

# Rochester might be hotbed of future high-tech entrepreneurial activity



Written by

**Driadonna Roland**

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By many accounts, Rochester is on the cusp of rebranding itself. Rich in talent and innovative research, the region could join the ranks of Boulder, Colo., and Austin, Texas, flourishing hubs with technology identities.

But some entrepreneurs and local tech industry officials say something is missing, perhaps a maestro, someone who can get all the disparate elements to play together.

For many students and young professionals in particular, starting a company is the easy part. Web-based startups require little seed capital since things like office space and several employees aren't always needed.

"You really don't need anything but yourself and some spare time," said Matt Gardner,

23, a Rochester Institute of Technology senior who owns a tech consulting firm called Rockadoo.

RIT President Bill Destler has said 1 in 90 incoming freshmen already has a business when they arrive — that's about 150 startups a year bouncing around the dorms.

But will they all go the way of Digsby? Steve Shapiro, 28, wrote the business plan for the popular social aggregator while working on an MBA at RIT. In April, his Rochester startup was bought by social network Tagged and the company moved to San Francisco.

"One of the biggest challenges was almost everyone we worked with was on the West Coast," Shapiro said. "Having that person down the block so you can take them out for coffee or out to lunch is very helpful. In Rochester, on the Internet space, you're kind of isolated."

How Rochester evolves to the point where it

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retains the talent and reaps the economic benefit of entrepreneurs such as Shapiro is up for debate.

But people are starting businesses, and at a pace that some might find surprising given the 2007-09 recession and the painfully slow recovery since then.

When the national dot-com boom was going strong in the late 1990s, business incorporations in Monroe County averaged 1,830 a year, according to state figures. From 2008 through 2010, when the economy was struggling, incorporations increased to almost 2,600 a year.

Some of those in recent years undoubtedly were entrepreneurs who had lost jobs at downsizing companies and decided to try being their own boss instead of seeking another corporate position that might lead only to another layoff.

"We've got a lot of high-tech startups simply because we have a lot of big companies with a lot of intellectual property who have laid people off," said Sandy Parker, CEO of the Rochester Business Alliance. "They get their separation packages and go off to start their own businesses."

Other new businesses spring from research at the region's colleges and universities. At the University of Rochester, for example, about \$400 million worth of research is conducted a year. James Senall, president of High Tech Rochester, a nonprofit economic development organization, said

some of the research creates interesting technologies that can be spun into startups.

Another piece is people who have built companies previously and understand how to create and grow a business. Senall said Silicon Valley in California has fared so well in part because there's a concentration of "serial entrepreneurs."

"They've got so many startup deals that have been going on for so long that there's just this whole pool of people that have been involved with startups," he said. "They know how to go raise money from angel investors and venture capitalists. They know how to get things done quickly and cheaply."

No matter where the entrepreneurial idea originates, funding is vital, particularly early stage funding. Neither banks nor most venture capital funds are very willing to invest during a startup's pre-revenue phase, Senall said

This was Shapiro's plight when he started

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Digsby. It was difficult to find funding in Rochester, he said, because the Rochester Angel Network — of which Senall is also director — and other venture capital funds seek big companies or those with products.

"When you come to them with an online startup, this industry isn't really their forte," Shapiro said.

Theresa Mazzullo sits on the other side of the table. As CEO of Excell Partners, a state-supported seed fund in Rochester, she's aware that many sophisticated people in the region are sitting in "the valley of death," a phrase used to describe the very early stages of a startup's life cycle that many never get past because they lack funding.

"One of the big challenges is who recognizes that Facebook is going to be the next Facebook? Who among us can predict that?" she said.

Since 2005, Excell Partners has invested about \$2.4 million in 21 companies. None of them has been Web-based, Mazzullo said.

But she does not see funding as the issue. What really needs to take place is a "creative collision of people," she said. If Rochester is going to emerge with tech startups steering the course, young people need to create a community around it and find a collaborative space.

"We've got so much potential here, but if we could somehow get the vibe together,"

Mazzullo said. "And it's going to take time. We have to have patience."

One way to promote interconnection is with business incubators. At these incubators, companies receive some combination of space, mentorship and access to investors. While there are three large local incubators — RIT's Venture Creations, High Tech Rochester's Lennox Tech Enterprise Center and Rochester BioVenture Center — none specifically provides the Google-esque creative space for young professionals and students. High Tech Rochester is considering creating a third incubator to serve young adults, Senall said.

Shapiro's company is enjoying its move out West, but he sees a bright future for Rochester if it does better at cultivating entrepreneurs.

"The talent pool is there, but unless you create the opportunities for employment you're going to lose them," he said.

In Gardner's opinion, it's an exciting time to

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be a young entrepreneur in upstate New York. Maybe Rochester needs to do a better job of touting what it has to offer, he suggested. The barriers to entry are lower than in more saturated markets, and the cost of living is much more affordable. Though he could operate his Web-based business from anywhere, the idea of helping shape the region's future is a huge draw.

"It's like uncharted territory," Gardner said. "Once the first person discovers gold, this place is going to flood with nerds."

[DROLAND2@DemocratandChronicle.com](mailto:DROLAND2@DemocratandChronicle.com)