

**Statement by the Amoskeag Business Incubator: Julie Gustafson**

**The U.S. Senate Committee on Small Business and Entrepreneurship  
“Small Business Survival, Weathering the Economy, Creating Jobs, and What the  
SBA Can Do To Assist”  
Hearing: Portsmouth, N.H. August 12, 2009**

***Amoskeag Business Incubator Background and Job Creation Information***

I would like to thank the U.S. Committee on Small Business and Entrepreneurship for inviting me to testify at their committee hearing in Portsmouth on “Small Business Survival, Weathering the Economy, Creating Jobs and What the SBA Can do To Assist.” I would like to particularly thank U.S. Senator Shaheen and U.S. Senator Snow for holding this field hearing and Karen Mills, Administrator of the Small Business Administration, for witnessing the hearing. Thank you to all of you for all that you do to support small business in our communities, state and country.

I am Julie Gustafson, the President and CEO of the Amoskeag Business Incubator (*abi*), a 501 C3 non-profit corporation, and the longest operating incubator in New Hampshire. Located in Manchester, New Hampshire, the *abi* 's mission is to provide a supportive environment for small businesses by providing them with a combination of affordable, collaborative office space and technical assistance with the goal of helping these businesses to create jobs and economic activity in the community.

Similar to the *abi* , incubators in general strive to create an environment for small businesses that fosters job creation and economic activity. The businesses that have participated in the *abi* 's program since its inception in 1997 have created close to **600 jobs** in the state of New Hampshire and created well over **\$200 million** in revenues. Discounting a couple short non-leasing periods due to construction, this averages out to approximately **52 jobs** per year. Additionally, the *abi* has been instrumental in creating an entrepreneurial environment in its community. It has hosted and co-hosted networking events, educational seminars, and workshops on business development topics that have had near 7,000 attendees. The *abi* also provides permanent office space for a Small Business Development Center and opens its doors to the Women’s Business Center, Microcredit-NH and the Small Business Administration Program for U.S. veterans to hold office hours, at no cost, in its facility.

To strengthen its goal of creating jobs in the community, the *abi* , in addition to its regular incubation program, recently added its Affiliate Program and has future plans to expand their current program to include assistance to foreign companies.

The Affiliate Program is a partial incubation program. Instead of leasing a full time office for the usual six month lease term, Affiliates lease a shared office on a monthly basis with an allotted amount of hours. Depending on the plan, businesses can participate in incubation for as little as \$70 a month. This plan caters to businesses that might not be able to initially afford the regular program and gives them the opportunity to easily enter the full time program. Although the Affiliate Program does provide some technical assistance, it is not as comprehensive as the regular program.

Upon attending the National Business Incubator Association's International conference last year in Texas, which had attendees from 66 nations, the *abi* staff heard from incubator directors around the world that there was interest from their business clients to become more global, particularly in U.S. markets. The interest of foreign companies to expand in the U.S. was further confirmed by Dawn Wivell, the director of the International Trade Resource Center.

A goal of the *abi* to become more global will include striving to attain a Soft Landings International Incubator Designation through the National Business Incubator Association (NBIA). In order to obtain this designation, an incubator needs to meet the criteria that the NBIA has established as being vital in assisting foreign companies to create a business presence in another country. If the *abi* achieves this designation, it will be one of only seven in the nation and one of fourteen in the world. Adding a global component to the *abi* will be beneficial to the state by generating jobs. Not only will foreign companies land in the U.S., it will provide the opportunity for businesses in the *abi* to learn more about opportunities in foreign markets.

The *abi* is a mixed use incubator, which translates into offering its program to various types of businesses versus a technology incubator that caters strictly to technology companies. Historically, the *abi* has provided support to approximately 60% service companies and 40% technology based companies.

To date, near 100 companies have participated or are currently participating in the *abi* program. Of these 100 companies, 65 companies have exited the Incubator. There has been an 87% success rate of the businesses exiting the incubator remaining in business post-departure. The average stay falls between 2 ½ to 3 years. Thirty percent of participating businesses are woman owned and another 10% are minority owned.

According to the National Business Incubator Association there are over 1,400 incubators in North America of which 1,115 are located in the United States. These incubators are servicing over **27,000 small businesses** a year, resulting in an additional **100,000 jobs** per year and generating approximately **\$17 billion** per year in revenue.

In regards to incubator job creation, I want to also briefly cite statistics from a construction impact assessment report that was generated by Grant Thornton for the United States Department of Economic Development Administration (EDA). According to the study, for every \$10,000 in EDA investment, incubators create between 46-69 jobs. In comparing this to the other investments mentioned in the study, which included: community infrastructure, industrial parks and commercial structures, which created between 1.5 to 13.4 jobs per \$10,000, incubation clearly provides the best job creation return. (For full study, see *Appendix A*)

Given this information, I was pleased to hear that the \$50 million that was initially included in President Obama's FY 2010 budget for incubation, which was later taken out by the Appropriations Subcommittee on Commerce, has since been put back in the budget. I would like to thank Senator Shaheen and all the other officials who worked on this effort. If this funding is finalized, it will be helpful in stimulating jobs.

Since I am on the subject of job creation, I would like to share additional job creation information from twenty three small businesses that are either presently participating in the *abi* program or are graduates of the program. Of the twenty three businesses, the following holds true: In the past eight months 16 of these 23 businesses have not hired any new employees and 7 of the businesses have hired at least one new employee. I would like to share some of their comments:

- **Business 4:** Commented that health insurance costs are a barrier to hiring good help. Currently using subcontractors to complete projects because they cannot afford to offer health insurance benefits at the present time.
- **Business 5:** It is expensive to hire. Suggested that government consider paying unemployed individual's unemployment benefits to small businesses instead of the individual so they could use the funds to hire the unemployed individuals (if it is a good fit). This would help both the unemployed individual get back to work as well as the small business.
- **Business 10:** Expressed concerns about payroll taxes going up. If payroll taxes go up, feels that more small businesses will hire sub-contractors versus permanent employees. This same business also mentioned that there is too much paperwork for hiring new employees and that it also needs to be easier to remove someone from payroll. His business as well as another business he knows is still being billed by the government for payroll taxes when the individual is no longer on the payroll.
- **Business 13:** This business is having difficulty hiring employees for two reasons: First he needs employees with government clearance, which is difficult due to the amount of time it takes for individuals to get clearance. Once he finally does find someone with

government clearance they are usually located in another part of the country and although they want to relocate are unable to because they cannot sell their homes

- **Business 15:** This business has been holding off from hiring two new employees for the past ½ year which has resulted in the current staff having to work long hours. He is holding off on hiring due to fear of rising taxes and small business mandated health insurance.

### *Small Business Survival during the Current Economy*

In general, I have found that most of the small businesses that I have recently spoken to are concerned about the current state of the economy. I have heard everything from their expenses have increased, to their sales have slowed down, to credit has tightened up, to they are just hoping to make it through the year. Many consider themselves to be in survival mode.

I am pleased to report that none of the businesses in the *abi* have had to close their doors as of yet and to the best of my knowledge no one has had to lay anyone off although some businesses have reported holding back on hiring while they see what the economy does. Several businesses expressed disappointment that more stimulus funds have not been used to stimulate small business. The perception is that the funds have gone more towards saving big businesses. Even though the majority of businesses are aware of the stimulus funds provided for SBA loans, they report they are experiencing difficulty obtaining these loans. This view was also held by another NH Incubator director that I recently spoke to who said both businesses and banks are reporting to him that credit has tightened up significantly and it is more difficult to obtain loans. Additionally, the same director is seeing a slow down in businesses' sales.

In the past week, I had the opportunity to speak with twelve businesses in regards to how the current economy is affecting their business. Out of the twelve businesses, eight of the businesses felt that the current economy was hurting their businesses, and the other four felt that the current economy was not hurting their businesses. I would like to share some of their comments:

- **Business 1:** Observes that the economy has hurt her business in part due to her customers' inability to pay. She is experiencing difficulty collecting on her receivables and notes that when she does collect it often takes longer which of course negatively affects the business's cash flow. She has had to make payment arrangements on several occasions and encourages other business to do the same.
- **Business 3:** Had some very promising sales in the pipeline that are not coming to fruition due to the current state of the economy.

- **Business 9:** Same comment as Business 3.
- **Business 5:** Similar comments to Business 3 and Business 9 adding that they do not even have sales currently in the pipeline and that his prospective clients are just not purchasing during the current economy.

I would like to add that although I am only reporting on three businesses with a slowdown in sales, it is something that I have been hearing fairly frequently.

- **Business 11:** Commented that the economy has affected their business negatively but not to the degree that they expected. This particular business is directly affected by client company lay-offs.
- **Business 12:** Testimony is similar to Business 1; she is also experiencing clients that are having difficulty paying, further reporting that her clients are looking for reduced fees and free services.
- **Business 8:** Commented that his business has actually improved as a result of the economy. He is a service oriented business and as a result of other businesses lay-offs, is seeing a demand in the need of his services to replace the skills of laid-off employees.
- **Business 6:** Reported that their business has grown during the recession. It has grown as a result of their largest client's growth in sales, which was a direct result of engaging in work generated by stimulus funds.
- **Business 15:** Is a company that provides services and sales of their own designed monitoring equipment and is actually seeing an increase in business too. Business 15 said this is a result of businesses holding off on large capital equipment purchases which increases the demand for their products and services.

### ***Health Insurance***

From my perspective, health insurance has been a concern for small businesses for a long time. I am consistently asked if I know of any inexpensive health insurance alternatives. I do not. Over the years, I have been asked on numerous occasions why the **abi** does not start a group insurance policy and have to explain that we cannot do that. It is prohibited by state law. The general consensus among the small businesses that I have spoken with, is that there needs to good/reasonably priced group insurance alternatives for small businesses.

In the past week I have had the opportunity to speak with thirteen businesses regarding their views on health insurance. Out of these 13 businesses, seven of them have health insurance

coverage plans through their businesses and six do not. In the case of the six businesses that do not offer health insurance coverage through their business, they are typically covered through their spouse's insurance, often the same case with their employees. One of these six businesses, actually owned by two individuals, was started as a result of both of these individuals recently being laid off. They are currently on COBRA utilizing the new COBRA rights that pay for 60% of the COBRA payment and would like to see this benefit extended. Out of the six businesses that do not have health insurance, two of them mentioned their concern over the government mandating insurance, which they stated would be a huge monetary burden for them.

Of the seven businesses that carried group insurance, at least four of them made contributions for health care on behalf of their employees.

- **Business 8:** Summed up what I have heard from many businesses over the years: “premiums keep going up, deductibles go up, less coverage, less choice, employees get less and less for their money.” He mentioned that we need to control medical law suits.

According to one of the graduate businesses from the *abi*, who works in the health insurance industry, the trend in medical expenses in the state of NH has been to increase at a rate of 10% per year and the average health insurance premium has increased at 12% a year. In addition to seeing businesses shop insurance rates, he is seeing more businesses taking advantage of Health Savings Accounts (HSA) and Health Reimbursement Arrangements (HRA).

### *Miscellaneous Comments and Suggestions*

Upon entrance into the incubator, the *abi* does what they call a brief assessment of each business (this has only been done in the last 2 ½ years). The purpose of this assessment is to determine what resources the businesses already have in place including the following: legal, bookkeeping, accounting, insurance, IT, banking, HR management and marketing. As we work with the businesses, one of our goals is to see that they have all of these resources in place upon leaving the *abi*. In analyzing the resources that are in place, we noted that the majority of businesses assessed, which was 24 in total, did not have any resources in place for human resources (only 4 had human resources in place), followed by marketing (12), bookkeeping (14), and IT (14). It has been my observation, in New Hampshire, that there have been plenty of workshops and educational seminars put on by the SBA and its partnering organizations: SCORE, SBDC and WBC on marketing and bookkeeping, but not as many in the areas of human resources and IT. Although the *abi* has the goal of providing yearly workshops on HR and IT 101, it would be helpful for us to collaborate with the SBA to provide these workshops. In turn this frees up our time to do more direct one-on-one consulting with the businesses.

I would like to mention that David Hamel, the director of MicroCredit NH, recently formed the Microenterprise Resource Partners Committee in N.H. The purpose of this committee is to gather the majority of the business development organizations in the state around the same table to learn about each other's services and to work collaboratively on avoiding duplication of services. The group meets quarterly and I think that these meetings will provide valuable input to the SBA and its partnering organizations, as well as the other participants, on how to best serve the small business community. This hearing process has made me realize that in addition to discussing each other's services, we also need to talk more about what the issues are that small businesses are facing. I think, over time, that this committee will be beneficial to helping the SBA best serve the small businesses population in New Hampshire.

Last, I would like to provide some final comments from the businesses that I had the opportunity to interview the week prior to this hearing.

- **Business 6:** Would like to see more readily available no-cost support for HR management/issues. They find it difficult to keep up on all of the requirements. This comment is in line with our assessment findings previously mentioned.
- **Business 1:** Is in the accounting industry and mentions that it is has been her overall observation in working with small businesses that they do not spend enough time planning, especially when it comes to budgeting.

I would like to elaborate on Business 1's planning comment. I am in agreement that small businesses do not always spend enough time planning. Over the years, I have come to the conclusion that time management is one of the biggest challenges that a small business faces, especially in the beginning stages when there is only one, two or three employees. Part of the *abi*'s solution to this planning issue was to make quarterly goal-setting meetings a mandatory criterion for participation in the *abi*.

- **Business 2:** Confirms what I have heard from several businesses, that credit is tight. They presented the solution that the government should consider allowing small businesses to use their retirement funds for their business's use without penalty.
- **Business 5:** Commented, like other businesses, on how they wished the government provided more stimulus funds for small businesses. They made the following suggestions: to use stimulus funds to provide some type of incentive for venture capital and angel investors to make more investment in small business, and to provide funds to small businesses to hire college student interns.
- **Business 8, 10 and 15:** Would like to see the government use stimulus funds to provide tax relief to small businesses.

- **Business 9:** Would like to see easier access to business loans to consolidate credit card debt.

I would like to add to this comment that credit card debt has created challenges for small businesses since I first started my career in incubation. Many small businesses use credit cards as part of the mix in starting their business, even though it might not always be the best choice, and then get caught in a cycle of rapidly rising rates and fees.

**Business 5 and 13:** Would like to see the process of doing business with the government simplified and both stated that they would like to see the government more strictly enforce small business set-asides. Additionally Business 13 reported that they would like to see the government's clearance databases set up so one department can find out through another department whether or not a person has government clearance. Business 13, who entered a contract with the government, was told after starting the job that they had to leave the job because the government could not confirm through another department's database that this person did in fact have clearance. This business is very appreciative that the Shaheen administration was able to help them work through the red tape; the government has now confirmed the clearance and will help to put this company on another job.

*Again thank you for supporting small business in our country and providing the abi with the opportunity to provide testimony on behalf of itself and small businesses. If you would like any additional information, please let me know.*