

SAMPLE SCOPE OF WORK FOR A BUSINESS INCUBATOR FEASIBILITY STUDY

If you have read our white papers on business incubation, *Is Incubation a Winning Strategy? Part One: What We Know* and *Is Incubation a Winning Strategy? Part Two: Factors in Success*, you understand that developing a successful one is no easy task. Getting it right starts with a good feasibility study. So what goes into a good feasibility study?

It should begin by delivering solid numbers to quantify the market. Follow this with a qualitative analysis to assess needs and demand for services among potential targets. Develop the incubator concept, conduct a financial analysis, and prepare a management framework.

The following is a sample scope of work to help guide you in specifying what you want from a business incubator feasibility study. You should expect to budget about one percent of the typical incubator development cost, which may be a range from \$25,000 to \$35,000, or more in dense urban areas. Expect to take four to six months to complete the study.

Market Definition

This phase is intended to quantify the potential market for a business incubator. It is intended to examine the business mix in detail, and document startup activity and trends in the region. Data should be collected for a market area that the incubator will serve. Explain how the market area will be defined.

1. **Business Mix.** Examine the business mix in the market area for the proposed incubator.
 - a. Identify the number of establishments and employment at the industry group level (4-digit NAICS). This should be for the most current year available, and five and ten years prior.
 - b. Rank the industry groups represented in the local business mix by the expected degree to which they are traded (or non-traded). In other words, what are the area's traded industry groups?
 - c. Map the locations of industries and employment in the top traded sectors within the proposed incubator's market area.
 - d. Break out the relative contribution of startups, business attraction, expansion or contraction of existing businesses, and closures, to changes in the area's business mix over the most recent decade. How important is entrepreneurship to the area's economic development?
2. **Startup Market.** Examine the startup trend within the city and within the proposed incubator's market area.
 - a. Document the number of startups in each area, by year, for the past 15 years.
 - b. Describe startup activity to at least the industry group level (4-digit NAICS).
 - c. Track and report aggregate employment in the initial, and subsequent years of each annual startup group.
 - d. Track and report rates of business survival in the years following startup, for each annual startup group.
 - e. Map the pattern of startups at the business location. Prepare heat maps for both establishments and employment to identify potential geographic concentrations.
3. **Contingent Workforce and Microbusiness.** Document other potential sources of demand for an incubator within the city and its market area. This will include microbusinesses (with fewer than five

employees) and contingent workers (independent consultants, freelancers, and contract workers not in an incorporated business).

- a. Identify the number of microbusinesses, by industry group (4-digit NAICS) in each area.
 - b. Map the locations of these businesses.
 - c. Develop aggregate estimates of the contingent workforce in these areas, by industry and major occupational class.
4. **Market Demand.** Estimate the size of the target market, including startups, microbusinesses, contingent workers, and any other persons considering entrepreneurship.
- a. Identify niche opportunities or industry clusters that may be opportunities for the proposed incubator to address.
 - b. Examine trends revealed in the data, such as with survival rates, locations where startups are clustered, growth patterns, etc., as they may relate to demand for startup and microbusiness assistance, which may be delivered through a business incubator.

Decision Point #1

Report the research findings. Prepare estimates of the size of the market and offer preliminary recommendations for the proposed incubator, such as industries to target and issues that it may help to address. Discuss these with the City to receive direction concerning the proposed incubator and issues to explore in subsequent analysis.

Entrepreneurial Needs Analysis

Identify the needs of startups and microbusinesses that may be addressed through an incubator. Assess the level of interest and willingness to pay for these services.

5. **Interviews and Focus Groups.** Conduct interviews and focus groups with targeted entrepreneurs and microbusiness owners. Explore the services that it may provide, satisfaction with other providers, and willingness to pay.
6. **Survey.** Develop and conduct a survey with a separate set of questions directed to different groups, such as entrepreneurs in the formative stage of their business, established businesses in the study area, and other business owners. Describe how the survey will be distributed and whether City assistance will be required. Tabulate the survey responses and share the results with City staff.
7. **Existing Resources.** Inventory and assess existing entrepreneurial resources (both physical resources and programs) in the region. Evaluate the potential to partner with these providers to deliver incubator services at the proposed facility.
8. **Gap Analysis.** Identify entrepreneur and microbusiness needs that are not currently being met in the region, either because there is a gap or because of quality issues. Prioritize these needs by demand and likely impact, and discuss approaches to meet these needs.

Proposed Business Incubator

Describe the proposed entrepreneurship center and incubator. This will address the recommended physical characteristics of the space, proposed programming, costs, and economic and social impacts it is expected to generate. Coworking space should be considered as a component of the space.

9. **Proposed Incubator.** Provide a general description of the proposed business incubator. Determine the approximate total floor area needed and break out the interior area by major function (production, storage, offices, classrooms, reception, etc.). Give a general description of the recommended building finishes and infrastructure or amenities, based on the anticipated users. Discuss site needs.
10. **Proposed Location.** Recommend a proposed business incubator location. Why is this site preferable and what alternatives might be considered? Discuss how the recommended and alternate sites are or are not suited to the proposed uses.
11. **Entrepreneurial and Small Business Programming.** More than space, programming is what gives an incubator or entrepreneurial center its value. Programming can address business training, technical skills, market development, financial resources, and other issues impacting the local startup and small business community. Recommend a menu of programs to be offered through the proposed center, that directly respond to the critical issues identified through the research. Discuss how each of these services may be delivered by paid staff, affiliated organizations, or volunteers.
12. **Incubator Revenues.** Based on the recommended space and programming, estimate the annual operating revenue that may reasonably be expected from all sources, such as rents, fees for use of space or equipment, event fees, in-kind contributions, memberships, royalties, etc.
13. **Development Costs and Fiscal Analysis.** Prepare a financial analysis in two parts. Firstly, estimate the capital costs to develop the proposed incubator. Secondly, prepare a generalized pro forma with budget estimates for the first five full years of operation. This may show alternative figures based on different assumptions, such as self-funded capital development costs versus the use of grants and donations. Discuss the ability of the proposed incubator to generate positive cash flow, or its need for an annual operating subsidy.
14. **Expected Social and Economic Impacts.** Depending on its structure, the entrepreneurial center and incubator may have impacts on several conditions within the area. Examples include job creation, but also the number of businesses, business mix diversity, rates of startup activity, business survival, commercial vacancies and lease rates, and other outcomes that will be discussed in the analysis. Identify and quantify these expected outcomes.

Decision Point #2

Present the incubator space and programming needs analysis and recommendations to the City. Review the anticipated development costs, annual revenues, and fiscal analysis with the City, to receive additional direction concerning the management plan.

Management Plan

Provide guidance concerning development and operation of the incubator.

15. **Operational and Management Plan.** Recommend best practices for managing the incubator once it is open for business. This plan will address an organizational structure, facility ownership, strategic partnerships (which may be related to funding, operations, or services), management and staffing, and key policies to have in place. The plan should identify key goals that will be accomplished as a result of executing the incubator project, and by which outcomes will be measured.
16. **Marketing and Communication Plan.** Prepare a marketing and communication plan for the proposed incubator. The marketing plan should address how to reach prospective tenants and users of services provided by the incubator. The communication plan should focus on providing

information to critical stakeholders and the community at-large. This should include identifying key performance indicators that report outcomes and progress toward meeting the incubator's goals.

17. **Development Plan.** Lay out a strategy to bring the project to fruition. These are the "next steps" to secure approvals, identify funding, complete planning and design, and execute the project.

Final Report

The final project phase will result in a report and strategy.

18. **Draft Report.** Compile the information generated in each of the prior planning elements into a draft project report. Forward this electronically to the City for review.
19. **Presentation.** Present the draft report to the City to solicit feedback, and afterwards review with City project staff to consider any final changes to the report.
20. **Final Report.** Prepare a final project report incorporating the City's comments. The final document will be provided electronically in the original Word format and as an Adobe PDF for distribution.