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Using an incubator to hatch a business

By **Elaine Pofeldt**

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Personal chef Tessa Liebman began expanding into larger catering jobs last summer and quickly discovered how tough it can be to find an affordable professional kitchen in New York.

So the Brooklyn resident joined Yum Yum Chefs, a Dumbo-based business incubator where, at the cost $150 to $250 for eight hours, she can rent kitchen space for herself and a rotating team of assistants. As a bonus, she gets consulting services and job referrals from the owners, including Vanessa Cantave, who graduated from the French Culinary Institute.

Private chefs don't have frequent contact with other professional cooks, and “it's great to be around that energy again,” Ms. Liebman says.

Such incubators are getting lots of attention in this economy and are championed by Mayor Michael Bloomberg and President Barack Obama as a way to foster small business activity. Ms. Liebman and other growth-minded entrepreneurs find that the programs can be an unbeatable option, offering flexible arrangements, high-quality equipment and a business community under one roof.

“What really makes for great incubators is the mix of the companies and the synergies they can create, the energy and buzz that surround them,” says Bruce Bachenheimer, management professor and director of entrepreneurship at Pace University.

Choices abound. For example, the Business Incubator Association of New York State estimates its members have about 41 programs. They include the new Advanced Biotechnology Incubator at SUNY Downstate Medical Center in Brooklyn and NY Designs, run by La Guardia Community College/CUNY in Long Island City, Queens.

David Hochman, the association's executive director, expects more additions, saying that the group will “probably continue a gentle growth curve.”

As much as they have to offer, incubators aren't for everyone. Most facilities prefer to work with participants that create jobs, so they're not a good fit for solo entrepreneurs who won't be hiring anyone, Mr. Hochman says.

For instance, some pass along the costs of access to professionals, like staff lawyers, and might not be cost-effective for seasoned entrepreneurs who already have such assistance, according to experts.

And forget about putting down roots. Incubators generally want a businesses to “graduate” in six to 24 months.

“People have to realize it's not a home for the long term,” says Kay Koplovitz of media investment and advisory firm Koplovitz and Co and founder of Springboard Enterprises, which supports emerging ventures run by women. She points out that the application process for acceptance into an incubator often requires beating out others by submitting an outstanding business plan.

Given the variety of programs, it helps to comparison-shop. Here are some key factors to consider.

Help required. Incubators run by nonprofits, universities or public entities tend to offer the most extensive professional advice. Supported by long-term funding, they can build comprehensive programs that let entrepreneurs get help with things like local tax incentives.

“For-profit incubators often have a heavier burden to carry,” Ms. Koplovitz says, adding that they might have attractive rents and amenities like high-speed Internet but can't always afford to offer as much one-on-one counseling.

Management fit. “Ask the hard questions up front,” says Tina Hedges, co-president of twist new.brand.venture, a Manhattan for-profit incubator for beauty and health products. “What is their vision for the future, and what deliverables are they promising you?” Ms. Hedges also suggests asking if incubator owners can be hired as consultants.

Cost. Financial arrangements vary widely, so get details in writing before signing a contract, says Ted Rosen, co-chair of the venture capital-emerging growth practice group at law firm Herrick Feinstein. If incubators offer help with raising capital, guard against parting with too much equity. As a general rule, “on a seed round of financing, the entrepreneur should not be giving away over 50%,” Mr. Rosen says. “It's going to range from 20% to 40%.”

Flexibility. When teams change size frequently, it might be better to forgo a traditional incubator and opt for a shared-environment arrangement. Greg Henson, chief executive of IT consultancy The Henson Group, rents only what space he needs for his team—which can range from 60 to 120, depending on project size—from Micro Office Solutions, which operates affordable office suites for entrepreneurs. Mr. Henson pays about $8,000 a month for the midtown digs, about $12,000 less than comparable space he looked at on a long-term lease. His staff has shared access to a conference room and kitchen, and Mr. Henson has met other entrepreneurs there—including an immigration lawyer, whom he hired.