cash flow estimates
- Commitment by governmental agencies"

Topics in a feasibility study
Feasibility studies typically examine the following core topics, at a minimum:

1. Market - the composition of the region's entrepreneurial pool and needs of prospective clients, now and into the future
2. Stakeholder 'buy in' - community support and project champions
3. Facilities and Services
4. Infrastructure - availability of the necessary built and ICT infrastructure.
5. Financial feasibility - both short and long term, including establishment costs

Market for business incubation – needs analysis
Analysis of the market for business incubation is considered to be very important: "A thorough market analysis is worth its weight in gold"[2]. It is crucial for both designing the incubators services, to meet the needs of its clients and to develop realistic financial projections. Assessment of the market requires synthesis of data from a range of sources using a variety of steps and techniques.

1. **Analysis of secondary statistical data**
   Relevant trends are identified and analyzed using industry statistics, data on the number of business start ups and exits and trends in particular sectors (if they exist), and economic or industry development strategies, indicating where the best market potential exists.
2. **Market analysis survey (needs analysis survey)**
   A needs analysis, or demand survey, attempts to quantify the size of the potential market, its characteristics and needs, now and in the future. For a quality needs analysis survey a number of steps are involved:
3. **Survey design.**

[2] Ibid, quoting Chuck Wolfe, principal of Claggett Wolfe Associates in California.

This entails determining who should be surveyed, how the data is to eb gathered and development of the survey instrument and analysis framework. It is not always easy to determine who should be surveyed, with two broad categories:

a. Business aspirants or intenders – the people 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 don't know, may have unrealistic expectations and 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 a most unreliable source of data.
b. New start or existing businesses – the people who have already started a business. Some of these people might be in the business incubation market, but others will no longer need support. These people are a source of good information as they have gone through the process. However, the individual businesses might not become clients and if conditions change substantially they may not be representative of the future market.

4. Consultations

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

5. 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.

Issues to note – needs analysis

Lack of knowledge and understanding

Many people will not know or understand anything about business incubation, complicating the process and reinforcing the need to raise awareness and interest as a part of the process.

New industries and new market for business incubation

Business incubation 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

Many people will say they are interested in using a business incubator in a needs analysis survey, but only a percentage follow through, and then only a percentage will be selected by the business incubator. It is hard to judge how many expressions of interest will convert to being clients, but typical benchmarks

in the industry range from around 5% for high technology venture capital oriented business incubation, to 20% for typical classic core incubation. If the sample has been filtered already, for instance the growth oriented clients from a more generic business support service, then the percentage can be far higher. In the analysis results need to be factored accordingly.

Insufficient demand
Although there may be strong interest in development of a business incubator there may be too few innovators and entrepreneurs to support a business incubator or the ability to increase their 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.

Stakeholder 'buy in' - community support and project champions
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 allies and identifies strengths and weaknesses of the proposal.

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 are 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 (over 10 years is more realistic). Expectations and ownership need to be managed from the outset and this should start with feasibility study interviews.

Services
Building upon the needs analysis the feasibility study should provide the initial plan for the services that are to be delivered to meet the needs of the targeted entrepreneurs and the facilities this requires. Good business incubation, especially where markets are limited, will offer each of the following sets of business incubation services, which should be incorporated in the design. The services may be delivered by the business incubator organization or by allied organizations and commonly are delivered incrementally, starting with core business incubation and services or more broad-based pre-business incubation services. Together they all help to maximize the critical mass that can be achieved.

- **Pre-business incubation** – services to nurture the market for intensive incubation, typically focusing on developing ideas and business plans, often with competitions and in conjunction with universities.

- **Core Business Incubation** – delivered from one of more business incubator buildings
- **Outreach Business Incubation**– incubation support to companies not located in the business incubator but which visit the business incubator from time to time
- **Virtual Business Incubation**– purely on line business incubation support, by way of information and a growing set of on line support services, such as business plan reviews, mentoring (once a face to face relationship has been initiated) certain types of advice.
- **Post Business Incubation** – supporting companies that have graduated in the next phase of their business expansion

Infrastructure

Business incubation usually relies upon buildings and ICT infrastructure, with the design of each dependent on the model chosen, client needs and the extent of outreach or virtual incubation to complement core incubation. As general rule, buildings need to be suitable for flexible configuration, in a location that is good for business (for the clients), free and debt minimized. This calls for creativity in design, piggy-backing on other initiatives wherever possible.

Financial feasibility - both short and long term, including establishment costs

Developing a workable business model that leads to financial self sufficiency is a crucial part of a feasibility study.

Opinions vary as to how long it should take a business incubator to become self sufficient (from 2 to 10 years) and the extent to which a business incubator can be self sufficient without ongoing support (it may never be possible to be 100% financially self sufficient and many successful incubators rely upon ongoing operational subsidies). Irrespective of the debate, the issue needs to be addressed in a feasibility study. All too often it is ignored, or put off till later, whereas feasibility should address financial viability once establishment funding has been exhausted, with multi-year financial projections.

The capital and operational establishment costs need to be estimated in a feasibility study, to underpin stakeholders' efforts to raise and sustain the necessary funds.

Making Decisions

Once a feasibility study has been completed, stakeholders need to work through the results thoroughly before making the final decisions. This could be to give up on the proposal, or to amend the initial idea so the business incubation can be both relevant and feasible. This is not always easy; stakeholders may already

have made up their minds. It may be that business incubation only forms part of a wider undertaking for it to be accepted and work.