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## Incubator Country

By Sarwar A. Kashmeri

For the Valley News

Business incubators continue to take up space on the agendas and in the budgets of both New Hampshire and Vermont. Incubators are potentially significant economic engines because they are designed to help startup companies beat the powerful odds against which new businesses struggle.

Reasons for failure include high overhead costs (rent, electricity, capital equipment, etc.), lack of prior business experience, and (this is especially important in rural areas such as ours) infrequent contact with other entrepreneurs and businesspeople to exchange ideas and test business plans.

Reduce a startup's risk of failure during its crucial first three or four years and the odds the business will become financially self-sustaining increase dramatically. Creating this protective shell around fragile startups is the role of incubators.

Starting an incubator is itself like starting a new business. Incubators themselves have to be nurtured, usually with public funds, until income from the stream of successful businesses that flow out of them make the incubator profitable. Without careful stewardship and control, incubators could quickly become a drain on the public treasury. So it is instructive to look at incubator strategy through the eyes of Michael Quinn, economic development commissioner for Vermont, and his counterpart, Stuart Arnett, the economic development director for New Hampshire, who are responsible for steering incubator development in the two states.

In order to minimize risk, individuals are usually advised to invest their savings in a portfolio that generates short, intermediate and long-term returns. That is how Quinn, a former banker, views the investment of Vermont tax dollars allocated to the Department of Economic Development. With its high-risk/high-return nature, business incubation falls into the "long-term speculative stock part of our portfolio," Quinn told me. "It is the entrepreneurial segment, and includes small startup companies that, if successful, have the potential to make outsize contributions to Vermont's economy."

Quinn was new to the incubator industry when he assumed his present position. So he studied what other states were doing and national incubator best practices. With this perspective, his team "realized that we had in the state a very broad spectrum of things that call themselves incubators: from groups with renovated low-rental buildings that say they are incubators but have none of the mentoring and business planning services

needed by startup businesses, right up to the Vermont Center for Emerging Technologies-type of program that is designed to engage the powerful research resources of the University of Vermont to provide counseling and interaction.”

To complicate matters more, “incubator” projects were springing up across the state and would soon look to the state for funding. The pot of taxpayer dollars has a limit, and Quinn decided to “compile an inventory of what we had and develop broad guidelines for statewide incubator development.” An outside consulting company, Angle Group, is conducting this report, which Quinn hopes can be completed early in the first quarter of 2006 to facilitate legislative conversation on this issue.

Innovation and the entrepreneurial spirit have driven the New Hampshire economy for two centuries, says New Hampshire's Arnett, “and new business generation through incubation is very important for us.” New Hampshire already has an incubator plan in place. “Our plan says, first of all, that incubators are very important for our state's economy, and we need to find ways to make them financially viable and self-sustaining.”

New Hampshire's plan includes the New Hampshire Business Incubator Network (BIN), and specifies the number and type of incubators that the state will underwrite and where they will be located. There are three ongoing incubators in Conway, Manchester and Keene, and two under construction -- one at Dartmouth and the other in Portsmouth. “This is the core of the BIN-recognized incubators, where state funding will be allocated,” Arnett told me, “We cannot say ‘no’ to other developments if they are started by private funding, but if they want to use the state's money, we won’t let them saturate the market and risk cannibalizing each other.”

New Hampshire's and Vermont's evolving incubator development strategies seem to mirror each other, and that is good news for the Upper Valley with its seamless regional economy that spans both states. Arnett recognizes this. “In the last 10 years the New England region has become more expensive for business, so together with a low-tax structure, we must demonstrate high value. Low cost is not enough,” he says.

In this respect, the Upper Valley's regional economy clearly has the potential to deliver higher value to businesses. An early indicator of how regional incubator cooperation plays out is now in the wings: the Dartmouth Entrepreneurial Network, a high-powered incubator that will move into its brand-new Centerra Park site next year. An incubator's success requires plenty of entrepreneurs -- to generate new businesses ripe for incubation, and investors -- to take successfully incubated businesses and finance their growth into mature companies. It seems to me DEN is doubly fortunate. First, its Upper Valley location gives it access to entrepreneurs and investors from both states, and it benefits from the oversight of two public officials who understand incubators and bring a regional business-friendly approach to their work.

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***Sarwar A. Kashmeri of Reading, Vt., advises corporations on communications and marketing strategy and is a fellow of the Foreign Policy Association. This twice-monthly column explores the Upper Valley's “business climate,” focusing on the issues and conditions affecting the region's economic health. Kashmeri can be reached at [skashmeri@aol.com](mailto:skashmeri@aol.com).***

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