



South Africa Business Incubator Establishment Handbook

A Guide to Establishing Business Incubators in South Africa



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

towards full-scale **industrialisation** and inclusive **growth**



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LIST OF ACRONYMS

BAM Model	Bricks and Mortar Model
BDS	Business Development Services
EIP	Enterprise Investment Programme
ICT	Information and Communication Technologies
ISP	Incubation Support Programme
NEF	National Empowerment Fund
NGO	Non-Governmental Organisation
seda	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SMEs	Small and Medium Enterprises
STP	seda Technology Programme
the dti	The Department of Trade and Industry

FOREWORD

The Department of Trade and Industry (**the dti**) is targeting business incubation as a cornerstone of industrial development and for the promotion of economic inclusion. Around the world, business incubation has proven to be an important economic tool to promote industrial restructuring, encourage the development of technology, stimulate job creation and diversify local economies. Business incubation also seeks to encourage the private sector to foster the growth of spin-off firms and nurture suppliers to provide quality products and services.

the dti acknowledges that incubator clients are at the forefront of developing new and innovative technologies, creating products and services that improve the quality of life of people around the country. Furthermore, incubator clients create more full-time jobs than non-incubated clients.

It is for this reason that we have developed this handbook, which is a source of information for all those who are interested in establishing business incubators. It is addressed to policy makers, administrators, private sector players, universities and individuals who have embraced the incubation concept. The purpose of the handbook is to increase comprehension of the incubation concept by providing a step-by-step guide on how to launch a new incubator or expand an existing one. This resource is conceptualised as a living document to enable the user to customise it. The next phase envisages the development of a handbook for incubator managers.

I would like to thank the United Nations Development Programme (UNDP) for fully sponsoring the development of this handbook and for its support in growing the business incubation industry in South Africa.

A handwritten signature in black ink, appearing to read 'R. Davies', is positioned above the printed name.

Dr Rob Davies, MP
Minister of Trade and Industry

PREFACE BY THE UNDP

South Africa's current economic landscape is dominated by multinationals that have established vertical value chains transgressing the country's borders. Manufacturers from small and medium enterprises (SMEs) in different countries input to a final product, forcing local SMEs to compete for market share, both locally and internationally.

Several studies in South Africa have shown a high mortality rate among SMEs in their first two to five years of trading, ranging from 62% to 80%. Government has designed programmes and policies to mitigate this mortality and new strategies and policies are being adopted to improve the conditions of SMEs to enable them to grow and become competitive in both the local and global markets.

One such programme is business incubation, of which the UNDP was happy to become a partner. The programme is designed to help develop entrepreneurial skills and create new businesses. The first step of this collaboration was the development of business incubator guidelines on how to establish and manage an incubator to assist in reducing the early stage failure rate associated with SMEs and increase the probability of their survival in the market.

The UNDP in South Africa is humbled and proud to have contributed to the development of these guidelines. It hopes they will go a long way in helping government departments, the private sector and non-governmental organisations (NGOs) to develop new entrepreneurs and support start-up businesses to stabilise and grow to contribute to job creation and poverty reduction.

ACKNOWLEDGEMENTS

This handbook benefits from the input of many stakeholders involved in incubation in South Africa. More than 25 interviews were conducted with government representatives (national, provincial and municipal), incubators and corporate incubator partners to ascertain their opinions on the key success factors and challenges of effective incubation. Thanks must go to these individuals for contributing their time, experience and energy. Thanks must also go to two incubators, Shanduka Black Umbrellas and MEDO, as well as the City of Cape Town, for providing valuable input on an initial draft of this document.

Further thanks must go to **the dti's** Innovation and Technology team for their support in facilitating interviews, providing key documentation and guiding the strategic direction of the handbook; as well as to the UNDP for funding its development.

In addition to stakeholder inputs, the handbook draws on international best practice on incubation setup and operation, most notably the World Bank's recently published *Business Incubation Toolkit*, the European Commission's report on the *Benchmarking of Business Incubators* and papers on incubation and the entrepreneurial environment in South Africa.





INTRODUCTION: WHAT IS THE HANDBOOK AND HOW SHOULD IT BE USED?

Welcome to the *SA Business Incubator Establishment Handbook*, the dti's guide on how to establish business incubators in South Africa.

Business incubators provide targeted business support services to early stage SMEs. They are vital to the health of the SME sector in South Africa, particularly since they focus on the root causes of early stage business failure: poor business strategy and lack of access to finance.

Still, there are not enough incubators in South Africa. Eighty per cent of SMEs fail within their first five years of operation¹, while incubators are concentrated in a few provinces. The country needs more incubators in more areas if the SME sector is going to reach its potential in driving job creation and economic growth.

This handbook was developed to help solve this problem. It contains guidance on the steps needed to identify and establish a business incubator that best meets the needs of SMEs in a particular area. It is aimed at provincial or municipal representatives, but is also a valuable resource for anyone interested in incubation in South Africa, whether they work for a private firm, Government, an NGO or academic institution. All sectors, after all, play a vital role in ensuring the country's SMEs receive the incubation support they need.

The handbook is structured around four key questions, the answers to which will help identify the incubation opportunities that exist in a given area and how best to play a role in harnessing them:

¹ Small Enterprise Development Agency (seda), 2011

- (i) What are incubators?
- (ii) How does one choose the right incubation strategy?
- (iii) How does one execute a chosen strategy?
- (iv) What support is available in South Africa and how can it be used?

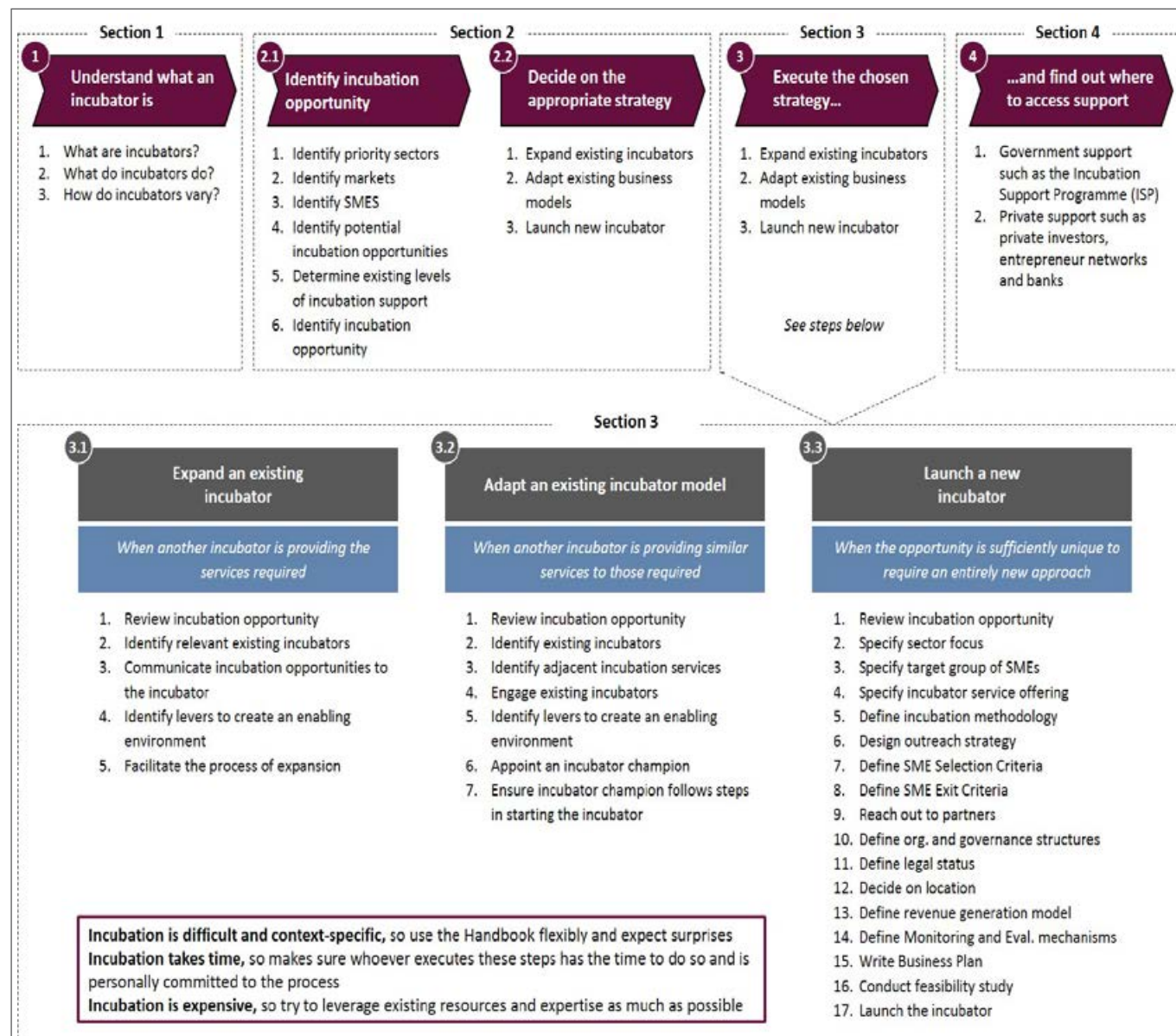
The handbook is a reference tool, not an instruction manual, so feel free to adapt the steps and content to ensure they remain relevant to local context. Incubation is complex and ever-changing, and any incubator is likely to encounter many surprises along its journey from idea to reality.

Figure 1: Uses of the Handbook

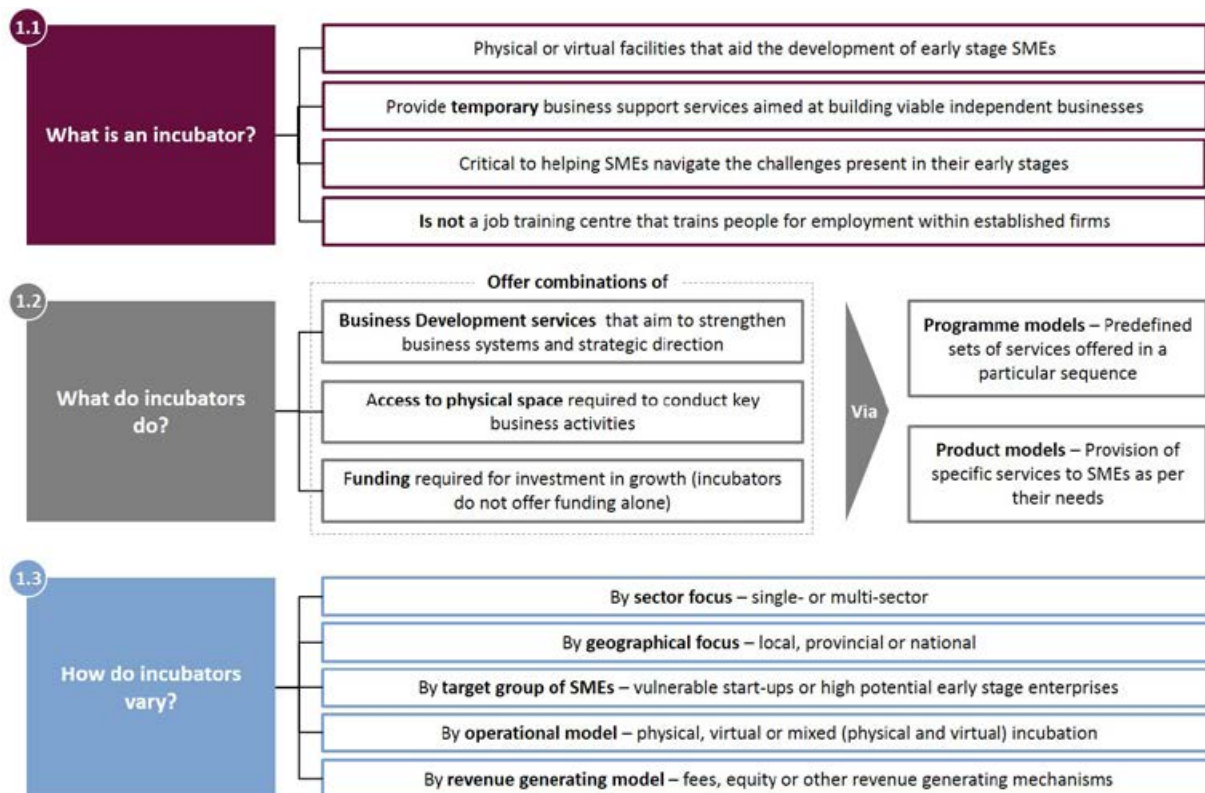
CHECKLIST OF WHAT THE GUIDELINES SHOULD AND SHOULD NOT BE USED FOR			
This Handbook should be used ...		This Handbook should not be used ...	
✓	... to learn more about the definition and purpose of incubation	✗	... as an instruction manual to establish incubators, to be followed exactly
✓	... to identify whether incubation is the appropriate channel for SME development in a given area	✗	... by people unable to commit significant time and resources to making sure that incubator setup is done properly
✓	...to identify and capitalise on a well thought-out incubation opportunity	✗	... to establish an incubator before a thorough process of identifying whether an opportunity for one exists
✓	... to find out about support available for incubators and opportunities for collaboration in South Africa	✗	... as a general guide to SME development programmes

Figure 2: Summary of Handbook Content

This figure contains a summary of the steps in the handbook, as well as the sections in which to find guidance on how to complete them.



1. WHAT ARE INCUBATORS?

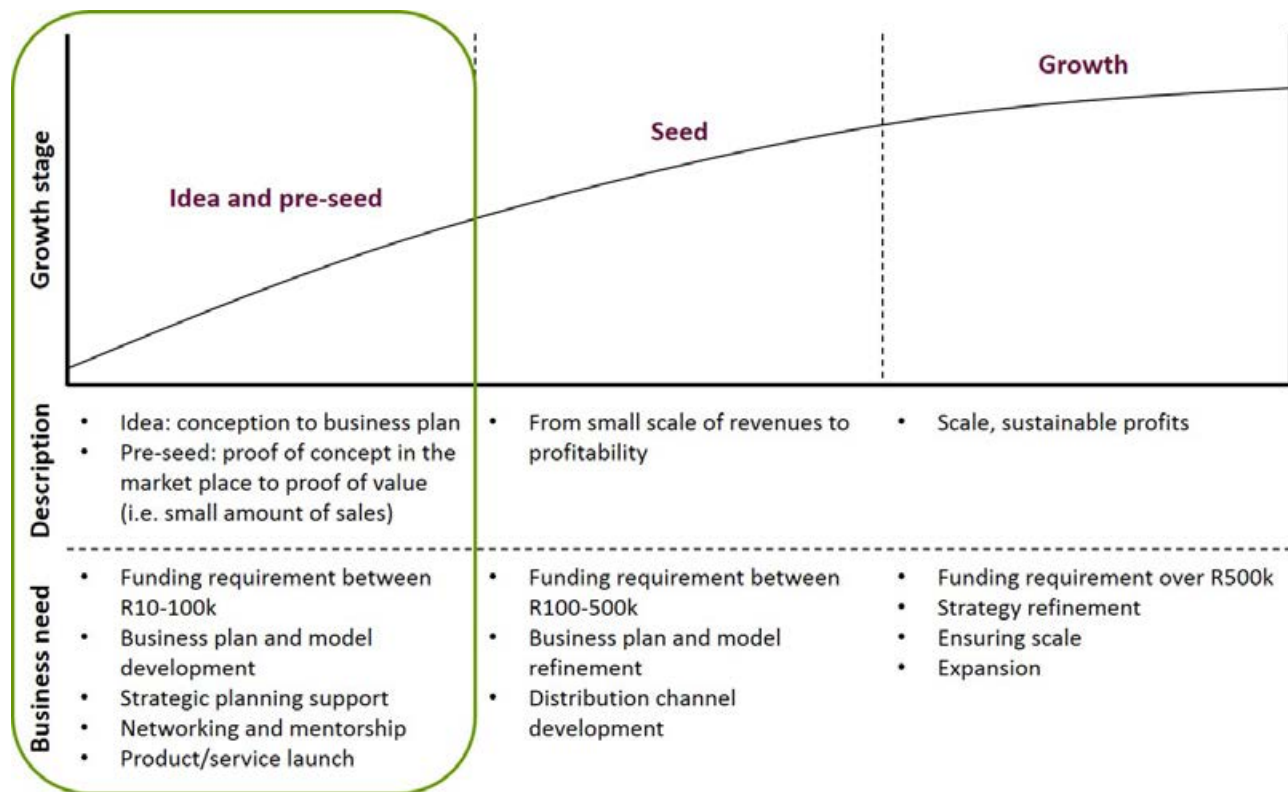


1.1. WHAT IS A BUSINESS INCUBATOR?

Before determining how to support incubation, one needs to understand what incubation is. Business incubators are physical and/or virtual facilities that support the development of early stage SMEs through a combination of business development services, funding and access to the physical space necessary to conduct business.

There are three main things to remember when defining incubators: (1) incubators focus on SMEs in the early stages of growth; (2) incubators offer services aimed at strengthening the capacity of SMEs to operate on their own; and (3) incubation is temporary. As Figure 1 illustrates, SMEs in their early stages of growth (idea and pre-seed) have particular needs. Incubators recognise this and target their services to meet these needs so that SMEs can grow independently once incubation ends.

Figure 3: Incubator Focus – Stage of SME Growth



It is important to note that "early stage" is not a measure of time, but of how much a business has developed. For example, an SME can be five years old, but still struggle to get customers and secure revenues (early stage). At the same time, an SME can be one year old and already be very profitable and financially sustainable (growth stage).

Further, an "early stage SME" is different from a struggling business that has been started merely to provide a livelihood for its owner. Many people are forced to find their own ways of making a living by starting businesses, many of them informal. While these people may need assistance, incubators are not the organisations to provide it. Incubators focus on entrepreneurs whose businesses were started to grow, not merely survive.

There are many other non-incubator organisations that also aim to "meet SME needs" by using similar services – training, for example. This can create confusion, so here are some examples of the types of things that may look like incubator services, but are not. Among other things, incubators will not:

- 1.1.1. Offer training other than that required for an entrepreneur to run and grow their own business²;
- 1.1.2. Offer support services indefinitely;
- 1.1.3. Assist established SMEs that already have secure streams of revenue and customer bases (unless SMEs intend to enter international markets); and
- 1.1.4. Offer funding only.

It is also important to remember that while incubators are important sources of small business support, they are not the answer to every small business problem. They are only one part of a much larger ecosystem of SME assistance.

Keep the above in mind. As the steps in this document are followed, it is important to maintain a clear idea of what incubation is and what it intends to do.

1.2. WHAT DO INCUBATORS DO?

There are three types of services that incubators offer to SMEs:

- 1.2.1. Business development services, which aim to strengthen the business systems and strategic direction of SMEs;
- 1.2.2. Provision of physical space, shared office services and resources required to conduct key business activities; and
- 1.2.3. Funding required for investment in growth.

Services are typically delivered in one of two ways:

- 1.2.4. Programme delivery, where SMEs receive a pre-defined set of services delivered in a particular sequence; and
- 1.2.5. Product delivery, where SMEs access individual services as they see fit and, if charged, pay based on how long and extensively they use these services.

The support that incubators provide is vital to the health of the SME sector in South Africa. As noted, 80% of SMEs fail within five years of operation. This early stage failure is largely due to two issues that incubators explicitly focus on: a combination of poor business strategy; and lack of access to finance³. Many SMEs are unable to access early stage funding, either due to an inability to meet funding requirements or because they are unaware of financing sources. Similarly, many SMEs struggle to develop business strategies and systems that allow them to access markets and grow revenues.

² A Training Centre or Skills Development Centre, for example, would focus on offering training to build workplace competencies in specific areas or sectors, but would not equip trainees to run their own businesses.

³ Finscope, 2010; Statistics South Africa, 2014

Since SMEs account for up to 70% of national employment⁴, and incubation targets the causes of SME failure, incubators are important drivers of economic growth and job creation – so much so that “support for small businesses through public and private incubators” is noted as an important lever for achieving the goals of the National Development Plan⁵.

The figures below provide more detail on the types of support and services offered and how they are delivered.

Figure 4: Services Offered by Incubators

TYPE	DESCRIPTION	EXAMPLES
BUSINESS DEVELOPMENT SERVICES	<ul style="list-style-type: none"> Services aimed at strengthening the business acumen of entrepreneurs and the business systems and strategic focus of their enterprises 	<ul style="list-style-type: none"> Business Strategy Support System Support Access to Markets Access to Finance People Training and Development Mentorship and Networking
PROVISION OF PHYSICAL SPACE AND RESOURCES	<ul style="list-style-type: none"> The provision of space in which SMEs can conduct operations Incubators offer various combinations of basic office space, sector-specific resources and meeting facilities 	<ul style="list-style-type: none"> Office Space Technical Equipment and Specialized Facilities Meeting Facilities and Conference Rooms
FUNDING	<ul style="list-style-type: none"> The provision of actual financial capital to SMEs or the facilitation of access to financial resources. 	<ul style="list-style-type: none"> Grants Equity Debt/Loans

See Glossary for definitions of key terms such as Access to Markets

⁴ Finscope, 2010

⁵ Department of the Presidency, 2013

Figure 5: How Incubators Deliver Services

TYPE	DESCRIPTION	EXAMPLE
PROGRAMME DELIVERY MODEL	<ul style="list-style-type: none"> • A predefined set of services, sequenced in a particular way, delivered to SMEs • Programmes have multiple components, each with a specific goal • Components often build on one another • Intended to build SME competencies over time in a controlled way 	<p>An incubator has a 'business building' programme that lasts for 18 months and is structured as follows:</p> <ul style="list-style-type: none"> • 6 months of weekly class-based financial literacy, marketing and human resources training • 12 months of mentorship and coaching sessions scheduled every 2 weeks
PRODUCT DELIVERY MODEL	<ul style="list-style-type: none"> • SMEs can access specific products and services as needed • SMEs decide when to access services and in what order • If charged, SMEs pay based on how long and how extensively they use these services 	<p>An incubator offers the following services that SMEs can subscribe to. Enrolment is on a first come first served basis.</p> <ul style="list-style-type: none"> • Financial literacy • Marketing • Human resource management • Personal leadership • Networking • Computer skills

1.3. HOW DO INCUBATORS VARY?

There are many different types of incubators. They vary across several areas, including how they choose to operate and generate revenue, their sector and geographical focus, and the SMEs they choose to target.

The figure below provides more detail on the different ways in which incubators vary.

Figure 6: Incubator Variation by Type

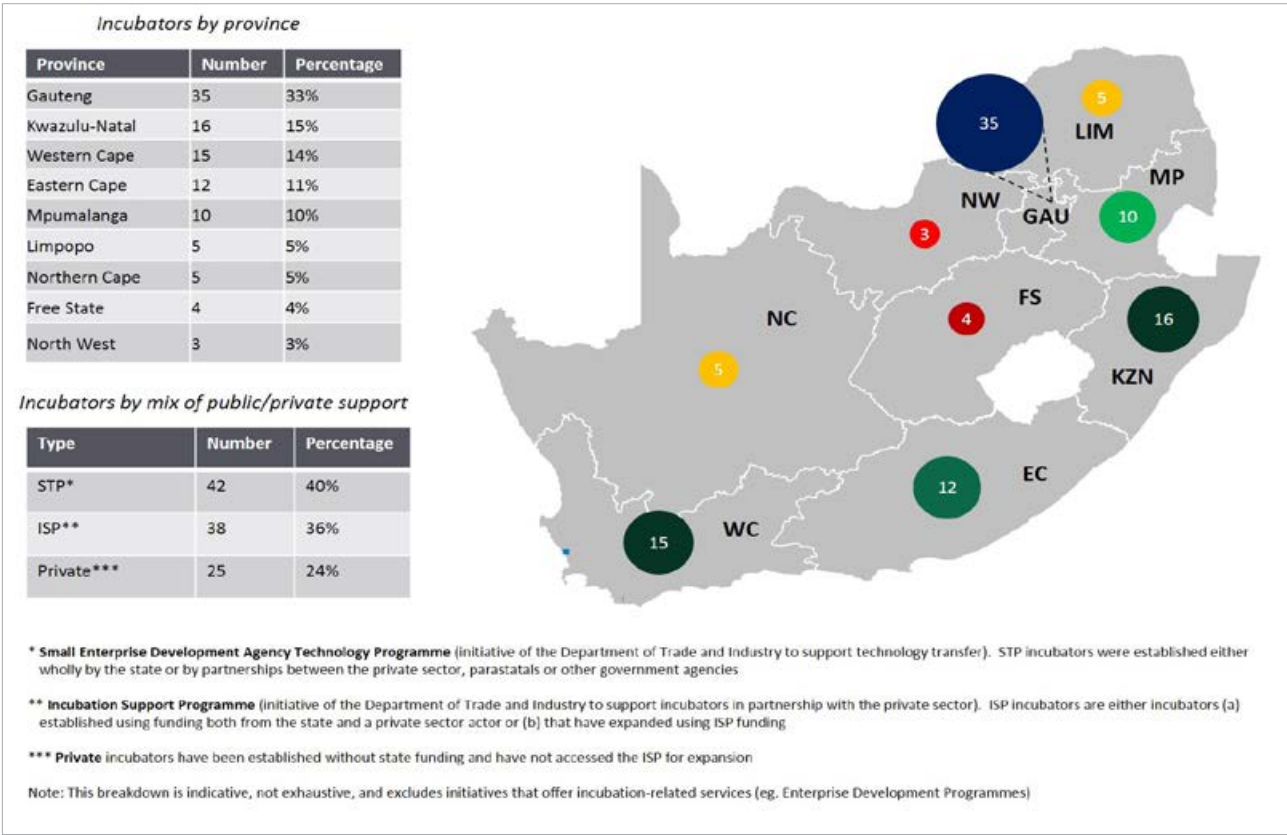
VARIATION	DESCRIPTION	EXAMPLES
Sector Focus	<ul style="list-style-type: none"> The emphasis on or preference for SMEs from particular economic sectors. 	<ul style="list-style-type: none"> Sector Specific Focus – provision of sector-specific services and resources e.g. Manufacturing, Agriculture Multi-Sector - provision of services to SMEs from a wide range of sectors.
Geographical Focus	<ul style="list-style-type: none"> Where incubators offer services 	<ul style="list-style-type: none"> SMEs across the country SMEs in a single province SMEs in a single city or town
Target Group of SMEs	<ul style="list-style-type: none"> The subset of SMEs that the incubator hopes to offer its services to. 	<ul style="list-style-type: none"> Vulnerable SMEs or entrepreneurs from disadvantaged communities SMEs that are probable winners and have a proven business plan.
Operational Model	<ul style="list-style-type: none"> The way in which the incubator is structured and function in order to achieve its purpose. 	<ul style="list-style-type: none"> Virtual Incubation Model – remote provision of BDS either via the internet or in locations suitable to the SME Bricks and Mortar Model – provision of incubator services from a physical location Mixed Model - the provision of both physical resources and virtual services
Revenue-Generating Model	<ul style="list-style-type: none"> The system by which the incubator monetizes its services 	<ul style="list-style-type: none"> Fee-for-service model: charge fees for services on a monthly basis or as a percentage of revenue generated Equity-swap model: take equity in SME and don't charge monthly fees
Mix of public/private support	<ul style="list-style-type: none"> The combination of public, semi-public and private actors involved in establishing and operating the incubator 	<ul style="list-style-type: none"> Government-owned incubator Incubator established in partnership between the private sector and the state Incubator established and supported privately

Incubators in South Africa are most clearly distinguished by geographical focus, mix of public/private support and sector focus.

There are also technology business incubators (TBIs) that foster certain high-tech sectors and the growth of firms involved in emerging technologies. The TBIs have a primary objective of accelerating the commercialisation of technology and promoting the development of technology-based firms. They are characterised by institutional links to knowledge bases such as universities, technology-transfer agencies, research centres and laboratories to leverage entrepreneurial talent and skilled R&D personnel. TBIs are relatively costly, usually located at or near a university or research centre, and provide greater assistance than general incubators.

The figure below shows the approximate distribution of incubators in South Africa by location and mix of public/private support.

Figure 7: Geographical Distribution and Mix of Public/Private Support of Incubators in South Africa



About 75% of all incubators are in Gauteng, the Eastern Cape, KwaZulu-Natal and the Western Cape. Few incubators exist in other provinces. Most incubators are at least partly funded by Government through the Incubation Support Programme (ISP) or **seda** Technology Programme (**stp**)⁶, with about 25% being privately run⁷.

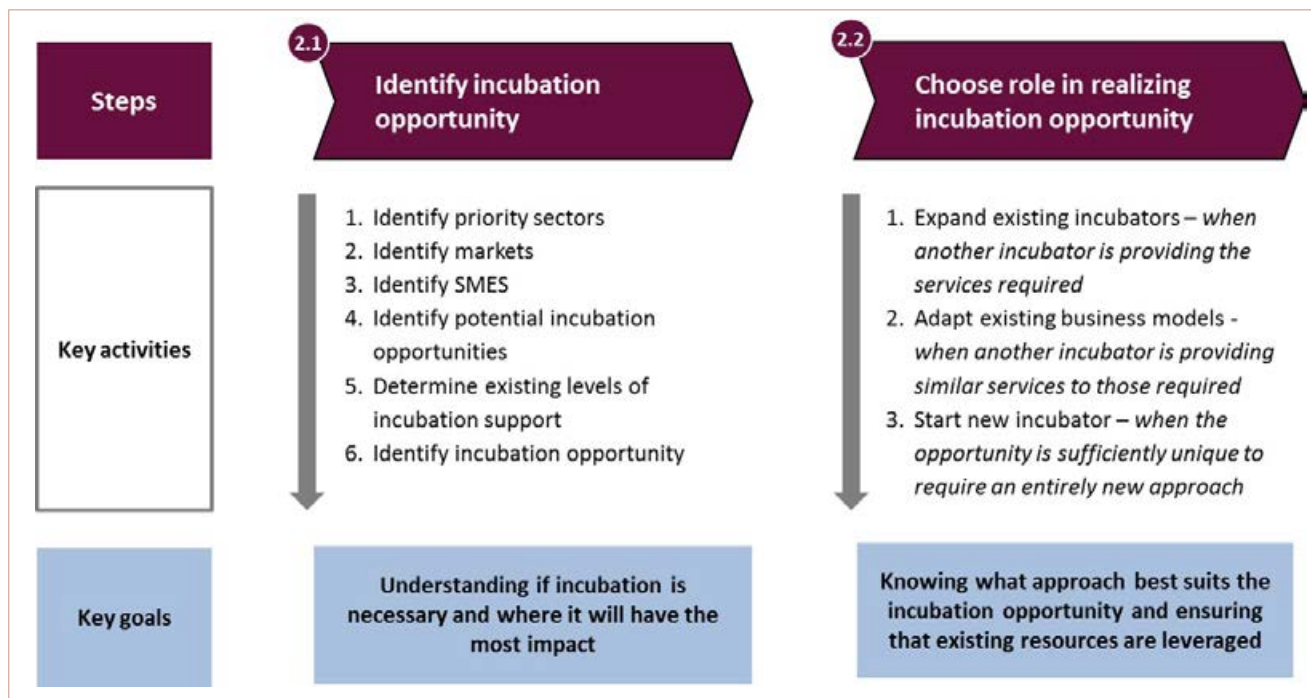
In terms of sector distribution, most incubators focus on manufacturing (26%), agriculture (20%) and construction (12%). Multi-sector incubators (11%) and those serving ICT (11%) also represent significant shares.

⁶ See Section 4 for a thorough discussion of these, as well as Figure 7 for a brief description.

⁷ Source: Dalberg analysis, Finscope Small Business Survey 2010, **the dti** list of **seda** and ISP incubators



2. HOW DOES ONE CHOOSE THE RIGHT INCUBATION STRATEGY?



2.1. HOW DOES ONE IDENTIFY AN INCUBATION OPPORTUNITY?

Incubators address specific market opportunities. Develop a clear idea of exactly what opportunity the incubator will address and which markets or supply chains the incubated SMEs will slot into. This section will explain how to do this.

It is possible to define an incubation opportunity simply as existing when a group of SMEs in a given area require incubation support. For example, if a province has several struggling agriculture-focused SMEs, an agriculture incubator could support them. We might call this a need-driven approach to defining incubation opportunities.

However, a more targeted approach that identifies opportunities for linking SMEs with markets is likely to be more successful. We might call this a market-driven approach to identifying incubation opportunities. A market-driven approach is preferable to a need-driven approach for three reasons:

- 2.1.1. Without ready markets to sell into, SMEs will have no means of generating revenue and will find it difficult to survive by themselves if they make it through incubation;

- 2.1.2. The absence of a market may indicate that SMEs are engaging in work that the economy is not suited for; and
- 2.1.3. The identification of specific markets provides focus and direction to the incubator's work of preparing SMEs for success.

A market-driven incubation opportunity in a given area arises when three conditions are met:

- 2.1.4. There is an existing pool of SMEs offering goods or services;
- 2.1.5. There is an existing market for the goods and services offered by the SMEs; and
- 2.1.6. There is unmet potential in linking SMEs with markets⁸ that incubation can address.

The third point is particularly important⁹. As mentioned, incubation can't solve every small business problem. Solving some of them will require more than incubation can offer. For example, there may be an incubation opportunity if a business isn't selling its goods because of a market failure (for example, a lack of information in the market). However, it is unlikely to be an incubation opportunity if it isn't selling its goods because exchange rate fluctuations are making it too expensive.

To identify a market-driven incubation opportunity, consider the following steps:

Step 1: Identify priority sectors

Provinces and municipalities have a mandate to support certain priority sectors and these should be viewed as a starting point for identifying incubation opportunities:

- 1.1. Consult internally: Speak with colleagues to identify current areas of focus, for example, sector specialists or Local Economic Development (LED) managers. Further, review the province or municipality's Integrated Development Plan;
- 1.2. Identify whether the incubator will focus on strong or vulnerable sectors: Determine whether the sectors identified are a priority because they are (a) performing well, or (b) significant to the economy, but struggling to survive; and
- 1.3. Narrow sector list: Often, several sectors will be identified as a 'priority'. Conduct further consultations, including those with industry experts, to further understand which 1-3 sectors represent the most urgent opportunities.

⁸ Unmet potential exists when an SME is either (a) not meeting a demand that its goods and services can satisfy, or (b) meeting demand but at a scale below what the SME can reasonably satisfy

⁹ The World Bank's recently published *Business Incubation Toolkit* (2014) also stresses the importance of ensuring that incubation is the most appropriate response to an identified opportunity

Example: An individual in KwaZulu-Natal is interested in identifying its priority sectors. She consults with an Economic Development manager, who identifies agriculture and tourism as critical sectors. Tourism has experienced strong growth in the province over the last five years; agriculture, however, contributes 20% to the province's formal employment, but has experienced declining growth over the past five years. There is significant private investment in tourism SMEs, but agriculture is suffering from a lack of investment at all levels. She decides to focus primarily on agriculture.

Step 2: Identify markets

Once priority sectors are identified, the next step is to look at whether they contain viable markets for SME goods and services. For incubated SMEs to be successful, they will need customers to sell to¹⁰. This is a particularly important step; see Annexure 1 for more detailed information.

Consider the following steps in identifying markets:

- 2.1. Identify growing firms: Consult with colleagues, industry experts, academics or civil society actors to identify the major firms involved in priority sectors and which are growing. Growing firms are likely to represent the most promising SME customers;
- 2.2. Identify 'upstream'¹¹ industries: This involves understanding the goods and services that the identified firms need to produce their own goods and services. 'Upstream' industries provide these. A firm's supply chain will contain 'upstream' industries, for example. Undertake similar consultation as in 2.1;
- 2.3. Identify 'downstream' industries: This involves understanding the processes and services required to transform the identified firm's goods and services into their final form and deliver them to their final consumers. A furniture manufacturer would be 'downstream' of a saw mill, for example. Undertake similar consultation as in 2.1; and
- 2.4. Identify SME opportunities: Not all identified industries will be appropriate for SMEs. Again, consider consultation as in 2.1 to identify SME opportunities. To qualify as an opportunity for SMEs, the potential good or service should be: small scale; have low capital requirements; and low levels of competition.

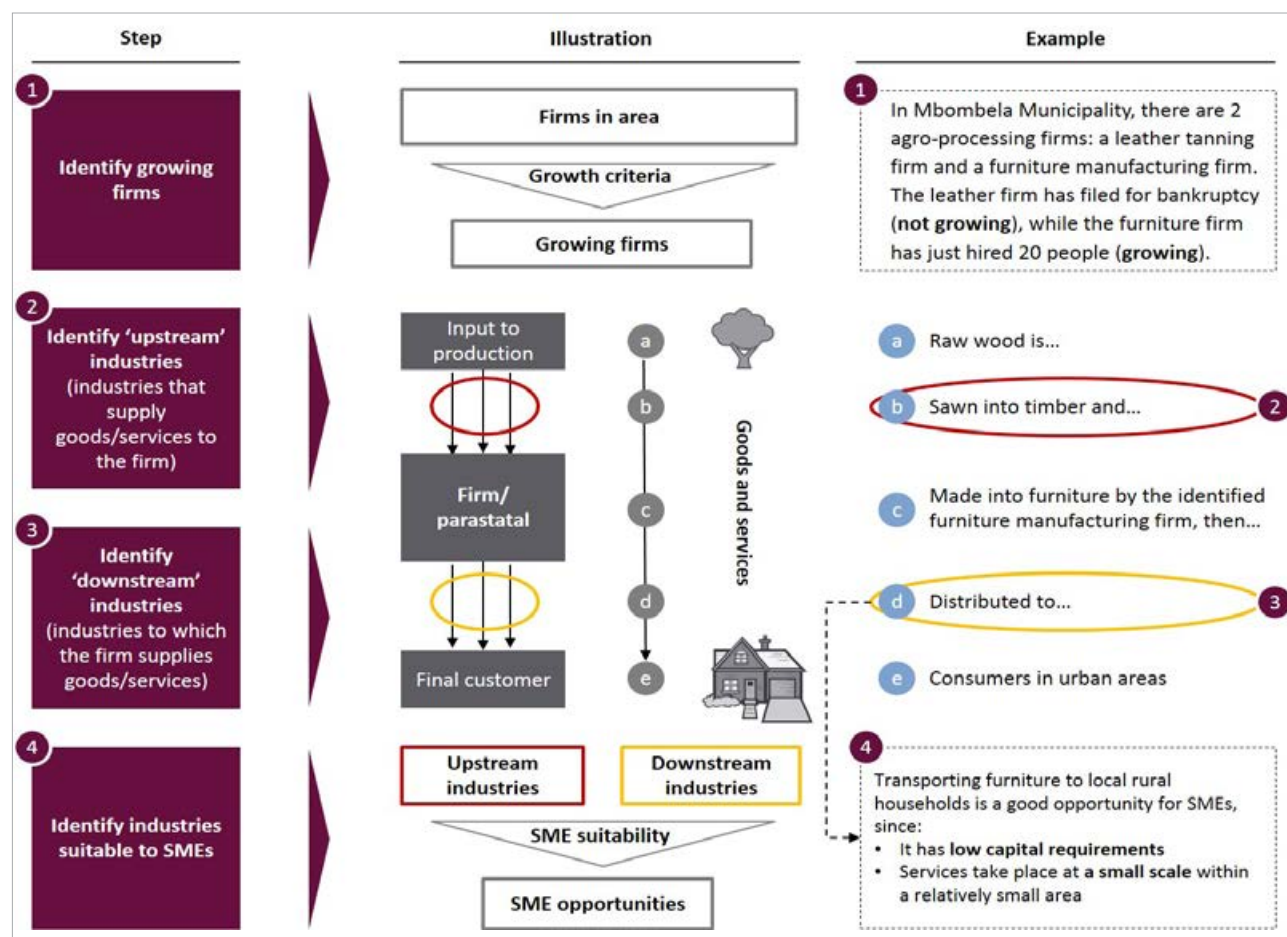
¹⁰ See World Bank (2010) for further discussion on the importance of market research

¹¹ Imagine you are standing beside an actual stream. In front of you is a pile of wooden planks. One hundred metres up the stream, or against the current, is a tree. One hundred metres down the stream, or with the current, is a furniture store. The 'upstream industries' would then be the processes required to transform the tree into the pile of planks, while the 'downstream industries' would be those required to transform the planks into the pieces of furniture and deliver them to customers.

Example: Mpumalanga consults one of its economists and identifies that several large paper manufacturing firms have recently been established in the province. After consulting with a local academic, it identifies upstream industries, including timber growing and wood pulping, but most are suited to large firms. One downstream industry, the distribution of paper, seems like an opportunity for SMEs. The manufacturers currently use large trucks to distribute goods to wholesalers, but these are too large to travel to smaller towns and rural areas in the province. Demand in such smaller areas is substantial enough to represent an opportunity for profit for the paper manufacturer.

The figure below further illustrates the above process.

Figure 8: Illustrative Process of Identifying SME Markets



Step 3: Identify SMEs

Knowledge of existing SMEs is key to identifying incubation opportunities. Incubators, after all, need businesses to incubate. Consider the following:

- 3.1. Consult SME organisations: Try to leverage the networks and expertise of organisations that work with small businesses or relevant sectors in the area, whether these are from academia, the private sector or civil society. Also consider other government initiatives – **seda**, for example – that may have information on SME distribution in your area;
- 3.2. Determine whether SMEs are clustered or dispersed: SMEs could be clustered in certain areas or spread out across multiple areas. Their distribution will affect what kinds of opportunities they will be suited for; and
- 3.3. Draw up a list of SMEs by location and sub-sector: Based on consultations and research, create a list of where SMEs are and in what activities they are engaged.

Example: North West consults internally and discovers that it hosts an initiative that offers grant funding to SMEs in the province. The database of this initiative shows that most SMEs in the province focus on clothing manufacturing, graphic design, logistics and biofuels.

Step 4: Identify potential incubation opportunities

This step involves comparing information on potential markets with information on available SMEs. Essentially, opportunities will exist where: a) there is a match between SMEs and markets in a priority sector; and b) incubation can help bring them together. Consider the following steps:

- 4.1. Review potential markets considered in Step 2 and Annex 1;
- 4.2. Review information on SMEs identified in Step 3;
- 4.3. Identify gaps between identified markets and identified SMEs: Some creativity will be required here. Ways in which existing SMEs can service potential markets may not be immediately obvious; and
- 4.4. Identify gaps solvable by incubation: Be careful to distinguish gaps between markets and SMEs from gaps between markets and SMEs solvable by incubation. Basically, there needs to be a credible claim that a combination of BDS, physical space and funding will link a group of SMEs to a market they currently cannot access properly.

Example: Limpopo has a potential market in the distribution of paper to rural areas. Clusters of SMEs within the province provide logistical services, many of which are appropriate to the distribution of paper to rural areas.

These SMEs, however, operate at too small a scale and have few vehicles. Two main problems exist: SMEs don't market their services well and cannot access funding due to a lack of formal business plans. The province determines that these problems could be solved by incubation; specifically, BDS services and assistance in accessing funding.

If no incubation opportunities have been identified in the area, even after following steps 1.1 to 1.4, resist the urge to create some merely out of a desire for the 'right' result. Rather, take the information and insights already gathered and use them to improve other initiatives and policies.

Step 5: Determine existing levels of incubation support in opportunity areas

To avoid duplicating efforts, it is wise to identify what incubation services already exist in your area, whether private or public. Consider the following steps:

- 5.1. Identify incubators:** Consult internally and with key stakeholders and experts involved in the SME sector, as well as the list in Annex 4, to identify incubators in the area;
- 5.2. Identify incubation-like services:** In addition to actual incubators, also identify individuals, organisations and government initiatives that offer incubation-like services – business mentorship, for example. This will help to form a complete idea of what is already out there and how to add to it; and
- 5.3. Identify gaps:** If incubation services exist in the areas in which they are needed, consider if they require strengthening. Certain resources – physical premises, for example – could be lacking.

Example: After an extensive survey, the Northern Cape realises that there are no incubators in the region, but that the local university offers workshops on business development for local SMEs. However, these workshops are infrequent as space at the university is hard to secure.

The Northern Cape decides to collaborate with the university and provides premises for the incubator. The province is able to leverage the educational resources of the university as well as its own assets.

Bear in mind that just because incubation services exist, it does not mean that they should be continued or expanded. The general guidance in Step 4 applies here as well: if there is no credible reason to support existing incubation efforts, even after investigating them, don't.

Step 6: Identify incubation opportunity

Based on the information gathered during steps 1-5, an appropriate incubation opportunity can now be identified, if one exists.

This opportunity could be:

- a. An existing opportunity that is not being served by incubators; or
- b. An existing opportunity that is being supported by incubators, but requires additional support to thrive.

2.2. WHAT STRATEGY WILL BEST REALISE THE INCUBATION OPPORTUNITY?

Much work has already been done. It takes a lot of effort to find out what opportunities are out there. But now that these opportunities are known, it is possible to decide what role to play in realising them.

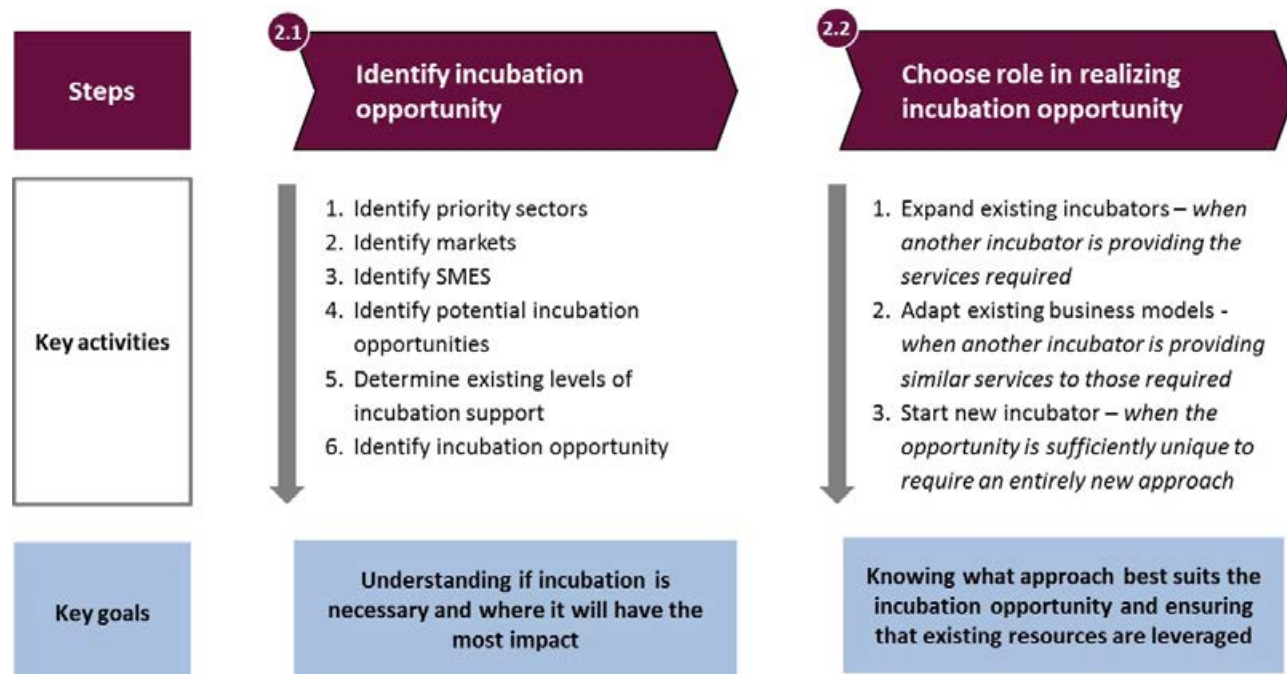
Creating an entirely new incubator is not the only answer. In fact, there are three strategies to consider: (1) **expand an existing incubator**; (2) **adapt an existing incubator business model to suit the opportunity**; and (3) **start a new incubator**. Think of these scenarios as representing a 'portfolio approach' to incubation that balances the need to leverage existing resources with the need for new ideas.

Bear in mind that each scenario will have its own combination of benefits and risks. The benefits lie in the potential to increase the amount and variety of incubation support offered to SMEs – for example, increasing the number of sectors served by incubators. Let us then refer to 'diversity' as the main benefit.¹² The risks lie in the possibility of incubator failure – for example, the insolvency of an incubator through defective management. Let us then refer to 'risk of failure' as the main risk.

¹² Diversity is not the only benefit worth considering but, for the purposes of this Handbook (geared as it is toward expanding the range of incubation support), it can be considered the main one.

The figure below outlines the different scenarios, as well as their relative risks and benefits.

Figure 9: A Portfolio Approach to Incubation Support



The choice of which strategy is best will depend on a variety of factors. If an existing incubator in another area is already doing well at providing exactly the type of support that is required, it may not be advisable to start an entirely new incubator. At the same time, if the incubation opportunity is so particular that no other incubator can address it, it may not be advisable to try to adapt another incubator's model.

Here is some more information on each of the options outlined above:

2.2.1. Expand existing incubators to other locations

This represents a low contribution to diversity, as it involves the expansion of a specific business model that already exists. However, it also represents the lowest risk of failure, since existing incubators have developed and tested their business models and have relevant experience and expertise to rely upon.

Benefits: Low risk of failure, which leads to a larger number of successful businesses

Risks: No significant addition to diversity of incubation services

Actions: Communicating incubation opportunity to existing incubator, facilitating process of expansion

This option is appropriate where the identified incubation opportunity (explained above) has already been met by an effective incubator in another area. For example, the Eastern Cape requires furniture manufacturing incubators; the Western Cape, meanwhile, hosts a successful furniture manufacturing incubator whose services apply to Eastern Cape SMEs.

JUMP TO SECTION 3.1 FOR STEPS ON HOW TO CARRY OUT THIS OPTION

2.2.2. Adapt existing business models

This enhances the diversity of sectors and/or locations reached, but not the diversity of incubation models. It represents more risk than option (1), since successful business models may not translate perfectly to new sectors or locations, but less risk than starting an entirely new incubation model (the basic elements of incubation have been shown to work in at least some areas).

Benefits: Combines incubator expertise with diversifying incubator services, balances generating successful businesses with enhancing diversity of businesses.

Risks: Business model may not adapt well to other sectors.

Actions: Investigating opportunities for adaptation, communicating incubation opportunity to existing incubator, facilitating process of adapting incubator.

This option is appropriate where an incubation need similar to the one identified has been met by successful incubators, either within or outside of a given area. For example, Tzaneen requires furniture manufacturing incubators; Cape Town, meanwhile, hosts a successful incubator in a sector where SMEs require similar technical skills and specialised equipment.

JUMP TO SECTION 3.2 FOR STEPS ON HOW TO CARRY OUT THIS OPTION.

2.2.3. Start new incubators

This enhances diversity the most because it represents an entirely new incubation idea that is not founded on inputs from existing incubators. However, it also represents the highest risk, as there is no direct precedent or experience to rely on.

Benefits: Large addition to the diversity of incubators and potentially to the diversity of SMEs.

Risks: High risk of failure, with fewer successful businesses incubated.

Your role: Guiding the full process of incubator launch and operations.

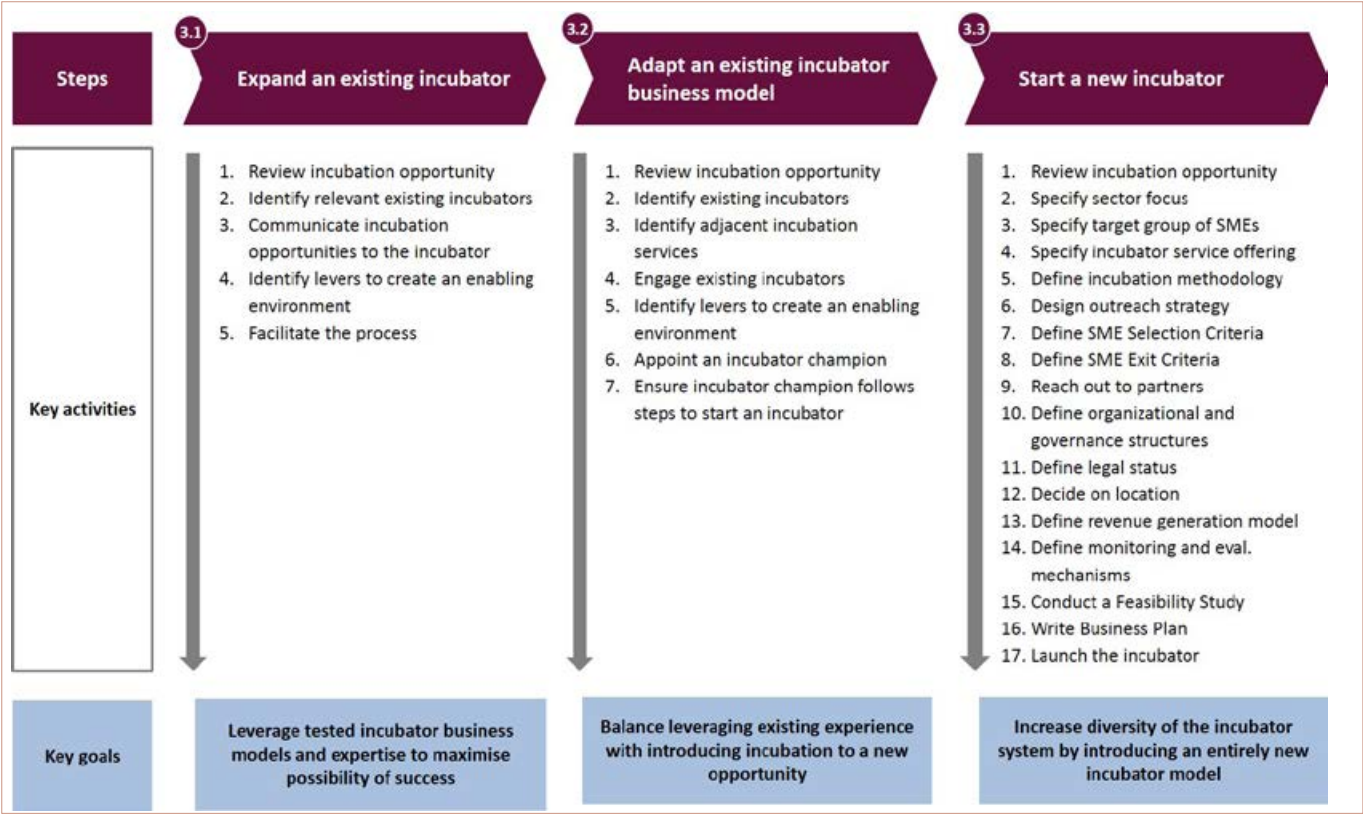
This option is appropriate where the state decides it wants to prioritise diversity by launching entirely new incubators or where the incubation need is sufficiently unique to warrant a novel approach.

SEE SECTION 3.3 FOR STEPS ON HOW TO CARRY OUT THIS OPTION.





3. HOW DOES ONE EXECUTE A CHOSEN STRATEGY?



3.1. HOW DOES ONE EXPAND AN EXISTING INCUBATOR?

If expanding an existing incubator is the right option for the identified opportunity, the first thing that should be done is to review the possible support offered by **the dti’s** Incubation Support Programme (ISP). Existing incubators can apply for financial support of R10 million per year for a period of three years under the ISP. More information on this is included in Section 4.1.1.

While this handbook does not focus on such expansion, due to it being primarily driven by incubators themselves, it can be facilitated by following these steps:

Step 1: Review incubation opportunity

See Section 2.1.

Step 2: Identify relevant successful incubators

Scan the web or relevant literature for information on existing incubators to identify those whose services match the incubation opportunity and appear to be successful.

Annex 4 of this handbook contains a non-exhaustive list of incubators in South Africa that can act as a starting point. If there are no relevant incubators in this list, consider contacting incubators that operate in a similar sector or area. They may be able to advise on where to go next.

Judging whether the incubators are successful may be more difficult. If an incubator has been identified, again consider reaching out to other incubators involved in similar sectors to get their opinions. Further, review the incubator's website or publications. Look for some of the following:

- a. Clear indicators of success:** Incubators with a clear idea of how to track their performance are more likely to be effective in improving it;
- b. Clear evidence of success:** It is encouraging if incubators present clear evidence or data related to how they are performing according to their indicators of success; and
- c. Private sector partnerships:** Private sector endorsement, especially if the endorsing firms are actually using the services of the incubated SMEs, is a good indicator that incubation is working.

Example: Gauteng is seeking a biofuels incubator. There is an incubator in the Free State that focuses on renewable energy. Gauteng contacts this incubator, who then directs it to a successful biofuels incubator in Limpopo.

Step 3: Communicate incubation opportunity to incubator

Once there is a clear idea of why the potential incubator will have an opportunity in expanding to the area in question, the opportunity will need to be validated by the incubator itself.

Reach out to the potential incubator via telephone or e-mail to discuss the potential incubation opportunity and whether it is attractive to the incubator. This will not represent a full 'pitch', but will rather serve to gauge whether there is any interest in exploring opportunities further. There will likely be multiple rounds of communication as details are discussed and plans made.

Consider tapping into existing networks and contacts that may already be involved with the incubator. This may help ease the process of communication.

Example: A **seda** branch in Tshwane Municipality has interacted with the incubator the municipality wants to attract. The **seda** branch is willing to make introductions; once these are made, the municipality is able to have a telephonic discussion regarding the potential opportunity.

Step 4: Identify levers to create an enabling environment

Much can be done to support the expansion of the identified incubator. Determine what provincial or municipal resources can be offered to incentivise the incubator to expand. Consider things like:

- a. Grant funding available;
- b. Premises that can be offered at a reduced cost;
- c. Linkages with existing SMEs to make outreach easier; and
- d. Complementary services, such as BDS offered by a municipality or province.

Inform the incubator of the support available, including that offered by the ISP (see Section 4), during the ongoing discussion process identified in Step 3.

Example: eThekweni Municipality has identified an incubator in Polokwane that it wishes to attract. eThekweni finds out that ISP support is not an option, but has some grant funding available. Further, it can offer premises for the incubator to use at a heavily subsidised rate. This support proves pivotal in securing the incubator's commitment to expand.

Step 5: Facilitate process and keep promises made

Once buy-in from all parties has been secured, do all that is necessary to ensure that the process of actually establishing the new incubator branch is as easy as possible.

If premises have been promised, make sure they are readily available when needed. If there are administrative procedures to follow, make sure these are as easy as possible for the incubator. Perhaps most importantly, if state funds have been promised to support the incubator's expansion, ensure they are available when needed.

Consider appointing an individual or small team to take full responsibility for the process of facilitating the incubator's expansion.

3.2. HOW DOES ONE ADAPT AN EXISTING INCUBATOR BUSINESS MODEL?

Adapting an existing incubator may be the best strategy to realise the identified incubation opportunity. In that case, prepare to play an active role in the process of adaptation. The identified incubator will need to be convinced to enter unfamiliar territory, which may not be easy. Be sure to focus on building a solid case for why a particular incubator model will be successful in the chosen area.

While starting new incubators is the focus of this handbook, the following steps will assist in adapting an existing incubator:

Step 1: Review incubation opportunity

See Section 2.1

Step 2: Identify existing incubators

Scan the web or relevant literature for information on existing incubators to identify a long list of potential incubators whose business models might be relevant.

Annex 4 in this handbook contains a list of incubators that can act as a starting point. Consider contacting some of these incubators and tapping into existing networks to identify other incubators that might be relevant.

Step 3: Identify adjacent successful incubation services

Using the list developed in Step 2, identify incubators whose services and expertise could apply to the incubation opportunity. One way to do this is to determine whether local SMEs have similar needs to those of other incubators. Two groups of SMEs with similar needs are likely to require similar services. Consider the following as examples of indicators of this similarity:

- a. Technical requirements, such as similar education or manual skill requirements;
- b. Equipment needs, such as similarly limited access to expensive machinery;
- c. Space needs, such as similar types of office space and telecommunications required; and
- d. Market structure, such as similar concentrations of large industries in SME markets.

Judging whether the incubators are successful may be more difficult. If an incubator has been identified, consider reaching out to other incubators involved in similar sectors to get their opinions. Further, review the incubator's website or publications. Look for some of the following:

- a. Clear indicators of success: Incubators with a clear idea of how to track their performance are more likely to be effective in improving it;

- b. Clear evidence of success: It is encouraging if incubators present clear evidence or data related to how they are performing according to their indicators of success; and
- c. Private sector partnerships: Private sector endorsement, especially if the endorsing firms are actually using the services of the incubated SMEs, is a good indicator that incubation is working.

Example: Eden Municipality recalls that the chemical manufacturing SMEs it has decided to prioritise all require technical assistance, equipment and facilities for the processing of industrial chemicals. Research reveals that there is an incubator in Nelspruit that assists SMEs producing chemical fertilizers for large farms. This incubator provides technical training to its clients and rents out highly equipped facilities to them.

Testimonies on the incubator's website indicate that over a four-year period it has been able to develop more than 30 successful SMEs, each employing an average of 15 people. Furthermore, this incubator is financially sustainable and does not depend on government grant funding. The incubator's partnership with four large private sector firms also serves as an indication that the incubator has been successful in its community. Eden Municipality decides that it is worth engaging with this incubator.

Step 4: Engage existing incubators

Once an appropriate incubator has been identified, reach out to this incubator via e-mail or telephone to discuss whether it would be at all interested in adapting its business model. This will not represent a full 'pitch', but rather serve to gauge whether there is any interest in exploring opportunities further.

Be sure to emphasise that should adaptation be feasible, various avenues of state support will be investigated (see Step 5). There will likely be multiple rounds of communication as details are discussed and plans made.

Consider using existing networks and contacts that have interacted with the incubator before, as they may smooth the communication process.

Step 5: Identify levers to create an enabling environment

Once an incubator whose services and expertise apply to the incubation opportunity has indicated initial interest, work on building a business case to attract it. Much can be done to convince the incubator that adaptation will be worthwhile. Figure out what kinds of support the province or municipality in your area can offer to incentivise the incubator to co-operate in adapting its business model.¹³ Consider things like:

- a. Grant funding available;
- b. Premises that can be offered at reduced cost;
- c. Linkages with existing SMEs to make outreach easier; and
- d. Complementary services, such as BDS offered by a municipality or province.

¹³ Buys and Mbewana (2007) emphasise the importance of supportive policies to incubation in South Africa

Inform the incubator of the support available, including that offered by the ISP (see Section 4), during the ongoing discussion process identified in Step 4.

Example: Eden Municipality recognises it needs to provide incentives for an identified incubator. The municipality decides to provide a grant for programmes that contribute to the development of the chemical manufacturing sector. It also commits to providing premises to the incubator on a long-lease basis and at a subsidised cost. Lastly, its enterprise development unit commits to the training of the new incubator's staff.

Step 6: Appoint incubator champion

Select an individual or group of individuals to lead the launch of the incubator based on discussions with the relevant incubator(s). This could be: a) a member of the existing incubator; b) the relevant provincial or municipal representative; or c) a local individual.

Step 7: Ensure champion follows outstanding steps in starting an incubator

Depending on how closely the existing incubator business model matches the incubation opportunity, many of the key elements required to start the 'new' incubator will already be in place. Still, be sure to play a guiding role in ensuring that the steps in Section 3.3 below are followed by the incubator champion, as far as is necessary.

If there is doubt as to which steps are still necessary, consult with both the incubator champion and the incubator whose business model is being incubated. By now, they will likely have a good idea of which parts should change and which should stay the same.

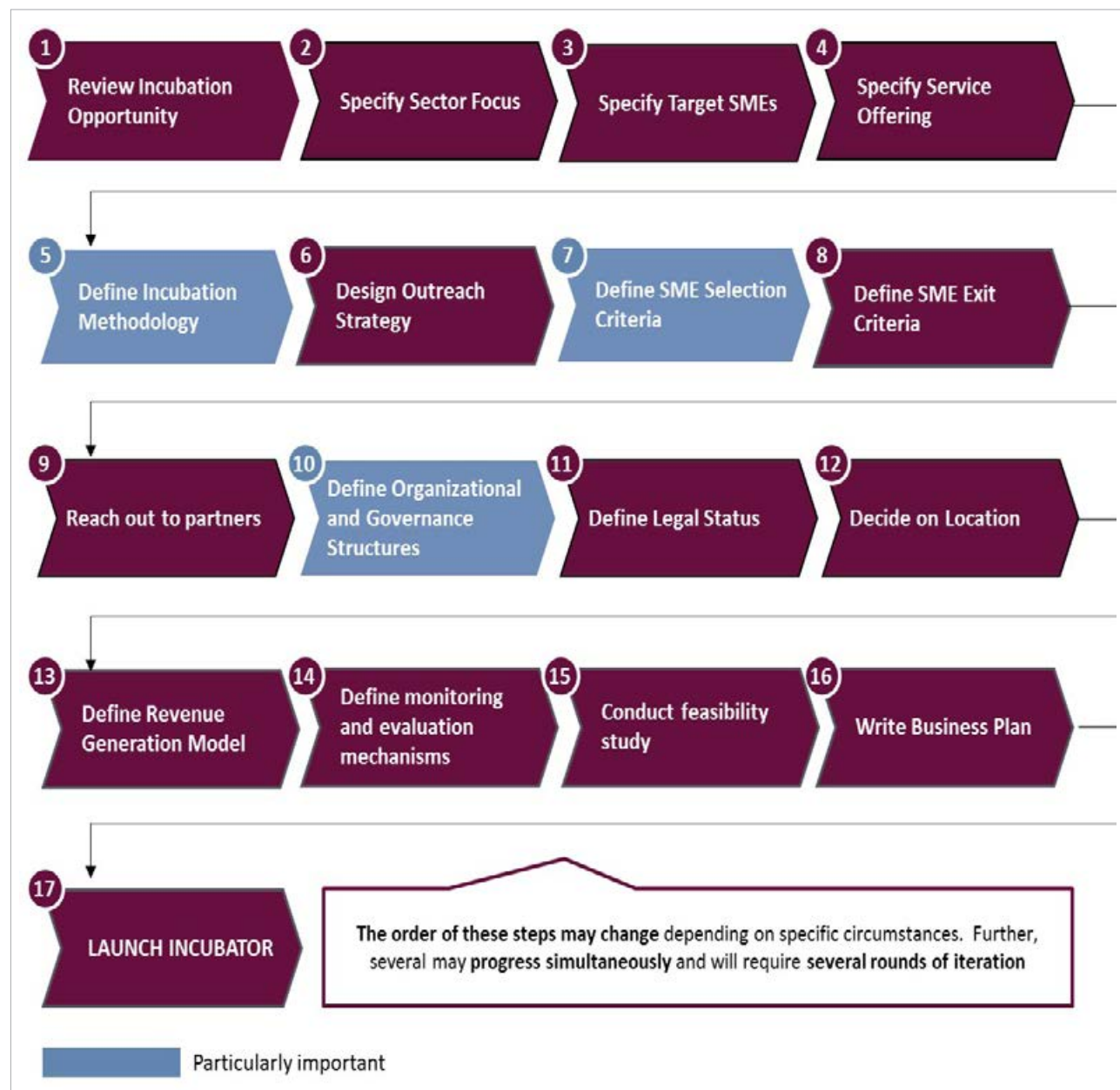
3.3. HOW DO I START A NEW INCUBATOR?

If the opportunity calls for a new incubator to be established, congratulations! The task is both daunting and exciting. Incubators are difficult to establish and maintain, but have great potential to help SMEs grow.

If one of the other options is more appropriate, this section will still be useful. Understanding the steps required to launch an incubator is important in knowing what kind of incubator will be best suited to incubation needs and what to look out for to ensure success.

There are many more steps involved in starting a new incubator than in expanding or adapting an existing one. Figure 10 outlines these and gives an idea of the structure of this section.

Figure 10: Overview of Steps in Starting an Incubator



Before exploring the actual steps, it is important to highlight three that incubators themselves repeatedly identify as critical to the success of incubation:

- 3.3.1. Incubation methodology** – This is the incubators' 'road map' for how to get SMEs from point A (struggling SME) to point B (sustainable enterprise). It involves both content in key learning areas and the methods used to deliver that content. Without a clear and effective incubation methodology, the incubator will find it difficult to build SME competencies in the way it intends. This methodology should include structured activities to support both pre- and post-incubation phases.
- 3.3.2. SME selection criteria** – How incubatees are chosen plays a large role in incubator success. It is important to consider whether an SME can thrive in the marketplace and its needs fit with the particular incubator's services. Remember not to ignore the personality, drive and motivation of the applicants. Entrepreneurship can be extremely difficult and requires a specific type of person.
- 3.3.3. Governance** – As important as it is to select the most suitable entrepreneurs for incubation, it is equally important to think carefully about the people who govern and run the incubator. An incubator is a business like any other. Without experienced and committed people to manage it, it will fail.

These deserve special attention, mostly because they are often easy to forget and should be kept in mind as Steps 1 to 17 below are followed.

Now that a clear idea of what to look out for has been established, follow these steps to start the incubator in question:

Step 1: Review incubation opportunity

See Section 2.1.

Step 2: Specify sector focus

The process of identifying the incubation opportunity should have identified whether to focus on a specific sector and what that should be. During this step, pin down exactly what is meant by "sector focus" – particularly if circumstances have changed since opportunity identification (the process no doubt took time).

If the incubator will only focus on one sector, decide whether further specification is necessary (e.g. agro-processing as opposed to simply agriculture). If the incubator will focus on multiple sectors, decide whether the opportunity identification calls for a limited number of sectors or for general business support available to all sectors.

Bear in mind that focus is key¹⁴. Don't try to solve every problem at once. It may be easier to build competency in a very specific sector or sub-sector before branching out to others. Having a single-sector focus also allows one to harness benefits of agglomeration – that is, having SMEs located close to one another so that they can share resources and knowledge.

If the incubator is to provide multi-sector support, be sure to focus on a limited number of crucial services that it can reasonably expect to deliver well.

Example: Dr Kenneth Kaunda District Municipality's SMEs cover a wide range of sectors and, while many have ready markets and viable ideas, they face common challenges related to business literacy. The municipality decides that no sector focus is necessary and that it will serve all sectors.

Step 3: Specify target SMEs

Think carefully about whether the incubator should focus on supporting struggling SMEs that would not otherwise survive or propelling high-potential SMEs to boost their contributions to economic growth.

The following are three groups for consideration as targets. It is best to pick only one, as SMEs in different groups will require different incubator expertise:

- a. Entrepreneurs with business ideas that have yet to start actual businesses – potential to create livelihoods, but require extensive guidance in business basics;
- b. Start-up SMEs that are vulnerable – potential to grow livelihoods, but require targeted expertise on business improvement; and
- c. High-potential SMEs with strong growth prospects – potential to drive job creation, but require targeted expertise on overcoming barriers to scale.

Any additional social considerations should be specified during this step – for example, a focus on women or disabled entrepreneurs.

Example: Ubuntu Municipality decides that its proposed incubator will focus on female entrepreneurs in the clothing and textiles sector. The incubator will specifically target female-run, start-up SMEs that are vulnerable. It recognises common challenges faced by this group: low literacy levels; low business acumen; low technical skill; and an inability to access funding due to a lack of collateral (property).

¹⁴ This is echoed by the European Commission (2002), which notes that more successful incubators often have a particular technology and business focus

Step 4: Specify Incubator service offering

By now, there should be a clear idea of what sectors and SMEs the incubator will serve. Now is the time to figure out the services that will be offered to them.

As with much of the incubator set-up process, the decision of which services to offer should be based on the incubation opportunities identified in Section 2.1. A three-step process is recommended:

- a. Specify target SME needs – tailor understanding of the needs identified in Section 2.1 (incubation opportunity) with the specific needs of the target SMEs; vulnerable start-ups, for example, will probably have lower financial literacy than high-potential SMEs;
- b. Decide on broad basket of services – based on the target SME needs, select whether the incubator will offer BDS, physical space or funding or combinations thereof; and
- c. Specify actual services – specify which particular components of BDS, physical space or funding will best serve SME needs, e.g. mentorship, financial literacy training and access to desk rental.

Example: Blouberg Municipality reviews its identified opportunity (a need for local garment manufacturers) and its target group of SMEs (unskilled women). It decides to focus on technical training, basic financial literacy and access to machinery. It decides not to provide funding but rather to assist its SMEs in accessing the Isivande Women's Fund, a government-based fund for women entrepreneurs.

Step 5: Define incubation methodology

The incubation methodology is the incubators' 'road map' for how to get SMEs from point A (struggling SME) to point B (sustainable enterprise). During this stage, think carefully about exactly how the chosen services will be delivered to SMEs, as well as how this will help them develop.

There are three basic steps to determining an incubator's methodology:

- 5.1. Define the incubator's goal** – Specify how the incubator hopes to impact the target group of SMEs or what 'success' looks like for an incubated SME, based on existing knowledge of the service offering, target SMEs and incubation opportunity.
- 5.2. Choose operational model** – determine which of these three models is most suitable:
 - 5.2.1. Virtual incubation model** – Provides BDS remotely via the internet or at locations suitable to entrepreneurs/SMEs. Most suitable to SMEs that are scattered over a wide geographical area and have good internet connectivity;

5.2.2. Physical or On-site Model – Provides services and access to resources from a physical facility. Most suitable to SMEs that require physical engagement and are clustered in the same general vicinity and/or lack access to internet; or

5.2.3. Mixed Model – Provides services both through remote means and from a physical facility. Most suitable for incubators with SMEs at different levels of development – some needing extensive and others occasional support.

5.3. Choose product or programme – Determine whether SMEs require a predefined programme, which specifies combinations of services and the sequence and form in which they are delivered, or only access to individual products as they see fit. See Section 1.2 for more details. Whichever you choose, tailor the content and its mode of delivery to the needs of the SMEs and the goals defined in Step 5.1.

Step 6: Design outreach strategy

It is now known what services the incubator will offer, how it will offer them and which SMEs they will be offered to. Now a plan is needed to tell these SMEs about the incubator.

Don't assume that SMEs will find out about the incubator on their own, especially since incubation is a relatively new phenomenon in South Africa.

The following steps should be followed in deciding on an appropriate outreach strategy:

6.1. Identify location and profile of target SMEs: Determine where target SMEs are located and the ways they are likely to communicate.

6.2. Review outreach options:

6.2.1. Mass media such as television, newspapers and radio;

6.2.2. Social media such as Facebook, Twitter and other online platforms;

6.2.3. Targeted media such as trade magazines or sector-specific publications;

6.2.4. Networks and contacts involved in entrepreneurship or activities linked to small businesses; and

6.2.5. Events such as roadshows, open days and information sessions.

6.3. Select option best suited to SME location and mode of communication – Choose a strategic combination of outreach approaches (mass media and networks, for example) to maximise impact.

Example: Incubator C's target group of SMEs are agricultural-based SMEs located in rural areas. These SMEs do not have internet connection; the literacy levels of most entrepreneurs in this group is low. The incubator adopts a targeted approach to use radio to spread awareness about its services. It also decides to use roadshows to interact more directly with its target group.

Step 7: Define SME selection criteria

Defining appropriate criteria for selecting which SMEs to incubate is perhaps the most important aspect of incubator success¹⁵. As such, it deserves a little more space and attention.

It is not only important to identify entrepreneurs with high potential, but also those that fit with the specific services and mission of the incubator.

It is useful to imagine the process very much like a job interview at a private firm. The firm must find a way to identify individuals who can do the core tasks the job requires. However, it must also identify if those individuals will be able to do that job in the firm's specific environment. For example, an accountant who is very easily distracted will not perform well in an open-plan office.

For incubators, the "core function" of any entrepreneur is the potential to make their business a success. The "specific environment" is the incubator's particular mix of services, infrastructure and personnel.

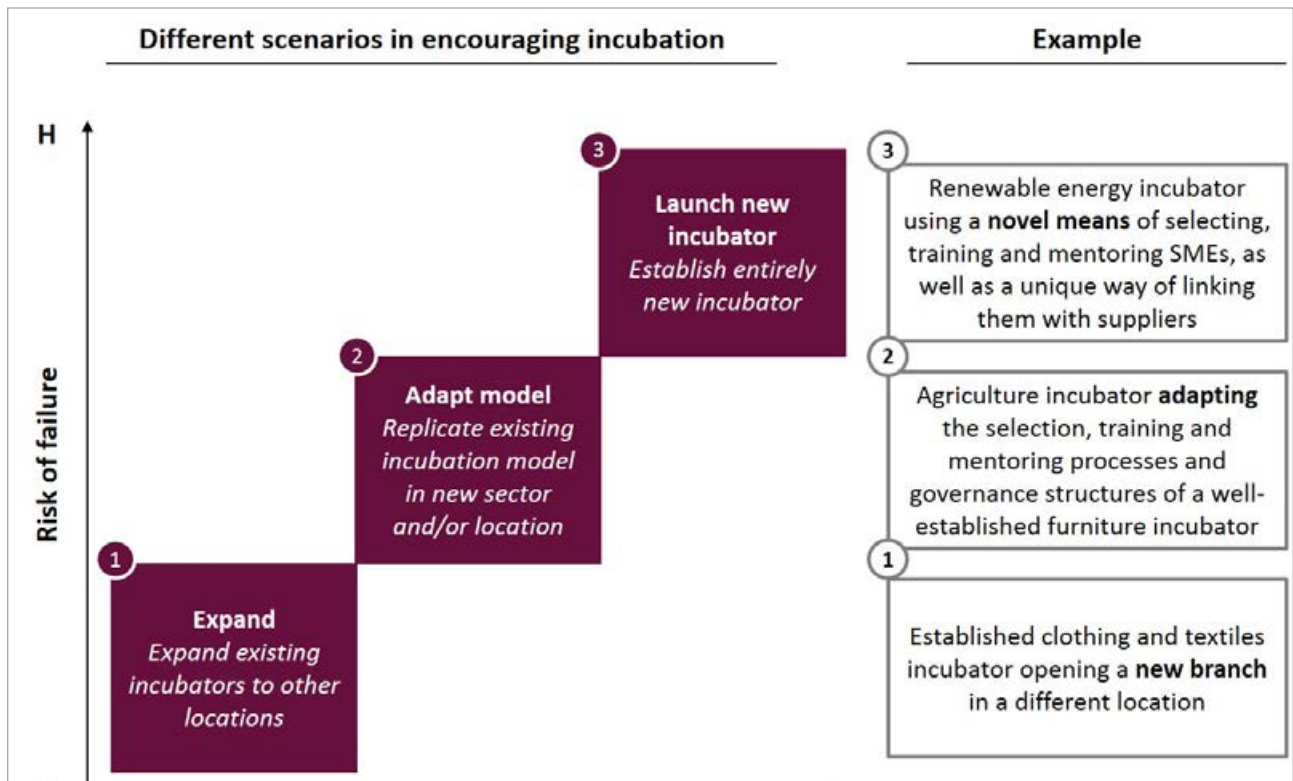
Assessing whether the SME is both able to make a success of their business and will be a good fit with the incubator's environment can be done via:

- a. Assessing the entrepreneur** – Factors such as personality, motivations and education. This is important to ascertain whether the person has the necessary skills, ambition and self-discipline to make the difficult transition between idea and reality or between small and large scale; and
- b. Assessing the entrepreneur's business (idea)** – Factors such as demand for product or service, size of market and viability of business plan. This is important to ascertain whether the business model itself can realistically survive in the market.

¹⁵ This point was stressed by almost all incubators interviewed, as well as by the European Commission (2002) and Buys and Mbewana (2007)

The following criteria could be considered as 'core' elements needed to assess both the entrepreneur and his/her business.

Figure 11: Core SME Selection Criteria



The criteria above will not be equally important to all incubators, nor will all be relevant at all times. Some incubators will need more criteria, some less. Some incubators will need to place a great deal of emphasis on technical qualifications, for example, while others may ignore education completely. Keeping this flexibility in mind is key!

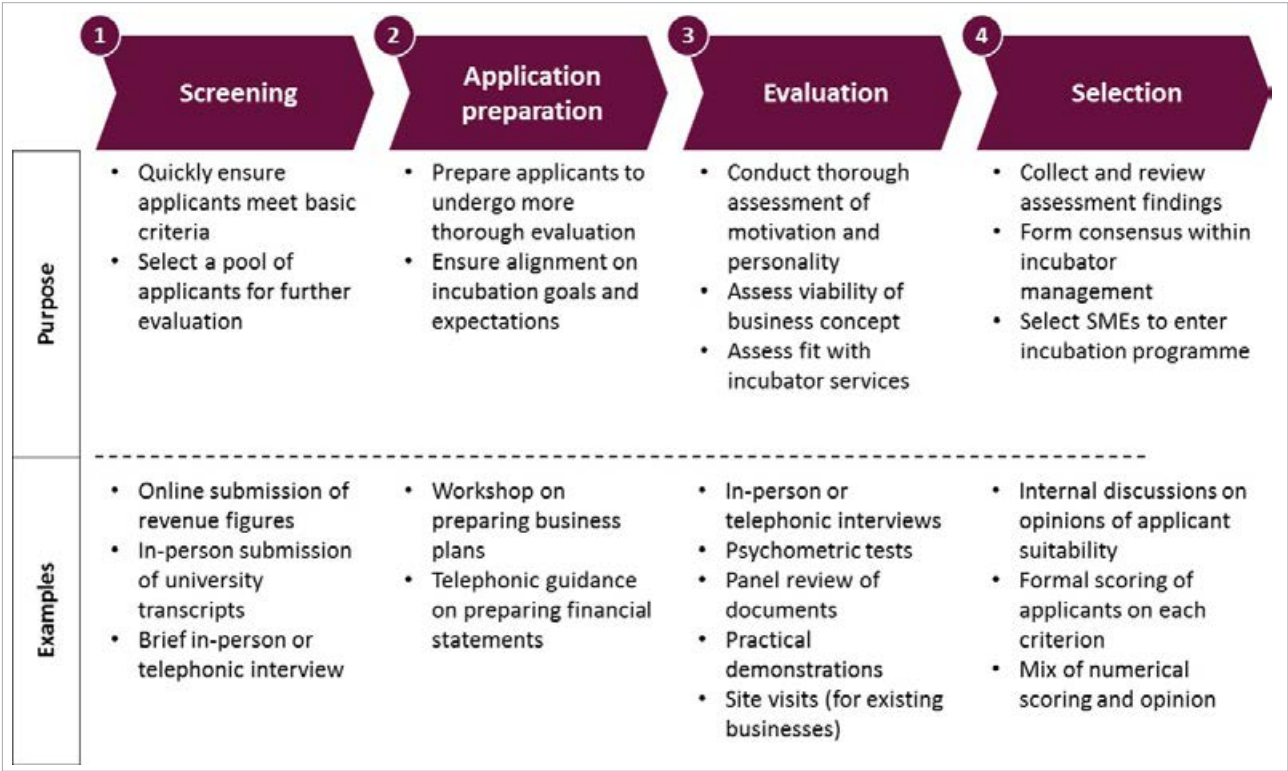
There is one criterion, however, that should be considered important by all incubators, regardless of their focus. That is the motivation and drive of the entrepreneur. Running a business is a tough job. It can be lonely, challenging, confusing and uncertain. To be successful, entrepreneurs need to be committed to their ideas and have the self-discipline necessary to see them realised – through the good times and the bad.

A focus on motivation and drive has the following benefits that are key to incubator success:

- a. It allows one to distinguish between those that want to run a business and those that want a pre-existing job. This is important. You're not doing job-seekers or the incubator any favours if you prepare them for a path they don't really want to go down.
- b. It allows one to determine what excites and motivates the applicant. This is absolutely pivotal to knowing how to build their capacity and help them succeed.
- c. It allows one to determine if the applicant is seeking support because they want to grow their business or has developed a business because they want support. There are likely to be applicants that see incubation as a way to access grant funding or otherwise benefit from state support. You should exclude these individuals.

Like selection criteria, the process of selecting SMEs will vary by incubator. However, the following broad steps should be considered:

Figure 12: Illustrative Process for Selecting Applicants for Incubation



Examples

- a. A multi-sector incubator focusing on start-up entrepreneurs requires a business plan, matric certificate and reliable transport to attend incubator sessions. It requires the submission of documents and supplements this with interviews, which also serve to determine motivation and fit with incubator staff personalities.
- b. A furniture manufacturing incubator focusing on early stage businesses requires a registered business, a relevant post-secondary diploma, experience operating basic furniture manufacturing machinery and R100 000 in annual revenue. It requires the submission of documents online and carries out two rounds of interviews, the first to determine knowledge and the second to test skill on the incubator's machinery.

Step 8: Define SME exit criteria

Incubation is not supposed to last forever¹⁶. At some point, SMEs should be ready and willing to take full responsibility for growing their businesses and should no longer require incubator support to survive.

It is important that the incubator decides what criteria it will use to assess at what stage SMEs should leave the incubation programme. The following are different examples of types of exit criteria:

- a. **Time-based:** Puts forward a set duration after which incubation support ends;
- b. **Size-based:** Ends incubation support once the SME exceeds a certain size in, for example, revenue or customers; and
- c. **Performance-based:** Ends incubation support if SME fails to live up to measures of performance, either in terms of business or behaviour.

Example: Incubator A has an incubation programme lasting for three years. Applicants leave after three years or as soon as:

- a. an SME exceeds R1 million in revenue for three consecutive months; or b) an SME is absent for three planned incubation sessions without prior explanation.

The end of incubation can be difficult for an SME, as well as for incubator staff that have invested time and effort in helping them grow. Because of this, it is important to have a very clear understanding of why incubation is no longer necessary or feasible. Here are some important aspects to consider in coming to this understanding:

- 8.1. Goals of incubation:** Exit criteria should allow for the identification of circumstances under which incubation has been deemed to be 'successful' and should not encourage SME exit before this point or incubation beyond it;

¹⁶ For example, the European Commission (2002) notes that an important measure of an incubator's success is their ability to graduate SMEs from the programme in a timely fashion.

- 8.2. SME dependence on incubator:** SMEs may become dependent on the incubator's support services if they are represented as unlimited. Exit criteria should very clearly communicate that at a certain point the SME needs to survive on its own;
- 8.3. Capacity:** Exit criteria should take into account the capacity of the incubator to continue support to the SME. Mentoring services may be best suited to SMEs with few customers, for example, and incubator staff may not be able to advise SMEs properly beyond a certain number; and
- 8.4. The needs of others:** There will likely be many SMEs that need support, but are not getting it. While those in the programme should not be excluded before they are ready simply because there is a high demand for services, it is important to remember that the incubator has duties beyond its existing SMEs.

Step 9: Partner outreach

Do not feel as if this process needs to be done alone. There are many potential partners that could offer assistance and expertise; be sure to try to involve as many of these as possible.

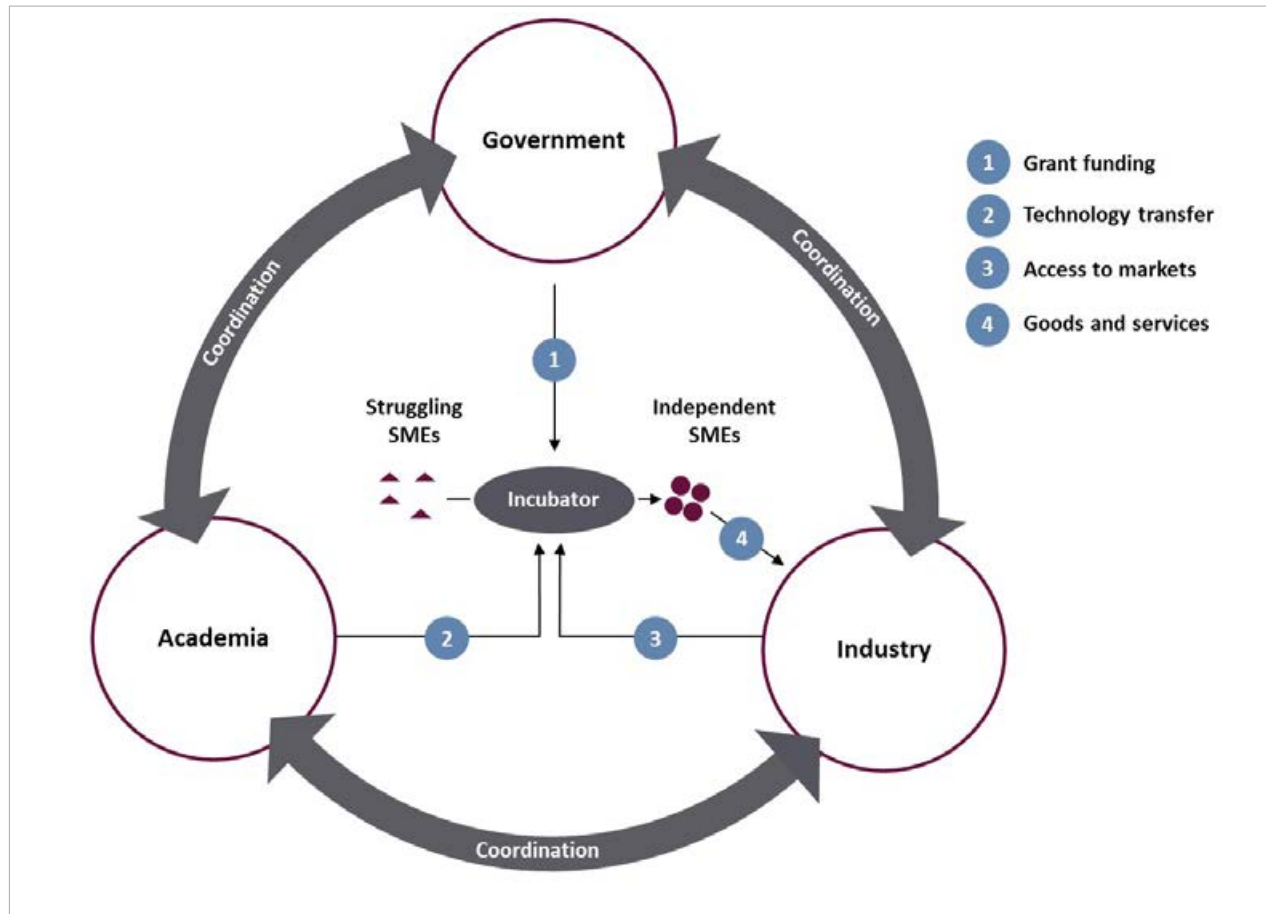
Potential partners include private sector firms, academic institutions, civil society organisations and other government departments. Of these, private sector firms should be viewed as the primary target of partnership for three reasons:

- 9.1. The ISP explicitly supports incubators launched in partnership with the private_sector through grants of R10 million per year for three years (see Section 4.1.1);
- 9.2. Private firms provide a ready market for SME goods and can help guide incubator activities to suit existing supply chains; and
- 9.3. Many private firms have enterprise development programmes specifically aimed at supporting small businesses.

Whichever partner is chosen, make sure to have a clear idea of both the value of the incubator to them and what incentives can be offered to bring them on board.

The figure below provides an illustrative example of a healthy incubation ecosystem.

Figure 13: Illustrative Incubator Ecosystem



9.4. Consider the following steps:

- 9.4.1. Identify the various areas the incubator needs support in, such as market linkages;
- 9.4.2. Identify relevant partners that can support each need area, such as academic institutions to assist with technology transfer;
- 9.4.3. Investigate whether the identified potential partners have incubation support programmes, including SME support and/or enterprise development programmes;

- 9.4.4. Clearly define the type of support required from each identified potential partner, taking care to clearly define their role in the establishment and support of the incubator;
- 9.4.5. Ascertain ways you can incentivise potential partners, such as through the provision of grant funding;
- 9.4.6. Develop a relevant strategy to contact and pitch to potential partners, making full use of existing networks and contacts;
- 9.4.7. Develop specific pitch material for each of the identified partners, making sure to tailor this to the partner's incentives; and
- 9.4.8. Approach partners, taking care to explain the purpose of the visit.

Example: The City of Cape Town realises that local clothing retailers offer potential as a market for the incubatees of its proposed clothing and textiles incubator. It also believes that the retailers would benefit from quality improvements delivered by incubation: while retailers would like to source locally due to proximity advantages, quality is currently too low in the local supply chain.

The City approaches a retailer that has indicated interest in establishing an Enterprise Development Programme. The municipality argues that by committing to purchase goods from incubatees, the retailer both satisfies enterprise development goals and builds valuable capacity in its local supply chain.

Step 10: Define organisational and governance structures

Choosing who should run the incubator is as important as choosing who is selected for incubation¹⁷. An incubator, like any other business, needs experienced and committed management if it is to survive.

Generally, there should be at least two tiers of management: a Board of Directors/Governors and the day-to-day incubator management. The Board of Directors oversees the general progress of the incubator, provides technical advice and helps the incubator define its strategic objectives. The incubator management makes sure that the goals decided upon are actually executed.

Consider the following steps in selecting a capable leadership:

- 10.1. Clearly define the functions of all levels of management in line with the incubator's purpose, goals and resources: Responsibility is key! The individuals governing and running the incubator must have a clear understanding of what their role is and what is expected of them;

¹⁷ See the World Bank's recently published *Incubation Toolkit* (2014) for further discussion of this.

- 10.2. Compose a highly representative Board of Directors: Successful incubators have significant community buy-in and leverage existing experience in incubation. Make full use of experts in the incubator's line of work or in incubation itself, whether these comes from academia or the private sector. Ensure that the Board reflects a diverse range of community interests, both for added insight and to avoid conflict; and
- 10.3. Select competent and committed management personnel: Determine what to look for in the individuals who will be responsible for keeping the incubator afloat. Once you develop sensible criteria, be sure to screen individuals thoroughly to ensure that they have the right skills and attitude. Look for some of the following:
 - 10.3.1. Experience running and managing businesses will be valuable in advising or overseeing others who do the same;
 - 10.3.2. A balance between compassion and distance: Incubators often deal as much in personal as in organisational development, especially when target SMEs are from disadvantaged communities, which requires a sincere regard for the lives and problems of incubatees. At the same time, personnel need to be able to abstract from incubatees' personal issues in order to make evidence-based decisions on their businesses; and
 - 10.3.3. Aptitude: Incubation will require diligent, motivated individuals that are able to engage with multiple people and businesses simultaneously.

Step 11: Define the Incubator's Legal Status

An incubator is a business and, like all businesses in South Africa, needs to be legally registered. Because the legal status of an incubator affects its structure, the kind of funding that it can access and its revenue generating model, it must be carefully considered. Follow these steps:

- 11.1. Review the objectives of the incubator and determine those of the relevant stakeholders: Specify what the goals and desired outcomes of the different stakeholders are.
- 11.2. Determine what the incubator's external systems of support will be: Map out the incubator's relationship with partners and review what the conditions for their contributions are.
- 11.3. Decide whether the incubator exists as an independent entity or as an entity connected to an existing organisation: Decide whether any formal ties should exist between the incubator and a partner organisation (a corporate, for example) or whether it should be completely independent
- 11.4. Specify the legal status of the incubator: Based on the information gathered, decide whether the incubator should be a partnership company, Limited Liability Company, social enterprise or NGO.

An incubator can be a non-profit organisation and still be a financially sustainable entity (e.g. social enterprises).

The profit status of an incubator influences its revenue generating model. For example, many for-profit incubators tend to utilise equity-swap models to generate revenue.

Step 12: Decide on incubator location

The previous steps should have established a fair idea of how the incubator will be structured and governed, who it will target and how it will engage with its target group of SMEs. The next step is to decide on where the incubator will be located.

The location of an incubator is very important, particularly if services will be provided on-site, as it will determine how easily SMEs can access incubation support. Consider the following steps:

- 12.1. Identify infrastructure requirements based on incubator's service offerings:** If the incubator focuses on information technology, for example, it will likely require reliable access to the internet;
- 12.2. Determine existence and location of clusters of target group of SMEs:** If the incubator focuses on urban SMEs, for example, try to locate the incubator in an urban area that is accessible to them. If SMEs are clustered in the same area, consider the benefits of locating in a place where they can easily share resources;
- 12.3. Determine locations of upstream or downstream activities¹⁸:** Locating the incubator close to potential SME markets may enhance access to and understanding of these markets;
- 12.4. Identify partner resources:** In some cases, the entire incubator may be designed around it being located in a corporate or academic partner's premises. If not, and if it is unclear whether it is best to use a partner's space or not, be sure to investigate whether any partner locations fit the incubator's needs;
- 12.5. Scan selected area for suitable premises that meet the incubator's infrastructure requirements:** If an incubator will not be located within a partner's premises, search for a suitable location using available services (e.g. realtors) and considering the requirements you have identified. Bear in mind the potential need for expansion in the future.

¹⁸ See Section 2.1 for discussion of upstream and downstream activities

Example: Incubator B is planned to cater to SMEs in the ICT sector. It recognises that the required skills for this sector are concentrated in urban areas. Furthermore, it recognises that it can leverage the expertise at the local university, which has active programmes focused on the ICT sector.

The local university is selected as Incubator B's location, as this will give it ready access to its target group of entrepreneurs and/or SMEs and also allow it to benefit from technology transfer from the university.

Step 13: Define revenue generation model

Step 13 could also be referred to as a 'sustainability model', which is a critical step in enabling an incubator to maintain itself. The incubator needs to reach financial sustainability if it is to ever help SMEs do the same. Incubation can be expensive, so think carefully about the ways in which revenue will be generated and costs met. Consider the following steps:

- 13.1. Determine revenue goals** – Based on the goals of the partners involved, specify whether the incubator hopes to simply break-even or make profits for its investors;
- 13.2. Estimate costs** – Be forward-thinking and have clear expectations of what the incubator will need to spend to execute its operations and offer services. Examples of cost elements include staff salaries, equipment, marketing expenses, space rental and equipment maintenance;
- 13.3. Determine core revenue-generating systems** – Decide on how the incubator will bring in the majority of its money. This could be from fees paid by SMEs, for example, for desk rental or services offered. Take care to be sure that SMEs can afford the amounts being charged, if this is the route chosen; and
- 13.4. Determine secondary revenue streams** – Look for ways to supplement main income. There is funding available to support incubators, as Section 4 explains. Be sure to investigate the various funds and grants available, as well as think creatively about how to generate additional funds – renting out space at night, for example, for events.

Example: Incubator C's revenue goals are to make profits for its investors. It decides that its target group of SMEs (high-potential SMEs that are already operational and have a proven track record) will be able to afford fees charged for incubation services. It also decides to rent out its facilities to non-incubatees at night and over weekends. As secondary sources of revenue, it secures the funding of venture capitalists and private equity firms.

Step 14: Define monitoring and evaluation mechanisms

It is important to find ways of ensuring that the incubator is doing what it is supposed to be doing. This can only be done if there is a clear idea of what it is expected to achieve and a means to measure whether it is meeting these expectations. Consider the following steps in setting up a monitoring and evaluation system:

- 14.1. Develop performance indicators:** Identify specific indicators that will determine whether the incubator is 'successful'. These should be in line with the incubator's purpose and goals, as defined in the previous steps. Examples include 'number of SMEs incubated', 'growth in SME revenues' and 'incubator profit'. Additional examples appear in Annex 2;
- 14.2. Develop inclusive feedback mechanisms:** There should be a system to monitor feedback from incubated SMEs as well as incubator staff to assess their expectations and satisfaction levels;
- 14.3. Develop thorough internal reporting systems:** The incubator should produce regular reports that contain both quantitative and qualitative assessments of the incubator's performance; and
- 14.4. Develop systems to monitor and track the performance of SMEs once incubation ends:** It is important to understand how graduates from the incubator perform to be able to understand what works and what does not.

Step 15: Conduct feasibility study

At this stage, almost all steps to launch the incubator have been covered. However, it is important to conduct a feasibility study to test ideas, secure community buy-in, identify new partners that may be interested and identify errors in assumptions and planning. Do not neglect this step, as there are many examples of incubators that have made critical errors in planning and implementation due to a failure to properly test their ideas¹⁹. Consider the following steps:

- 15.1. Confirm incubation opportunities:** Verify that there is still justification for establishing the incubator. Further, clearly lay out the benefits and advantages of implementing the incubator and consider whether they still apply;
- 15.2. Engage stakeholders:** Community buy-in is important to ensure that the incubator operates in a supportive environment. Further, reaching out to potential influencers may be a good way to engage additional partners. Reach out to civil society organisations, other government departments, academics and other stakeholders to discuss the incubator and determine if it is truly viable; and
- 15.3. Confirm revenue sources:** Ensure that any funding commitments secured will be honoured and validate whether the assumptions that underpin core revenue streams (e.g. that target SMEs lack office space and are willing to pay for it) still apply.

¹⁹ See World Bank (2014) for further discussion on the importance of this step

Conducting a feasibility study for a proposed incubator, if properly done, can provide a solid basis for judging the social, economic and political viability of the proposed project. A feasibility study should also include the likelihood to sustain the development of enterprises in a certain municipality and industry and not to create saturated markets by over-producing similar firms. Those who prefer to do a feasibility study in step 0 may do so.

Step 16: Write a Business Plan

Once all elements of the incubator have been planned, as per steps 1 to 15 above, they need to be collated into a Business Plan that clearly explains the rationale for and components of the incubator.

The purpose of the Business Plan is to explain why the incubator is needed, what the incubator will do and how your incubator intends to do it. It can be used to apply for funding, attract partners and plan the launch of the incubator.

The Business Plan does not need to be long or complex. Include only the most relevant information needed to convince anyone reading it that the incubator addresses a market need and will be feasible to launch and operate. Use the following template as a guide for deciding what information should be included (see Annex 3 for a more detailed structure):

16.1. Executive Summary – Summarises the key information in the Business Plan, including market need fulfilled, incubator service offering, target SMEs and operational and financial plan. Try to write this first and refine it as other sections progress. This will help highlight the most important points right at the start. Keep it to about two pages, if possible.

Imagine answering this question: “Can you tell me about the incubator in two minutes?”

16.2. Market overview and need fulfilled – Describes why the incubator is needed. This section should contain information on how the incubator fits into any government development priorities, what the demand for SMEs’ services will be and what resources will contribute to the incubator’s success (e.g. access to key expertise or suppliers).

Imagine answering this question: “Why should your incubator exist?”

16.3. Services offered – Describes particular services offered and how they will fulfil the goals of the incubator. This section should include details of the types and combinations of Business Development Services, funding and physical space offered to the incubators. It should also outline how the incubatees will receive the services – e.g. ‘financial training will be provided on-site through lectures’.

Imagine answering this question: “What does your incubator actually do for SMEs?”

16.4. Target clients – Provides detail on SMEs to be incubated. This section should include what sector, if any, the incubator will focus on and what criteria will be used to decide who enters the incubation programme and when they will exit.

Imagine answering this question: “How do you decide who you incubate and when incubation is ‘done’?”

16.5. Revenue generation model – Specifies how the incubator will make money. This section should include information on the sources of revenue the incubator will rely most on – e.g. desk rental fees. It should also include details of any other sources of income that will help the incubator stay afloat – e.g. donor funding.

Imagine answering this question: “How will your incubator survive financially?”

16.6. Organisational structure – Outlines who will own and manage the incubator. This section should contain details of the legal status of the incubator, how profits are allocated, composition of the Board of Directors and who will manage the day-to-day operations of the incubator. Brief staff profiles, if available, should be included – e.g. ‘mentors will have five years of experience in business mentorship’.

Imagine answering this question: “Can you tell me about the different people who make decisions about how the incubator is run?”

16.7. Marketing plan – Describes how the incubator will market itself, both to SMEs and potential partners. This section should include the avenues that the incubator will use to reach potential incubatees – e.g. newspapers, radio stations and public open days. It should also include information on how the incubator will seek out and connect with potential partners, e.g. other incubators and academic institutions.

Imagine answering this question: “Can you tell me about the different people who make decisions about how the incubator is run?”

16.8. Operating plan – Describes the practical elements of the incubator and the steps that will be followed to set it up. This section should include details of where the incubator is located, why it is being located there and what equipment and infrastructure (e.g. internet) is required. It should also clearly lay out the steps that will be followed to open the incubator and begin operations, including timelines for each of these.

Imagine answering this question: “How are you actually going to get this incubator up and running?”

16.9. Financial plan – Describes the financial resources required to launch and run the incubator. This section should include estimates of fixed (e.g. equipment purchases) and variable (e.g. electricity and water) costs, and a ‘breakeven analysis’ that shows at what point the revenues generated by the incubator will equal the total costs incurred by the incubator.

Imagine answering this question: “How much will the incubator cost?”

16.10. Monitoring and Evaluation – Describes how the incubator will monitor its performance and make sure that it is reaching its goals. This section should include what criteria the incubator will use to assess its performance (e.g. growth in SME customers) as well as how it will go about collecting and reporting information on these criteria.

Imagine answering this question: “How will you make sure that the incubator is doing what it is supposed to do?”

Step 17: Launch the incubator

After all the diligent preparation and planning of Steps 1 to 16, the incubator is finally ready to be launched. Congratulations! The launch process is likely to include much organisation and co-ordination, but consider the following basic steps:

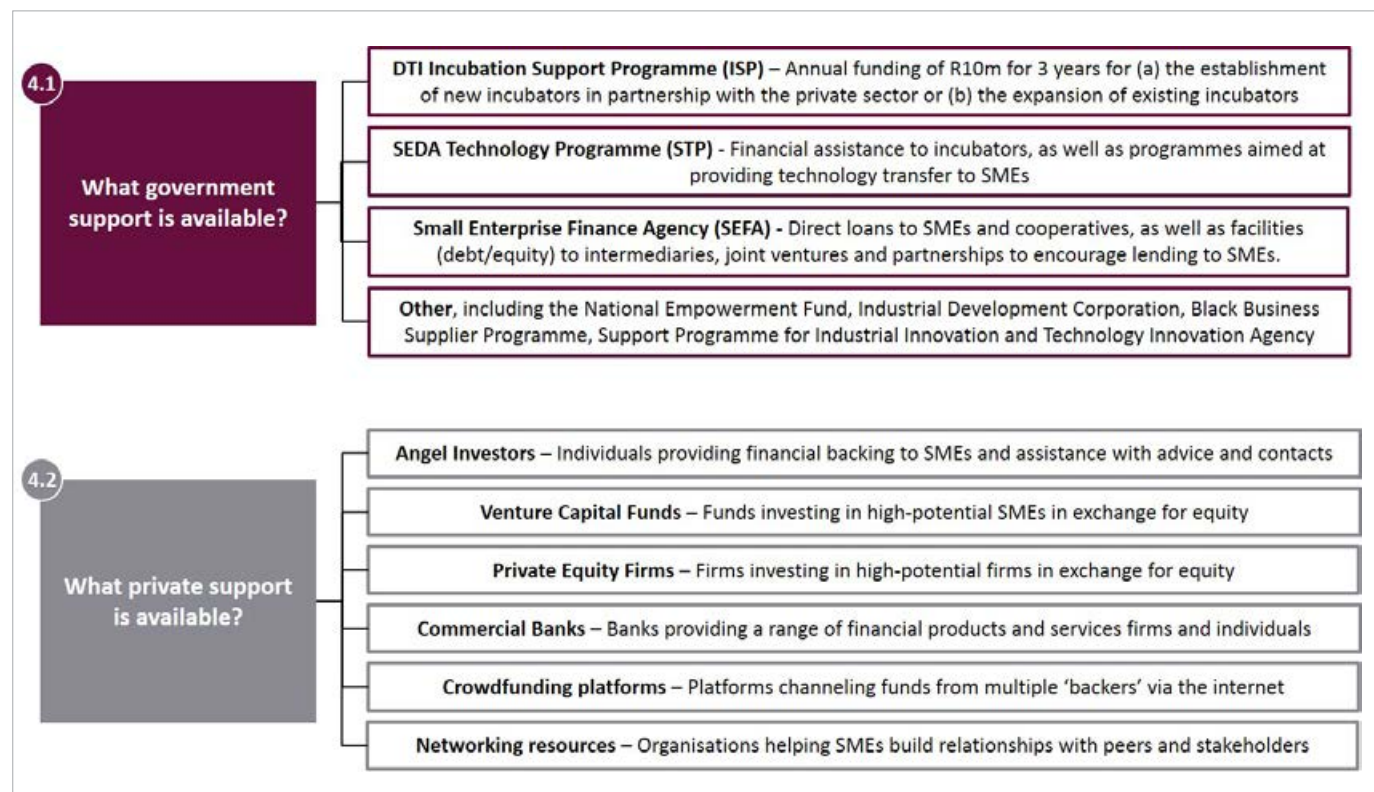
- 17.1. Register the incubator as a legal entity** – In order to be a lawfully operating entity and access funding, the incubator must be registered;
- 17.2. Secure funding** – Submit the business plan and funding requests to the agencies and actors identified as possible funders and/or partners (see Section 4 for guidance on this);
- 17.3. Hire and train staff** – The individuals identified during the planning of the organisational and governance structures will need to be formally hired and trained as staff of the incubator;
- 17.4. Acquire premises, equipment and furniture** – Ensure that all required facilities have been secured before outreach to SMEs begins;
- 17.5. Reach out to SMEs** – Once the incubator is up and running, it will need to reach out to potential SMEs as per the outreach strategy specified in Step 6;
- 17.6. Establish systems to monitor and evaluate progress** – This is important to ensure that the incubator is continuing to be effective in reaching its stated goals.

Bear in mind that launching the incubator is only the beginning of the incubation journey. Incubators, just like the businesses they incubate, need support and oversight to thrive and grow.

Continue to the next section to find out more information on the support available to assist incubators in South Africa. And good luck!



4. WHAT SUPPORT IS AVAILABLE IN SOUTH AFRICA AND CAN IT BE USED?



4.1. WHAT GOVERNMENT SUPPORT IS AVAILABLE?

There are several state-run initiatives that can assist in expanding the incubation support available in South Africa, either by providing finance or helping out with advice. These include the Incubation Support Programme (ISP), the **sed**a Technology Programme (also known as **stp**) and the Small Enterprise Fund Agency (SEFA).

4.1.1. Incubation Support Programme

The ISP co-funds the establishment of new incubators in partnership with the private sector, as well as the expansion of existing incubators. Support lasts for three years and amounts to R10 million per financial year.

The incubator to be supported may be a corporate incubator, a private investor's incubator or academic/

research institution incubator in partnership with industry. The incubator must be focused on establishing and/or growing enterprises that will graduate to sustainable enterprises.

The ISP is an initiative of the Department of Trade and Industry (**the dti**) and a sub-programme of the Enterprise Investment Programme (EIP). It aims to foster partnerships between small and big businesses and encourage big businesses to assist SMMEs with skills transfer, enterprise development, supplier development and marketing.

HOW DOES ONE USE THIS RESOURCE?

The ISP can be used in two ways: 1) to access finance; and 2) as an example for the design of similar incentives.

1. The ISP can be used to access funding, both for launching a new branch of an existing incubator and to launch an entirely new incubator. Bear in mind that the incubator needs to have a private sector partner that is willing to commit funds on a cost-sharing basis with **the dti**. More details on the application process are available on **the dti**'s website (www.thedti.gov.za). On the homepage, click 'Financial Assistance', then follow the 'SMME development' link and scroll down to the ISP.
2. The ISP can also be used as an example of the kinds of incentives a municipality or province can offer the private sector to establish incubators in a particular area.

4.1.2. seda Technology Programme (stp)

The **stp** is a programme of **the dti** that aims to stimulate economic growth and development through a focus on technology-based business incubation. There are currently 42 **stp** incubators in the country (see Annex 4 for a list of these).

The **stp** aims to provide technology-transfer services to small enterprises and specific technology support to women-owned enterprises.

The **stp** offers financial assistance in the form of a non-repayable grant of up to R600, 000 for programmes aimed at providing technology transfer to SMEs, particularly those that are women-owned.

HOW DOES ONE USE THIS RESOURCE?

The **stp** can be used in two ways: 1) to access funding; and 2) for advice.

1. The **stp** offers funding of R600 000 to support SMEs in line with its goal of technology transfer. If the planned incubator involves technology transfer or the development of SMEs within technology-related sectors (eg. Information Technology), visit **the dti**'s website (www.thedti.gov.za) for more information. On the homepage, click 'Financial Assistance', then follow the 'SMME development' link and scroll down to the **stp**.
2. The **stp** incubators, as well as **seda** itself, are a good source of advice and expertise related to incubation. Feel free to consult the list included in Annex 4 and reach out to incubators that you think may be able to assist you.

4.1.3. Small Enterprise Finance Agency (SEFA)

SEFA provides direct loans to SMEs and co-operatives ranging from R50 000 to R5 million, as well as facilities (debt/equity) to intermediaries, joint ventures and partnerships to encourage on-lending to these SMEs and co-operatives.

SEFA is an agency aimed at ensuring the establishment, survival and growth of SMMEs and at contributing towards poverty alleviation and job creation.

HOW DOES ONE USE THIS RESOURCE?

SEFA can be used in two ways: 1) to access direct funding for incubated SMEs; and 2) to support on-lending to incubated SMEs.

Many SMEs targeted by the proposed incubator are likely to require access to finance at some point in their journeys. SEFA can be used as a potential source of this funding, and the proposed incubator can assist SMEs in meeting requirements and making applications. Go to SEFA's website (www.SEFA.org.za) for more information on how SMEs can access funding.

The proposed incubator may decide to offer loans to its incubated SMEs. If it does, SEFA can help with getting the capital required to make these loans. Go to SEFA's website (www.SEFA.org.za) for more information on what types of support are available for potential on-lenders.

4.1.4. Other government support

Apart from the support listed above, there are various other government initiatives that can be used to assist in accessing funding, either for the proposed incubator or its incubatees. These include the following:

Figure 14: Other Government Support Available

TYPE	WHAT THEY DO	EXAMPLES OF BENEFICIARIES
NATIONAL EMPOWERMENT FUND (NEF)	<ul style="list-style-type: none"> Supports Broad-Based Black Economic Empowerment through the provision of financial and non-financial assistance 	<ul style="list-style-type: none"> Black-owned SMEs and entrepreneurs
INDUSTRIAL DEVELOPMENT CORPORATION	<ul style="list-style-type: none"> Provides finance for industrial development projects and industrial expertise to drive growth in priority sectors 	<ul style="list-style-type: none"> Industrial firms and businesses in Manufacturing, Agriculture, Bio Technology and Renewable Energy, Infrastructure, ICT and Mining
BLACK BUSINESS SUPPLIER DEVELOPMENT PROGRAMME	<ul style="list-style-type: none"> Offers cost-sharing grants to black-owned small enterprises to increase their competitiveness and sustainability 	<ul style="list-style-type: none"> VAT registered enterprises with at least 51% black majority share
ISIVANDE WOMEN'S FUND	<ul style="list-style-type: none"> Offers exclusive funding to women to accelerate their economic empowerment by providing affordable, usable and accessible finance than what is currently available 	<ul style="list-style-type: none"> Women owned SMEs
SUPPORT PROGRAMME FOR INDUSTRIAL INNOVATION	<ul style="list-style-type: none"> Promotes and assists technology development in South African industry through the provision of financial assistance 	<ul style="list-style-type: none"> Projects that develop innovative products and/or processes
THE TECHNOLOGY AND HUMAN RESOURCES FOR INDUSTRY PROGRAM	<ul style="list-style-type: none"> Increases industry access to technology through the provision of funding and facilitation of collaboration between Higher Educational Institutions and Industry 	<ul style="list-style-type: none"> Higher Education Institutions Technology-based initiatives
TECHNOLOGY INNOVATION AGENCY	<ul style="list-style-type: none"> Supports the development and commercialization of competitive technology-based services and products 	<ul style="list-style-type: none"> Enterprises in Advanced Manufacturing, Agriculture, Industrial Biotechnology, Health, Mining, Energy and ICT

4.2. WHAT PRIVATE SUPPORT IS AVAILABLE?

There are a great many private sector actors trying to grow SMEs in South Africa, many of which are familiar with incubation and willing to support new incubators. Be sure to make an effort to link up with them, both for access to resources for potential incubatees and access to advice and networks.

Here are some examples of such private sector actors:

Figure 15: Available Private Sector Support

TYPE	WHAT THEY DO	SOUTH AFRICAN EXAMPLES
ANGEL INVESTORS	<ul style="list-style-type: none">Invest alone or in small groups. They invest in promising SMEs and usually provide advice and assistance with networking.	<ul style="list-style-type: none">AngelHub, CorcultureAngel investors can also be individuals such as friends, relatives or affluent individuals.
VENTURE CAPITAL FUNDS	<ul style="list-style-type: none">Invest in early-stage, high-potential SMEs, usually in exchange for equity	<ul style="list-style-type: none">4Di Capital, Intel Capital, Knife Capital, eVentures Africa Fund, Business Partners, GroVest Venture Capital Company
PRIVATE EQUITY FIRMS	<ul style="list-style-type: none">Invest in a variety of high-potential firms in exchange for equity	<ul style="list-style-type: none">Ethos Private Equity, Acorn Equity, Horizon Equity and Kagiso Tiso Holdings
BANKS	<ul style="list-style-type: none">Provide a range of financial products and services to variety of individual and firms	<ul style="list-style-type: none">Examples of banks serving SMEs include ABSA, FNB and Nedbank
CROWDFUNDING PLATFORMS	<ul style="list-style-type: none">Channel funds from a diverse set of 'backers', usually via the internet, to projects that require funding.	<ul style="list-style-type: none">Crowdinvest, Startup Stock Exchange and Rainfin
NETWORKING RESOURCES	<ul style="list-style-type: none">Provide SMEs with opportunities for building relationships with influential peers and stakeholders	<ul style="list-style-type: none">Entrepreneurs Organisation, Silicon Cape, Tech in Braam, The Cape IT Initiative, MEDO, the Branson Center for Entrepreneurship



ANNEXURE 1: IDENTIFYING MARKETS

Step 1: Identify growing firms

As a first step, identify major firms in the area involved in the identified priority sectors. Once this is done, determine which of these are growing. These firms will provide the most promising markets for SMEs. Even if the priority sectors themselves are shrinking, the growing firms within those sectors are the most likely to help the sector succeed in the long term. Consider these steps:

- 1.1. Identify major firms in priority sectors:** Consult with colleagues, industry experts, academics or civil society actors involved in the sectors being investigated. Further, consult any available literature on the sector in the applicable region. Bear in mind that these firms may be small or large, as groups of small firms may dominate certain sectors;
- 1.2. Decide on growth criteria:** Decide what the best way to assess growth will be. Further consult with key stakeholders, as in 1.1, to ascertain what 'growth' means in the priority sectors and what time frames should be used to measure it. Revenue growth over the last year, for example, may be a poor measure for growth in highly volatile sectors; and
- 1.3. Apply growth criteria:** Look for firms that satisfy the chosen criteria. Again, consulting stakeholders or interviewing key industry players may be the best way of doing this. It may be easier to identify firms that do not meet the criteria – for example, those that have shed employees recently – and generate a list of 'growing firms' by excluding these.

Consultation with stakeholders in Step 1.1 may immediately identify a list of growing firms. It will be fortunate if this occurs. However, one should still have a clear idea of what 'growth' means, as per Step 1.2.

Step 2: Identify 'upstream' industries

This involves understanding the goods and services that the identified firms need to produce their own goods and services. 'Upstream' industries provide these. A firm's supply chain will contain 'upstream' industries, for example.

Imagine standing beside an actual stream. In front of you is a pile of wooden planks. One hundred metres up the stream, or against the current, is a tree. One hundred metres down the stream, or with the current, is a furniture store. The 'upstream industries' would then be the processes required to transform the tree into the pile of planks, while the 'downstream industries' would be those required to transform the planks into the pieces of furniture and deliver them to the final customers.

Consider the following steps in identifying upstream industries (the questions raised in Steps 3 and 4 can also be answered during these):

- 2.1. Interview firms identified in Step 1:** This is likely to be the best way in which to identify what are the potential markets for supplying the firms with inputs;
- 2.2. Consult with stakeholders:** Again, speak with industry experts, academics or civil society organisations involved in the sector to find information; and
- 2.3. Consult relevant literature:** There may be studies or other literature available on the 'value chains' (upstream and downstream industries) of key firms in the relevant sector and area.

Step 3: Identify 'downstream' industries

This involves understanding the processes and services required to transform the identified firm's goods and services into their final form and deliver them to their final consumers – as described in Step 2. For example, a furniture manufacturer would be 'downstream' of a saw mill.

Follow the same process as described in Step 2, bearing in mind that individuals and literature consulted may differ slightly.

STEP 4: Identify industries suitable to SMEs

Now that there is a good understanding of what opportunities are out there, it is important to identify which ones are suitable to SMEs. Conduct the same kinds of consultations and research mentioned in Step 2.

To qualify as an opportunity for SMEs, the potential goods or services should:

- a. Be small-scale:** Production or service provision at a very large scale will be difficult for an early-stage SME;
- b. Low capital requirements:** Access to finance is already a large problem for SMEs, especially in their early stages; and
- c. Low levels of competition:** Early stage SMEs will struggle to find a place in the market if it is already dominated by established players.

Figure 8 on page 17 illustrates the above process.

ANNEXURE 2: EXAMPLES OF KEY PERFORMANCE INDICATORS

This list is by no means exhaustive, but gives some examples that may be helpful to consider when monitoring and evaluating an incubator's performance.

Figure 16: Example Incubator Key Performance Indicators²⁰

KPI	RATIONALE
Number of applications to Incubator	<ul style="list-style-type: none"> Indicates effectiveness of incubator's outreach to its target group
Number of SMEs/Entrepreneurs supported by the incubator	<ul style="list-style-type: none"> Indicates (a) impact of support in terms of scale and (b) whether incubator is operating at, above or below capacity
SME survival rate – percentage of SMEs that survive each successive year while incubated	<ul style="list-style-type: none"> Indicates the effectiveness of incubation, especially if compared to survival rates of comparable groups that have not received incubation
Client Satisfaction	<ul style="list-style-type: none"> SME client feedback, when it is available, can indicate important areas for SME improvement and, indirectly, can indicate the effectiveness of incubator services
SME Satisfaction	<ul style="list-style-type: none"> Indicates relevance and applicability of incubator to SME needs
Incubator profitability	<ul style="list-style-type: none"> Indicates financial sustainability of the incubator

²⁰ STP Guide on Evaluating Centre Performance

ANNEXURE 3: EXAMPLE BUSINESS PLAN STRUCTURE

1. Executive Summary

- 1.1. Type and sector focus of incubator
- 1.2. Services offered
- 1.3. Market need fulfilled
- 1.4. Key competencies of incubator
- 1.5. Organisational structure
- 1.6. Revenue generation model
- 1.7. Financial inputs required

2. Market overview and need fulfilled

- 2.1. Market trends (provincial and/or national) informing sector opportunity
- 2.2. Key private sector actors informing supply chain opportunity
- 2.3. Key unmet SME potential informing incubation opportunity
- 2.4. Key competencies informing incubation success

3. Target clients

- 3.1. Sector focus
- 3.2. SME selection criteria
- 3.3. SME exit criteria

4. Services offered

- 4.1. Business development services
- 4.2. Funding
- 4.3. Physical space

5. Revenue generation model

- 5.1. Primary revenues
- 5.2. Supplementary revenues

6. Organisational structure

- 6.1. Ownership and legal structure
- 6.2. Management structure and staffing structure

7. Marketing plan

- 7.1. SME outreach
- 7.2. Partner/supporter outreach

8. Operating plan

- 8.1. Business location, equipment required and rationale for location choice
- 8.2. Phased approach to establishing incubator and rolling out services

9. Financial plan

- 9.1. Details of investments required
- 9.2. Break-even analysis

10. Monitoring and Evaluation

- 10.1. Metrics used to measure incubator success
- 10.2. Data collection and reporting mechanisms

ANNEXURE 4: LIST OF INCUBATORS IN SOUTH AFRICA (NON-EXHAUSTIVE)

Private Sector Incubators			
Name	Location	Sector	Website
African Rose Enterprise Development	Gauteng	Agriculture	www.africanrose.co.za
Aurik	Gauteng	Multi-Sector	www.aurik.co.za
Awethu Project	Gauteng	Multi-Sector	www.awethuproject.co.za
Bandwidth Barn	Western Cape	Multi-Sector	www.bandwidthbarn.org
Ifa Lethu Creative Hands Incubator	Gauteng	Services	www.ifaletu.co.za
Impact Hub Johannesburg	Gauteng	Multi-Sector	www.johannesburg.impacthub.net
Jacobs Well Business Incubation Programme	Gauteng	Multi-Sector	www.jacobswell.co.za
JoziHub	Gauteng	ICT	www.jozihub.org
Maxum Business Incubator	Gauteng	Multi-Sector	www.theinnovationhub.com
Reconstructed Living Lab (RLabs)	Western Cape	Multi-Sector	www.rlabs.org
Raizcorp	Gauteng, North West, KZN, Eastern Cape, Mpumalanga	Multi-Sector	www.raizcorp.com
Shanduka Black Umbrellas	Western Cape, Gauteng, KZN, North West, Eastern Cape, Limpopo	Multi-Sector	www.shandukablackumbrellas.org
Shuttleworth Foundation	Western Cape	Multi-Sector	www.shuttleworthfoundation.org

seda Incubators

Name	Location	Sector	Website
Chemin	Eastern Cape (Port Elizabeth, East London)	Chemical	www.chemin.co.za
Downstream Aluminium Centre for Technology (DACT)	Kwazulu-Natal (Richard's Bay)	Manufacturing	www.dact.co.za
EgoliBio	Gauteng (Pretoria)	Bio-Technology	www.egolibio.co.za
Ekurhuleni Jewellery Incubator	Gauteng (East Rand)	Manufacturing	N/A
Furntech	Kwazulu-Natal (Durban, Umzimkhulu), Gauteng (Johannesburg), Western Cape (George, Cape Town), Eastern Cape (Mthatha), Mpumalanga (White River)	Manufacturing	www.furntech.co.za
Global Jewellery Academy	Gauteng (Johannesburg)	Manufacturing	www.globaljewelleryacademy.co.za
Lepharo	Gauteng (Springs)	Mining	www.lepharo.co.za
Mapfura Makhura Incubator (MMI)	Limpopo (Marble Hall)	Bio-Technology	N/A
Mpumalanga Agri-skills Development and Training (MASDT)	Mpumalanga (Nelspruit)	Agriculture	www.masdt.co.za
Mpumalanga Stainless Steel Initiative (MSI)	Mpumalanga (Middelburg)	Manufacturing	www.mpstainless.co.za
seda Alfred Nzo Agro Manufacturing Incubator (SANAMI)	Eastern Cape (Mount Ayliff)	Agriculture	N/A
seda Agricultural and Mining Tooling Incubator (SAMTI)	Free State (Bloemfontein)	Manufacturing	www.samti.co.za

seda Incubators			
Name	Location	Sector	Website
seda Atlantis Renewable Business Incubator (SAREBI)	Western Cape (Atlantis)	Renewable energy	N/A
seda Automotive Technology Centre (SATEC)	Gauteng (Rosslyn)	Automotive	www.satec.co.za
seda Construction Incubator (SCI)	KwaZulu-Natal (Dundee, Durban), Eastern Cape (Mthatha, Port Elizabeth)	Construction	www.seci.co.za
seda DUT Technology Incubator	KwaZulu-Natal (Durban)	ICT	www.dact.co.za
seda Essential Oils Business Incubator (SEOBI)	Gauteng (Pretoria)	Agriculture	www.seobi.co.za
seda Limpopo Jewellery Incubator	Limpopo (Polokwane)	Manufacturing	www.slji.org.za
seda Nelson Mandela Bay Information and Communication Technology Incubator (SNMBICTI)	Eastern Cape (Port Elizabeth)	ICT	www.snmbicti.co.za
seda Northern Cape Diamond and Jewellery Incubator	Northern Cape (Kimberley)	Manufacturing	N/A
seda Platinum Incubator	North West (Rustenburg)	Mining	www.spi.org.za
seda Sugar Cane Incubator	Mpumalanga (Nelspruit)	Agriculture	N/A
Seed Container Park (Secopa)	Gauteng (Soweto)	Manufacturing	www.secopa.co.za
SmartXchange	KwaZulu-Natal (Durban)	ICT	www.smartxchange.co.za

seda Incubators

Name	Location	Sector	Website
Soshanguve Manufacturing Technology Demonstration Centre (SMTDC)	Gauteng (Soshanguve)	Manufacturing	www.smtdc.co.za
SoftstartBTI	Gauteng (Midrand)	ICT	www.sbti.co.za
Timbali	Mpumalanga (Nelspruit)	Floriculture	www.timbali.co.za

ISP Incubators

Name	Location	Sector	Website
Agri Mega	Western Cape (Bredasdorp)	Agriculture	www.agrimega.co.za
Band with Barn Pty Ltd	Western Cape (Cape Town)	ICT	www.bandwithbarn.co.za
Beniocourt PTY LTD	Gauteng (Bronkhorspruit)	Agriculture	N/A
BioAgritek Investment	Northern Cape (Upington)	Agriculture	N/A
Demispark	Northern Cape (Kathu)	Agriculture	N/A
Droogfontein Incubation Farm	Northern Cape (Riverton)	Agriculture	N/A
Eastern Cape Castor Incubator	Eastern Cape (East London)	Agriculture	N/A
Eastern Cape Information Technology Initiative Incubator	Eastern Cape (East London)	ICT	www.eciti.co.za
eMonti AgriBEE Incubator	Eastern Cape (East London)	Agriculture	www.agribee.co.za
Eskom – MASDT Incubator	Mpumalanga (Nelspruit)	Agriculture	www.masdt.co.za
eThekwini Co-operative Clothing Manufacturing Incubator	KwaZulu-Natal (Durban)	Clothing and Textile	N/A
Gauteng Biopark @ The Innovation Hub	Gauteng (Pretoria)	Bio-Technology	www.theinnovationhub.com
Gauteng Partnership Trust	Gauteng	Construction	www.gpf.org.za

ISP Incubators			
Name	Location	Sector	Website
Grindstone Accelerator	Western Cape	Multi-Sector	www.knifecapital.co.za/grindstone
Inland Chemistry Incubator	Mpumalanga	Chemical	N/A
Letlotlo Ranyathole and Associates	Free State (Bloemfontein)	Multi-Sector	N/A
Manufacturing Incubation Centre	Gauteng (Pretoria)	Manufacturing	N/A
Medo ICT Incubator	Gauteng (Johannesburg)	ICT	www.medo.co.za
MEDO Mining and Large Industrial Suppliers Incubator	Gauteng (Johannesburg)	Mining	www.medo.co.za
Natal Maize	Kwazulu-Natal	Agriculture	N/A
Ningabo Rural Based Incubator	Gauteng (Johannesburg)	Services	N/A
PRASA Gauteng Property and Construction Incubator	Gauteng (Pretoria)	Construction	N/A
PRASA Gauteng Rail Engineering Incubator	Gauteng (Pretoria)	Construction	N/A
PRASA Western Cape Rail Engineering and Construction Incubator	Gauteng (Pretoria)	Construction	N/A
Sanrose Motors and Panelbeaters Incubator	Gauteng (Johannesburg)	Automotive Industry	www.sanrose.co.za
Sasol Chemcity Eco-Industrial Park Incubator	Free State	Multi-Sector	www.sasol.co.za
Serafields Pty Ltd	Gauteng (Pretoria)	Agriculture	N/A
SMTDC Incubator - Atlantis Branch	Western Cape (Cape Town)	Manufacturing	N/A
SMTDC Incubator - Soweto Branch	Gauteng (Johannesburg)	Manufacturing	N/A

ISP Incubators

Name	Location	Sector	Website
The Clothing Bank Incubator -Johannesburg	Gauteng (Johannesburg)	Clothing and Textiles	www.theclothingbank.co.za
The Furniture Technology Centre	Western Cape	Manufacturing	www.furntech.org.za
The Launch Lab Incubator	Western Cape	Multi-Sectors	www.launchlab.co.za
The Sew Good Incubator	Western Cape	Clothing and Textiles	N/A
Trioflex Trading Incubator	Mpumalanga	Chemicals	N/A
Virginia Jewellery School Incubator	Free State	Manufacturing	www.sustainbalejewellery.org
Zokunamix	Centurion, Gauteng	ICT	N/A

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GLOSSARY

Access to Markets: This is the ability of producers/suppliers to participate in local, national and international markets. It also refers to the access producers/suppliers have to clients.

Physical Model: The provision of a physical location, which provides incubatees the opportunity to physically engage with and access an incubator's staff, services, resources and processes. This model could apply to an incubator that seeks to provide BDS and Physical Space (such as equipment and workshop areas) and seeks to provide hands-on training (e.g. agricultural techniques).

Business Development Services (BDS): Non-financial services and products designed to meet the business needs of entrepreneurs at various stages of their enterprises' growth and development

Business Mentorship: A training or coaching system under which an individual with business experience and insight provides advice, counselling or guidance to an entrepreneur. Mentorship is structured and tailored to the needs of clients as they develop over a period of time. The mentor is usually expected to provide support to, and feedback on, the entrepreneur.

Business Model: Describes the plan employed by an incubator to offer its services and products, earn revenue, attract its intended customer base and meet its goals and objective.

Downstream industries: In relation to Firm A, downstream industries are those industries that use Firm A's outputs as their inputs. Otherwise put, in relation to Firm A, downstream industries are those that transform Firm A's goods and services into their final form and deliver them to their final customers. For example, a furniture manufacturing firm would be 'downstream' of a saw mill.

Entrepreneur: An individual who establishes a venture to take benefit of an economic opportunity and assumes the risk and reward of a given business venture, idea, or goods or services offered for sale. Entrepreneurs are the chief decision-makers for a given business and decide what, how and how much of a good or service will be produced and for whom. Successful entrepreneurs can be agents of economic growth by creating jobs and translating good new ideas into products and services.

Equity: Refers to a form of investment that gives the investor an ownership stake in the entity he/she invests in. Owners of equity can make decisions regarding the entity. Incubators sometimes take equity in their SMEs as payment for incubation services provided to them.

Governance: The system of structures, rights, duties and obligations by which incubators are directed, controlled and managed. The governance of an incubator specifies the responsibilities of different participants of the incubator (such as the Board of Directors and managers).

Grant Funding: Non-repayable funds disbursed by one party (grant makers), often a government department, corporation, foundation or trust; to a recipient, often (but not always) a non-profit entity, educational institution, business or an individual. For example, the ISP provides grants (non-repayable funds) to incubators.

Incubation Methodology: The set of principles and processes an incubator follows to develop an enterprise.

Incubatee: An SME that an incubator is currently offering services and products to.

Incubator: A physical and/or virtual facility designed to accelerate the successful development of new entrepreneurs through an array of business support resources and services. The facility may either be a technology, cultural or social incubator.

Incubator Champion: The individual or party responsible for establishing an incubator.

Incubator Service Offering: The scope of services offered by an incubator to its incubatees (SMEs being catered to) to meet their needs and fulfil the purpose and goals of the incubator.

ISP: An initiative of **the dti** and a sub-programme of the Enterprise Investment Programme (EIP) intended to ensure the development of successful enterprises through the establishment of incubators in partnership with private-sector partners.

Market-based Incubation Opportunity: Describes an opportunity for incubators that exists when there is an easily identifiable group of SMEs that have an existing market for their goods and services, but face similar challenges.

Need-based Incubation Opportunity: Describes an opportunity for incubators that exist when there is an easily identifiable group of SMEs (e.g. agriculture-focused SMEs) that all face similar challenges, but do not necessarily have ready markets for their goods.

Priority Sectors: Economic sectors identified by the Government to be vital components of the economy and that may require special attention or assistance.

Product Delivery: A model used by incubators to support SMEs by allowing SMEs to choose and access only specific products and services.

Programme Delivery: A model used by incubators to support SMEs whereby SMEs are incubated for a set period of time and are offered services in a particular sequence until they graduate from the programme and exit the incubator.

Small and Medium Enterprises (SME): According to the South African National Small Business Act, a small enterprise has fewer than 50 employees and an annual turnover of less than R2 million to R25 million, depending on the industry; while a medium enterprise has fewer than a 100 to 200 employees, depending on the industry and an annual turnover of less than R4 million to R50 million, depending on the industry.

SME Selection Criteria: The set of principles and standards by which potential SMEs are evaluated for entry into incubation.

Stage of SME Growth: The different phases in the life cycle of an enterprise.

System Support: includes assistance with product, customer and revenue management through the development of operational procedures.

Target SMEs: The group of SMEs that the incubator seeks to offer its incubation services and products to.

Upstream industries: In relation to Firm A, industries that supply the inputs Firm A needs to produce its own outputs. Otherwise, put, in relation to Firm A, upstream industries are those industries that supply the goods and services that Firm A requires to produce its own goods and service. For example, a firm's supply chain would contain 'upstream' industries.

Virtual Incubation Model: The provision of business development services (such as coaching) either remotely or in locations suitable to the SME. This model could apply to an incubator that seeks to only provide BDS, such as business strategy development and seeks to target SMEs across a wide geographical area and that have ready access to internet.

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towards full-scale **industrialisation** and inclusive **growth**

