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Startups hold key to economic growth in Rochester

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The Rochester of the 1830s got rich off the Erie Canal and flour production. So it was again after the Civil War and through much of the 20th century, with industries such as men's clothing and manufacturers including Eastman Kodak and Bausch + Lomb, and later Xerox, creating fortunes for investors and careers for legions of workers.

The 21st century — [marked so far by downsizings at the Big Three and even the dynamiting of unused buildings at Kodak](#) — has been less rosy. Health care and education are growing, and employers such as the University of Rochester and Psychex Inc. are expanding. But the region is barely holding its own as old-line manufacturing and its well-paying jobs decline.

Where do we go from here?

"If this region is going to grow, it's going to be through startup companies," said James Senall, president of High Tech Rochester, a nonprofit economic development organization that runs a pair of business incubators. "Our community has got to get behind forming and growing new companies."

The area's strengths for generating new businesses are technological know-how, university-based research and a skilled work force, according to economic development experts.

"The universities are definitely feeders into the economy," said Sandy Parker, CEO of the Rochester Business Alliance. "Other (new businesses) are coming from people who worked at the big employers, left or were given packages to leave, and started their own companies."

But the pipeline of startup businesses has carried more of a stream than a river. The Council on Competitiveness in Washington, D.C., recognized that in 2004, when it said Rochester had the components for a stronger economy but hadn't capitalized on them. One particular shortfall was a lack of investors willing to back startups, a problem that still exists.

Senall said the region also has to regain the entrepreneurial drive that seemed less important when Kodak, Xerox and B+L were thriving but today has become more needed than ever.

Job potential

Now the attention has shifted to businesses like Diffinity Genomics, a Henrietta startup that employs nine people in using technology licensed from UR to create its first commercial product. The company expects to begin selling RapidTip for analysis of DNA and RNA, both related to genetic codes, by the end of February, said Chief Executive Jeff Helfer.

"We're trying to make Rochester more than a flyover city in biotech," Helfer said. With institutions such as UR already generating discoveries with commercial potential, he said, "You need to get people commercializing outcomes of the research."

Diffinity Genomics is one of 37 companies created out of UR research and currently active. And UR, as well as Rochester Institute of Technology, sees potential for greater job creation from their work.

"I think there is a bigger opportunity to grow our own under the ideas, technologies and science — the creative work that comes out of our own community," said RIT President William Destler, pointing to business incubators at RIT and High Tech Rochester.

Both RIT and UR in the past five years have invested in entrepreneurship training for students, taking steps such as establishing student business-development facilities and offering a tuition-free year of school to be devoted to entrepreneurial activity.

As health care and education emerge as leaders of the economy, many of the startup companies tie into or support those industries, said Mark Peterson, president of the economic development organization Greater Rochester Enterprise.

While technology-heavy startups often need a lot of money to get going, "those investments create 'sticky feet,'" Peterson said. "If you're going to bolt equipment to the floor of a factory, you're not leaving anytime soon."

Change in strategy

After scoring a huge success in 2007 with Barilla America building a \$75 million pasta plant in Avon, Livingston County, GRE has changed its strategy due to the economy. It's now targeting industries such as software development, "where we can attract five or six companies in the next year ... for small incentive packages because they don't need much," said Peterson.

"We all love it when we get a Barilla," he said. "But the challenge is, those are very big incentive packages."

GRE also has started jointly marketing western New York with Buffalo Niagara Enterprise.

The trends toward creating and attracting small businesses reinforces the notion that the Rochester economy — which for decades was dominated by big companies churning out film, photocopiers and contact lenses — increasingly is made up of less sizable enterprises.

According to U.S. census figures, there are 2,400 health care firms and agencies in the region employing a total of 68,000 people — with 2,000 of those businesses having fewer than 20 workers.

Similarly, of the 2,500 professional and technical services businesses employing nearly 27,000 people, small firms dominate: 2,200 of the businesses have fewer than 20 workers.

"When I worked at Kodak, I thought this was a Kodak, Xerox, Bausch + Lomb town," said Scott S. Sutherland, chief executive of SCJ Associates, a Henrietta electronics manufacturer. "And when I came here, I realized there are all these small companies all over the place.

"We've adjusted to (the shrinking) Kodak. I'm optimistic about this community."

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