# 6.  Understand your Market

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

➢ **Real Estate**

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

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

➢ **Culture**

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

technology, and positively associates with high-tech, then offering cinemas, restaurants, and other entertainment options around your core business will be a significant business opportunity.

➢ **Industry**

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

➢ **Policy**

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

➢ **Economy**

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

Here's a checklist of what you need to know:

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

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

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



**Age**
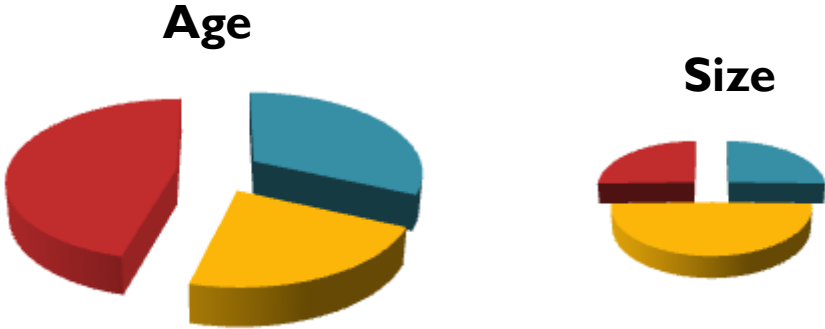


**Size**

**Rank**



| Rank | less known | small business/micro-enterprise |
|---|---|---|
| | known medium | business/medium enterprise |
| | well-known | big business/big enterprise |
| Age | new | les than 4 years |
| | medium | from 4 – 6 years |
| | mature | more than 6 years |
| Size | small | 1-5 employees |
| | medium | 6-29 employees |
| | large | 30 employees and above |

# 7. Customize Your Model

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

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



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

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

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