Incubator Feasibility Studies

A White Paper Prepared for the National Business Incubation Association

By Jim Greenwood, President, Greenwood Consulting Group, Inc., 1150 Junonia, Sanibel, FL 33957, gail-jim@g-jgreenwood.com

What is a business incubator feasibility study?

A feasibility study should answer the simple question, "Will a business incubator be successful in our community?" Its primary purpose is to avoid making serious, even fatal, mistakes in the development of an incubator, although it also may have other value, including focusing the community's attention on a specific incubator concept and meeting the expectations of potential funders. It is often confused, or unintentionally combined, with a business plan.

(The business plan should address the question "Now that we know the incubator will be feasible, how will we set it up and operate it?" Note that the business plan comes *after* the feasibility study, and typically is only undertaken if the feasibility study's result is positive. Put it another way: Who cares what the incubator's graduation policy will be –- (an issue in the business plan) if the incubator isn't feasible and therefore isn't going to be undertaken in the first place?

A feasibility study is typically thought of as an activity that is undertaken when a community is considering developing a new incubator. That is certainly a situation in which feasibility studies make sense, but there are others as well.

For example, we conducted a feasibility study for an existing, successful incubator that needed to decide whether to continue in its current and somewhat dilapidated facility, to raze that building and construct a new one on the same site, or to relocate the incubator to another part of the community. A feasibility study also can be valuable when an existing incubation program is contemplating the addition of a new program, such as when a mixed-use incubator is considering adding a kitchen incubation program. Finally, a feasibility study can be helpful for an existing incubator that isn't performing up to expectations. In this latter case, we suggest the leadership first review the feasibility study that was, we hope, performed before the incubator was initially developed to determine if conditions have changed, if the incubator was developed in contradiction to the feasibility study, or the study was wrong in its conclusions. Undertaking a new study might still make sense, but the first step should be to review the original analysis. Of course, if there was no feasibility study done in the first place, then that could explain the problems that the incubator is now suffering.

A feasibility study helps incubator developers and managers do these crucial things:

1. **Gain a greater understanding of the market for the incubator**. We see a lot of well-intentioned communities that *think* they know what the market is and what it wants, but the feasibility study should test that knowledge to see if it is valid. In our experience, it often is not.
2. **Identify potential clients, including anchor tenants**. If done properly, the feasibility study should begin to identify small, start-up, and emerging businesses that are

interested in becoming resident clients or affiliates of the incubator. It also may help identify potential anchors, which can be important to the incubator's feasibility potential.

3. **Evaluate alternatives for the incubator**. We always look at multiple scenarios for a proposed incubator, because we have learned that some clearly won't work, some will be marginally feasible, and possibly one or more will be feasible. This helps the community understand what the incubator needs to look like (in terms of focus, features, location, size and other important parameters) to be successful and, equally important, what needs to be avoided or it will cause problems or even the demise of the project.
4. **Identify needs of potential clients, and use of and satisfaction with existing sources of assistance**. If there are no unmet needs for business assistance, there is less market demand for the incubator. But if there are unmet needs, and existing service providers are either not providing specific services or not providing them at the level needed by area entrepreneurs, that can help suggest the need for an incubator. This assessment also helps identify existing sources of assistance that the incubator may want to team with and/or refer clients to, as well as those that – ahem – should be avoided.
5. **Suggest the important financial parameters for the project**. Financial projections for the various scenarios, both for development and operations, allows the community to understand the magnitude of funding that will be required for the project. Then, given those projections and the characteristics of the community and the market for the incubator, the feasibility study should assess whether the required funds can be raised and from what sources. Is support for the incubator so broadly based that its fate rests on no *single* funding source? More than one otherwise successful incubator has closed because of a change in the political breeze, or the tightening of an institutional budget.
6. **Collect and analyze information that is important to those potential funding sources**. Those sources often want an independent analysis of the market, and financial projections that show whether the incubator can achieve breakeven in its operations (and if not, what level of subsidies will be required and over what time period). Note that this information is also very valuable to the community, so it serves a dual purpose.

Set goals for the incubator. The feasibility study should help the community understand what its next steps should be. If the incubator appears to be infeasible, then the community may want to undertake a different initiative to assist small and start-up businesses. If it is feasible, then the study should suggest next steps like approaching potential funding sources, starting an ongoing communications effort with potential clients of the incubator, and preparing the business plan. If the conclusion is that the incubator is conditionally feasible, meaning the incubator appears to be feasible but its success is being hindered by one or more adverse conditions, then the next steps should focus on mitigating or resolving those conditions. Even if the incubator appears to be infeasible, the feasibility study should help the community understand why and therefore understand what changes in the entrepreneurial base, funding sources, or other key parameters may shift the conclusion from "infeasible" to "feasible." Again, do not expect the feasibility study to address issues that really don't matter much until the community knows the incubator would be successful. Those issues include things like a mission statement, entrance and exit criteria, and governance structure – issues that are very important and must be addressed before the incubator is developed, but that are not things that need to be resolved during the "will this incubator be successful?" feasibility phase of the project.

Now, some folks will tell you that feasibility studies are not necessary when it comes to developing a new incubator or making major modifications to an existing one. This opinion can

come from someone with one or more of the following attitudes. We've also added our response to each.

a. **"Real men don't do feasibility studies."** Some communities feel that they just need to "do it" and that means starting an incubator without a study. Maybe a building has been donated and everyone has concluded it should be an incubator, maybe an elected official wants an incubator as part of their legacy, maybe a large local employer is closing and immediate action is demanded. Our concern is that there are plenty of examples of communities that just "did it," and ended up with an incubator albatross that sucks money, enthusiasm and entrepreneurial support out of the community. You might get lucky if you just jump in and start a new incubator without any analysis, or you might be taking your community down a very ugly, expensive path.
b. **"Don't study it to death."** Some communities are frustrated that "everything around here gets studied and nothing ever gets done." Sometimes that frustration is well founded, because the community does study everything and never implements anything. But sometimes those prior studies have said that the community should not undertake a contemplated initiative like downtown revitalization, a highway bypass, or a transit system because the conclusion was that these well-intentioned efforts would be disasters.
c. **"We need a needs assessment, not a feasibility study."** We could probably devote this entire discussion to the real differences between a needs assessment and a feasibility study. If the needs assessment includes careful evaluation of the important variables like market, location, financial viability (development and operations), needed business resources, and champion, then feel free to call it whatever you want.
d. **"We already have the data needed to conclude it is feasible."** Some communities feel that they have already done data collection that says the incubator will be a success, and therefore a feasibility study isn't necessary. We've heard this a number of times, but *never* did it turn out that the community had already collected everything that was needed to determine the proposed incubator's feasibility potential. For example, the community may have collected secondary data on the market, but not primary data from potential clients. Or it collected primary data, but did so two years ago and therefore the data are no longer accurate reflections of the current market for a business incubator.

Getting Started

The first step in preparing the feasibility study is to work for consensus among the local stakeholders. This may seem a lot like herding cats, so be prepared to take some time and put some effort into this important initial step. Start by getting everyone to agree on what is meant by a business incubator. That may sound too basic, but time and time again we have seen incubator projects run into difficulties because the community leadership and other stakeholders were not thinking the same thing when they undertook an incubator. For example, if you are thinking it should include existing small businesses and maybe an anchor tenant or two, and the mayor is thinking it is only for start-ups, then trouble lies ahead if this incubator is developed around your vision rather than the mayor's.

While gaining this consensus, be careful to not cast in stone specifics that should be explored in the feasibility study. For example, as soon as you have specified a location for the incubator (or even worse, have indicated the building it must be in), you have limited and hindered the feasibility study. The feasibility study should explore alternative locations for the incubator, and run financial projections for several buildings/sizes/development cost scenarios. The study also

should find out where potential clients of the incubator want it to be located – the incubator needs to be where its clients want to be, not where your Main Street Coordinator thinks it should be.

The next step is to decide whether you will do the feasibility study in house or have a consultant do it. Usually you will want to go the consultant route, because it is hard to find the magical combination of expertise and credibility if you do it in house. Funding sources, in particular, want to feel comfortable that the feasibility study was done by a disinterested third party – it is tough to convince them that, for example, the local chamber of commerce executive director fits that description.

Incubator consultants who do feasibility studies come in several flavors. Some have national and even international practices, and can be found in a list maintained by NBIA that is available on the NBIA Website. Some are more localized; they might be economic or community development consultants who include incubator feasibility studies among their capabilities. Others are local universities and colleges. You can probably find folks in these latter two categories by asking around your network of community and business leaders, and have those leaders look within their extended networks. You also can ask managers of incubators in your region who prepared their feasibility studies (and, of course, whether they were pleased with the consultant's work).

Wherever you find a consultant who might do your feasibility study, be sure to perform some due diligence to make sure you have identified a high quality service provider that has a strong track record. We strongly recommend that you hone in on those who have prior experience with the incubator industry and entrepreneurial support systems for small and start-up companies, and not someone with just a general knowledge and understanding of incubators. And if you are considering a university or college, be sure to find out if the feasibility study will be done by knowledgeable faculty with student input, or will it be a class project conducted by students with only faculty oversight (we don't recommend the latter). At this point, you are building a list of consultants to whom you will send a request for proposals.

So what is the feasibility study going to cost? Years ago, NBIA reported the range is $10,000 to $100,000 for a feasibility study. You probably need a narrower range than that for your budget purposes. We think you can figure on something between $25,000 and $30,000. However, recognize there are many variables that can affect this. Those variables include:

a. The more travel that is required, and the more expensive it is to travel, the more it will cost. If you want the consultant to make 4 trips and each will be 5 days long, you are in the Yukon Territory of Canada, and this is during the tourist season, then you should be prepared to pay dearly for the consultant's travel costs.
b. The more presentations and reports, the more expensive the feasibility study. Presentations have to be prepared, and travel is incurred to make them. Reports take time, even if they are only monthly progress reports. Formality of presentations and reports also drive cost.
c. The more data collection the consultant has to do, the more expensive the project. We do extensive market surveys as part of our feasibility studies. It is more expensive if we have to do all the distribution, collection, and follow up efforts on those surveys, versus having someone in the community do it.
d. Unnecessary components of the feasibility study can be costly. We had one feasibility study where cost was increased about 20% because the community wanted a wide

variety of analyses that, while being interesting, were not necessary to determine the feasibility of the incubator. And once again, don't ask the consultant to address things like mission statements and tenant entrance criteria in the feasibility study, because those important items don't need to be done now but can wait for the business-plan phase of the project.

The next step is to find the money to pay for a feasibility study. You may be able to fund the feasibility study from a federal source like the U.S. Department of Commerce Economic Development Administration (EDA) or U.S. Department of Agriculture (USDA); a regional source like the Appalachian Regional Commission (ARC); or state government (e.g., New Mexico had a statewide program where communities could receive a state grant to pay for a feasibility study). Local sources include city or county government, a bank that funds such initiatives, the chamber of commerce, or an economic development organization. Also consider foundations. We like the idea of a consortium or team effort; for example, a $27,000 feasibility study could be funded by the chamber of commerce, city government, and a local bank each putting in $9,000.

A feasibility study typically takes about 90 days to complete. You will need to add to that the time to get an RFP on the street, a few weeks for consultants to submit proposals, and the evaluation/selection effort.

"Speaking of RFPs," you say, "is there somewhere I can find samples so I don't have to develop ours from scratch?" Unfortunately, we don't know of any central depository of samples, but you will likely receive plenty of them if you ask on the NBIA Member Listserv, to which you can subscribe free of charge if you are a member. (Joining NBIA as a developer member is a good idea for that and other reasons, not least being discounts on publications and other resources that you will surely need in the process, even if that process concludes that an incubator isn't right for your community.) Ask other communities that have gone through the incubator feasibility study process if they will share their RFP with you. Also, ask consultants if they can share examples. Be careful that the RFP does not include unnecessary or expensive components, per our discussion above.

We have compiled a list of common mistakes made by communities that are pondering or undertaking an incubator feasibility study. For each mistake, we will indicate its implications and how to avoid the problem in the first place.

1. **Not asking the market what it wants.** Assuming you are developing an incubator because you want to encourage entrepreneurship and free enterprise, then shouldn't you practice what you preach and be "market driven?" It is to no one's advantage if you create an incubator that doesn't interest small and start-up businesses or doesn't have the features and resources they need, or isn't located where they want to be. Therefore, a major portion of the feasibility study should be a thorough analysis of the market for the incubator.
2. **Not collecting valid and comprehensive market data**. Some feasibility studies only address the market for the incubator in vague, general ways. Others follow the "throw things at the wall and see what sticks" model, where a lot of disjointed snippets about the market are presented with the hope that something will satisfy the reader's desire to understand the market for the incubator. It is important, in our opinion, that primary data be collected, preferably through a market survey of potential clients for the incubator. Secondary data are helpful but not sufficient to understanding the market for an incubator.

3. **Selecting (or even buying) a building before doing the feasibility study**. This mistake has been made many times. Sometimes it occurs because a vacant building has become an eyesore or focus of public concern, and someone decides turning it into an incubator will cure the problem. Other times, someone thinks the community needs an incubator and decides in their humble opinion that a particular building would be a perfect location for it. In either case, the feasibility study is greatly hampered because it no longer is answering "Will an incubator work in our community?" but instead is addressing "Will an incubator work in this predetermined building?" We recommend three solutions to this problem. First, don't restrict the feasibility study to a single building, although it is fine to ask the consultant to consider that building in its analysis. Second, don't buy or commit to a particular building before the feasibility study is complete. Third, require that the consultant include a scan of potential buildings for the incubator (as well as sites, if new construction is being considered) as part of the feasibility study, to ensure that they don't overlook other viable locations for the project.
4. **Ignoring the feasibility conclusion**. Communities pay good money and devote considerable time to a feasibility study of a proposed incubator, so it can be baffling when they sometimes ignore the conclusions and/or recommendations. If you've already made up your mind regarding feasibility, then don't waste resources on a study that you are going to ignore. And if you are only going through the study because a particular funding source requires an independent feasibility assessment, then don't expect a reputable consultant to rubber-stamp your conclusions.
5. **Not understanding the feasibility conclusion**. Sometimes the outcome of the feasibility study is uncertain or difficult to understand. Or the consultant may seem contradictory in the conclusions and recommendations. This project is going to be in your community and can be a thing of pride or an albatross hung around its neck – therefore, it is imperative that you understand the outcome and ask questions about anything you think is unclear, inconsistent, contradictory, or just plain wrong. Your consultant should welcome this inquiry, and be ready to further explain and justify their conclusions and recommendations (and make corrections if they made a mistake in their analysis).
6. **Going forward with an infeasible scenario**. Typically, a feasibility study that has a positive outcome will indicate that an incubator with *a specific set of characteristics and features* is feasible. Those characteristics and features often include specifics regarding building size, location, market focus, funding mix, and lease vs. purchase of the building. The study's consideration of multiple scenarios typically leads to an understanding of what characteristics and features are important to a feasible incubator. Oddly, some communities seem to feel that a positive feasibility conclusion means that *any* incubator with *any* set of characteristics and features will be feasible. This is seldom true. Therefore, realize that your community's incubator (if it is feasible) will require adherence to a set of characteristics and features, make sure you understand what they are, and then stick to them as you move the project forward.
7. **Predetermining the feasibility study**. We once were asked to determine the feasibility of an incubator for only hearing impaired entrepreneurs in a smaller, remote community – *and* it had to be located downtown. Without much analysis, we could conclude it was not going to be feasible, because the criteria were too restrictive (how many hearing impaired entrepreneurs are there in this small community, and how many of them want to be in an incubator in downtown?). Instead, tell the consultant that you have a particular interest in hearing impaired entrepreneurs, and you want a downtown location

considered in the feasibility study. The consultant can then determine the size of the market segment consisting of hearing impaired entrepreneurs who are interested in becoming part of a downtown incubator, but also should look more broadly at what would be feasible. The consultant may determine, for example, that there are not enough hearing impaired entrepreneurs to make the incubator viable, but there are enough *other* entrepreneurs interested in an incubator to make a mixed-use incubator feasible. The community could then make hearing impaired entrepreneurs as one area of special focus or attention in that incubator.

8. **Predetermining the feasibility study II**. This second form of predetermination comes when the community feels it has already analyzed the feasibility of the proposed incubator, has decided that it is feasible, and now only wants an outsider to verify that conclusion. This situation usually takes the form of "we just need an outsider to tell everyone how smart we are," which means there is no receptivity to other options and conclusions that the consultant might reach. Instead, share with the consultant the work that the community has already done, but make it clear that he or she is expected to conduct an independent analysis and come to his or her own conclusions. And if the community has already envisioned a particular incubator, then ask the consultant to evaluate that scenario among those that he or she will consider in the feasibility study. Who knows, maybe you are really smart and the consultant will say so – but be prepared for the consultant to conclude that another scenario holds greater promise for the community.
9. **Not knowing what potential funders want to see in the feasibility study analysis**. Do the funding sources require a feasibility study as part of your application? Do they require that the feasibility study address specific questions or issues, or include a particular analysis? If you have an idea, in advance, of what funding sources you might be approaching to cover the cost of developing your incubator, then ask them in advance what they expect from the feasibility study. (You might also ask if they are willing to help fund the feasibility analysis!)
10. **Don't do the business plan until you know the incubator is feasible**. We covered the differences between a feasibility study and a business plan earlier, so we won't go into it again here. But it could be easier, faster and cheaper to issue one RFP in which you ask for proposals to prepare the feasibility study and then the business plan for a proposed incubator. When you negotiate a contract with a consultant, make sure that they initially only have authority to prepare the feasibility study. You should receive the conclusions and recommendations from that study, and decide if they are positive and encouraging enough to justify going on to the business plan effort. The contract, then, should say the consultant cannot continue on to the business plan tasks until authorized to do so after the results of the feasibility study are known and digested.
11. **Consider both development cost (and funding sources) and operating financials**. Some incubators get started when the community determines they have enough money to create the project. But development and start-up costs are only half of the financial viability question of a proposed incubator: you also need to consider the operating financials and the incubator's ability to generate revenue to cover its day-to-day costs. Specify that the consultant must address both financial issues in the feasibility study.
12. **Don't confuse self sufficiency, sustainability and dependence on unreliable subsidies**. Self sufficiency means the incubator generates enough revenues from its operations to cover its operating costs. Sustainability means the incubator can generate enough revenues from a variety of sources (including some that may not be related to

the incubator's operations) to cover its operating costs. Dependence on unreliable subsidies means the incubator will be bleeding cash, you can't identify enough revenue from sources that value and support long term sustainability of the incubator, and therefore you must rely on subsidies that may not last more than a year or two. The latter situation is tolerable if the incubator will be sustainable or self sufficient after a couple of years, but it is very dangerous if it is going to be required in the long term or into perpetuity. The feasibility study should help identify scenarios that have the best potential for sustainability or self sufficiency, and those that should be avoided because of their dependence long term on shaky subsidies.

13. **Don't be too focused on the building**. Incubators are much more than buildings, so the feasibility study needs to consider more than the real estate side of the project. It is important to determine in the feasibility study, for example, whether there are unmet needs for business assistance in the community that could be met by the incubator, and whether there is a champion who is ready, willing and able to lead the incubator project (and who others in the community will be willing to follow). Therefore, make sure the feasibility study includes non-real estate aspects of the incubator.
14. **Be focused enough on the building**. That said, the largest expense (both in development and operations) in a new incubator typically is the building, and therefore the facility cannot be ignored or minimized or the project runs the risk of being infeasible financially. Consideration should be given to the cost of new construction vs. renovation, size required to improve sustainability/self sufficiency potential, financial viability of a leased building versus one that is owned by the incubator, and pros and cons of various development funding sources (e.g., loans and bonds must be repaid and therefore affect operating financials of the incubator). Reducing the cost of operations also is an important consideration in the building, but that is an issue for the business plan, not the feasibility study, unless you are considering something like a LEEDS certified facility for the incubator.

Beyond Feasibility: Developing the Business Plan

If these common mistakes are avoided, then the conclusion from the feasibility study should give the community a good idea of the success potential of the proposed incubator. If the study concludes that the incubator is not feasible, or if the scenarios that appear to be feasible are not consistent with what the community wants in the way of an incubator, then the exercise ends at this point. Congratulate yourself for considering this important economic development tool, analyzing its potential, realizing it is not going to be a success, and putting the project to rest.

But if the incubator is feasible and the community is prepared to move forward with a scenario that is feasible, then the next step is to prepare the business plan. As indicated earlier, the purpose of the business plan, primarily, is to answer the question, "Now that we know the incubator will be feasible, how will we set it up and operate it?" There also can be secondary purposes for the plan, including satisfying expectations of potential funding sources.

If you followed our earlier advice, then you will need to authorize the consultant to prepare the business plan. If the incubator is not feasible, or for whatever reason the community does not want to go forward with the project, then you likely will want to terminate the consulting agreement at this point.

What goes into a typical business plan? Good question! We would typically include the following major sections in that plan for a business incubator:

1. Incubator Mission Statement & Goals
2. Market Analysis
3. Marketing Plan
4. Location and Facility Analysis
5. Office, Business and Technical Services
6. Governance & Staffing
7. Operations
8. Financial Analysis
9. Schedule for Initial Implementation Tasks
10. Assumptions & Contingencies

You may notice that some of these sections look similar to ones that would be addressed in the feasibility study. For example, the second section of the business plan is market analysis, and we have tried to argue repeatedly that you must analyze the market in the feasibility study. The difference here is in focus and level of detail. In the feasibility study, for example, you should cast the net broadly to see what market opportunities exist; by the business plan stage of your incubator's development, you should honing in on the market segment(s) you will serve in the incubator. And section #4 on location and real estate, should in the business plan focus on a particular location and facility, whereas this discussion in the feasibility study should include evaluation of multiple potential locations and facilities for the incubator.

This latter point deserves a bit more discussion. The feasibility study looks broadly at what might be possible in terms of an incubator in your community. By the time you get to the business plan, you should have identified the best scenario from the feasibility study, and should be writing the plan around that scenario.

Obviously there is a lot of meat that has to be hung on the skeleton of the business plan. Here is where you need to rely on the consultant's (hopefully) extensive knowledge of how incubators operate and are managed to provide that detail.