

Testimony of David Hochman
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Legislative Hearing on the Executive Budget Proposal for Economic Development
Monday, February 11, 2008, LOB Hearing Room B

Good afternoon, Mr. Chairman, and members of the committee. Thank you for allowing me to testify. My name is David Hochman, and I am the founding executive director of the Business Incubator Association of New York State.

We were formed in 2005 and now represent 30 organizations operating or planning 38 different business incubator programs across the state, from Buffalo to Long Island, from the North Country to Brooklyn. Our members operate in at least 31 of our state's Assembly Districts, 23 Senate Districts and nearly every Congressional district.

Our member organizations are extremely diverse. About half are affiliated with universities, including SUNY, CUNY and the independent colleges. Many are operated by independent nonprofit economic development entities, some affiliated with a county government, others with a private-sector chamber of commerce, etc. Two of our member incubators are government-affiliated, and we actually have three members who operate incubators on the for-profit model.

I am here to applaud the use of incubator-related vocabulary in the Executive Budget and specifically in the agency narratives of Empire State Development and NYSTAR. But I'm also asking that the Legislature define incubator-specific programmatic funding in the budget, so that

these agencies have the resources and mandate to work with us to improve the quality, sustainability, and accountability of business incubation services statewide.

Let me start by offering you the definition of business incubation, quoted from the National Business Incubation Association website:

Business incubators nurture the development of entrepreneurial companies, helping them survive and grow during the start-up period, when they are most vulnerable. These programs provide their client companies with business support services and resources tailored to young firms. The most common goals of incubation programs are creating jobs in a community, enhancing a community's entrepreneurial climate, retaining businesses in a community, building or accelerating growth in a local industry, and diversifying local economies.

Business incubation actually *began* in New York State, so it's something we can be proud of and where we can and should work to secure a national reputation for across-the-board excellence. The first recognized business incubator was opened in Batavia in 1959 by Mancuso Business Development Group, a for-profit real-estate company that is a member of ours, and still engaged in public/private partnerships to develop new incubators, most recently in Lockport.

The incubation sector has grown fast in the last two decades, both nationwide and in New York State. Our association got started in 2005 after several of us working with NYSTAR realized that New York was the state with the greatest number of incubators with no formal ability to associate with each other, network, exchange information and best practices, and most importantly to jointly assist their tenants.

So we formed a nonprofit trade association governed by some of our state's most skilled incubator managers – several, like our chair Woody Maggard of UB, are truly nationally respected leaders. Our main purpose is work on issues affecting the growth of start-up companies such as those in our incubators. *It's not about us – it's about the tenants.*

New York State has a significant number of business incubators, and many are excellent. But state support has been sporadic, generally for facilities construction rather than programmatic improvements, and often dependent on the good will of individual members of the Legislature rather than guided by programs managed by our economic-development agencies. Without programmatic support, the quality of our business-incubation system will be less than its full potential from the perspective of the tenants.

Running an incubator that delivers valuable business advice and support to its tenants is difficult, and almost impossible without some kind of subsidy. In the nonprofit and educational worlds, incubators work best when embedded in rich sources of business support, such as a business-school entrepreneurial center or well staffed Small Business Development Center. But what if your incubator is not able to borrow expertise in this way? Where do you turn for the truly modest support that will allow your tenants to achieve their fullest potential and remain satisfied corporate citizens of the state?

To help you assess those questions, I want to highlight for you what is known to be true about business incubators. I am drawing from a *Guide to Business Incubation for NYS Elected Officials* that was prepared for us by Professor David Lewis of UAlbany, an expert on incuba-

tion. Dr. Lewis accepted no money from us and had complete editorial independence. We are looking for corporate sponsors so we can put a copy of this guide into the hands of every member of the Legislature.

Here are some of Dr. Lewis's findings about what is known factually about incubation from the work of scholars nationwide:

1. In six academic studies reviewed by Prof. Lewis, business survival rates ranged from 68 to 87 percent. Those of you who know small business, know that's an amazing statistic. **So business incubators would seem effective at improving the survival rate of businesses.**
2. In the same six studies, between 76 and 85 percent of incubator graduates remained in the same region after graduation. **So business incubators also seem effective at making their graduates "stick" to the regions where they got started.**
3. A slightly broader set of studies showed "public sector cost per job" ranging from \$3,000 to \$11,300. **So publicly assisted business incubators seem to be very cost-effective on a per-job basis, especially compared with recruitment-only strategies.**

There are still questions that academics have not been able to answer, but overall the data strike me as very good. So in light of what is known, what do we want from the budget?

We would never say that the state's entire economic development strategy or budget should rest on incubation alone. Our members house several hundred companies employing a thousand or two New Yorkers at any one time. But among these companies are several young public companies, venture-capital backed startups, and many other good businesses that are all welcome contributors to our regional economies. As they "graduate" and hopefully "stick" the effects add up.

Incubation needs to be one acknowledged component of the state's economic development strategy, and to be credible, it must be guided and held accountable by programs that are actually funded. We've worked well with both NYSTAR and Empire State across the transition in administrations, but neither has explicit budgets to develop and strengthen the state's incubation system.

We believe it is essential for either or both to have the budget resources to work with us to improve the incubator system and surround it with resources that improve the chances of our tenants for successful graduation into their communities. For example, there is demand but not budget among our members to put on more "pre-seed workshops" to identify promising ideas by local entrepreneurs, scientists and engineers.

With funds available, our association could also help by serving as an intermediary with our national-level professional society, to bring in "tiger teams" that can audit our incubators for best practices and to bring some of the really fine national workshops to New York state, to establish our deserved reputation for innovation in this sphere.

With budget available, we could work with the agencies on making awards that acknowledge incubator company of the year, and other ways to celebrate success. We would also like to collect good data that the state can use to diagnose progress.

We want to help guide the state's evolving mechanisms for seed-stage equity financing to give special priority to companies base in incubators, where chances of success are higher.

And we'd like to produce materials that can market our incubators globally for inward investment by small and mid-sized companies based overseas.

All of this will take mandate and budget, and that is what we ask you to consider.

Thank you, Mr. Chairman. I would be happy to answer any questions from you or the members, either now or by written follow up through the chair.