

SCALE UP NEW YORK

Creating Middle Class Jobs by Growing New York City's Small Businesses



SCALE UP NEW YORK: CREATING MIDDLE CLASS JOBS BY SCALING UP NEW YORK CITY'S SMALL BUSINESSES.

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Center for an Urban Future (CUF) is a catalyst for smart and sustainable policies that reduce inequality, increase economic mobility, and grow the economy in New York City. An independent, nonpartisan policy organization, CUF uses fact-based research to elevate important and often overlooked issues onto the radar of policymakers and advance practical solutions that strengthen New York and help all New Yorkers participate in the city's rising prosperity.

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Cover: A woman views an available space at Industry City in Brooklyn. Photo: Alex Barreto.

CONTENTS

SCALE UP NEW YORK	1
Barriers to Growth	2
Help from City Hall	3
The Levels of the Challenge	4
LEVEL 1: PEOPLE AND SKILLS	6
Finding the Right Workers	6
Skills and Training Gaps	8
Coping with Labor Costs	9
LEVEL 2: BUSINESS AND OPERATIONS	12
Financing for Small Businesses	12
Investing in the Equipment for Growth	15
Cash Flow Woes	16
Outreach and Advice	17
LEVEL 3: THE URBAN SETTING	19
Cost and Availability of Real Estate	19
Infrastructure	20
LEVEL 4: GOVERNMENT AND POLICY	22
Tapping into Government Contracting	22
Taxes and Regulations	24
RECOMMENDATIONS	

SCALE UP NEW YORK

New York City is humming with small business activity. The city's entrepreneurial environment has expanded greatly in recent years, thanks to an explosion of new businesses in fields from financial technology and digital health to artisanal food manufacturing and film post-production. Over the next few years, turning more of these small companies into larger businesses is one of New York's greatest opportunities for economic and employment growth—and one of the best chances to expand the number of middle-class jobs.

The opportunity is clear. The city is home to more than 207,000 businesses with 20 or fewer workers. The number of businesses employing fewer than ten workers has increased by nearly 12 percent since 2008. Over the same period, Brooklyn added more than 8,000 new businesses with fewer than ten workers, growing nearly 22 percent.

Unfortunately, too few of the city's small business manage to scale up and achieve sustained growth. Despite the surge in the number of new small businesses, growth among businesses with more than 100 employees has been largely flat since 2008 and the number of businesses with more than 1,000 employees decreased 1 percent during the same period.

Not every small business has the potential to expand. And some business owners are content to stay small. But there is a clear opportunity for many more of the city's small firms to grow to the next level. As this report details, the path to growth for small businesses in New York City is exceedingly difficult. Among those small firms in the five boroughs with growth potential, a significant share get tripped up along the way. Many don't even try.

A strategy to help more small businesses scale up would do more than just bolster the city's strong economy. It could be the city's best opportunity to boost its supply of middle-class jobs.

Firms with fewer than ten employees tend to be top- and bottom-heavy, with many of their jobs in executive positions or at the lowest rung of the job ladder. But as small businesses grow, they often add middle-wage positions and increase benefits for their workers, including paid sick leave, time off, and subsidized healthcare.

This report—the latest publication of the Center for an Urban Future's Middle Class Jobs Project, a research initiative funded by Fisher Brothers and Winston C. Fisher—examines the potential to boost the number of middle income jobs in New York by scaling up small businesses. It takes a close look at the challenges and barriers facing small businesses and identifies strategies for helping more of them to grow. Although it is difficult to predict which industries are best positioned to add jobs over the long term, one thing is clear: New York City has enormous potential to grow more of its small businesses of all kinds, creating thousands of middle-wage jobs in the process.

For this report, we interviewed dozens of small business owners from all five boroughs and in a bewildering array of industries, as well as government officials, economic development professionals, and other small business experts. Our goal was to better understand the pain points that emerge as small businesses struggle to grow and to offer concrete ideas for helping more New York City companies to scale up.

Barriers to Growth

Despite the city's advantages as the most dynamic and connected economy in the Western hemisphere, New York's small businesses often struggle to grow. Companies with fewer than 50 employees accounted for nearly 98 percent of the growth in businesses citywide from 2000 to 2013. As of 2014, nearly two-thirds of the city's private sector businesses had fewer than five employees, and these very small businesses were responsible for nearly a quarter of all new hires between 2007 and 2012.

New York's high tax rates and demanding regulatory burdens are well known. So, too, is the city's expensive real estate market. These barriers often prompt companies to look outside the city to expand operations. But most business owners accept these burdens as a cost of doing business in a city that boasts 8.5 million residents, attracts 60 million tourists a year, and stands as one of the globe's leading cultural and economic centers.

The greater challenge, say New York City's small business owners, is the opacity and complexity of the city's business environment and the lack of coordinated resources along the way. Small business owners struggle to understand the taxes and regulations that affect their firms' operations—a more frustrating hurdle than simply affording the bill. Even when business owners think they are obeying the city's regulations, they are too often surprised by a fine or a new demand for paperwork. If they are able to find a suitable facility in which to expand, they struggle to secure a reasonable lease or outfit it with the necessary equipment and services. And although they are impressed with the diverse pools of talent in the city, they struggle to find workers with the right mix of technical and soft skills.

Too many businesses in New York City run into obstacles when they try to add employees. Labor costs are compounded by the additional costs of growth, including office space, training, human resources, middle management, and mandated benefits such as sick leave, healthcare, workers' compensation, and unemployment taxes. In a costly, competitive, and complex business environment, growing from a handful of employees to 20 or more often requires rethinking every aspect of business operations. The more

that small businesses succeed, the more complex—and overwhelming—their operations become. Many owners lack the expertise or connections to make the transition from everybody-does-everything companies to large-scale organizations based on extensive specialization and division of labor.

With every new contract, revenue stream, and employee, businesses take on new challenges. A city law mandates paid sick leave at five employees and the Affordable Care Act requires companies with 50 or more employees to provide health insurance coverage to all full-time workers. At the same time as the initial costs of growth are kicking in, however, a financing gap emerges. For far too many small businesses, this creates a perfect storm of obstacles that can stop growth in its tracks.

“New York is strong with the start-ups employing one to four people, but there is no growth with the 50-or-more-employee companies,” says Michael Simas, the executive vice president for the Partnership for New York City. Part of the problem, he says, is an inadequate bridge from coworking spaces to large-scale factories and private offices. “When you stick your head up from the collaborative work spaces, when you have to pay your own bills and take care of permitting and other issues, it's a big challenge,” says Simas. “As you grow it gets more expensive—you have to deal with HR, with legal, with workers' comp, not to mention other expenses. All that starts to add up and New Jersey doesn't look so bad.”

Companies face a “Death Valley” of uncertainty and limited resources as they grow their companies, says Kinda Younes, the executive director of the Industrial and Technical Assistance Corporation (ITAC), which provides below-market consulting services to manufacturing companies. When they succeed, companies in all sectors need a whole new strategy to handle growing demand, add workers and business locations, fund and deploy machinery and equipment, source local materials, and decide what parts of the business to outsource and what to handle in-house.

Managing growth “itself is a full-time job that they are expected to flawlessly execute, while still being understaffed and running their business,” Younes says. “There are lots of initiatives around start-ups—entrepreneurship programs, accelerators, incubators, et

cetera—but much less of a focus to actually help [companies] grow.”

Too often, small business owners say, they struggle to benefit fully from the city’s advantages, while remaining unable to escape its high costs and burdens. When they seek help—from government agencies, banks, consultants, and bigger firms—they have no reliable place to go. To grow in the city, businesses need a complete roadmap tailored to industry, location, and customer base. Longtime business owners and advisors caution that although certain kinds of tools and advice can be shared across sectors, much has to be adapted to each company’s particular circumstances. In addition, the vast range of information available only exacerbates the complexity. So small businesses improvise, adapting their traditional practices, piecemeal, to chase new programs and opportunities.

The major challenge of small businesses in New York, then, is a disconnect between everyday operations and the opportunities for growth and development. What small businesses need, above all else, are rational systems that help them understand their business operations, access local and regional markets, and identify broader opportunities for growth.

Even when the government offers services, business owners say they are often difficult to find and use. “There are so many resources out there, it can become overwhelming,” says Jill Johnson of the Workshop in Business Opportunities, which provides business services to underserved communities. Adds Sabrina Valle of Jam Stand, a Brooklyn-based jam manufacturer: “There are like a bajillion resources but I don’t really know how to navigate them. The city is trying to do things. Most of us don’t know where to look if we wanted to.”

Help from City Hall

The de Blasio administration’s Small Business First (SB1) program, a \$27 million initiative announced in July 2014, has developed a three-pronged agenda. First, SB1 aims to make information and compliance procedures more accessible online. Second, the program seeks to provide more direct and responsive services to small businesses to help them understand the regulatory environment and stay in compliance. Third, SB1 proposes evaluating the small business regulations on

the books to determine which ones might be consolidated, simplified, or eliminated.

At the same time, SB1 leaves many of the specific obstacles to small business growth unaddressed. From attracting and retaining employees who can drive new opportunities, to coping with wage pressures and benefit mandates, to financing for equipment and real estate, to seeking new markets and breaking into supply chains, the barriers to small business growth are distinctly different from the burdens facing small businesses in general.

In order to grow more of its vibrant small businesses, New York City should develop a multifaceted strategy to bridge the disconnect between the city’s unparalleled advantages and its eager, entrepreneurial companies. Given that the challenges facing small businesses mount as they grow, it is not enough simply to reduce the barriers to starting a business. A strategy to create middle-class jobs by supporting small business growth should focus on the challenges facing New York City’s smallest companies at each pivotal step on the path to growth.

As part of this strategy, the city needs to identify gaps in government services and programs for small businesses. These service gaps—which include investments in facilities, capital equipment, revolving loan funds, and training and consulting programs—should focus on helping businesses deal with the issues that emerge as they grow, not just supporting businesses as they first get off the ground. Companies that invest in their own equipment upgrades, operational systems, space expansions, and marketing—and combine those investments with investments in their workforce—not only succeed but also create real opportunity for their workers.

In addition, the city should develop a comprehensive online tool that connects New York’s businesses with their obligations and opportunities. This system should gather all of the essential information for businesses to succeed in New York—including taxes and regulations, labor market data, real estate assistance programs, training and workforce development opportunities, government-backed financing programs, and consulting services—so that every aspect of the business environment is transparent and understandable, and services are centralized in a single location.

Finally, the city should redouble its efforts to invest in its infrastructure. The city has always benefited from coordinated investments in transportation, utilities, industrial spaces, parks, neighborhood revitalization, and environmental reclamation, which have the added benefit of creating additional jobs. These investments make business operations more efficient and effective, while improving the quality of life for employees and employers alike. By strengthening communities all over the city, investments in public spaces and resources cement the bond that both companies and people have with New York City.

The Levels of the Challenge

Small businesses face obstacles to growth at four distinct levels.

The challenges begin with people, as companies struggle to find the talent necessary to grow their

businesses, streamline their operations as they grow more complex, finance investments in facilities and equipment, and connect with markets and supply chains to sell their goods and services on a larger scale.

At the level of business operations and the built environment, businesses cite three major obstacles to growth: difficulties securing financing, a lack of affordable real estate, and decaying public infrastructure. Not only is real estate expensive but the search can take months and even years. Leases for most small businesses are short and subject to exorbitant rent increases, which can kick in just as a business is beginning to invest in its own growth. Investment in capital equipment also proves a challenge. Banks usually require a level of cash flow or collateral that many small businesses lack. Venture funding is available to high-growth companies but almost never to small independent businesses.

SMALL BUSINESS IN NEW YORK CITY

Small businesses (fewer than 20 workers) dramatically outnumber big businesses (500 or more workers). The U.S. Census Bureau estimated that there were 207,619 small businesses in the city in 2014, compared with 755 big businesses. In all but a few sectors—manufacturing, wholesale trade, construction, and finance and insurance—the number of small businesses has slowly but steadily increased in recent years.

Still, the biggest companies employ almost three times as many workers as the smallest companies. Roughly 1.8 million New Yorkers work in big businesses, compared with 646,563 people who work in the smallest businesses. Workers in big businesses also earn higher average wages than workers in the smaller businesses. Annual wages at big companies average about \$98,000, while wages at businesses with under 20 workers average about \$49,000.

Business size	Number of companies	Total payroll (billions)	Employees	Average annual pay	Average revenues
<20	207,619	\$31.7	646,593	\$49,091	\$880,602
20–99	21,263	\$33.8	563,722	\$59,930	\$10,545,354
100–499	4,306	\$35.3	518,535	\$68,024	\$35,815,650
500+	755	\$174.7	1,785,080	\$97,839	\$194,055,433

Source: U.S. Census Bureau.
Note: Payroll and employee data is from 2013 and revenue data is from 2012, as these are the most recent years available.

At each jump in company size, the average wage increases substantially. But with every increase in size, there are fewer companies.

New York’s small businesses are not concentrated into any one or two major sectors. Three sectors have 20,000 to 30,000 or more small companies. Five sectors have between 10,000 and 20,000 small companies. Six sectors have from 4,000 to 10,000 small companies.

Number of Small Businesses by Sector					
Sector	2010	2011	2012	2013	2014
Retail trade	30,135	30,671	31,298	31,693	32,085
Professional, scientific, technical services	23,417	23,775	24,284	24,804	25,393
Other services (not public administration)	22,133	22,725	23,363	24,010	24,426
Health care and social assistance	19,146	19,443	19,692	19,893	20,110
Real estate and rental and leasing	18,104	18,300	18,401	18,640	18,994
Accommodation and food services	17,140	17,403	17,728	18,286	18,459
Wholesale trade	15,098	14,955	14,941	14,962	14,916
Construction	11,209	11,145	11,373	11,931	12,323
Finance and insurance	9,684	9,608	9,763	9,874	9,497
Administrative/support and waste/remediation	6,879	6,976	7,134	7,277	7,335
Manufacturing	4,998	4,875	4,808	4,650	4,644
Arts, entertainment, and recreation	4,818	4,906	5,030	5,159	5,359
Information	4,749	4,739	4,882	5,103	5,254
Transportation and warehousing	4,274	4,461	4,487	4,506	4,696
Educational services	2,283	2,339	2,527	2,635	2,674
Management of businesses	742	694	738	748	766
Industries not classified	536	485	258	446	587
Utilities	57	52	58	66	69
Agriculture and forestry	14	14	17	12	14
Mining, quarrying, and oil and gas extraction	13	18	18	21	18
Totals	195,429	197,584	200,800	204,716	207,619

Source: U.S. Census Bureau.

Within the broader New York City Metropolitan Statistical Area (MSA), small businesses employ 1,496,310 workers—or about 20.35 percent of employment in the MSA. Employers with over 500 employees make up 48.11 percent of overall employment. In this bimodal economy, the extremes of size employ almost 70 percent of all workers.

At the level of government and policy, firms struggle to meet their obligations and to make the most of New York’s advantages, especially as they seek to grow and add employees. Taxes and regulations are more burdensome in New York than most other cities—and their complexity makes them even more onerous. Procurement offers small businesses contract opportunities worth billions, but too often the process is opaque, confusing, and too time-consuming.

Scaling poses a daunting challenge across sectors. Once producers reach a certain threshold, they need more space, equipment, and workers. Growth typically takes place in leaps rather than steady increments. That puts companies in the uncomfortable position of taking huge risks without a high degree of confidence in the prospects for success.

LEVEL 1: PEOPLE AND SKILLS

Small businesses struggle to get the right people and systems to meet the challenges of bigger markets.

Finding the Right Workers

Small businesses in New York City face unique challenges in attracting and retaining the right workers. In a continually changing marketplace, small businesses depend on talented workers to wear multiple hats and meet unexpected challenges. Too often, though, companies struggle to find the right fit—and to develop meaningful, growing roles for those workers.

Operating in New York offers an important recruiting tool for attracting millennials and creative professionals, says Sam Slaughter of Contently, a content marketing company based in SoHo with roughly 120 employees. The company frequently recruits employees from outside the city. More than any other region in the country—including Silicon Valley, Boston, Washington, and Sunbelt powerhouses like Houston and Phoenix—New York attracts ambitious, creative, educated workers. Millennials, especially entrepreneurs and professionals, are eager to live and work in the city because they consider it the greatest testing ground in the United States. They also see advantage in the city's unparalleled diversity and the concentration of businesses and cultural opportunities.

Despite the attractiveness of New York City for workers at nearly every level, small businesses in all sectors—from food manufacturing to podcasting—struggle to find the workers they need as they attempt to grow. The problem, they say, is a frustrating mismatch of jobs and workers. Many people seeking jobs lack the specific skills that businesses need to thrive. But it's not just a job preparedness problem. Even when workers have the skills that small businesses seek, companies struggle to find them. And small businesses struggle more than big ones because they cannot deploy the same level of recruitment and human resources might and cannot always offer competitive salaries.

“Every single company that demos at New York Tech Meetup will say they're hiring,” says Andrew Rasiej, the founder of Civic Hall, a coworking space that brings together technologists, social entrepreneurs, government employees and others seeking to build digital tools for the public good. Civic Hall created the New York Tech Meetup, the largest group of its kind in the world. “There just aren't enough people to fill all the jobs. They aren't skilled. You need developers. You need computer scientists. Citibank is competing for the same engineers as Facebook or Google. If they can offer \$175,000 a year to a developer who knows how to do Ruby on Rails, how can a small business that's getting started on friends and family money compete?”

That's not just a tech problem. Small businesses in a wide range of sectors—such as food, garments, healthcare, and engineering—struggle to find the right match of education, skills, and work habits. Many workers lack the right job-specific skills, from running a machine to overseeing product assembly. General training in a field does not translate well to the specific tasks of a job. Therefore, workers need extensive on-the-job training.

The problem is that training has a limited shelf life; workers need constant updating in order to stay productive and creative. “Any job that involves training is going to be obsolete very soon,” says Nathan Meryash of Keen Home, an electronics company with a staff of ten that provides digitally networked vents to manage heating and cooling systems. “If it can be trained, it can be programmed, and if it's too difficult to be programmed, it will very soon be able to be done with machine learning. It's no longer way out in the future, it's happening now.”

Jim Grau of Gimlet Media, a Brooklyn-based producer of narrative podcasts with a staff of roughly 60, says his company struggles to find people who can write well and tell engaging stories—which is the

very core of his business. Finding technical talent, like people who can record and edit podcasts, is easy. But difficulty finding top-level storytellers—work that cannot be automated, which requires creativity and collaboration—has slowed the company’s growth. These talented people are also in demand at big media companies, which makes it much harder for small businesses to compete. “What we’re doing requires very high-level skills and even though New York is rich here, it’s not always easy to find,” says Grau, who serves as the company’s vice president of finance. “It’s such intense competition from the rest of the media.”

For companies requiring a mix of technical and personal skills, finding the right fit poses especially difficult challenges. Small businesses cannot simply put workers in a narrow slot; those workers also need them to be members of a larger team that helps the company grow. For investments in labor to pay off, growing small businesses need to provide workers with an efficient management and operational system; for well-designed systems to work, small businesses need well-trained and motivated workers.

Jason Chen—the cofounder of Vesper, which provides a complete suite of office management services that combine online support and in-person consulting and guidance—says hiring could either make or break the company. “Our best asset is our managers, so we spend a lot of time and money making sure we’re sourcing and finding the right people,” he says. Vesper uses an online applicant tracking system, hires an outside company to sift resumes, and concludes with three or four interviews and a test of skills and knowledge. Many small businesses have little knowledge of or resources for this labor-intensive process, so they end up wasting effort on multiple rounds of hiring.

Surprisingly, even small businesses in technical fields say they can train workers without specialized skills—if they come to the job with an array of basic skills in communications, math, and science. Girihlet, a company with three full-time employees that develops DNA-based procedures to address cancer and developmental disorders, struggles to find qualified workers for its lab. Founder and CEO Ravi Sachidanandam says he can teach college graduates with a minimal science background. But the best science students take jobs

with bigger, more established companies and others lack even basic understanding of the scientific method.

“In this ecosystem, people are constantly coming and going. You hire them and they begin to get the skills they need, and then they leave for other companies,” says Sachidanandam. “We are happy to train if people want to learn and they have an interest or ability. We have trained people who have limited knowledge of science. We can’t just take an artist who says, ‘Oh, I want to learn science, but I don’t have the basic tools.’ We had one intern who couldn’t do the work because she did not understand controls in experiments.”

Spencer Wright, vice president of product at nTopology, a company with a team of eight people that produces software for 3D printing applications, says workers do not need extensive education to join his company. “There’s a ton of design work that isn’t exactly rocket science,” he said. “This is not Bell Labs here. There’s a lot you can do with a high school education.” But New York’s mix of training programs has been inadequate to the task, he says. “The overall [digital] literacy needs to be higher.”

Manufacturers tend to require specialized skills, such as pattern-making and sewing for garment workers. But the rapid decline of the garment sector has led to the demise of many industry-specific programs. Paul Cavazza of Create-a-Marker, a company that cuts patterns for fashion and apparel brands, says that manufacturers have lost skilled workers with the long-term decline of the sector. “Most technical schools did away with pattern-making and now we have this huge gap in pattern-making jobs,” he says. “People call me every day [saying], ‘I need a pattern-maker,’ but I don’t have enough people to send them. I had two designers tell me [they could pay] between \$4,000 and \$5,000 a week. But I can’t find them [workers].”

Alexandra Ferguson, the owner of an eponymous home decor and accessories company in Brooklyn, says she could double or even triple her workforce of seven if she could attract qualified sewers. “We interview people every week,” she says. “I just put them at a sewing machine and tell them to show me what they’re made of. Nine out of ten usually don’t pass.”

For many small businesses, jobs require a mix of skills, experience, and the ability to work

independently—a skill that may be tangential for a big corporation with enormous oversight capacity, but is essential for small companies with limited budgets and fewer managers. Shant Madjarian of Juniper, a Brooklyn-based lighting and furniture design company with eight employees, advertised on a number of different platforms and got 300 resumes, but only two or three had the required experience at hands-on assembly. “We got warehouse workers and security guards and sometimes pretty highly qualified people in office jobs,” says Madjarian, who founded the company in 2011. “A lot of people know how to use a hi-lo truck and have a license to work with warehouse machinery. But if you ask if they have any hands-on experience making anything, it’s just crickets.”

For Tara St James, founder of the Brooklyn-based womenswear company Study NY and research fellow at the Brooklyn Fashion and Design Accelerator, the labor challenge goes hand in hand with the technology challenge. For garment manufacturers to thrive, companies need to invest in new equipment like 3D printing—and, at the same time, recruit and train workers to run the equipment. “We need funding for new technology, along with workforce development and job placement,” she says. “We work with the Brooklyn Chamber of Commerce on job placement, but [qualified workers] are few and far between—and there is no centralized place for finding the employees and then for the employees to learn new technology.”

Skills and Training Gaps

City agencies and nonprofits offer an array of services intended to train residents for available jobs, but the city’s workforce development system is still too disconnected from the needs of employers and too inaccessible for most small businesses. The city’s Career Pathways initiative calls for a sharpened focus on sector- or employer-driven training programs for high-growth industries, such as home healthcare, food service, and construction. However, the workforce development system is still designed to connect big employers with immediate hires, not to match individual job-seekers with small business opportunities one by one.

When small businesses have succeeded in hiring candidates from workforce development programs,

the results are mixed. Success stories include the Cypress Hills Local Development Corporation’s Champion Network, where students learning to drive para-transit vehicles report 70 to 80 percent job retention rates. This year, the program is training 52 people. But businesses express frustration with some of the training programs. One restaurant owner who has hired interns from a nonprofit youth development program says that the candidates she typically gets are unqualified: “They don’t really work out.” They lack basic skills for the jobs, she says, placing an additional burden on a small business already stretched thin.

Even when candidates arrive with the necessary skills, they may need more training before they add value. Another employer, a contractor who has worked in public housing projects, says that she and her staff end up spending a lot of time training the employees they get from city programs, including teaching them how to work with others in a professional environment. “We put a lot of effort into cultivating, mentoring, training them, but [whether they are successful] depends on how motivated they are,” she says. Her business is able to absorb the additional cost of training, but many others would end up back at square one.

Technical skills are more easily outsourced than critical thinking and soft skills, company owners say. “For us, we have a very challenging technical task that needs to be done, and we need as many skilled people as possible,” says Nathan Meryash of Keen Home. “But we may not need those same skills forever, so we can’t afford to bring on a full time person or expert in that area. So we have to look at options. If it’s rote engineering skills, those are taught overseas for far less. So do we get five senior engineers in China or do we get one in New York for the same price?”

Ideally, workers would be cross-trained to handle a variety of challenges, rather than a single set of tasks such as programming, marketing, or management—especially in small businesses that have fewer specialists. That training needs to continue throughout the career. “We’re either going to want to contract someone who is an expert and replace them with someone else who is an expert in a month—or full-timers who can switch [tasks and assignments] when

the needs of the company switch, which happens a lot for us,” says Meryash. We can’t just keep on stacking people in every area, at least not in the early stages of a company like ours.”

In all sectors, employers report frustration with inadequate soft skills of today’s workers. Soft skills range from basic responsibilities (showing up on time, dressing and speaking professionally) to higher-order skills (problem solving, working well with others, taking the initiative). The need for soft skills is urgent at all rungs of the career ladder. Entry-level workers need to interact with coworkers, customers, and clients; more seasoned and educated workers also need to seek out and solve problems on their own.

The difficulties begin with the hiring process. Small businesses, in particular, often lack the time or experience to be discerning and patient when hiring, so they end up with “good enough” employees. More successful companies require weeks or even months for hiring but end up with employees who perform their jobs better, have the potential to advance, and help to improve the company’s operations. The challenge for growing small businesses is clear: investing in people—a company’s most essential asset—is inherently fraught with difficulties that are particularly burdensome for the smallest firms.

Coping with Labor Costs

New York’s labor costs are higher than those in most other cities and regions, with consequences that vary from industry to industry. Small businesses can usually offer less compensation than big businesses, which makes recruitment a challenge. They can compete for top workers by offering more meaningful work or a more active role in the life of the company. But the types of businesses that can recruit on mission alone—for example, companies focused on clean energy or education—are few and far between. For most small businesses, the challenge is to get more value out of each employee without being able to compete on salary with big companies.

For small businesses that rely on unskilled and semiskilled workers, the move toward a \$15 hourly minimum wage in the city by the end of 2018 poses existential worries. Businesses such as car washes, furniture makers, and restaurants say the new minimum wage will hit them twice. First, low-skilled workers may now earn more than the value they contribute to the company. Second, workers who already make \$15 will demand raises to keep above the new entry-level wages. Besides creating upward pressure on all skill and wage levels, the new wage floor will prompt some companies to cut their labor force and replace human labor with machinery—or to outsource work

Median Labor Costs in New York City and State				
Profession	City Median	State Median	Difference (dollars)	Difference (percent)
All Occupations	\$48,060	\$42,340	\$5,720	12.7
Transportation and Material Moving Occupations	\$36,170	\$34,190	\$1,980	5.6
Installation, Maintenance, and Repair Occupations	\$52,360	\$47,130	\$5,230	10.5
Construction and Extraction Occupations	\$66,420	\$55,720	\$10,700	17.5
Payroll and Timekeeping Clerks	\$47,300	\$44,840	\$2,460	5.3
Fitness Trainers and Aerobics Instructors	\$71,980	\$55,980	\$16,000	25.0
Childcare Workers	\$28,190	\$25,960	\$2,230	8.2
Maids and Housekeeping Cleaners	\$38,500	\$27,120	\$11,380	34.7
Building and Grounds Cleaning and Maintenance Occupations	\$35,520	\$29,800	\$5,720	17.5
Food Servers, Nonrestaurant	\$35,550	\$29,750	\$5,800	17.8
Food Preparation and Serving Related Occupations	\$22,910	\$21,160	\$1,750	7.9
Meeting, Convention, and Event Planners	\$62,910	\$56,040	\$6,870	11.6

Source: New York State Department of Labor, Occupational Employment Statistics survey.

Small businesses risk losing workers— many of whom they have trained— because of the city’s high cost of living. “The issues of the city become your issues.”

to other cities. If jobs like customer service (which averages \$9 to \$11 an hour) leave the city, economists expect there will be more competition for the new minimum-wage jobs.

The minimum-wage hike, says Liz Neumark, the owner of Great Performances, a catering company with roughly 200 employees, “is such a complicated little tsunami for us.” The impact goes far beyond entry-level workers. “I believe in working wages. What nobody is really thinking about, it’s not the minimum wage, it’s everyone else [at the company who will need to earn more]. Probably this year, it’s going to [add] three quarters of a million dollars that I cannot pass on.” For many small business owners, this is the root of the problem: the market will not allow them to raise prices, passing the additional costs on to the consumer. The small margins at many small businesses cannot absorb the increased payrolls.

“Will people cut staff? I’m sure they will,” says Neumark. “I know we have to, because we can’t absorb this. It’s not like it’s coming out of nice little corporate profits. It’s a monster. This takes it and dumps it on small businesses in such a punitive way.”

Steve Rotlevi, a car wash entrepreneur and head of the city’s Association of Car Wash Owners, says labor costs have led to the closing of 200 car wash businesses in the last two years—and with them, 1,000 jobs. He also owns a furniture-making company and says he has begun to explore moving his operations to Pennsylvania to control labor costs. Although many of his workers earn less than middle-class wages, Rotlevi argues that these jobs offer an important rung on the ladder for workers with limited English proficiency or few marketable skills. Basic work skills—showing up on time, working with others, solving problems, finishing

tasks, serving customers—are essential prerequisites for higher-quality jobs.

Lexy Funk, the founder of Brooklyn Industries, a bag and apparel manufacturer and retailer, has already begun cutting back on staff as the city increases the minimum wage. She is also restructuring her workforce to have fewer wage levels. Wages that once ranged from \$11 to \$18—with incentives to work hard to get to the next level—will soon cluster around \$18. “So the [wages] will go up, but then do you need a guy in the back restocking?” she asks. “Maybe not.”

High rents put added pressure on companies to find qualified workers. Small businesses risk losing workers—many of whom they have trained—because of the city’s high cost of living. “If you can pay your people \$40,000, for a lot of businesses across the country that’s a fair wage, but in NYC it’s subsistence,” says Funk. “They come in and say, ‘I’m moving back home,’” she says. “The issues of the city become your issues. The expense and lack of housing become your issue, so you have increased wage pressure.”

Given all of the other pressures of New York City life, a convenient and accessible location is often essential for finding the right talent. “How do you attract talent when they can’t live nearby?” asks Kenneth Ouriel of Syntactx, a contract research organization that conducts clinical trials for medical products. “It used to be that you could find a place in Brooklyn. Now it’s Queens. Some people say to move to Jersey, but the people who want to work for us don’t want to spend three hours a day on a commute. And if you live on Long Island, you’re not just taking one train. You have to walk, take the train, then switch. And it’s expensive—\$300 a month.”

Even in low-skill jobs, a central location is important for finding qualified workers. Warren Brand, the third-generation owner of M&S Schmalberg Custom Fabric Flowers, has resisted entreaties to move his company from the Garment District to Brooklyn. “My workers wouldn’t go there,” he says. His business, which currently employs twelve people, also depends on walk-in traffic from the fashion and media industries.

As wages rise, says Zeynep Ton, associate professor at the Massachusetts Institute of Technology’s Sloan School of Management, companies need to figure out how to increase the value of their workers. “If all it took was to pay people more, executives would already be lined up to do that,” she says. “Most people aren’t going into business to hurt their workers. They just think [low wages offer] the easiest or the quickest way to succeed. What needs to be understood from a public policy perspective is that this [\$15 minimum wage] is a complicated change.”

As small businesses grow, they need to make sure they use efficient systems that give workers a wide range of ways to contribute. Small companies, in particular, cannot afford to have extremely specialized positions, when one employee might be able to contribute in a variety of ways. However, the most difficult aspect of maximizing employee value lies in training. Robust training programs can help combat constant churn and ensure a stable, productive workforce. This combination of streamlined systems and augmented training, Ton’s research shows, improves the performance of the company and makes paying higher wages beneficial for both workers and owners. But small businesses face cash flow problems and a lack of in-house expertise, which makes implementing these changes a major challenge.

The hiring process can be long and arduous. Companies seeking specific technical skills need to find workers with demonstrated abilities and experience in applying those skills. “If you’re starting a new company and you want to hire someone, you want to find anyone who’s decent and not straight out of that boot-camp style thing,” says Jason Chen of Vesper, referring to the crash courses for nascent programmers. “The boot-camp style developers are still expensive—like \$70,000, \$75,000—and they have no experience. That would be our most expensive person and we wouldn’t know how

good they are. They used to be an artist and now they’re a developer. How am I supposed to know? It’s not that tech talent doesn’t exist, it’s just that it’s too expensive.” Most small business owners report high turnover as they try to find the right workers for their positions. Too often, they say, the workers they want to keep are the ones with opportunities elsewhere.

For companies with a social mission or a particularly attractive brand, hiring in New York can be easier and cheaper than in other cities. Highly educated professionals—especially millennials—are sometimes willing to work for lower salaries than they would in other cities because of the opportunity to live in New York or to make a contribution to industries focused on clean energy, the environment, arts, or education.

If a company tries to solve “a really big problem like global warming or reducing carbon emissions,” says Connell McGill, the CEO and founder of Enertiv, an energy technology and management company with a staff of ten, “you can differentiate yourself from social media, fashion, advertising because you’re saving the world. A lot of people gravitate to companies because they want to have an impact. You’re solving big problems and impacting everyone and it does give you an edge in the recruiting game.” Jeff Perlman, the founder and CEO of Bright Power, which offers analytics and retrofitting of commercial and residential buildings for energy savings, agrees. “I have a friend who has a company that makes rubber flooring and he has a really hard time hiring decent people. Just moved from Queens to New Jersey and he has a factory in Georgia. There’s no sexiness to it, there’s no pizzazz to it. I can hire somebody from a top school because they want to be in this industry.”

New York offers the greatest collection of talent anywhere. But too many small businesses struggle to recruit the best people, compete with larger companies, and optimize the value of each worker. In addition, New York City poses additional hurdles for low- and middle-income workers, including housing and transportation costs. Small firms face a unique combination of obstacles when it comes to human capital: finding, attracting, training, and deploying talented people, while coping with the effects of increased payrolls on companies that have little room to absorb the costs.

LEVEL 2: BUSINESS AND OPERATIONS

To grow, small businesses need to compete with the best-run companies. They need systems that simultaneously achieve efficiency and creativity—and engage their workers.

Financing for Small Business

For most small businesses, access to capital is a major obstacle that makes it difficult for even the most successful small companies to grow. Funding for growth usually begins with “friends, family, and fools,” as one small business owner jokes. Some companies on a high-growth trajectory find that early process easy. But most small businesses face significant hurdles to finance real estate and equipment investments, and say that it is even more difficult to secure short-term financing for operations.

Financing operates on two tracks: one for the vast majority of small businesses, and another exclusively for high-growth start-ups. Although New York City has emerged as a global hub for venture-backed start-ups, the financing picture is much less sunny for most small companies looking to grow. Even as money pours in to tech companies, small businesses in many other industries face a dearth of financing opportunities to fuel their own more modest growth.

There are several dimensions to this challenge. Small community banks—traditionally the foundation of small business lending—have been disappearing, and many big banks are uninterested in providing the relatively modest loans that small businesses need, or are unwilling to take the risk. And while financing can be found at the very earliest stages of starting a business and for businesses with significant revenues and strong cash flow, there is a major gap in the market that specifically hurts small businesses seeking to level up.

Once small businesses tap start-up grants, friends and family loans, and community bank loans, they struggle to secure financing for amounts ranging from \$50,000 to \$500,000. Microfinance organizations top out at around \$15,000, and most community banks

do not make loans greater than \$50,000 or \$100,000, regardless of the company’s revenue stream. At the same time, big banks do not make small business loans for less than \$500,000. “There’s a real gap in financing options,” says Megan Adams, communications manager for Grameen America, a nonprofit microlender. “Their appetite for bigger and bigger loan products grows, and there [are few] organizations that can meet it.”

Investment for high-growth companies is a different story, although the process is by no means easy. Some company founders report that they made pitches to 70 or more investors before finding a partner. The New York investor community, company owners agree, is more pragmatic and “old school” than the investors on the West Coast. “In California, if you say you want to cure cancer, they say. ‘Yeah, go ahead,’” says Ravi Sachidanandam of Girihlet. “Here, you need a detailed plan and you have to practically have the cure in the plan. They are very risk averse in New York. California is much better at short-term risk—take six months to a year and allow the company to either succeed or fail.”

Jim Grau of Gimlet Media adds, “Access to capital is hard. Lots of businesses in New York want to grow but traditional banks aren’t lending to small businesses. Venture capital (VC) money can be tough if you’re not looking to expand and expand. Businesses are maxing out credit cards or taking out short term, high-interest loans that can pose a major challenge.”

Despite New York companies’ success with VC funding, the overall amount of money for start-ups, especially in the tech sector, pales in comparison with competitors like Silicon Valley and greater Boston. Even though New York ranks in the top three regions for VC funding, its per-capita funding is much lower.

For high-growth and tech companies, this kind of investment is essential, says Nicolas Vansnick of Bot-Factory, a 3D printing firm. “Hardware is extremely expensive so you need a lot of capital to start your company,” he says. “Investors in New York are specialized, but they still need to be educated. Those who invest in hardware don’t really know hardware. One investor didn’t even know what a circuit board was.”

The world of small independent businesses is completely different. The problem, says David S. Rose, CEO of Gust, is that those companies often do not understand that they cannot achieve the same kind of exponential growth as the VC-funded start-ups. “The biggest problem is when founders of small independent businesses—which can grow and make millions in revenues—are mistakenly encouraged to try raising VC and angel money,” says Rose. “It’s just not

going to happen.” Investors usually seek returns of 30 times their investment, which is virtually impossible for independent small businesses.

For small businesses, banks are the most important source of financing. But many small companies are forced to reach out to friends and family, take out second mortgages, and use credit cards and other high-interest tools in the absence of small business loans. Small business financing for real estate and equipment, as well as short-term loans to manage cash flow, have been on the decline in recent years. At a time of bank consolidation, small community lenders play an ever more vital role in the life of small businesses, but these institutions face major headwinds, too.

Community banks have always been an essential engine of small business success. Historically, small banks developed specialized knowledge of the

TWO PATHS TO GROWTH

David S. Rose, CEO of the financial technology firm Gust, outlines the two different kinds of small businesses, which offer different potential for growth and require different funding.

Small Independent Business	High-Growth Start-Up
Vast majority of new companies	Makes up 10 to 15 percent of all start-ups
Usually a limited liability company	Usually seeks to go public or get acquired by another company
Incorporated in the home state	Is formed as a C corporation, usually in Delaware
Owned by one or two founders, with no other investors	May have many cofounders
Has few employees	Has few employees and many independent contractors
Does not provide equity to workers	Offers workers equity in the form of stock or options
Operates in a physical location	Often operates with a small office and many virtual or off-site locations
Generates revenue soon after opening	May take years to become profitable
May operate primarily as a cash business, with investments coming from this cash flow or with collateral of hard assets	Gets funding from friends and family, then angels and venture capitalists
Avoids double taxation	Can begin as a corporate tax-through but eventually will pay corporate taxes
Blends ownership and management roles	Separates ownership and management functions
Levels out once profitable, then maintains its size	Aims to achieve continual growth

businesses in their neighborhoods and forged relationships with networks of small businesses in the area. Lenders often spend their entire careers servicing local businesses. Most community banks get clients through word of mouth, underscoring the importance of local networks and knowledge for both lender and borrower.

Community banks and credit unions can make unsecured loans up to \$100,000. According to Daniel Gonzalez, director of lending at the Brooklyn Cooperative Federal Credit Union, a nonprofit financial institution based in Bushwick, most borrowers at such banks get \$50,000, and young companies are more likely to get loans of \$15,000 or less. National banks will not even consider lending to small businesses because the amounts they seek are minimal or their collateral or revenues are inadequate. As a result, small and mid-sized banks and credit unions make 60 percent of all small business loans even though they account for just 24 percent of all bank assets, according to the Institute for Local Self-Reliance. In areas with a dearth of small banks, financing for small business is scarce.

The transformation of the banking industry has eroded those relationships. Small banks, with assets of less than \$10 billion, have been disappearing in New York and across the United States. From 1992 to 2011, according to the state's Department of Financial Services, the number of New York City community banks fell from 299 to 169. The number of banks with less than \$100 million in assets declined even more sharply, from 99 to 22 over the same period. The

assets of community banks also fell precipitously, from \$237 billion to \$166 billion. Deposits, which are more important for small banks than big banks because of their more limited activities, declined from \$188 billion to \$130 billion.

Investment in small businesses is usually a good bet, even when the company owner lacks the revenue streams or collateral that banks seek, says Daniel Gonzalez. In fact, half of the loans Gonzalez oversees would not be possible without the loan guarantee programs of the U.S. Small Business Administration (SBA). "It's a great return on their investment," he says. "The difficulty that people have in getting collateral would prevent them from getting loans. There's all this economic activity that these loans stimulate that wouldn't have been possible without the loan guarantees."

In addition, many small business owners misunderstand credit ratings, which undermines their ability to secure financing for growth. The consumer credit market has used credit scores for decades, but small business credit scores emerged only during the 1990s. Good credit scores give banks the confidence to make risky loans. But nearly half of all small business owners don't even know they have a business credit score. A recent SBA report concludes that small firms are "more likely to be denied credit" than large companies. Banks do not have to explain why they reject small businesses that apply for loans. Business credit scores offer a means to understand the factors that influence lenders' decisions.

Brooklyn Industries offers a case study in the trials and tribulations of small business financing. The

WHERE DID ALL THE COMMUNITY BANKS GO?

Experts debate the causes of the decline in community banks. Some analysts point to the Dodd-Frank banking reform of 2010, a 2,300-page law that attempts to restrict the practices that led to the financial meltdown of 2008. A report by the Federal Reserve Bank of Richmond found that few new community banks—those with less than \$10 billion in assets—have been formed since wDodd-Frank. In addition, Federal Reserve economists say, additional regulatory burdens are increasing staff costs at lending institutions, "which can hurt the return on assets of some community banks by as much as 40 basis points," according to the authors of a 2014 Harvard Business School working paper. Along with growing regulatory complexity, Dodd-Frank has encouraged consolidation by providing assistance programs to keep big banks solvent, says Arthur E. Wilmarth of George Washington University. Before 2008, regulators approved more than 150 new small banks a year; since then, they have approved just one. Low interest rates also put the squeeze on small banks, which cannot generate as much revenue in fees as big banks.

A major gap in the financing market specifically hurts small businesses seeking to level up.

company now employs over 120 people in New York City, New Jersey, and upstate. When Lexy Funk started the company, she could not get loans, even from community banks. “I kept being told that I could borrow the money if I put the same amount of money into the bank,” she remembers. “I could borrow \$7,000 if I had \$7,000 in the bank. So I was like, ‘If I had \$7,000 in the bank, would I be asking you for money?’” She financed her company with savings, investments from family, second and third mortgages on a house in upstate New York, and a unique business arrangement with a Japanese trade group. And, of course, she tapped friends and family. Only when her revenues reached \$5 million, she said, would banks consider making loans. Eventually she got financing from Commerce Bank for short-term expenditures. When TD Bank acquired Commerce, the difficulties began anew. TD Bank cut the company’s line of credit almost in half, which hampered its ability to place orders for the Christmas season. “We didn’t have enough inventory to get back on track,” Funk says. “It’s almost like when we had lending, [the business] became very precarious.”

Durante Rentals, a construction machine rental company that employs 45 workers at its Bronx and Queens facilities, was also rejected by lenders in its early years. “In the beginning, it was impossible,” says John Durante, the co-owner. “We got rejected for a loan for a copy machine.” The company used credit cards and high-interest lenders—and even borrowed from a competitor, buying \$250,000 worth of equipment at a high interest rate. “It took five years to really break,” he says. “Now they bend over backwards and [we] get whatever we want—even more.” Even after years of success, the company uses equipment finance companies, not banks. “We stopped going to the banks. They say you don’t have enough revenue last year to pay for the debt this year.” Dodd-Frank, bankers tell him, has caused banks to be

more demanding than ever so that “it’s now, ‘only if you have the money will we give you the money.’”

Investing in the Equipment for Growth

Investment in capital equipment is an imperative for businesses in all sectors. Even non-tech businesses—such as restaurants, travel agencies, business service providers, and manufacturers—require new investment to take advantage of revolutions in computer-aided design, 3D printing, materials, and Internet marketing and sales. Some of these businesses can be started for little up-front capital, but most require some capital to reach healthy levels of scale. Miquela Craytor of the New York City Economic Development Corporation (NYCEDC) estimates that 3,000 firms in New York need to upgrade their equipment.

Especially for low-margin small businesses, investment for growth poses a tricky challenge. New investments are like renovating a home while living in it. “People are not only reluctant because of the cost of the upgrade or the new technology,” says Tara St James of Study NY and the Brooklyn Fashion and Design Accelerator. “They’re also reluctant to stop what they’re doing because it risks losing work all together. So you really kind of have to do the equivalent of starting a new business on the side.”

When companies seek loans from banks for investments in machinery and technology, they often struggle to explain their businesses to nonexperts. “My business is too complicated and opaque for most investors to spend the time to try to understand it,” says Shant Madjarian of Juniper. “The sources of risk and revenue have to be clear and they’re not—we deal with architects, designers; people who make decisions aren’t the ones who write the checks, users are different, brand matters at times and other times it doesn’t. That complexity makes it very hard for me to present

it to someone who doesn't know me personally, to get excited about the businesses."

Crowdfunding is usually associated with start-ups, but has been tapped for a wide variety of small businesses developing new product lines. Crowdfunding offers new options for small businesses, from start-ups to mature companies that need to fund particular projects but cannot get bank loans or other investments. According to the Crowdfunding Center, New York City-based creators raised \$46.1 million for 5,062 projects in 2015, an average of \$28,311 per project.

Electric Objects, a company that makes electronic displays to bring more than 10,000 works of art into homes and offices, attracted \$780,612 from 2,246 backers through a Kickstarter campaign. That campaign had two benefits. First, it demonstrated that there was a significant market for the product. Second, because the company knew exactly how many products to make, it lowered the risks surrounding sourcing.

The federal government's Section 179 program—which allows businesses to deduct the full purchase price of financed or leased equipment and software worth up to \$500,000—has given businesses like Durante Rentals the ability to achieve an annual growth rate of 45 percent. Companies that use the benefit can eliminate their federal tax liability, giving them more room to grow. "It's smart because if you got a company that's upping their spend that much every year, clearly they're adding jobs, paying tolls, everything," says the company's co-owner, John Durante.

Cash Flow Woes

For small businesses adding clients and customers—and investing in their own internal operations—cash flow can pose a serious challenge. When payments for goods and services lag, companies struggle to pay their own bills. Only having a reserve of cash or a line of credit can save them from failing. But many small businesses lack this basic capacity. Small companies usually need to generate enough revenue to pay rent, workers, suppliers, and other expenses, and to use those revenues to secure loans for long-term investments. When customers pay late or the company is hit with unanticipated expenses, the company's survival could be on the line.

Cash flow can hurt growing companies even more than stable companies, according to Deborah Alden, managing director of the Brooklyn Fashion and Design Accelerator. "It's difficult when you need to produce before you can sell," she says. "They'll have purchase orders but need to put the money up front in order to have the product made, so it will be 30, 60, 90 days after delivery when they get that money back. We have companies doing exactly what you want to see—hockey stick growth—but it just gets harder and harder." Increasing order sizes creates bigger cash-flow problems. Many companies are unable to develop a reserve to keep bills paid while delivering bigger orders. "It's a catch-22," Alden says.

When they begin operations, most small businesses do not consider the problem of cash flow. But experts say they need to put systems in place before opening for business. Requiring payment up front, getting credit before a cash-flow crisis begins, leasing equipment instead of buying, and using technology or professional services to manage money could prevent companies from getting caught short.

Growth creates a vicious cycle. More growth brings in new revenues, but usually not enough to pay forward for new labor, production equipment and materials, and facilities. High-growth companies that land VC or angel investors can operate for years without turning a profit. But traditional small businesses, from corner kiosks to furniture makers, must rely on revenues and bank credit to fund their operations and fuel growth.

The cash flow problem is more acute for New York City companies than companies in less expensive locales. A company struggling to meet payroll—whether a start-up or a small independent business—will be cut less slack in a high-cost city. "In other cities, I can see really vested team members holding on tight and figuring out ways to cover their \$500 a month rent," says Connell McGill of Enertiv. "Here in New York, if you can't hit payroll for a month or two, our employees are racking up thousands of dollars of expenses. Given the market and the availability of other positions for the same pay, it's a lot less compelling [to make a sacrifice for a company]. That's how companies go down. That's always been one of my

greatest fears.” Jason Chen of Vesper says he considered “going home to Maryland and working virtually from there,” even though New York is the ideal market to develop his business.

Outreach and Advice

Small businesses often lack access to advice for product development, operations, hiring, technology, marketing and sales, and more. Businesses often struggle to get off the ground or grow because of a lack of business knowledge and savvy. While they may understand their product or service, they often struggle to use that understanding to create a viable business. An understanding of software or artisanal food does not necessarily translate into an understanding of business and management. Of particular concern, many long-term challenges get neglected because of pressing day-to-day challenges. Many small business owners say they struggle to maintain and update machinery and systems due to everyday business pressures.

Every stage of development requires new knowledge, contacts, data, and capital equipment. But many companies lack the knowledge to navigate these step-ups. Ideally, companies will operate amid a web of peers, suppliers, and consumers from a wide variety of related industries, so that learning can be built into the process of growth and development. Companies also need ongoing feedback and advice. The support of friends and family often suffices at the early stages of a business. But as companies get bigger—and face legal, technical, and sector-specific challenges—they need feedback and advice from experts and accomplished peers.

“A lot of companies are so busy putting out fires, it’s hard to focus on strategy,” says Gary Hirsch, who advises tech start-ups in the New York area. The problem, he says, is that most small business owners don’t know about the full range of services available to them. Referring to a company that fielded hundreds of resumes that produced only one or two acceptable job candidates, he says, “I know a solo practitioner who will screen those resumes for \$1,000. But small businesses don’t know the resources out there.”

Of all the challenges facing small businesses that could benefit from expert advice, managing the supply chain poses the most difficult problems. As small

companies grow, their processes become more complex as their demands increase. More customers require greater materials, workers, equipment, production management, staging and storage, marketing, distribution, and so on. When companies begin operations, they often have simple product lines and a small customer base that requires little in the way of customer service and limited management oversight.

Expanding operations need not overburden small businesses if companies know where to go for help. However, keeping more new jobs in New York City poses an additional policy challenge, as companies grow and decide to take advantage of opportunities out of state. The Jam Stand is a case in point. The company, which used to handle all aspects of the business at its Brooklyn site, now outsources its manufacturing to a facility in Pennsylvania. “We submit an order that says, ‘I need 3,000 blueberry, I need 4,000,’ or whatever, and they schedule dates for production and shipping,” says Sabrina Valle. “Operations isn’t my strong suit, and the up-front capital that goes into a lot of these things is huge—the equipment, the line, the people you have to staff, the rent you have to pay. So we might be paying a slightly higher price per unit for someone to make it for us, but we are significantly reducing our liability and our overhead costs.”

Unfortunately, most small businesses do not know how to take advantage of outside services for office management (e.g., payroll, bookkeeping, and human resources), copacking, marketing, delivery, and more. Retail stores, restaurants, and a number of service businesses are notorious for not developing efficient workflows. Absent those improved systems, companies may never end up in the financial position to push for further growth.

At both the city and state levels, New York companies have access to a number of assistance programs, including a handful aimed at supporting small businesses as they grow. New York City’s Department of Small Business Services (SBS) offers a nine-month program, in partnership with NYU and Citi Community Development, focused on helping minority- and women-owned business enterprises (MWBEs) to create a strategic plan for growth. In addition, SBS operates seven Business Solutions Centers, which

provide storefront access to myriad capacity-building programs and services, including help navigating the government contracting process and breaking into corporate supply chains.

At the state level, Start-Up New York offers access to top talent and industry experts for small businesses, as well as ten years of tax-free operation in locations on or near eligible university or college campuses. However, the program is targeted at new businesses and firms relocating from out of state, rather than at local small businesses looking to scale up. The state also operates regional economic development councils, including a city council, as well as two dozen New York Small Business Development Centers (SBDC). Eight are located in the city—three in Manhattan (at Columbia, Baruch, and Pace), two in Queens (at LaGuardia and York), and one each in the Bronx (Lehman), Brooklyn, and Staten Island (each with a separate SBDC).

The U.S. Small Business Administration offers consulting services, seminars, and information on the challenges of small business development through its SCORE program. At the center of SCORE's operations are retired executives, who volunteer to offer advice on every stage of business development. New York's SCORE program reaches more than 1,000 business people per year, including start-up founders and experienced owners. When entrepreneurs can demonstrate that they have a viable business plan, they are given priority in the SBA's lending programs.

The problem is that SCORE and related programs have low visibility. Referring to SCORE's location in a building that requires extensive security to enter, Howard Geltzer, a former public relations executive who now volunteers as a SCORE mentor, says, "How do you know about a place in Federal Plaza where you can get free advice about your small business? People don't know about SCORE and other places where you can go for advice or financing."

In 2016, New York's SCORE office launched a new program called the Advisory Board Service to provide free management consulting services to select businesses with more than \$25 million in annual revenue. However, the program can serve only a limited number of businesses and is not targeted as the smallest businesses seeking to tackle the first phase of growth.

SCORE reaches only a fraction of small and growing businesses. Other organizations—including the Business Solutions Centers, the Small Business Development Corporation, and the Industrial and Technical Assistance Corporation—also offer guidance and services to small businesses at all stages of development. But many of the small business owners we interviewed expressed frustration at the complexity of this disconnected system of assistance and support, suggesting that these services are not reaching or helping many of the businesses that need it most.

The problem extends to the full range of government consulting and incentive programs. Beth Goldberg, the New York-area administrator for the Small Business Administration, ran a family printing business for 31 years and later owned a travel company. For most of her career, she says, she did not know about government assistance for small businesses. "As a business person, I honestly didn't know SBA existed," she says. "I faced a lot of the same challenges. There's lots I could have benefited from."

Even when small business owners learn about programs for investment and consulting, they have a hard time evaluating them. "It's a crap shoot," says Cheryl Surana, the owner of Brooklyn Cookie Company, which employs five workers, as to whether programs will offer quick and effective assistance. Surana says she waited months for a request from one federal Small Business Development Center without a response. "Crickets," she says. Later, she sought out a different SBDC and got fast and helpful information. Overall, it took her a year to get the information and advice she requested.

Beyond the difficulty figuring out what government services would be helpful and which would not, says Surana, navigating the many offerings of the federal, state, and local governments is bewildering. Noting the similar names of different programs—the federal Small Business Development Centers and the city-run Business Solutions Centers—she said many small business owners get "stressed" trying to understand the range of available programs, let alone make the time to access them.

LEVEL 3: THE URBAN SETTING

Cost and Availability of Real Estate

It comes as no surprise that New York's small business owners complain about the high cost of real estate. But many of them say they could deal with the expense if they could find locations in the first place and then sign long-term leases that give them stability and opportunity for growth. Because they lack bargaining power, small businesses tend to pay more per square foot for similar spaces than do larger firms. It is yet another example of the growth paradox: just as small businesses are primed to expand, enormous cost burdens kick in. When it comes to real estate, these barriers are both more acute in New York City and particularly hard for small businesses to overcome.

"As far as I'm concerned, real estate is the one issue that hurts businesses and drives them out of New York," says Joe Orr, the co-owner of New York Naturals, a kale chip company that moved from Brooklyn to Paterson, NJ, in the summer of 2016. "Rent is a killer. Landlords are sitting on property and then they're able to get 50 percent more, 100 percent more." At his new facility, Orr is paying \$4,600 a month for a 9,800-square-foot facility with better electrical systems and insulation; at the old facility, he paid \$4,700 for 4,700 square feet and invested \$150,000 of his own money to make the space usable.

The problem is significant for small businesses at all levels, from mom-and-pop operations that employ a handful of people to growing companies that employ dozens or more. Too often, real estate costs outstrip the costs of running a business. As one jewelry store owner says, "Landlords charge based on what they can get from the market, but we can't charge according to what happens with real estate. We have competition, here and overseas. So when rents go up, we're in trouble."

Rent takes 26 percent of the overall income of Brooklyn Industries, says owner Lexy Funk. "When you look at other companies that are diverse, where they do things out of the city, their overall rental rates are 15 percent or 12 percent." No data is available for the overall share of revenues that go to rent. But small

business owners say it can be twice as much—or even more—for those based in New York City.

The pressure is greatest in neighborhoods that were formerly affordable havens for small businesses. For example, a September 2016 report from the Real Estate Board of New York found that the average asking rent for ground floor retail space in north Williamsburg's Bedford Avenue retail corridor is an astronomical \$373 per square foot—far beyond the means of most single-outlet small businesses.

Office rents are also continuing to rise. Earlier this year, the Real Deal reported that "the average asking rent for office space in Manhattan broke \$72 per square foot 'for the first time on record' in January, according to commercial brokerage CBRE." Likewise, average asking rents in Midtown South jumped 45 percent from 2009 to 2016.

"It's been an upward battle for our industry to come here and it's still a struggle," says Nathan Meryash of Keen Home. "We can't print money like a hedge fund just to pay our rent. The price of real estate is determined by the people who are willing to pay the most."

Alexander Bender of Tri-Lox, a design-build company in Brooklyn, spent a year looking for a new facility before finally finding a 6,500-square-foot facility in Greenpoint. "There's a lot of creative production here, but it's always a question of how much can you afford?" he says. "Can you afford to grow? If you could afford it, can you even find the space?" Two recent trends—shrinking industrial space and absentee buyers and building managers—have changed the nature of the market. The more outside owners, the less the interaction with tenants. "Many owners of industrial buildings don't have interactions with tenants," Bender says. "They use a management company. They don't provide the relationship that fosters growth."

Real estate prices prompt even companies dedicated to the New York market to consider moving with every surge in growth. "I don't think we're going to move to Omaha. But in New York, every time something happens,

the question is, ‘How expensive is this going to get?’” says Carlos Williams, the owner of the design firm DBC. “I had to change apartments because they tried to raise our rent 40 percent. We were like, ‘We’re never doing this again. We’re going to buy something somewhere upstate.’” When the company grows to 20 employees, Williams said, he will decide whether to leave the city.

Infrastructure

New York’s infrastructure—streets and highways, bridges, public transportation, and utilities—knits together an astonishing array of businesses, consumers, and services. But too often, the system still operates according to 20th-century standards and capacities, strangling the ability of small businesses to grow.

The city’s transportation networks—from roads and bridges to the subway system to the airports and ports—requires billions of dollars in repairs and preventive maintenance, and billions more to expand capacity to accommodate future growth. The decaying systems cause major delays that affect productivity and hurt business. A *Time* magazine headline captures the crisis: “New York City Is Crumbling.” The system’s structure is also antiquated, with poor connections to the inner suburban areas of Westchester County, Nassau County, and New Jersey; inadequate Hudson River bridge crossings; poor connections in Brooklyn and Queens; and poor access to southern Queens.

Alexander Garvin, a leading city planner who analyzed the city’s transportation system in 2006, warned: “If the city’s infrastructure does not expand to accommodate new growth, the city will not be able to provide citizens with the high level of service that past residents have enjoyed and that has made the city so competitive.” Ten years later, his study for the Department of Transportation remains relevant, and little appears to have changed. According to the Texas A&M Transportation Institute, the New York City metropolitan area suffers from the most expensive congestion in the nation. The institute estimates the total cost of congestion at \$14.7 billion in 2014 alone. In the same year, New York City lost 628,241,000 hours to congestion.

Small businesses often bear the brunt of the problem, since they lack the slack resources to make extra deliveries and suffer more for delays or product spoilage. When they can afford it, some businesses run multiple deliveries so they will still get their products to market even if the Brooklyn-Queens or Cross Bronx Expressways are experiencing long delays. Much of the problem can be explained by bottlenecks at bridge and tunnel crossings, most of which involve start-and-stop traffic at tollbooths. In the next 20 years, freight traffic is projected to increase by 37 percent, according to the Port Authority. New York’s loading docks are also inadequate and often contribute to traffic delays. Companies report getting fined upward of \$100,000 a year

Average Asking Rent for Office Space in Ten Most Populous U.S. Cities					
City	Q1 2015	Q1 2016	Change (dollars)	Change (percent)	Difference from New York, NY
New York, NY	\$69.39	\$72.40	\$3.01	4.2%	N/A
Los Angeles, CA	\$36.65	\$37.63	\$0.98	2.6%	-48.0%
Chicago, IL	\$33.84	\$35.43	\$1.59	4.6%	-51.1%
Houston, TX	\$27.58	\$28.37	\$0.79	2.8%	-60.8%
Philadelphia, PA*	\$27.37	\$29.56	\$2.19	7.7%	-59.2%
Phoenix, AZ	\$21.71	\$23.29	\$1.58	7.0%	-67.8%
San Antonio, TX	\$19.78	\$20.28	\$0.50	2.5%	-72.0%
San Diego, CA	\$2.44	\$2.77	\$0.33	12.7%	-96.2%
Dallas, TX	\$21.64	\$25.44	\$3.80	16.1%	-64.9%
Austin, TX**	\$32.78	\$33.52	\$0.74	2.2%	-53.7%

*second quarter of 2016

**Austin is the eleventh most populous city, but data was unavailable for San Jose, CA.

Source: Cushman & Wakefield Market Reports, 2016

The system still operates according to 20th-century standards and capacities, strangling the ability of small businesses to grow.

for parking tickets received when loading and unloading products.

Some of the problems cannot be fixed. Delivering products into Manhattan from Brooklyn and Queens, for example, will always be more complex than delivering products from New Jersey. Joe Orr, the co-owner of New York Naturals, moved his operations from Brooklyn to Paterson, NJ, in part because of the greater ease of getting products into Manhattan from across the Hudson than from across the East River. For many companies with goods to transport, New Jersey offers better connections to Manhattan than do the other boroughs. “To drive a truck through Manhattan from Brooklyn, it’s a chore,” says Orr.

The city’s congestion costs businesses dearly. “Getting around for trucks is very difficult,” says Lexy Funk of Brooklyn Industries. “You wake up and you hear, ‘The east side is closed for twelve hours.’ You have to plan around that.” From 2010 to 2015, the city’s Department of Transportation reported, the city added 370,000 new residents, 520,000 new jobs, and 10 million new tourists. Businesses regularly complain about the time lost getting goods to market. Big companies schedule more deliveries than they might need to compensate for days lost in traffic. But small companies—and companies that depend on quick delivery—have no such luxury.

In addition to roads and bridges, public transit is vital for small businesses. It generates pedestrian traffic, lures investment, and, most importantly, brings workers to job sites, offices, and factories. Many companies complain that New York’s public transit system—while one of the city’s greatest advantages—has not developed adequately to serve either workers or larger markets. And the Manhattan-centric orientation of the transit system does not best serve the geography

of small business growth, where recent years have seen major spikes in Brooklyn and Queens. The Metropolitan Transit Authority’s \$27 billion capital program, says board member Allen Cappelli, does not come close to meeting the needs of the system.

Both subways and buses strain to handle ridership levels at an all-time high. Old technologies—on everything from fare cards to door-closings to aging electrical and signaling systems—create delays in getting riders to their destinations. In 2015, subway ridership reached its highest level since 1948, with a total of 1.7 billion riders and a daily average of 5.7 million, according to the Metropolitan Transit Authority. Riders on crowded lines are seeking other options. L train riders’ changing behaviors have increased J/Z and M line ridership by 4.2 percent. Meanwhile, weekend surges are causing MTA officials to increase the number of trains and trips on heavily used lines. In the fall of 2016, the 2 line, for example, began running an extra 31 round trips on Saturdays and another 18 on Sundays. The new Second Avenue line, scheduled to begin service in 2017, will relieve some of the pressure but also spur a new boost in ridership.

Maintenance for public infrastructure—from transit to roads and bridges to public facilities—suffers from the lack of public attention and the failure to establish reliable budgets for ongoing work. Sam Schwartz, the transportation commissioner under Mayor Edward Koch and the owner of a transportation design firm, has argued for setting aside a small percentage of all new infrastructure projects for maintenance. According to a University of Massachusetts study, \$1 billion in spending on maintenance creates more jobs than new construction. And these investments will help create the conditions necessary for more small businesses to stay in New York City as they grow.

LEVEL 4: GOVERNMENT AND POLICY

City and state government provides a wide range of programs and services—but they are disconnected and too often impose unreasonable burdens.

Tapping into Government Contracting

New York City's massive government—with a fiscal year 2017 budget of \$82.2 billion and a five-year capital spending budget of \$67.1 billion—offers the greatest opportunity for urban contracting in the United States. City contracting offers an enormous opportunity for small businesses to springboard into larger businesses, not to mention state and federal government contracts. Once companies qualify to do work for the public sector, they can count on getting regular contracts. Those opportunities also help to forge ties between large and small companies. When big companies win government contracts, they are obliged to seek out small companies as subcontractors, fueling a new cycle of growth.

But the contracting process is opaque, complex, and balky—and, many small businesses say, unfair to small enterprises. Companies struggle to navigate websites and to determine what goods and services they would be qualified to provide. Minority- and women-owned enterprises qualify for special set-asides in contracting but struggle to understand the ins and outs of the program. When they get contracts, payment often comes months late—undermining their efforts to maintain cash flow.

The procurement process—the system of advertising, vetting, and awarding contracts for everything from office supplies to major construction projects—tends to be dominated by large, established businesses. Most small businesses gain access to public spending with special set-aside programs or by subcontracting with major companies. New York has set specific goals to award contracts to companies owned by women, members of minority communities (black, Hispanic, and Asian), and emerging businesses (i.e., “owned by persons who can demonstrate social and economic disadvantage”). Those goals vary by the type of work

(construction, professional services, standard services, goods), as well as by the size of the contract and whether the work is for a prime contractor or a subcontractor.

The city's targets for overall procurement spending range from 3 to 12 percent for various minority groups and 10 to 25 percent for women-owned firms. For contracts with a value under \$1 million, these goals range from 5 to 12.63 percent for minority-owned firms and 10.45 to 18 percent for women-owned firms.

The utilization rate for all women' and minority-owned companies increased from 8 to 14 percent from fiscal years 2015 to 2016, according to the Mayor's Office of Contract Services. For contracts under \$1 million, the combined utilization rate increased from 28 to 42 percent in the same period. Getting certified is not only a bureaucratic process, but can cost as much as \$50,000 a year. To get certified by the International Organization for Standardization costs \$6,000 to \$10,000 for government consulting work. CMMI certification costs \$40,000 to \$50,000 annually. Along with those monetary costs are hundreds of worker-hours spent on managing the process.

Public agencies set aside as much as a quarter of all contracts for small businesses to act as subcontractors. Under that umbrella, agencies also have incentives to subcontract work with MWBEs. But too often, small business owners say, major contractors game the system in one of two ways. First, they avoid hiring small and MWBE firms by stating that they have attempted but failed to identify qualified subcontractors. Second, they sometimes enter into agreements with shell companies to claim that they have met those goals.

The potential to land government contracts can actually damage companies. By offering the allure of big contracts—and then creating multiple barriers to getting that work—the process distracts companies from their main mission. When companies seek government

contracts under rules they do not understand or cannot meet, they are likely to fail. Small companies often lack the time and resources to identify worthwhile opportunities and meet contracting requirements.

“A lot of the stuff, when we’re selling to the government, has to be vetted and proven. So what is happening is that only giant companies can get those contracts,” says Colin Touhey of Pvilion, a Brooklyn-based creator of flexible solar structures. “I’m all for grants and investing money into companies, but I would prefer that they would just buy products.”

“It’s laughable how long it takes to do things. Setting up a meeting, they’re free in two months. An RFI [request for information] takes six months and then an RFP [request for proposal] is another six months, and by that time we are doing other stuff. We’re kind of over it. With a corporate client, I go into a meeting and they say, “Yes, this is great. I want ten of them. Let’s meet again in a week.’ Then you have a check. The value of our time trying to get projects is tremendous.”

The New York State Energy Research and Development Authority (NYSERDA), for example, takes a percentage of utility bills to invest in renewable energy programs. Under the authority’s new real-time energy management program (RTEM), companies can seek certification to provide technology to manage energy use in commercial buildings. To Connell McGill of Enertiv, the program illustrates both the frustrations and the benefits of working with the public sector.

“We were telling them they should be doing this for years. Because we weren’t able to guarantee savings

like an LED light replacement, [NYSERDA] just ignored us,” he said. “They could have really helped us early on but they didn’t. Had it come a couple years back we might be in a completely different position.”

But under the RTEM program, Enertiv’s clients will get subsidies for setting up the hardware worth up to 30 percent of the total bill or \$75,000 per building—and then an additional 30 percent for an ongoing subscription to the service.

Pursuing government contracts often takes years, which is time that often could be better spent seeking other customers. One of Enertiv’s first projects, at a public school system in Connecticut, took a year to complete in just two buildings—an experience that now prompts McGill to advise against seeking government contracts early in the life of the company. “In those twelve months we could have focused on a few real estate portfolios and gotten into 10 or 20 buildings,” McGill says. “Early on, if that’s the sole focus, I’d warn against it. If you’re the only company that has this special battery that the government is salivating over, maybe. But if you think we’re going to work really hard and sell it to government and get into all of these buildings, it’s probably not going to happen.”

Once a company performs public work, it can take months to get paid—imperiling the company’s cash flow. “I’ve heard some people at the city level not being paid for 180 days,” says Tamara Nall, owner and CEO of the Leading Niche, a consulting firm based in Harlem that employs more than 40 people. “Six months is a long time! You have to pay your people biweekly. Then

THE COST OF COMPLIANCE

In a 2014 survey of ten major cities by the U.S. Chamber of Commerce Foundation, New York City was ranked last for its regulatory climate. The survey scores cities on five key indicators: ease of starting a business, dealing with construction permits, registering property, paying taxes, and enforcing contracts. The top finisher, Dallas, had a score of 89.5 on a scale of 1 to 100; New York had a score of 34.7.

The report identifies the number of processes, the delays, and the costs for creating and operating a small business. Starting a business in New York City, for example, requires seven steps that take an average of eight days, at a cost of \$1,306. Dealing with construction permits requires an average of fifteen procedures, 79 days, and \$32,060. Registering property requires seven procedures, ten days, and \$249,383. Paying taxes requires 33 procedures and costs \$219,024. Enforcing contracts involves 20 procedures, 511 days, and \$880.

they could take it further and say that prime contractors must pay their subcontractors within 30 days. There have been some issues with that. That would make a huge difference in New York.”

“There should be a standardized way to help large businesses find small businesses for subcontracting,” says Gary Hirsch, the tech industry advisor. “A lot of small businesses are at a disadvantage. They are running around and don’t always know who they’re dealing with or what their responsibilities are. They sign forms that hold them liable for things that could get them in trouble. So they have two problems: getting the job and understanding the full nature of the work.”

Taxes and Regulations

New York City has long been known for its high tax and regulatory burdens. Most businesspeople consider these expenses the price to be paid for access to the city’s vast markets, educated workforce, and cultural and social institutions. But the accumulation of taxes and rules makes it hard for small businesses to survive and grow.

Tax Burdens, Fines, and Incentives

New York is a high-tax city in a high-tax state, but most small businesses are prepared for those costs. However, small businesses bear more of the burden than big businesses, says James Parrott, the chief economist for the Fiscal Policy Institute. This unequal burden presents another obstacle to small business growth.

Big businesses benefit from a large array of tax incentives. In the city, the chief source of tax breaks for businesses is the state-backed Excelsior Jobs Program and its predecessor, the Empire Zone Program. “In very few places do you get tax abatements unless you’re in one of those Empire zones,” says Lexy Funk of Brooklyn Industries. “But even then, it seems really complicated. It’s hard to figure out and I’m not sure the benefits are worth the trouble. Even if you qualify, can you even find a place to rent to qualify for those benefits?”

The real burden, say business owners, is in the costs of bookkeeping—and in the distractions from the mission of the business. Liz Neumark, the owner of Great Performances catering company, says even small levies—like the \$6 monthly transit subsidy—pose

a “tracking nightmare.” Taxes that apply in different ways, according to the characteristics of the company, are even more burdensome.

In addition to high corporate taxes, New York collects \$2 billion annually in an unincorporated business tax on sole proprietorships and partnerships. The 4 percent levy applies to federal gross income for New York operations. A tax credit exempts businesses making less than \$85,000 in taxable revenues and reduces the rate for revenues below \$135,000. The credits help companies get started, but the tax takes effect at a point when the company would otherwise consider adding staff, seeking loans, or paying for professional advice. New York also imposes steep real estate taxes and transfer fees. Taken together, small business owners say, these costs are manageable but structured in such a way that they impede small business growth.

Many business owners scoff at complaints about high taxes, noting that many businesses can hold down taxable income for the first several hundred thousand dollars in revenue. Even though New York City imposes more taxes and fees than other major U.S. cities, many small business owners say complaints about taxes miss the mark. “Taxes are only an issue when you make money and most people don’t get that far,” says Diane Drey of SCORE. But the taxes combine to create one of the highest burdens in the country. For small businesses that cannot get significant financing and compete in low-margin industries, the overall burden can be crushing.

Significantly more frustrating for many businesses—especially those that make regular pickups and deliveries—are parking fines and related assessments. Diane Drey, who ran a family-owned water delivery company for 31 years, says that her company regularly accumulated \$100,000 annually in parking-related fines. Paul Cavazza, the owner of Create-A-Marker, says he pays tens of thousands of dollars in parking fines when getting fabric deliveries at his Garment District facility.

Under Mayor Bill de Blasio, the city has rolled back its fines on small businesses. Fines collected by the city have declined from \$15.78 million in 2014 to \$10.39 million in 2015, along with a cut in the number of citations from 19,409 to 11,923. The city also told inspectors to offer warnings rather than fines to allow businesses

to correct their violations; in 2015, the city also issued 3,700 “curable violations,” allowing violators to correct the problem and receive a waived or reduced fine.

New York businesses qualify for a number of tax incentives, but small firms find it difficult to understand if they are eligible and, if so, how to apply. Many companies are so leery of dealing with the government that they leave money on the table rather than pursuing government programs. Jake Levine, the founder of Electric Objects, said he considered taking advantage of the REAP tax credit—which provides tax credits for bringing jobs into the city—but avoided the program because it is not “user friendly.” He said that he would be glad to take advantage of what the government offers, but it is currently far too cumbersome for Levine to spend time figuring out.

Regulatory overload

To protect the health and safety of its workers and residents, New York City has enacted a vast array of rules, regulations, and requirements for business of all sizes. Many of these rules serve useful purposes. Others, however, impose undue burdens. Combined, they make life risky for even viable businesses and can keep small businesses from attempting to scale up and add jobs. “It’s not just one thing, but it’s all of the mandates put together over the past five years,” says Tamara Nall, owner of the Leading Niche. “Fines, healthcare, increase in the minimum wage, increase in the tipped minimum wage, skyrocketing real estate—these are all putting pressure on small businesses.”

Overall, the city has more than 6,000 rules and regulations for business and 250 or so business-related licenses. Up to fifteen agencies can be involved with starting a business in a system that lacks a central point of contact or coordination. Regulations cover a wide range of issues, including wages and benefits, workplace safety, health standards, environmental issues, energy, facilities, and professional standards. Some regulations date back a century or more, to a time when the economy was centered on manufacturing and trade. Strict separation of land uses, for example, was designed to protect residents from the “noxious” effects of industrial activities. In addition, many regulations were passed in response to specific controversies.

Surveys offer a glimpse at the costs in time and money of regulations. New York City Comptroller Scott Stringer’s Red Tape Commission asked small business owners how long it took to get city approvals before opening for business. The majority of owners reported that the process took more than three months, with 30 percent reporting that the process took more than six months.

The individual stories that accompany the Red Tape Commission report are more telling. David J. Rose of Automotive Realty in the Bronx waited 90 days for a permit from the Department of Buildings (DOB) that should have taken 45, because the official handling Rose’s paperwork left the DOB. Frank Franz, the creator of a cultural center in the Bronx, waited nine months to complete approvals from the Mayor’s Office for People with Disabilities. After finally going directly to the office, he got the approval in a matter of minutes.

As companies grow, they face a raft of new government mandates and levies. Companies with five employees are required to offer paid sick days. Companies with 20 workers must provide health insurance under the Affordable Care Act. Companies with 50 workers are responsible for filing significantly more paperwork. The 50-worker mark creates a strong incentive to keep payrolls low or to separate operations, which could mean setting up parallel operations outside the city.

The problem is not just the costs of meeting the regulations but the difficulty in understanding exactly what standards apply. On the health regulations for food providers, Liz Neumark of Great Performances says: “It’s

Approval Process for New Businesses	
Duration	Percentage
Less than one month	21.51
One to three months	27.33
Three to six months	21.51
Six months to one year	16.28
One to two years	9.3
More than two years	4.07

Source: Red Tape Commission report, March 2016

so inconsistent, so I think that's just a problem with government and bureaucracy." Individual inspectors use different standards and do not keep records in consistent ways. "One of our licenses just got tagged with some citation that we couldn't clear, and it just made it almost impossible to get the license updated," she says. To solve the puzzle, Neumark hired consultants. Her company spends over \$200,000 a year on these experts. "I don't know what percentage of [the small business] pool really finds access to help, and I would imagine it's not high," she says. "And nowhere along the way does any city professional offer you guidance or help."

Small businesses struggle to master the regulatory terrain. Donnel Baird of BlocPower, which provides energy-saving technologies and services to large commercial, residential, and public buildings, says, "It's a black hole. There's a web portal where you're supposed to submit stuff, but the truth is if you submit an application on the web site it's going to be rejected. The people who work at the Department of Buildings prefer not to use the web portal. So you have this public-facing user interface that purports to be the way to get a permit in the city of New York but no permits are ever issued via that website."

The frustrations continue with every change in a company's operations. Paperwork, says Joseph Jaffe, the founder and CEO of the marketing firm Evol8tion, is relentless. "All I ever seem to do is get letters from the state and from the federal government asking for money," he says. "Earnings, quarterly filing, sales tax. We keep explaining to people that we don't charge sales tax, but it doesn't go away. That, in a way, is the hardest part—all the red tape. When I see all these commercials [saying] 'New York is open for business' and 'New York is committed to small business and start-ups,' I get frustrated. There seems to be lip service and promises but I've never seen any follow through or genuine help."

Business owners acknowledge that most regulations serve important purposes. "New York has more stringent regulations than other places because of density," says Alexander Bender, the cofounder and managing partner of Tri-Lox. "When you live this close to other people, it's expected that you're going to have to find some way to manage it." But too often, business owners say, regulations do not acknowledge the

differences among industries. Labor regulations in the hospitality industry, for example, should be different than those for office jobs.

Consider one case in point. City law prohibits restaurants from adding surcharges to bills, even if they are clearly disclosed as necessary to maintain the restaurants operations beyond the cost of the meal. All charges need to be included in the price of the food items. Other cities like Boston and Los Angeles have experimented with the surcharges, in part to better compensate kitchen workers who do not get tips. Other businesses—like airlines, which now charge for once-free services like baggage checks—use surcharges as a matter of course.

Due to a perfect storm of factors—labor laws, health and safety regulations, and public visibility—restaurant regulations are especially controversial. "There's a whole cabal of lawyers who just do liquor licenses," says Andrew Rasiej, a serial entrepreneur who founded Civic Hall and once ran a nightclub in Manhattan. "Instead of actually applying for a new liquor license, restaurant owners will take over an old space because it's easier to transfer an existing license to a new owner than it is to get a new one. But that actually has a negative impact on the economy because the same facility is being used over again. Instead of building a new kitchen or a new bar, it's the same old kitchen and bar with a new name on the board." The restaurant and nightclub industry, Rasiej, is rife with end-runs to compensate for regulatory overload.

Labor regulations do not take into account the effects on businesses, says Andrew Rigie, executive director of the New York City Hospitality Alliance. "Everyone understands the need for paid sick leave. Business owners have families as well, they understand," he says. "We aren't so much in opposition to paid sick leave, but it's just another layer of government, adding a 100 percent employer-funded mandate."

New York affords workers more protections and benefits than most other cities. In the process, some businesses have been hampered in their ability to manage labor relations. New York's unemployment insurance has been subject to abuses—when, for example, workers who voluntarily quit seek unemployment insurance.

Tamara Nall says she spent dozens of hours responding to bureaucratic and legal processes involving a worker who quit and then sought unemployment insurance—even though the program is designed for people who get fired or laid off. “Now we have to go and submit all this paperwork and then go to a hearing, all because someone wanted to beat the system,” she says. “The more people claim it, the higher the percentage is, and the higher my cost burden, and that could put me in a predicament when it comes to costs and revenues.”

Bob Mason, who owns a high-end woodworking company in Brooklyn, supports the mandates that protect workers and provide for emergencies. But he worries about fraud, which raises the rates for everyone. “I pay \$38,000 in workers’ compensation for the three or four employees,” he says. “It’s all based on my payroll, not based on profits.” After someone got hurt at his plant, he said, Mason considered workers’ compensation “a godsend.” But, he adds, “There’s just so much fraud.” Enforcement is also unduly strict, he says. “It’s ridiculous. If you’re a day late, you get a certified letter telling you that they’re canceling the policy at such and such a date.” Feeling powerless, “all you do is go along [and] pay.”

Even how companies pay workers—weekly, biweekly, or monthly—comes under scrutiny from government agencies. “I pay my employees by the month and the state Department of Labor came in and said, ‘You have to pay them weekly because they are considered machine operators,’” said Paul Cavazza of Create-a-Marker, which employs 35 people. “And I said, ‘Why? I don’t have the cash flow.’”

The randomness of enforcement also concerns small business owners. A single complaint, even if unsubstantiated, can trigger expensive investigations. Many businesses also suspect that city officials use fines to raise revenues rather than maintain health and safety standards. The Department of Health’s inspections of restaurants yielded \$12 million in fines in the early Bloomberg years, which subsequently spiked at \$54 million in fiscal year 2012, before falling to \$33 million in fiscal year 2015. Those figures reflect the aggressiveness of the investigators more than the scale of violations in restaurants, industry advocates say.

To take another example, enforcement of the paid-leave law has been aggressive but uneven, experts and

business owners report. In the first six months of the paid-leave law, the Department of Consumer Affairs collected \$2.7 million in fines for more than 12,600 workers. Businesses often spend thousands of dollars—and get distracted from their core business—when they face charges on labor issues.

Big businesses can respond to fines in ways that small businesses cannot. For example, Madison Square Garden turned over thousands of pages of documentation to demonstrate its compliance with the paid sick leave law—detailing how it informed workers, negotiated procedures with eighteen unions, and updated official documents—and then provided information about all nonunion employees and expired union contracts when prompted by the city. Small businesses, by comparison, lack the legal firepower to meet the most stringent regulatory demands.

Even more troubling than the added expense, Rigue and others say, is the time lost to compliance and the risk to reputation with even minor mistakes. “It’s more than just the cost. It comes with a lot of administrative requirements that can be quite confusing. Just keeping track of it all is hard,” says Rigue. “If there’s an accusation of a potential violation of paid sick leave, Consumer Affairs is conducting these broad investigations that can take weeks for restaurant groups. And the penalties associated with even minor violations are major. Violations and issues become public, and the last thing a business owner wants is their name in the paper saying that they don’t comply with the paid sick leave law.”

The greatest challenge, says food and tech entrepreneur Nick Devane, is helping small businesses to navigate the complex array of regulations. Those regulations, he says, are often contradictory and require working with a number of separate agencies. For example, Devane has lobbied state legislators to allow food entrepreneurs to produce limited supplies of the kinds of foods sold at outdoor markets without submitting to the current licensing process for full-scale manufacturers.

Navigating city services

The city has undertaken a number of initiatives to lighten the load. The NYC Business Express website allows one-stop shopping for searching records, paying

finances, and getting answers about rules and regulations. The NYC Business Accelerator offers a range of services, including pre-inspection consultations. The Business Solutions Centers offer financing, legal, contracting, and recruiting advice, as well as help with permits and licenses. The city's Department of Small Business Services and the Mayor's Office of Data Analytics also send experts to neighborhoods to work with businesses on a variety of issues, including violations, noncompliance, 311 complaints, and sharing business growth data.

Information about New York City business regulations are gathered in one city website called Find a Business Regulation. A simple listing of those rules, single-spaced, would fill 60 pages. The site offers tools for screening regulations but does not offer tools for fulfilling or tracking those rules. The New York City Economic Development Corporation's NYC Business Express website also offers a wide range of information and access to some online forms. The site's "wizard" tool, which promises to guide users through a series of questions to determine what they need to know, offers basic how-to information with a limited interface. Meanwhile, SBS has launched a website, WE.nyc, to link women-owned businesses to information and programs.

To build on these efforts, Mayor de Blasio announced Small Business First, a five-year, \$27 million effort to address the regulatory burdens of small businesses. This campaign, announced in 2015, involves 30 separate initiatives to consolidate information and services for small businesses in both brick-and-mortar locations and online.

In its first major report on priorities—published after reaching out to 90,000 business and groups, as well as officials from 20 city agencies—SB1 promises to create an online business portal that centralizes city services, resources, and information about rules and regulations. SB1 also plans to offer businesses individual accounts where they can make applications, track progress, and pay taxes.

The SB1 report targets the most regulated industries—accommodation and food, retail, and service industries such as beauty and nail salons, laundry, and dry cleaning—for regulatory relief and additional support services. The report notes, for example, that new

restaurants require applications, reviews, and approvals from eight agencies before they can open their doors.

SB1 also plans to reach out to immigrant communities, where small business owners often struggle to grow their enterprises and navigate the complex web of regulations and requirements. Almost half of all small businesses in the city are owned and operated by first- or second-generation immigrants, and these businesses provide a crucial source of jobs in communities across all five boroughs.

Private-sector firms also working to connect small businesses with information and services. Vizalytics Technology has created a proprietary system to gather publicly available information and make it available to small businesses. The system—free to businesses, with upgrades available for more detailed and information—alerts businesses to changes in regulations, new construction, and other neighborhood projects, among other notifications. "I want to tell [businesses] what they need to be successful," says Aileen Gemma Smith, the founder and CEO of Vizalytics. "These businesses have a lot of risk and a lot of challenges. If I get quarterly taxes due, and I miss it, I get hit with a fine and then if I have two weeks that are super slow, I'm not making payroll."

Another business, Homemade, has developed an online system for tracking food-industry regulations and providing information and advice to small food companies. Homemade's cofounder, Nick Devane, says the online system provides information and guidance for 2,000 producers across the United States, including 600 in New York, so they can be in compliance with state and local regulations, develop the resources they need to produce and distribute products, and reach markets. "We've seen this incredibly democratizing force in technology," Devane says. "With YouTube, if you want to make a movie, you can do that. With SoundCloud, I can do that as a musician. With Etsy, I can do that as a crafts maker. I don't have to go through a slow system anymore. But we don't have that [online tool] for food." Many other small businesses could benefit from a similar industry-specific portal for regulatory, financing, and marketing information.

RECOMMENDATIONS

Eleven ways to help more small businesses grow

New York City has an enormous opportunity to help its small businesses grow. The challenge is to identify the specific hurdles that keep small businesses small and end the disconnect between the city's vast resources and its eager entrepreneurs. Rather than simply adding new programs, New York City should focus on aligning its efforts to serve growing businesses, making these programs easier to access, and targeting more of them at the gaps that prevent small businesses from scaling up.

Small business owners recognize that the city's high costs stem, at least in part, from its extraordinary advantages. Real estate is expensive because so many people want to live and work here. Business taxes and regulations are high due to the city's historical commitment to protect the health and safety of New Yorkers and to provide a wide range of services for a diverse population. But if New York places more burdens on small businesses than other cities, it should also strive to provide greater transparency and opportunity. A strategy to grow more of the city's small businesses would strengthen and diversify the economy while creating a crucial source of middle-class jobs.

Create the NYC Business Engine, a single online portal to streamline business compliance information and programs to spur growth.

In order to help more small businesses grow, the city's websites should do more than serve as repositories of information. To create clarity and certainty amid the city's complex and often byzantine business environment, New York City should develop a comprehensive, web-based, interactive database of all regulations, taxes, mandates, and programs that apply to every stage of business development.

In order to succeed, the NYC Business Engine needs to collect all existing and future resources in a single place, spanning agencies, issues, and levels of government. Even more important, the Business Engine

should consolidate access to information, guidance, and programs aimed at helping business overcome the hurdles that stymie growth.

The web-based portal would provide comprehensive information about regulations, taxes, and programs at the city, state, and federal levels. The database would allow businesses to track their progress on compliance issues and their participation in public programs, with prompts and tips for tasks and opportunities. Users could opt in to email reminders for filing deadlines and program options.

This system could be linked to a database for labor, which would provide online profiles of workers in all fields—a “career passport” that can help workers document their experience, skills, and training, and connect with employers.

The city has already developed a number of websites to help businesses. The city's NYC Business website offers a number of “how to” resources for starting a new company. A “wizard” tool helps businesses sift through licensing requirements according to the type of business. Business owners can also check the status of permits, licenses, and violations. But too many of the existing systems are disconnected from one another and focused largely on helping start businesses—not helping them to grow.

Small Business First, a \$27-million initiative of the Department of Small Business Services, includes the city's latest effort to provide comprehensive and transparent data and information for businesses. The SBS Online Business Portal—which is currently under construction and scheduled to launch in 2017—would offer information about city taxes and regulations, filtered by the type of business and other variables. Using the portal, which the SBS is creating in collaboration with 20 departments, businesses will be able to track their progress on licenses, permits, certifications, inspections, and violations and to make payments to the city and check the status of applications.

The proposed Online Business Portal offers an excellent foundation for a comprehensive, interactive system. But the NYC Business Engine needs to go beyond this system to track information and processes. The tool could be even more effective if it included all levels of government as well as non-profit and for-profit programs specifically focused on helping existing small businesses to navigate the challenges that accompany growth. The tool should provide one-stop shopping for all phases of small business development.

Develop an online tool with comprehensive information on resources, regulations, and programs across all levels of government and all stages of business growth.

The NYC Business Engine should include information about all relevant city, state, and federal regulations, taxes, certifications, and mandates. To grow a business in the city, companies need a comprehensive system for managing the many regulations, licenses, and mandates that require compliance, as well as links to relevant program applications, courses, procurement opportunities, consulting services, and other resources. And businesses need to understand the entire context of government mandates and opportunities, not just those at the city level.

To help small businesses take advantage of public sector contracts, the database should include information about government procurement at the federal, state, and local levels, as well as the tools to qualify for and bid on these contracts. This system should include links to companies seeking co-bidders and subcontractors, with tools for collaborating on contracts. As with all online data systems, these tools should allow users to populate forms offline, with the option to upload materials at key points in the qualification and bidding process.

The database should also contain comprehensive information about the relevant services and programs offered by all levels of government, as well as offerings from nonprofits and other organizations. The database should eventually include information, online forms, and tracking capabilities for small business financing, subsidized consulting, essential business services like

broadband and utilities, and programs to help upgrade facilities and lease or purchase equipment.

To unify data most efficiently, the city should leverage existing resources. Rather than build a new data warehouse for small businesses, the city should feed relevant data into the city's DataBridge warehouse and SBS should pull information from DataBridge for the Business Engine. Business records could then be linked to buildings, utilities, and financial data already fed into DataBridge. The Mayor's Office of Operations should work with SBS to ensure that its needs are included in the Citywide Data Integration Agreement plan.

Crowdsource ideas and evaluations through online peer networks.

The Engine should include a crowdsourced system of ratings and comments about the quality of programs. For small businesses to thrive, they should be able to benefit from the wisdom of the crowd, not left to fend for themselves in an environment with many programs and initiatives of uneven quality. For the first time in history, a tech-savvy city like New York has the opportunity to provide comprehensive, detailed information on the full range of programs available to its small businesses. Yelp, the consumer rating site for restaurants, hotels, and other goods and services, could offer a model for this system. A rating system could also offer invaluable feedback to providers and administrators on the quality of various programs and services.

These evaluations could be enhanced by topic-specific online question-and-answer forums, organized around specific sectors and issues. Public forums should follow the best practices of online professional communities, with protections against spamming and a system for upvoting helpful responses. Experts could be invited to offer advice or conduct online seminars and city agencies could turn to the online community for user testing.

Analyze user-generated data to identify inside-out reforms.

City officials should leverage the data gathered through this online portal to identify rules and regulations that are unnecessary, duplicative, or contradictory—and then propose their revision or elimination.

The NYC Business Engine will offer a place where virtually all data relevant to small business is tracked. This data can help the city identify gaps in its services and programs, and understand how changes to the city's regulatory environment affect businesses across all sectors.

An award-winning state program in Minnesota, the Board of Government Innovation and Cooperation, offers a model for how this could work. Under the direction of a statewide board composed of members from all three branches of government, public officials were encouraged to propose waivers of regulations—as long as they also proposed a new, better way to pursue the regulations' stated goals. At the end of the waiver period, the agencies assessed how well the alternate approach worked. If the trial approach worked, the board submitted a proposal to the legislature to make it permanent. If the approach did not work, the agencies reverted to the old approach. The Minnesota program saved millions of dollars and sparked a wide range of rule revisions and interagency collaborations.

Develop new initiatives to help small businesses grow and expand awareness of existing small business programs.

New York City has a number of valuable small business assistance programs, including initiatives run out of the Department of Small Business Services and the Economic Development Corporation, and others managed by nonprofit small business assistance providers. But the majority of these programs are focused on entrepreneurs starting new businesses. The de Blasio administration should refocus its toolkit of small business programs to include more initiatives that help existing businesses to grow.

In addition, although New York boasts several good business assistance programs, some of them are not marketed sufficiently. Small business executives say they simply aren't aware of the programs that exist.

One city program that could benefit from additional marketing is Strategic Steps for Growth, a small business capacity-building program developed by the Boston-based nonprofit Interise. Strategic Steps for Growth provides minority and women business owners

with the knowledge, knowhow and relationships they need to grow their business. It is one of the few stand-out business assistance programs in the five boroughs that is specifically focused on helping small firms get to the next level. Using Interise's curriculum, the program now operates in 70 cities across the country, run by local partners that are licensed to deliver it. Results are impressive, but the Strategic Steps for Growth program in New York consistently operates at less than full capacity. The program, which is operated by SBS and the Berkley Innovation Lab at New York University's Stern School of Business, can accommodate 18 business owners, but enrollment averages between 15 and 16 firms in each cohort.

The de Blasio administration should initiate an extensive marketing campaign for the program. To increase interest, the administration should provide full funding, allowing SBS to reduce or eliminate the \$1,500 fee for Strategic Steps for Growth. Seven other Interise partner programs now operate in New York City without charging fees.

Create incentives for banks and alternative lenders to make more small loans.

For many small businesses, the biggest obstacle to growth is financing. In the early days, many entrepreneurs are able to keep their business afloat with funds from their own savings, support from friends and family, funding from a microloan, or profits from operations. But to expand, small businesses need next-stage capital, which is often too difficult to secure. Although entrepreneurs and small business owners at all levels struggle to access capital, the biggest gap is for loans under \$1 million—and often in amounts under \$250,000. Unfortunately, there is currently little incentive for banks to make loans at \$500,000, \$200,000 or \$75,000. It costs the same for banks to process these small loans as it does for a \$5 million loan, yet the profit potential is significantly lower and the risks are typically much higher. Meanwhile, microlenders generally do not provide loans over \$50,000, with the vast majority of their investments coming in under \$5,000. City, state, and federal government officials should create new incentives that entice lenders to fill the gap between microloans and traditional bank loans.

Expand the Capital Access program.

The city's Capital Access program guarantees up to 40 percent of eligible loans from participating lenders to small businesses. By providing the guarantee, the city reduces the risk for lenders and thus helps them make small loans they would not otherwise offer. The de Blasio administration could do two things to increase the number of loans made through the program. First, it should follow the lead of the SBA, which eliminated fees that it had imposed on lenders for every loan made through its loan guarantee program. Second, the de Blasio administration ought to consider extending the guarantee to 60 or 70 percent. Doing so would encourage lenders to make more small loans.

Deploy small business counselors to visit companies where they are.

Federal and city assistance centers offer help centers in all five boroughs, allowing entrepreneurs and business owners to seek advice without trekking to the Small Business Services headquarters in lower Manhattan. But the city-funded Business Solutions Centers and federally funded Small Business Development Centers focus on clients who come to them. The vast majority of small businesses owners are too busy running their firm's daily operations to leave their own neighborhoods, especially during business hours.

It is time to further decentralize small business services. SBS should create a new unit with a roving band of business counselors who regularly visit neighborhoods and actively reach out to businesses there to query them about their challenges and proactively offer suggestions on resources. This mobile business assistance unit might spend several days twice a year operating out of each of the city's 69 business improvement districts (BIDs), which typically represent hundreds of area businesses but lack the capacity to have technical assistance providers on staff. Along with merchants' associations and other neighborhood-based business entities, BIDs would be well placed to provide a temporary home for the city's new team of roving business counselors.

Develop programs that help immigrant-run businesses scale up.

In recent years, both the de Blasio and Bloomberg

administrations have rolled out new programs aimed at supporting immigrant entrepreneurs. This makes a lot of sense, as immigrants start almost half of all small businesses in New York.

The time has come to focus on helping more of the city's immigrant-run firms expand. One idea is to launch new programs that help immigrant-run firms reach customers outside of their own ethnic communities. When an immigrant-owned firm makes a deliberate attempt to go out of its comfort zone and reach new markets, the results can be impressive. The city should partner with organizations in immigrant communities to launch a new program—or expand successful efforts like the Immigrant Business Initiative, which was launched by SBS in partnership with Citi—to provide counseling on strategies to expand markets beyond their own communities.

Strengthen the city's outreach and standards for small business procurement opportunities.

By dint of its massive scale, New York's state and city government should offer a rich feast of procurement opportunities for small businesses in all sectors. But while the city sets important goals for contracting with minority- and women-owned businesses, many of which are small, it sets no specific goals for small firms overall. Too often, small companies do not benefit from discretionary purchases or gain access to subcontracting arrangements with larger firms. The city should make small business procurement a major priority.

To help small businesses compete for more contracts, the city should require more contracts to be advertised publicly. Currently, only contracts worth more than \$100,000 are required to be published in the *City Record*. The city should mirror the state's policy of publicizing contracts over \$50,000.

The city should also consider new policies for discretionary purchases that would help more small MWBEs compete for government contracts. A new city rule enacted in March 2016 increased the micro-purchase limit for construction from \$25,000 to \$35,000. This rule change allows agencies to direct more contracts toward certified MWBE vendors. The city should monitor that policy and consider increasing

the micro-purchase limit in other industries.

The ultimate goal is to increase both MWBE and small business participation in procurement. The federal government sets a general goal of 23 percent contracting with small businesses. New York state and city governments set no contracting goals. The city should consider creating a certification program and setting goals for small businesses, just as it sets goals for MWBEs (30 percent) and service-disabled veteran-owned firms (6 percent). The city should also reach out to banks and community groups, such as community development corporations, to offer bridge loans for companies doing public projects. Many public contracts do not pay until months after the goods or services are provided, putting small businesses in precarious financial situations.

Too often, federal and state governments goals for small business subcontracting are not enforced. Prime contractors simply need to state that they tried and failed to find appropriate subcontractors, without any real proof of effort. Although greater oversight might help rectify the situation, there are other options, too. The city should use its many resources—including the NYC Business Engine—to create a pipeline of small businesses appropriate for a wide range of jobs. When a company asserts that it has tried and failed to find a subcontractor, the city could then suggest five certified small businesses to do the work.

Create more customized training programs for small business workers.

For small business to grow, they need workers who are prepared with the unique mix of skills that those enterprises demand. However, there is a major disconnect between the current workforce development system and the needs of small businesses.

New York’s job training programs tend to be oriented toward large employers in a limited range of industries. To better connect workers with small businesses, workforce development providers could partner with community-based organizations to identify the varied needs of everyone-does-everything small businesses and develop tailored training curricula. The city should expand its support for such community-based training programs, which have the potential

to better integrate local business into the workforce development system.

The Brooklyn Chamber of Commerce, Southwest Brooklyn Development Corporation, and Lower East Side Employment Network (LESEN) offer useful models of programs that connect hundreds of businesses and thousands of workers each year. In the case of LESEN, for example, In the case of LESEN, for example, a job developer works with seven different workforce development organizations to feed candidates to small businesses on the Lower East Side.

For many small businesses, hiring new employees presents an additional challenge of onboarding and training. Retooling the city’s workforce development system to better address the needs of small businesses should include programs that help businesses provide on-the-job training for new hires and retraining for existing workers as the company’s needs shift.

Help more small businesses access operations and logistics advice.

In a city as expensive and competitive as New York, small businesses need strategic advice and direction on key issues of operations and development. Too often, businesses struggle due to limited knowledge about attracting and training workers, production and distribution processes, navigating complex tax and regulatory systems, or marketing and sales.

The Industrial and Technology Assistance Corporation, a state-funded consultancy, provides below-market consulting services for companies in New York. Independent analysis of 200 ITAC clients have found dramatic improvements in labor productivity and operational efficiency, as well as investments in equipment and training. Surveys of those clients from 2011 to 2015 showed increased sales of \$145.86 million, cost savings of \$173.2 million, and 1,297 new jobs.

The city—perhaps in collaboration with the state or local banks or foundations—should establish a fund to encourage businesses to invest in high-level advice on their operations and logistics. Under a “pay it forward” approach, the program might front the money needed for consulting or training from vetted agencies or companies. In return, the participants would pay program fees from future revenues. If consulting

services enable companies to grow, some of their new revenues could pay for the program retroactively. Companies could be rewarded for creating jobs with a partial forgiveness of the loans.

NYCEDC's Fashion Manufacturing Initiative, which offers a free "mini MBA" in business operations, presents a promising model. Such programs could be made available to owners and managers of companies at all stages of development, with a special focus on the challenges of scaling up.

Identify new opportunities for tracking small businesses into underutilized real estate and for creating small business spaces in new developments.

One of the greatest challenges facing small businesses in New York is finding the right facilities to build and grow a company. Although there are many opportunities for start-ups and new companies, including an ever-expanding ecosystem of incubators and accelerators, it is extremely difficult for small businesses to secure the physical space necessary to scale up.

The city should begin by countering the long, steady decline in Class B and C office space, which offers ideal places for small businesses to expand once they have outgrown coworking environment and smaller offices. Since the turn of the century, the city has lost more than 1.6 million square feet of Class B and C space. Rather than allow these buildings to be converted to high-end Class A offices, luxury apartments, and hotel buildings—sometimes supported by tax breaks and subsidies—the city could offer incentives for both owners and tenants to improve these spaces.

The city could also develop a strategy for repurposing hundreds of storage buildings that dot the city from the Bronx to the Hudson Yards area to the BQE corridor. The city should explore incentives to convert these spaces to more varied commercial uses.

The city might also consider a linkage policy for commercial real estate, similar to that used in affordable housing development. In exchange for providing 20 percent of their floor space to below-market rents for small business, developers could enjoy certain tax, regulatory, and land benefits from the city. Such a program could be used to incentivize cluster development

in isolated parts of the city that need boosts in business and employment.

Leverage the infrastructure investments of the state and city to foster better opportunities for small businesses.

The state of the city's infrastructure poses both a barrier and an opportunity for small businesses.

New York's rapid growth shows in the congestion of major streets and arteries. Small companies waste countless hours stuck in traffic on local roads as well as major arteries and highways, making it a struggle to get deliveries and to ship their products. Some of this congestion is unavoidable. But better street design, maintenance, and traffic flows could improve the system dramatically. The city should work with local business and community organizations to identify the hot spots of traffic congestion and implement changes that could improve traffic flow. Sometimes minor changes—like curb cuts, signal changes, changing speed limits, and policing—can dramatically improve circulation. Other problems are more difficult, requiring long-term planning for street design. In both cases, state and city authorities should work to reduce the times needed to get goods on and off the highways.

The design and management of street flows is a tricky business in all major cities. Adjusting traffic patterns can take years to achieve. Spurred by PlaNYC, the city has redesigned more than 70 plazas over the past decade—including Times Square in Manhattan, Jackson Heights in Queens, and Fulton Street in Brooklyn—to improve traffic and safety. Because these projects were labeled "interim" and used simple materials like paint and planters—and were supported by partnerships and strong data analysis—they required less bureaucratic wrangling than previous efforts. Partnering with business improvement districts and other community groups, the city should pilot such high-reward/low-risk projects to improve traffic flows and street traffic for small businesses.

At the same time, the state and city's long-term transportation planners should consider creative ways to get New York's small businesses involved with building 21st-century infrastructure. The city should

actively reach out to small businesses—in design, materials, construction, and manufacturing, as well as finance and support services—to participate in the ongoing construction and maintenance of the city’s built environment. This outreach effort should begin with procurement, but not end there. Competitions, with substantial awards, could incentivize “moonshot”

breakthroughs to make 3D-printed infrastructure parts, subway cars, energy-efficient buildings, and more. The DARPA challenge for self-driving cars could be a model. When designing the competition, the city can incentivize “coopetition”—a mix of competition and cooperation—by making key breakthroughs open to all participants in the process.

THE POWER OF ADVICE AND CONNECTIONS

A handful of companies get the expert advice they need from high-intensity training and incubation programs. Participants in Techstars, a global accelerator program that provides a three-month boot camp and community of mentors and peers for tech start-ups, say the experience gives them a big boost in their early years. But only 61 New York companies have been through the experience.

“That was the most important thing for me,” says Nicole Hamilton of the real-estate tech company Tactile Finance. “There’s so much lay of the land and you can spend so much time spinning your wheels.” Hamilton recalls an entrepreneur asking for advice about whether to convert her business from an LLC to a C corporation. “If you don’t know what you’re doing, you can make a mistake that costs a lot of money and time. Why would you do that? You don’t know unless you have someone to ask.”

Admission into such accelerators is highly competitive. Techstars requires companies to develop their business and demonstrate their unique value before applying. The acceptance rate is about 2 percent. “Before you get into Techstars, you have to build up traction and have a really strong team and that can take time,” says Connell McGill of Enertiv. “It took us two or three years, being heads down, even to have a shot.”

At their best, training programs provide a roadmap for the challenges of business growth, and strategies for isolating essential tasks from distractions. Programs like the Goldman Sachs 10,000 Small Businesses, which has trained more than 6,100 small business owners at 31 sites in the United States and United Kingdom, provides information on a wide range of business challenges. Sabine Valle of Jam Stand attended the program in New York. “I got to spend time and focus on big-picture things. It was really eye-opening to see how much time you spend day-to-day on all these different tasks,” she says. “Stepping back and saying, ‘How big do I want my business to be? How do I get there? What do I need to do in between?’ Learning how to develop a growth plan and figuring out what opportunity is a good opportunity and not just what is an add-on and throwing caution to the wind and hoping it works.”

New York offers dozens of other incubators and accelerators, but they can only serve a few hundred businesses at a time. The vast majority of small businesses lack a structured way to learn from colleagues in their industry.

Other networks offer the latest information on industry developments and create opportunities to meet with peers. New York has developed the most extensive and intensive set of Meetups in the world. For virtually any business and challenge, groups of dozens or even hundreds of like-minded businesspeople gather to hear from experts, participate in roundtable discussions, or just to network.

A new, more open culture may be taking root among businesses in New York. Less than a decade ago, company owners and advocates say, owners were stingy with their insights. But with the rise of the millennial generation, open-source software, hacking communities, and the “wiki” mindset, companies are more willing to share information—even with competitors.

“In terms of attending start-up events and mixers, it has been a very positive experience,” says Joseph Jaffe of Evol8tion. “The only hardship that we’ve ever had has been a kind of administrative one in terms of figuring out how New York City can get the best out of us and how can we get the best out of New York—beyond just the organic nature of being here and enjoying the energy and the passion that is the city.”

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