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## Table of Contents

INTRODUCTION ......................................................................................................................... 1

PROGRAMS AND STRATEGIES.................................................................................................. 7

1. Incubators ............................................................................................................................... 7
2. Accelerators ............................................................................................................................ 11
3. Mentoring .............................................................................................................................. 16
4. JumpStart ............................................................................................................................... 20
5. Financing ................................................................................................................................. 22
6. Companies to Watch .............................................................................................................. 29
7. CEO Roundtables .................................................................................................................. 32
8. Innovation Engineering .......................................................................................................... 34
9. Economic Gardening ............................................................................................................ 36

CONCLUSION ............................................................................................................................. 43
Introduction

Growth-oriented companies go by various names and definitions, but they all have one thing in common – the appetite and aptitude for expansion.¹ Today’s environment of slow job growth calls for paying special attention to these job generators.

Who are these companies? Some are startups, which have taken the spotlight in recent years and are critical to the constant churn of business births and deaths that comprise economic dynamism. But in terms of job growth, it’s existing, expanding companies that contribute most to U.S. job creation. In fact, from 1990 to 2008, existing companies generated 71 percent more new jobs than startups.²

(On average, establishments with no change in employment during the year dominate the economic landscape. From 1990-2008, over three quarters of establishments and nearly 83 percent of total jobs were in such firms.³)

This paper follows up on IEDC’s 2011 publication, “Unlocking Entrepreneurship: A Handbook for Economic Developers” (pdf), to present a range of approaches for supporting growth-oriented companies. “Unlocking Entrepreneurship” offered a comprehensive introduction to entrepreneurship – why it’s a critical part of the job creation toolkit, who entrepreneurs are (including the distinction between lifestyle and growth entrepreneurs), and the elements of an entrepreneurial environment or ecosystem.

While there is considerable overlap in the type of environment, programs and services that help entrepreneurs start new ventures and those that help growth-oriented companies expand, critical differences exist. This paper explores some of the programs and strategies that economic developers can use to boost the growth potential of these job-generating companies.

Defining Growth-Oriented Companies

It helps first to understand what growth-oriented companies aren’t. As defined in “Unlocking Entrepreneurship,” lifestyle entrepreneurs typically start businesses for the lifestyle of self-employment, rather than aspirations for growth. They may open businesses to provide products or services that they are passionate about, or just as a means for employment and income. Examples of lifestyle ventures include most retail and localized service providers such as dry cleaners or accountants, chain franchises and independent consultants.

By contrast, growth entrepreneurs start enterprises with the explicit goal of expanding the business to reach maximum market potential. Growth entrepreneurs take existing ideas and modify them to reach existing or new markets, or develop entirely new ideas for those markets.

¹ Edward Lowe Foundation. The Significance of Second Stage (pdf).
³ Ibid., p. 5.
Innovative entrepreneurship can take place at the initial stages of start-up or within an established business.

Growth-oriented companies that have moved past the startup stage are often called second-stage companies, gazelles or high-impact firms, each of which has its own definition (though they overlap significantly).

- **Second-stage companies** – as defined by the Edward Lowe Foundation, whose mission is to support entrepreneurship – are those that have grown past the start-up stage but have not grown to maturity. There is some elasticity to the definition, but typically such firms employ 10 to 99 people, have annual revenues between $1 million and $50 million, and demonstrate the potential for high growth in the future.

  Unlike startups, second-stage companies are no longer concerned about survival. And in contrast to lifestyle entrepreneurs, second-stagers are significant job creators, many with established national and global markets that bring outside dollars into their communities.

  Second stage is a critical time because these entrepreneurs face an entirely new set of challenges; what made them successful during startup won’t necessarily drive future growth. It is a time when firms typically wrestle with refining core strategy, adapting to industry changes, expanding their markets, building a management team and embracing new leadership roles.\(^4\)

  Between 1995 and 2009, second-stage companies represented only 10.9 percent of U.S. resident establishments, but represented 36.2 percent of jobs and 38.6 percent of sales.\(^5\)

- **Gazelles**, as defined by economist David Birch in the early 1980s, are businesses that have at least $100,000 in annual revenues (roughly $250,000 today) and sustained annual revenue growth of more than 20 percent over a four-year period (in effect, at least doubling over that period).\(^6\)

- **High-impact firms**, defined by Acs, Parsons and Tracy in 2008, expand Birch’s definition of gazelles to include significant employment growth (an “employment growth quantifier” – the product of a firm’s absolute change and percent change in employment – of two or more).\(^7\) Their research found that high-impact firms are “relatively old, rare and contribute to the majority of overall economic growth. On average, they are 25 years old, they represent between 2 and 3 percent of all firms, and they account for almost all of the private sector employment and revenue

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\(^4\) Edward Lowe Foundation. *Who We Serve: Second Stage*.
growth in the economy.” Almost 95 percent of high-impact firms are over five years old.8

The same paper also notes that “[d]uring the 1994–2006 period, firms with fewer than 20 employees represented 93.8 percent of the high-impact firms and 33.5 percent of job growth among high-impact firms, while firms with 20 to 499 employees represented 5.9 percent and 24.1 percent, respectively.”

Second-stage and high-impact are broader terms than gazelle, as they include companies with potential for high growth and those with steady growth that may be less dramatic than gazelles but is still impressive.9

Many people tend to equate “growth-oriented” with “high-tech.” While this is often the case, manufacturing and service firms also can be growth-oriented. The case study of the Jelly Belly candy company, detailed in “Unlocking Entrepreneurship,” illustrates this. For years, the firm was a small, family-owned candy maker, but a new generation of management revamped the company’s strategy, sparked a major overhaul and led to new products and processes that were the foundation of a worldwide expansion.

In Pennsylvania, a study of high-growth companies over the period of 2004-2009 found that nearly 84 percent of the firms were in service industries.10 A study of high-growth firms in Scotland contained similar findings: the vast majority of high-growth firms in Scotland were service firms; high-tech sectors were “weakly represented (e.g. life sciences, energy).”11

**Identifying Growth-Oriented Companies**

High-growth companies often are not easy to identify – yet economic developers are uniquely suited to this crucial task.

First, a strong business retention and expansion program is an invaluable tool. The relationships built with local firms over time, plus a database of information on business changes from year to year (identified through surveys or visits) each should yield critical information on company growth.

Second, an economic developer’s position as a convener and facilitator in a community connects him or her to an extensive network of people and organizations that are working to support local business growth. Workforce Investment Board staff and the local community college may be sources of information about companies with new or expanded training needs. Lenders may be able to provide leads on firms that have recently sought or received loans. City staff can report on permit requests related to expansion. Likewise, attorneys, real estate brokers, accountants, investors and other business service providers may be key sources of information to identify these firms.

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8 Ibid, p. 22.
9 Edward Lowe Foundation. The Significance of Second Stage (pdf).
Apart from these local sources of information, Dun & Bradstreet databases and the website YourEconomy.org (see text box below) can be useful tools to identify high-growth firms.

**YourEconomy.org**

The Edward Lowe Foundation launched YourEconomy.org (YE) in 2007, based on the National Establishment Time Series database (NETS). As of October 2011, NETS contained 21 years of historical information with more than 44 million records for U.S. establishments that existed any time between 1990 and 2011.

Both by region and by time period, users can explore how establishments, jobs, and sales are distributed according to employment sectors and stages (firm size).

Users also can explore openings, closings, expansions, contractions, move-ins and move-outs of establishments and see how this activity affects job gains and losses.

Source: YourEconomy.org.

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**What Follows in This Paper**

The remainder of this paper profiles nine tools and strategies that can be used to support growth-oriented companies. They range in applicability from startup or early-stage firms only to established firms only; some can be applied to both. Some require considerable time and resources to undertake, while others can launch relatively quickly and inexpensively.

What each has in common, however, is the goal of helping companies grow, most commonly through access to expertise, funding, competitive intelligence or connections. This paper covers:

<table>
<thead>
<tr>
<th>Strategy or tool</th>
<th>Stage typically covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerators</td>
<td>Startup/early-stage</td>
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<tr>
<td>Incubators</td>
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<tr>
<td>Mentoring</td>
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<td>JumpStart</td>
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<tr>
<td>Financing</td>
<td>Startup and existing companies</td>
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<tr>
<td>Companies to Watch</td>
<td>Existing companies</td>
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<td>CEO Roundtables</td>
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<td>Innovation Engineering</td>
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<td>Economic Gardening</td>
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12 YourEconomy.org, Walls & Associates.
Each section describes the tool or strategy, its goals and benefits, the economic developer’s role, and includes a “Resources Required” graphic that roughly estimates the time, financial resources, and strength of local entrepreneurial ecosystem needed to execute the strategy (low, medium or high).

A Note on Entrepreneurial Ecosystems

The term “entrepreneurial ecosystem” describes the elements needed in a community to support entrepreneurs and foster the startup and growth of new companies. Babson College Professor Daniel Isenberg defines these as human, financial and professional resources, as well as an environment in which government policies encourage and safeguard entrepreneurs.

In a July 2010 article in the Harvard Business Review, Isenberg expanded on the characteristics of a healthy entrepreneurship ecosystem:

- Tailored around its own unique environment, not seeking to be something it isn’t (e.g., the “next Silicon Valley”)
- Operates in an environment with reduced bureaucratic obstacles; government policies support the unique needs of entrepreneurs and tolerate failed ventures
- Actively encourages and invites financiers to participate in new ventures, but access to money isn’t without barriers for those planning new business ventures
- Is reinforced, not created from scratch, by government, academic or commercial organizations
- Is relatively free from, or is able to change, cultural biases against failure or operating a business
- Promotes successes, which in turn attract new ventures
- Often is supported by dialogue among various entrepreneurship stakeholders.\(^\text{13}\)

Isenberg created the diagram on the following page to illustrate the detailed elements of a complete entrepreneurship ecosystem.

For resources to help evaluate the entrepreneurship ecosystem in your community, see the Toolkit section at the end of “Unlocking Entrepreneurship.” It contains a checklist and tables intended to help conduct asset mapping in five key areas: entrepreneurship support services; capital access; business services; education and training; and other community organizations, services and attitudes toward entrepreneurship. Ultimately, an economic developer’s success or failure with fostering the startup and expansion of growth-oriented companies will be closely tied to his or her knowledge of local conditions and the strength of the local entrepreneurship ecosystem.

Getting the Most out of this Paper

Clearly, many factors contribute to the company growth or the lack thereof. Companies grow successfully without the help of any of the strategies discussed in this paper, and companies that have experienced a range of assistance still fail. Getting a company into the right program at the right time; having programs that are run well,

\(^{13}\) Wikipedia. Entrepreneurship ecosystem.
by the right people; and compensating for the weak links in an entrepreneurial ecosystem all are factors that can boost or undermine the best-intended efforts. It also is important to remember that there is significant variation in the structure and execution of many of the programs and strategies discussed in this paper. This document is intended to introduce economic developers to the range of assistance that is commonly in practice to assist growth-oriented companies.

Only in combination with the deep knowledge and assistance of local partners of all kinds can economic developers discern which strategies they have the capacity to undertake that will have the greatest impact.
Programs and Strategies

1. Incubators

Business incubators nurture the development of entrepreneurial companies, helping them survive and grow. They provide client companies with business support services and resources tailored typically (though not always) to young firms. Historically, incubators provided low-cost facilities to house companies, but many new models have been created that provide resources to affiliate (non-resident) companies, or entirely virtually (commonly called “incubators without walls”).

The most common goals of incubation programs are: creating jobs in a community, enhancing a community’s entrepreneurial climate, retaining businesses in a community, building or accelerating growth in a local industry, and diversifying local economies, according to the National Business Incubation Association (NBIA).

Typical services provided: Incubators with walls provide much more than affordable space for young businesses. It’s the quality of the services provided, rather than the facility, that contributes to the success of an incubator and its businesses. The most common services provided include help with business basics; networking activities among incubation program clients; marketing assistance; help with accounting or financial management; access to capital; and links to higher education resources or those of other strategic partners. For bricks-and-mortar programs, those services are in addition to low-cost operating space (including common spaces such as conference rooms) and shared business equipment and technology (printers, copiers, Internet access).

The average incubation period for a business is 33 months.

How incubators differ from accelerators: The terms “incubator” and “accelerator” are frequently used interchangeably, but it is helpful to maintain a distinction between the two. This paper characterizes each as follows:

<table>
<thead>
<tr>
<th>Type of company</th>
<th>Incubator</th>
<th>Accelerator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranges widely</td>
<td>Technology-oriented</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Length of time in program</th>
<th>Incubator</th>
<th>Accelerator</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-5 years</td>
<td>3-4 months</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Ends with</th>
<th>Incubator</th>
<th>Accelerator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graduation (leaving the facility)</td>
<td>Making a pitch to investors</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Other distinguishing characteristics</th>
<th>Incubator</th>
<th>Accelerator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25 percent take equity in client firms</td>
<td>Nearly always take equity stake in client firms</td>
<td></td>
</tr>
</tbody>
</table>

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14 National Business Incubation Association. [Home page](#).


16 National Business Incubation Association. [Business Incubation FAQ](#).

17 Incubating Success, p. 62.
Variety of models: Communities have adapted incubator models extensively to local goals and circumstances. Below are some of the ways that incubators can be categorized.

By industry focus: The most common industry segments targeted by incubators, as explained in “Incubating Success” (a 2011 report from the U.S. Economic Development Administration), are described below.\(^\text{18}\)

- **Mixed-use** (41.7 percent of all incubators): A mixed-use incubator (also called general purpose incubator) fosters the growth of all kinds of companies (e.g., service, manufacturing, technology, and other types of firms).\(^\text{19}\)
- **Technology** (39.1 percent of all incubators): A technology incubator fosters the growth of companies involved in emerging technologies such as software, biotechnology, robotics, or instrumentation. At least 50 percent of the clients should be technology-oriented to be classified as a technology incubator.
- **Service** (roughly 4 percent of all incubators): A service incubation program fosters the development of service-sector firms ranging from landscapers to graphic designers, accountants, consultants and Internet-based companies.
- **Manufacturing** (about 5 percent of all incubators): Manufacturing incubators tend to occupy more square footage than do other types of incubators. Generally, to be considered a manufacturing incubator, at least 50 percent of the client firms should be manufacturing-oriented.
- **Other** (roughly 10 percent of all incubators): This is a catch-all for the many business incubation programs that do not fit into the four primary categories – for example, kitchen incubators, and programs that focus on developing artists and craftspeople as entrepreneurs.

For example, the St. Louis region recently gained a new incubator specifically geared toward bioscience and bioinformatics startup companies, the Helix Center Biotech Incubator. Tenants are provided wet and dry lab space and access to some of the programs and scientists at the Danforth Plant Science Center. The 52,000-square-foot incubator is funded through a $2.5 million federal grant and $5.1 million from St. Louis County.\(^\text{20}\)

Of the 44.3 percent of incubators that target specific sectors, the most common are:

- **Life Sciences** 27%
- **Information Technology** 18%
- **Advanced Materials** 9%
- **Energy** 14%
- **Medical Devices** 12%
- **Computer Software** 12%
- **All Others** 8%

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\(^{18}\) Ibid., p. 13.

\(^{19}\) Ibid., p. 17.

**By socioeconomic group:** Roughly 65 percent of incubators target entrepreneurs in a specific socio-demographic group. Microentrepreneurs; college/university students; low-income individuals; women, African Americans; Hispanics; social entrepreneurs; Native Americans and youth are the most common special-focus incubator clients.21

**By program structure:** This includes incubators that provide a physical space for companies; incubators without walls and international incubators. Most business incubators are set up as a multi-tenant business incubator facility with on-site management. Despite the benefits incurred due to a common facility, the focus of the program remains on services provided to the firms.22

An “incubator without walls” or virtual incubator does not offer on-site space for client companies and may not even be located in the same geographic area as client companies. It provides the same services as a bricks-and-mortar incubator (business basics, marketing assistance, access to capital, etc.); some have compared virtual incubation with well-operated Small Business Development Centers. Virtual incubation programs tend to be less expensive to operate and can be a good option in rural areas where the client base is dispersed. However, they lack the networking benefit that firms get by locating in a facility with other firms.

Virtual incubation services also are sometimes available to companies that participate in an affiliate program at an incubator with walls, such as that offered by Georgia Tech’s Advanced Technology Development Center.23

International incubators, which are less common, focus on providing a “soft landing” for international firms that want to access U.S. markets, partner with U.S. firms or access other resources.24

**Sponsorship and funding:** Many incubators are affiliated with a university; the vast majority are run as nonprofits. Incubators are funded by a range of entities, most commonly including higher education institutions; federal, state and local governments; and business and economic development groups, civic groups, and other interested stakeholders.25 Incubators are rarely self-sustaining. Approximately 85 percent of business incubation programs receive ongoing public support for their annual operating budgets.26

In Birmingham, Ala., The Innovation Depot is a business incubation facility and program that focuses on the development of emerging biotechnology/life science, information technology and service businesses. It operates in partnership with the University of Alabama at Birmingham with funding from the Birmingham

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21 *Incubating Success*, p. 42.
22 Ibid., p. 16.
23 Ibid.
24 Ibid.
25 USA Today. Business incubator can mean a faster start for your startup. May 9, 2011.
26 *Incubating Success*, p. 19.
regional business community, foundations, the City of Birmingham and Jefferson County.27

**What makes an incubator successful:** Below are some of the elements identified in “Incubating Success” that contribute to a successful business incubation program.

1) **No one incubator practice, policy, or service guarantees success – rather, it’s the synergy among multiple practices, policies, and services that produce optimal outcomes.** The needs of incubator clients vary depending on their level of development, industry sector and management skills. The communities served by incubators differ in terms of capacity, and sponsors vary in resources, mission and requirements. Thus, it’s the relationship between helpful policies and services that matter most to incubator success.

2) **Top-performing incubation programs often share common management practices.** Practices most represented among high-achieving programs include having a written mission statement; selecting clients based on cultural fit; selecting clients based on potential for success; reviewing client needs at entry; showcasing clients to the community and potential funders; and having a robust payment plan for rents and service fees. All of these practices are highly correlated with client success. Conversely, incubation programs with lax or no exit policies typically have less-than-optimal performance.

3) **Incubator advisory board composition matters.** Having an incubator graduate firm and a technology transfer specialist on an incubator’s advisory board correlates with many measures of success. Additionally, accounting, intellectual property (patent assistance), and general legal expertise on the incubator board often result in better-performing programs.

4) **Neither the size of an incubator facility nor the age of a program is a strong predictor of client firm success.** The incubator’s programming and management matter most. For example, staff-to-client ratios are strongly correlated to client firm performance.

5) **Public sector support also contributes to program success.** Only three of the top-performing incubation programs in the EDA study operate without public sector support from local government agencies, economic development groups, colleges or universities, or other incubator sponsors. On average, nearly 60 percent of an incubator’s budget is accounted for by client rent and service fees.

6) **Incubation programs with larger budgets (both revenues and expenditures) typically outperform incubators with budget constraints.**28

**The economic developer’s role:** Establishing a business incubation program is a big job. It requires multiple partnerships and stakeholder buy-in; clarity and consensus on goals; a local entrepreneurial culture that is ready for it; strong management expertise and money. NBIA has developed a list of tips for communities that are

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27 Innovation Depot. [Home page.](#)

28 [Incubating Success](#), p. 7.
considering starting a business incubation program:

- Study the entrepreneurial climate in your community.
- Don’t expect an incubator to cure decades of community decay.
- Be creative, but realistic.
- Don’t let real estate drive the project.
- Make sure you have a solid financial plan.
- Set realistic goals for the project.²⁹

### Resources Required

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time</strong></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Resources</strong></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Entrepreneurial ecosystem strength</strong></td>
<td></td>
<td></td>
<td>X</td>
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</tbody>
</table>


### 2. Accelerators

There is no standard definition of a business accelerator. Sometimes, the name is applied to what would traditionally be called a business incubator. But for these relatively recent creations (the first, Y Combinator, began in 2005), the most widely agreed-upon model describes accelerators as organizations that provide cohorts of selected nascent ventures seed-investment, usually in exchange for equity, and limited-duration educational programming, including extensive mentorship and structured educational components. These programs typically culminate in “demo days” where the ventures make pitches to an audience of qualified investors.³⁰

Accelerators commonly focus on technology startups. Program elements vary, but typically, accelerator cohorts – groups of startup teams – run for 12 to 16 weeks and offer entrepreneurs seed funding (ranging from $10,000 to $50,000) plus one-on-one mentoring to help develop their businesses, in exchange for an equity stake of around 6 percent. Some provide office space; some don’t. Accelerators make money when a start-up is acquired or goes public, or by selling company stakes to a venture investor.³¹

Accelerators usually are started by investors.³²

The best-known accelerators are Y Combinator (Silicon Valley) and Tech Stars (Boulder, New York City, Seattle and Boston), though many others have sprouted up in other U.S. cities and around the world over the past five years (e.g., Excelerate Labs in Chicago; DreamIT Ventures in Philadelphia, Brandery in Cincinnati; Flashpoint in Atlanta; Startmate in Sydney, Australia, and IDC Elevator in Tel Aviv).³³ Seed-DB, a database of seed accelerators and their companies, has catalogued 121 accelerator programs worldwide.³⁴

³³ Seed-DB.com. List of seed accelerators.
³⁴ Ibid., About, seed accelerator definition.
Some accelerators are industry-specific. For example, Blueprint Health in New York City was founded to address the unique difficulties of trying to build a healthcare business, such as navigating the healthcare industry’s unique workflows and payment models. It now has the largest healthcare-specific mentor community of any accelerator, including 150 healthcare entrepreneurs, investors, industry executives and clinicians.\textsuperscript{35}

Others focus on a particular area of assistance. The Brandery, in Cincinnati, focuses on consumer marketing to capitalize on the region’s strengths in design and marketing. Cincinnati has many graphic designers, market researchers, advertising agencies and analytical marketers (due to the presence of companies such as Procter & Gamble, Kroger and Macy’s) who have helped the region emerge as a hub for branding and design.\textsuperscript{36}

**Goals and benefits:** By participating in an accelerator program, entrepreneurs get a bootcamp-like experience in how to run a successful business; a small amount of funding; product advice; become part of a network of other founders and experts; and gain exposure to investors.\textsuperscript{37}

A June 2011 report ("The Startup Factories") from NESTA, the U.K.’s innovation foundation, summarizes the benefits of an accelerator to those beyond the entrepreneurs:

- **Angel investors:** Reduces the need for due diligence; reduces the cost and time required to find new companies to work with; offers ability to meet other investors and company founders.
- **Venture capital firms:** Improves deal pipeline, creating more high-quality start-ups; offers first sight of new technology and ability to map trends in start-ups; provides opportunity to meet other investors and company founders.
- **Large technology firms:** Provides talent scouting for new employees, new customers for their platforms and services, and the opportunity to associate their brand with supporting new businesses.
- **Other start-up founders:** Provides talent scouting for new employees; rapidly creates a very high-quality business network; offers chance to meet customers and later-stage investors that might be relevant to their businesses.
- **Service providers (e.g. accounting firms, law firms, PR firms):** Offers access to potential new customers (the startups that the accelerators support).

Demand for accelerator programs outstrips current supply. Programs tend to be highly selective, using expert judgment to choose the teams with the most promise. Most accelerators have an applicant success ratio of less than one in

\textsuperscript{35} Global Accelerator Network. *Blueprint Health - Running an Industry Specific Accelerator.*

\textsuperscript{36} Ibid., *Cincinnati – An Entrepreneurial Community Built Around Brands.*

10. For high-profile accelerators, fewer than 1 percent of applicants will be successful.  

Applicability to a range of sectors: According to NESTA, “the accelerator model works well in the web and mobile sector because of the lack of capital necessary, and the speed at which products can be developed.” To apply the model to other sectors, NESTA’s research found that it requires:

- **An investment-based financing system.** The accelerator model relies on occasionally large multiples in return on investment in a fairly short period of time.
- **An open culture.** Perhaps partly influenced by the open source software movement, the process of documenting and distributing successes and failures openly is common. This flows through to the way that mentors are willing to provide advice and that young companies are willing to share office space and their business secrets with other teams in their accelerator. Few other sectors share this characteristic.

Beyond these prerequisites are two trends that make the model more likely to succeed: a) falling costs in the early stage of businesses in the sector and b) high demand from entrepreneurs to start businesses in that sector.

**The economic developer’s role:** Accelerators such as Y Combinator are set up as private seed funds. However, in the absence of initiative by private investors, they can be created through partnerships among nonprofit organizations (such as universities) with a mix of public and private funding, such as Arkansas’s new ARK accelerator.

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**The ARK: A New Accelerator in Northwest Arkansas**

The ARK is a new mentorship-driven business accelerator program for technology startups. It is a coordinated initiative to recruit and aid in the growth of fledgling information technology companies in order to advance three strong industry clusters in Northwest Arkansas:

1) Retail
2) Transportation & logistics
3) Food processing

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The ARK performed technology assessments in each of the industry clusters to identify a set of technical problems needing solutions and to help direct bootcamp participant recruitment. The first entrepreneurial bootcamp challenge was held in Fayetteville over 14 weeks during the fall of 2012. The ARK recruited and selected 15 startup companies, comprised of one to three people each, from applicants originating across the U.S. and the world.

In exchange for a 6 percent equity stake, companies each received $18,333; product development and design support; promotion; networking with advisors and funders; and intensive mentoring from a group of community-based and national mentors. The focus areas of the bootcamp were customer acquisition/ market traction, investor relations and programming/ product development.

All bootcamp participants had 24×7 access to The Iceberg, Northwest Arkansas’ new coworking facility located in downtown Fayetteville, and its amenities.

The goal of the challenge was to introduce 15 viable ventures, primed for funding, pilot-ready and positioned for new job creation, to the region. “Demo Day,” when companies make their 8-minute pitches to a group of potential investors, takes place on Nov. 8.

The ARK is a Winrock International, U.S. Programs, initiative in partnership with the University of Arkansas at Fayetteville and the NorthWest Arkansas Community College. It is made possible by funding from three federal agencies – the Economic Development Administration (as part of the Department of Commerce’s Jobs and Innovation Accelerator Challenge), the Small Business Administration and the Department of Labor’s Employment and Training Administration – as well as Winrock International, Gravity Ventures, the Fund for Arkansas’ Future and the Arkansas Development Finance Authority.

The ARK is a full member of the Global Accelerator Network (GAN). GAN was formerly known as the TechStars Network, is a partner of the Startup America initiative and consists of independently owned and operated organizations that utilize a mentorship-based startup accelerator model.

**The Global Accelerator Network (formerly the TechStars Network)**

The Global Accelerator Network consists of independently owned and operated regional organizations that operate high-quality startup accelerator programs. The Network provides professional development, networking opportunities, training, consulting and ongoing support for members. Championed by TechStars, the Global Accelerator Network was created in 2010 under the management of top accelerator programs and alongside the White House’s Startup America Initiative.

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39 Global Accelerator Network. [About](#)
Caveats: Partly because accelerators are such a recent invention, little formal analysis of their impact exists, and even the best data sources are significantly incomplete. Ultimately, there is skepticism regarding the effectiveness of all but the top programs. Some believe that only tech hubs like Silicon Valley, Boston and New York have enough access to the right mentors and investors to boost an entrepreneur’s chances of success. According to the Wall Street Journal, “the odds of success are slim, even in a top program. Just 0.1 percent of firms that are less than five years old receive seed or early-stage funding from venture-capital firms, according to Kauffman Foundation researchers.”

A 2011 study by Houston venture-capital firm DFJ Mercury found that 45 percent of 29 North American accelerator programs didn't have any graduates that went on to raise institutional financing. (Though institutional financing may be the best measure of success for the investors who started the accelerator, entrepreneurs get unique value in learning how to build a company, bring an idea to market, and join a powerful network of peers, service providers and funding sources.) Alternately, some say that accelerators do more for the investor community than they do for entrepreneurs by getting new investment opportunities on the radar and reducing due diligence.

Y Combinator is widely regarded as the most successful accelerator program for multiple reasons. Besides its advantages of being the oldest (with the largest network of alums) and having access to a deep pool of talent and applicant companies due to its location in Silicon Valley, the publication Venture Edge speculates that accelerators in general don’t produce the kinds of outcomes that Y Combinator has because:

- Accelerators attract struggling ventures, so the potential for failure is high.
- Even good businesses have failed after participating in an accelerator, so being able to pick winners is a critical but nearly impossible task for VCs.
- There is much hype around accelerators and in any region they compete with each other for the best businesses; consequently, the potential to make mistakes in investment is very high (there were 15 accelerators housing 200 companies just in Los Angeles in early 2012).
- As the accelerator methodology is best suited to niche businesses in the digital/mobile space that can launch cheaply and quickly and that have the potential to scale, they generate a ton of “me-too” businesses that don’t create any new value, mostly in the Internet/social arena.

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42 Ibid.
Some believe that accelerators have spread so quickly that there is a bubble — that consumer and business markets can’t absorb all of the products and services offered by the hundreds of new startups that accelerators are churning out each year — and that the weaker ones will fold, leaving a top-tier group serving companies with the most potential.  

**Resources Required**

The resources required to start an accelerator program vary depending on whether it is initiated privately or publicly. For those started by private investors, the main requirement from the community is a strong entrepreneurial ecosystem. For those initiated by a nonprofit or public entity, the level of effort and resources required by the economic developer will be much higher.

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<td><strong>Resources</strong></td>
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<tr>
<td><strong>Entrepreneurial ecosystem strength</strong></td>
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3. **Mentoring**

Mentoring programs connect entrepreneurs with seasoned business leaders who provide guidance over a period of several months or years. Entrepreneurs not only receive advice on specific tasks but also plan long-term strategy as their businesses evolve. Many mentoring programs are set up to prepare entrepreneurs to get funding.

Depending on a region’s economic development priorities, mentoring programs may serve established companies or growth-oriented startups only. They also may focus on specific industries or entrepreneur demographics (e.g., students, women, minorities or veterans). For example, the Montgomery County (Md.) Small Business Mentorship Program originally was designed to assist startups owned by minorities, women and people with disabilities, but later was expanded to include all small businesses. The Veterans Business Outreach Program in New York connects veterans with advisors who can help them start and grow a small business.

Some mentoring programs focus on a particular high-tech sector, such as computer software, life sciences, energy and advanced manufacturing. For example, i2E – a nonprofit focused on growing high-tech companies in Oklahoma – has specialists on staff who work specifically with entrepreneurs in each field (life sciences, IT, energy and aerospace industries).

Mentoring programs are not exclusive to high-tech industries. For example, the Tourism Mentorship Assistance Program in Alaska targets

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48 New York State Small Business Development Center. [Veterans Business Services](http://www.sedc.ny.gov/veteransbusinessservices/).
potential business owners in the tourism industry in the state’s rural areas.\textsuperscript{49}

The group that organizes a mentoring program also differs from region to region. Most commonly, a mentoring program will operate under the umbrella of an economic development organization or business incubator. The local small business development center (SBDC) may offer mentoring programs, as well as the local Manufacturing Extension Partnership. SCORE (the Service Corps of Retired Executives, a national nonprofit with local chapters that is supported by the Small Business Administration), also provides volunteers who mentor small businesses in their region for low or no cost.

Goals and services: Depending on the target protégé group, a mentoring program’s goals can be broad or very specific. The services provided by a mentor will also depend on the goals of the program. Consider Tech Futures Group (TFG), a mentorship program for technology entrepreneurs in Northern California. TFG’s mentors advise budding entrepreneurs in two areas: commercializing goods and services, and raising funds. These overarching goals encompass a wide range of services, including:\textsuperscript{50}

- Business plan preparation
- SBIR/STTR applications
- Partnership strategies
- Funding strategies
- Tech transfer
- Product positioning
- Presentation preparation
- Intellectual property
- Team building/recruiting
- Marketing strategy
- Market research

Regarding financing, mentoring programs may run side-by-side with investment fund operations. For example, i2E runs three federal and state-financed investment funds, in addition to its mentoring program. These include early-stage, growth stage and angel investment funds. i2E’s relationships with protégé entrepreneurs helps it identify the best investments for these funds.

Funding: Most mentoring programs are offered free of charge to the client. Programmatic funding often comes from a variety of public and private sources. On the federal level, the U.S. Small Business Administration (SBA) offers grants and works through SBDCs to mentor entrepreneurs. State and local funds may provide the bulk of the funding, while universities and private sources may round out the program budget.

For example, i2E was established and initially fully funded by the Oklahoma Center for the Advancement of Science and Technology (OCAST is a state agency tasked with advancing technology-based economic development). Today, 58 percent of i2E’s funding comes from OCAST, 14 percent comes from federal sources, and 28 percent from private funding.\textsuperscript{51} Tech Futures Group is part of the Northern California SBDC system and is thus funded primarily by SBA funds and some university and private funds.

\textsuperscript{49} Alaska Department of Commerce. Tourism Mentorship Assistance Program.
\textsuperscript{50} Tech Futures Group. About Us (pdf).
\textsuperscript{51} i2e. Job posting.
**Staff:** Mentors typically are either active business leaders who volunteer their time or former entrepreneurs who are employed as mentors. They may have a title like Entrepreneur-in-Residence, Sales Executive-in-Residence or CFO-in-Residence. Those who are employed as mentors typically are experienced entrepreneurs with a specialty in financing, intellectual property or another aspect of running a startup, and are employed by an incubator, entrepreneur support group or similar organization.

Mentoring programs often offer access to community partners who can provide crucial services to startups. These may include law firms, venture capital firms, banks, market research companies and educational partners, among others. Partners may offer services to protégés at reduced or no cost for a period of time.

**Mentoring process:** Since demand for mentors frequently outpaces supply, entrepreneurs typically undergo a screening process. The selection process varies depending on the program’s goals. For example, Tech Futures Group focuses on high-tech entrepreneurs and thus selects clients based on four criteria: based within the 14-county Northern California SBDC network; uses new technology or a novel combination of existing technology; possesses proprietary technology that can be protected under intellectual property law; and have potential for growth.52

Generally, accepted clients then meet with a mentor who assesses the entrepreneur’s needs, identifies the services needed and develops a work plan. Since the dynamics between the mentor and protégé are critical to the mentoring process, the mentor sometimes will refer the client to a more suitable mentor. Otherwise, they will hold periodic meetings to discuss progress on the work plan. The length of the formal mentoring relationship may last from a few months to years. Tech Futures Group accepts clients on a three-month basis, with possibility for renewal based on the client’s commitment.

In addition to individual mentoring, mentoring programs also may hold networking events or workshops on specific topics. The Alaska Tourism Mentorship Assistance Program organizes site visits for entrepreneurs to get a closer look at the rural tourism industry. The Colorado SBDC network organizes a Main Street Mentors Walk in which entrepreneurs and mentors literally walk and talk about business.53

**The economic developer’s role:** Mentoring programs often are hosted under the umbrella of an economic development organization, especially if the community doesn’t have an active business incubator or SBDC. Economic developers in communities that are thinking of starting a mentoring program should consider what local or regional organization is most connected to the business community, possesses the technical expertise and has the staffing capacity to host a mentoring program.

52 Tech Futures Group. [TFG Qualifications](#).

53 Denver Metro Small Business Development Center. [Main Street Mentors Walk](#).
Developing a mentoring program involves identifying program goals, developing a structure and policies, and recruiting both mentors and protégés. Even if the EDO’s role is ancillary, it can tap into its network of existing business leaders for participants on both sides of the program.

### Resources Required

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**Innovate VMS: Entrepreneur-Coaches Give St. Louis Ventures a Competitive Edge**

Since January 2000, MIT’s Venture Mentoring Service (VMS) has been providing entrepreneurs with advice and mentoring in developing their enterprises. *Innovate VMS* was launched in May 2007 to implement the MIT VMS program in the St. Louis region.

The program offers teams of three to six mentors who provide unbiased entrepreneurship advice at no cost to innovative, St. Louis-based ventures (ranging from high-tech medical device start-ups to low-tech ventures). Part of the program’s goal is to establish long-term relationships between entrepreneurs and mentors, connect startups to other supportive programs and encourage networking. Each entrepreneur also has access to specialized resources for legal, accounting and marketing support.

According to Innovate VMS’s 2012-2013 Annual Report, data from 2011 for participating ventures showed that:

- Revenue tripled to over $23.5 million
- Employment grew 47 percent, to 645 positions
- Debt acquired jumped by 350 percent to $7.8 million
- Equity investment nearly doubled to $9.5 million
- Six companies reported revenue over $1 million

The survival rate of assisted companies between May 2007 and December 2011 was 82 percent. Over 25,000 hours of face-to-face advising time were donated by 180 mentors during Innovate VMS’s first five years.

*Sources: Kauffman Foundation, Innovate VMS; Innovate VMS, 2012-2013 Annual Report (pdf).*
4. **JumpStart**
JumpStart was founded in 2003 as a public-private venture development organization intended to boost entrepreneurship in 21 counties in Northeast Ohio. It does this by investing in and assisting entrepreneurs who are leading high-growth companies in Greater Cleveland; growing the region’s entrepreneurial ecosystem by raising funds for other support organizations; and managing a network of 20 incubators, accelerators, and investors.\(^{54}\)

JumpStart assists primarily technology-based companies, typically in healthcare, clean tech (advanced materials and advanced energy), information technology, electronics, and business and consumer products industries. Its companies operate in global markets, possess protectable ideas (intellectual property), and have significant revenue (over $10 million) growth potential. Most are in the imagining or incubating stages and all must have less than $5 million in revenues.

**How it works:** JumpStart offers a range of entrepreneurial development services, primarily to prepare entrepreneurs to raise money from its own fund or from other capital sources. Services offered include:

- One-on-one businesses assistance to help entrepreneurs overcome key business challenges
- Programs for minority, women, and inner-city based entrepreneurs that enable them to grow their companies more quickly
- Services to create and fill key positions with the talent critical to company growth
- Mentoring by successful entrepreneurs and executives
- Publicity and general marketing support to help companies manage their message and achieve strategic milestones
- An online tool to connect entrepreneurs with online and offline resources
- Connections to in-region partner organizations, like incubators, pre-seed funds, and advisors
- Opportunities for university students interested in entrepreneurship\(^{55}\)

That’s in addition to funding, a toolkit of resources (such as an executive summary template and an investor pitch deck template) and educational and networking events.

Every company JumpStart invests in is assigned an Entrepreneur-in-Residence who works closely with the entrepreneur for 18 to 24 months, typically helping him or her gain early customers, raise follow-on capital, form a board of advisors or directors and hire top talent.\(^{56}\)

**Funding:** JumpStart has an Evergreen Fund through which it invests seed capital in companies and also helps entrepreneurs access capital from one of the many pre-seed or seed funds in the region.\(^{57}\) Investments start at $250,000 per company.

Companies typically need to raise additional capital beyond JumpStart’s investment in order to

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\(^{54}\) JumpStart. [About Us.](#)

\(^{55}\) Ibid., [Entrepreneur Support.](#)

\(^{56}\) Ibid., [Entrepreneur Support, Our Funds.](#)

\(^{57}\) Ibid., [Entrepreneur Support, Funds.](#)
grow. Therefore, companies that receive the funding typically have the following characteristics: a unique/breakthrough idea; a large ($1 billion) addressable market; entrepreneurs who are flexible, vested and ambitious; and exit potential.\footnote{Ibid., Entrepreneur Support, Our Funds.}

**JumpStart Network**: The JumpStart Entrepreneurial Network is a group of entrepreneurial support organizations that delivers capital, space, advice and connections to Northeast Ohio’s tech-based entrepreneurs. This includes pre-seed and seed funds, incubators, accelerators, numerous business advisors and an online community built for entrepreneurs. Entrepreneurs enter the network by applying for a fund or service or by becoming a client of a member resource provider. They then are assessed for other needs and matched with an appropriate provider(s).\footnote{JumpStart Network. About the Network.}

JumpStart provides support to the network in terms of metrics and reporting; communication; back office support for funds; IT support; encouraging the development of new resources, such as new funds; partnership development; and gathering and sharing best practices.\footnote{JumpStart. Experience.}

**Ecosystem support services to other regions**: JumpStart applies its experience to help other regions develop their entrepreneurial ecosystems. It undertakes this work in a three-phase collaboration with regional advisory groups comprising existing entrepreneurs, investors, government leaders, philanthropists, and economic development professionals. The first step is to develop a Regional Entrepreneurship Action Plan (REAP) that reflects a region’s strengths and gaps; then to help the region secure the financial resources necessary to implement the plan; and finally to turn the plans into functioning programs or organizations that help build competitive, high growth, and sustainable companies.\footnote{Ibid., Services.}

**JumpStart America**: In 2010, in partnership with the U.S. Economic Development Administration, the Knight and Surdna foundations, JumpStart began assisting regions across the country in the creation of customized Regional Entrepreneurship Action Plans. JumpStart America aims to expand the entrepreneurship support JumpStart had begun to provide to other regions by:

- Serving as a national resource for programmatic best practices, shared services, tools and public policy advocacy that supports and accelerates the economic impact of high growth firms;
- Leveraging more than $2 billion of public, private and philanthropic support to develop regional plans that accelerate young, high potential firms, with an emphasis on inner city and minority-led firms;
- Helping regions dramatically increase their ability to provide resources that enable startup and existing firms to attract capital, and create economic opportunities and jobs; and
• Accelerating the economic impacts and outcomes of more than 10,000 firms so they create hundreds of thousands of private sector jobs by 2020.\(^{62}\)

**The economic developer’s role:** Starting a program such as JumpStart is a considerable investment of time and resources; however, JumpStart America can provide considerable assistance in regard to planning, capitalizing and implementing a Regional Entrepreneurship Action Plan. The economic developer can work with other local partners to gain support for and initiate the process.

**Resources Required**

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<tr>
<td><strong>Entrepreneurial ecosystem strength</strong></td>
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The type of funding a company needs, as well as its options for securing that funding, vary according to its stage of growth. Debt financing is rarely a workable option for early-stage entrepreneurs due to the need for collateral and a defined repayment schedule, but is much more feasible for established, growing firms such as gazelles (which can rely on their track record of multiple years in business, plus existing assets, to access multiple funding mechanisms).\(^{63}\)

With a few exceptions, this section primarily addresses equity funding options for growth-oriented companies. (A broader view of the financing landscape is available in “Unlocking Entrepreneurship.”) Crowdfunding may be another avenue for growth-oriented companies, though it is relatively new and untested outside the entertainment industry and may have limitations on the amount of money that realistically can be raised. Pre-seed funding, seed funding, angel investing, venture capital and crowdfunding each are discussed in more detail below.

**Pre-Seed Funding**

As the name suggests, pre-seed funding assists companies that are in the early stages of development and do not qualify yet for seed funding (more on seed funding below). Pre-seed funds help growth-oriented companies fund activities that prove to investors that their product or service has commercial viability. This can include conducting market or technology assessments, developing realistic business plans,

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\(^{62}\) JumpStart America. [About Us](#).

and developing intellectual property or a working prototype.\textsuperscript{64}

Pre-seed funding can be crucial to success in industries like biotech and healthcare, in which development and testing of technologies may take significant time. Pre-seed funding may be in the form of equity or debt financing, in which the company has to repay the loan after either a certain amount of time, upon achieving certain milestones, or securing additional funding from venture capitalists, angel investors or other sources.

A number of states, cities or regions, universities and nonprofits provide pre-seed funding to technology businesses. Universities may provide pre-seed funding for technology transfer and commercialization of innovations on their campuses. States and regions typically aim to strengthen and diversify their economies by providing this early funding to growth-oriented companies. Funds from universities, states and other local or regional pre-seed funding programs can be combined to raise larger sums of money.

Investments may range from $50,000 to $250,000 or more. Some programs, such as TechColumbus (Columbus, Ohio), provide convertible debt investments – in other words, the debt is converted to an equity stake once the company has secured additional funding, giving the pre-seed investors a say in the operations of the venture like other equity investors. The biggest advantage of convertible debt is that the company doesn’t have to go through a valuation process at an early stage in order to secure equity investment.\textsuperscript{65}

Other programs, such as the Michigan Pre-Seed Capital Fund, offer both pre-seed investments and loans. The Michigan fund is intended to accelerate the development of high-tech start-up companies by providing capital to entrepreneurs when they are at or near commercialization.

To qualify for investment capital from Michigan’s fund, companies must be past the concept development and analysis phase and have specific milestones identified for achieving commercialization. Growth needs these companies might use funding for include hiring key management or specialized consultants; regulatory review; contract manufacturing agreements; or executing marketing strategies and sales plans. The fund will invest from $50,000 to $250,000 per company alongside investment partners who provide a minimum one-to-one match. Companies eligible to qualify for a loan (maximum of $50,000 with no match requirement) may still be in the concept development and analysis phase but also must have specific milestones identified for achieving commercialization.\textsuperscript{66}

\textit{Seed and Early-Stage Funding}

The earlier examples of accelerators, some incubators, and JumpStart are examples of seed funding sources. Some angel investors and

\textsuperscript{64} University of Michigan Tech Transfer. \textit{Pre-Seed Funding Vital to Business Start-Up.} \\
\textsuperscript{65} TechColumbus. \textit{Pre-Seed Fund.} \\
\textsuperscript{66} Ann Arbor USA. \textit{Michigan Pre-Seed Capital Fund.}
venture capitalists also make seed or early-stage investments. In addition, some sources of information on financing conflate seed and pre-seed funding. It can be difficult sometimes to clearly delineate types and stages of funding, as many groups have their own definitions.

Perhaps most helpful is an article from Forbes in March of 2012 that defines what it takes to raise seed-stage funding:

- A strong team – usually a combination of people in product, business, tech or design;
- A big market (or the ability to create a new market, as Groupon and Kickstarter have done);
- The first version of a product (known as a minimum viable product, alpha, or version 1 in tech-speak); and
- The ability to demonstrate that the product is gaining traction (with the primary metrics being revenue and active user base).

Connecticut Innovations’ Seed Investment Fund, for example, invests up to $500,000 in qualifying companies, structured as equity (preferred stock), convertible debt, or debt with warrants depending on the individual circumstances of the deals. Investments are available for technology and life science companies with proprietary technology, a sustainable competitive advantage, and a near-complete beta product.

The Portland (Ore.) Seed Fund, on the other hand, is structured like an accelerator, selecting ‘classes’ of six to eight entrepreneurs at a time, providing an initial $25,000 investment, and providing mentors, subject matter experts and a peer group of entrepreneurs for 90 days. Top performers can receive follow-on capital, and the cycle is repeated every six months. The city of Portland launched the fund in 2011 with $800,000 in public funds, plus money from private investors, the city of Hillsboro and the state-sponsored Oregon Growth Account to total $3 million altogether.

Finally, private seed funds such as Garage Technology Ventures and Khosla Ventures advertise their interest in investing in “unproven” and “crazy” ideas (respectively) that are based on breakthrough technology innovations and led by strong teams. Garage Technology Ventures makes investments ranging from $500,000 to $3 million.

Angel Investment

Angel investment is a type of equity financing made by “high-net-worth individuals who are investing their own money, for a wide range of motives.” Many of them are successful former entrepreneurs who are willing to invest in and guide younger companies. (Venture capitalists, on the other hand, are typically institutional investors; i.e., paid professionals who invest others’ money in a venture.)

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68 Connecticut Innovations. Funding Opportunities, Seed Investment Fund.
69 Portland Seed Fund. Our Strategy.
70 Khosla Ventures; Seed Fund, What We Look For. Garage Technology Ventures; About Us.
72 Ibid.
The concept of angel investment is the same as venture capital – both types of investment are aimed at helping businesses gain access to capital in return for an equity stake in the company for the investor. The investor assumes a high level of risk in the business in exchange for higher returns than traditional investment mechanisms.

Angel investors mostly invest in seed and start-up stages of growth-oriented companies, whereas venture capitalists (VCs) invest in expansion and later stages (though there are exceptions). As the needs of a company change at every stage, the support and guidance provided by angels and VCs also differs. Therefore, from the perspective of the entrepreneur, there is marked difference between these two types of investment. The following table summarizes these differences.

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<thead>
<tr>
<th>Source of investment</th>
<th>Angel Investment</th>
<th>Venture Capital</th>
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<tr>
<td></td>
<td>Individuals investing their own money (though they often join networks to make larger investments)</td>
<td>Institutions – pension funds, insurance companies, foundations, etc.</td>
</tr>
<tr>
<td>Stage of investment</td>
<td>Seed, early and start-up stage</td>
<td>Expansion and later-stage</td>
</tr>
<tr>
<td>Total investment</td>
<td>$20 billion per year on average</td>
<td>$30 billion per year on average</td>
</tr>
<tr>
<td>No. of businesses funded</td>
<td>60,000 ventures on average</td>
<td>4,000 ventures on average</td>
</tr>
<tr>
<td>Average investment per company in 2011</td>
<td>$340,000</td>
<td>$7.7 million</td>
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<tr>
<td>Major sectors</td>
<td>Healthcare, software, biotech</td>
<td>Software, biotech, energy</td>
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<tr>
<td>Geographic concentration</td>
<td>Dispersed throughout the country; typically invest in companies located within one day’s drive</td>
<td>California and Massachusetts (primarily)</td>
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<tr>
<td>Ratio of companies funded</td>
<td>1 in 10 companies considered</td>
<td>1 in 100 companies considered</td>
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<tr>
<td>Expected rate of return</td>
<td>25% or higher</td>
<td>As high as 50% annually</td>
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<tr>
<td>Follow-up rounds of investment</td>
<td>Typically none</td>
<td>Staged financing schemes based on company reaching agreed milestones</td>
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74 Ibid.
76 PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Reuters.
78 PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Reuters.
79 University of New Hampshire, Whittemore School of Business and Economics. Angles on Angels and Venture Capital: Financing Entrepreneurial Ventures (pdf.)
80 Ibid.
As the table shows, angel investors and angel networks are much more widespread than venture capital firms and therefore more accessible to a wider range of companies. (There are roughly 350 angel investment groups across the United States.\footnote{Minnesota Public Radio, Angel Investors and Startups Mingle in Milwaukee, Feb. 10, 2012.}) The fact that they invest small amounts of capital in a larger number of firms, and accept lower rates of return, also make them more accessible to most growth-oriented firms than venture capital sources.

Angel groups typically follow these steps when making funding decisions:

- **Pre-Screening** of a completed application ensures that it meets the group’s general requirements.
- **Screening** further defines the opportunity. At this point, the angel group may ask for the full business plan or hold meetings with the entrepreneur.
- At an **investment meeting**, the entrepreneur is invited to make his or her pitch to all members of the angel organization, after which members discuss key issues about the company and determine initial interest in making individual or group investments in the proposed venture.
- The **due diligence** stage follows, when a team of member investors and industry specialists investigate the entrepreneur and the business to validate the business plan, including the management team, market opportunity and amount of funding required.
- The final stage involves **negotiating a term sheet**, which guides lawyers in preparing investment agreements and which determines the relationship between the company and investors.\footnote{Angel Capital Association. FAQs on Angel Investing.}

According to the Angel Capital Association, the best matches for angel investment are entrepreneurs who are willing to give up some amount of ownership and control of the company, and firms that are likely to realize significant revenues and earnings in the next three to seven years (with an exit plan thereafter). Firms most likely to receive funding are those that have a product developed or near completion and a proven base of existing customers or potential customers; those that can demonstrate that the business is likely to grow rapidly and reach at least $10 million in annual revenues in the next three to seven years; and those that have a strong business plan in place.

To encourage angel investment, a number of states – including Connecticut, Minnesota, New Mexico, Nebraska, among others – offer angel investment tax credits.

**Venture Capital**

Venture capitalists (VCs) provide cash for young, high-growth companies in exchange for shares. But VCs provide more than just cash – they typically take a seat on the board of directors, actively participate in the operations and management of the company, and provide critical advice and mentorship at various stages of the venture’s development.
Venture capital firms pool money from wealthy individual investors and institutional investors such as college or university endowments, foundations, pension funds and insurance companies. The graphic below illustrates how the venture capital industry works.  

It is important to note that the “young companies” referenced above typically are not startups. Venture capitalists invest mostly in established companies, when they are ready to commercialize their idea and need a cash infusion to scale operations. While the potential returns on investment for VCs are high, the risks associated are high as well.

Venture capital is credited with financing some of the most innovative companies and groundbreaking business models, products or services. Well-known examples include Google, Microsoft, Facebook, Starbucks, The Home Depot, and hundreds of others. In many ways, venture capital has become synonymous with the financing of innovation.

However, the market share of venture capital, relative to other types of business finance, is small. Even in Silicon Valley, which has the highest concentration of VC investment in the

country, less than 4 percent of companies receive VC funding. As well-known venture capitalist Guy Kawasaki wrote, “Someone once told me that the probability of an entrepreneur getting venture capital is the same as getting struck by lightning while standing at the bottom of a swimming pool on a sunny day. This may be too optimistic." According to a 2009 study by the Ewing Marion Kauffman Foundation, only one-fifth of the most successful and fastest growing companies in the U.S. had venture capital.

VCs have a propensity to fund companies in a relatively narrow spectrum of industries, mostly around high-tech. Over three-quarters of the total $29.5 billion of venture capital investment in 2011 went to just six industries: software (24%), biotechnology (16%), industrial/energy (13%), medical devices and equipment (10%), IT services (8%), and media and entertainment (8%). Social media companies have attracted significant VC recently, but the total investment there can be difficult to quantify because such companies don’t always fit into traditional classifications.

Over the years, VC investment has ebbed and flowed, often tied closely with the performance of the broader economy. Total VC investment peaked at $105 billion (in more than 8,000 deals) in 2000, dropped sharply in 2001, and has not passed much more than $30 billion (in roughly 2,500 deals) since. More recently, VC investment appears to be reviving after another dip in 2009.

The geographic spread of VC investment around the country is uneven as well, with one-third of total VC investment going to companies located in Silicon Valley. New York City, Philadelphia, Washington, D.C., Los Angeles and the San Diego metro areas account for another almost one-third of the national share.

The VC Process: Although the exact process for evaluating companies varies by fund, typically there are four stages in the investment process. The first step is the application screening process to select those ideas and companies that the fund deems worthy of an investment. The next (and perhaps most important step, from the perspective of an entrepreneur), is “the pitch,” in which the entrepreneur presents the idea to the venture capitalists. VCs aim to gain more detailed information about the idea, product or service, and the company at this time.

Ideas that VCs like move to the next step, which is due diligence. During this step, VCs try to learn as much about the company as possible – the partners, the product, the market, other investments to date, potential for growth and exit strategy, among others – to determine if an investment should be made in the company.

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89 PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Reuters
90 Ibid.
last stage is negotiating the terms of the investment.

Crowdfunding

Crowdfunding is a new form of funding that entails raising funds through small contributions from individual investors. Musicians and entertainers started using this type of funding in the late 1990s as a way to launch albums and records. This was primarily in the form of crowdfunding by donation (as opposed to equity crowdfunding, discussed below). Since then, it has spread to other industries, but as a relatively new mechanism its potential there is still being tested.

Yet crowdfunding has the potential to become a significant force for growth-oriented businesses in the near future. President Barack Obama signed into law the Jumpstart Our Business Startups (JOBS) Act in April 2012, making it legal for entrepreneurs to use crowdfunding to raise up to $1 million of early-stage equity financing through online crowdfunding investment portals. The act relaxed a number of laws and regulations governing public companies to allow small businesses to raise funds publicly with less regulatory burden. The Securities and Exchange Commission (SEC) currently is working on the final regulations that will govern the implementation of the JOBS Act. The regulations are expected in early 2013.

In the meantime, a number of online sites and organizations have sprung up as crowdfunding platforms and to educate small businesses and entrepreneurs on the potential benefits and challenges of crowdfunding. The economic developer’s role: Accessing financing at each stage of a business’s needs is a challenging process. With many options, each with its own pros and cons, it can be confusing for entrepreneurs to determine the best form of financing at a particular time. The role of the economic developer lies in educating growth-oriented companies about the different types of financing available and how to access it. And when funding options are limited locally, economic developers can partner to initiate the creation of new options – for example, by establishing loan funds or pre-seed funds to fill capital needs that aren’t being met elsewhere. Economic developers should be aware of the resources available in their community, how to effectively disseminate information and how to access or create new resources when necessary.

6. Companies to Watch

Companies to Watch (CTW) is a recognition and networking program created by the Edward Lowe Foundation. Established in 2005 in Michigan, the program has since operated in eight states. CTW programs are deployed at the state level to honor companies that demonstrate innovative products and processes and high performance in the marketplace. From a pool of nominated companies (see criteria below), winners are honored at a high-profile annual gala, which is attended by business and government leaders from across the state. Goals and benefits: CTW programs aim to draw attention to second-stage companies for the critical role they play in the economy and the community, rallying support for firms that
typically fly under the radar. Much more than an awards program, CTW is designed to deliver multiple benefits:

- **Fostering collaboration:** CTW aims to bring every player in the business community together as champions, nominators and underwriters. These may include:
  - Entrepreneur support organizations at the local, statewide and national level
  - Government agencies, their administrators and policymakers
  - Institutions of higher learning, especially those with entrepreneurship centers, technology transfer programs and strong alumni ties
  - Commercial service providers such as attorneys, accountants and bankers
  - Investors, including private equity firms, venture capitalists and angels
  - Vendors, suppliers and customers of second-stage businesses
  - The media, including print, TV, radio, and online
  - Employees of second-stage businesses

- **Instant visibility and credibility** for recipients: Increased visibility at the local and state level among both business and government leaders boosts networking and growth opportunities for recipients. Honorees receive increased exposure to the media and a media graphic announcing the company as an award winner to be used as a marketing tool.

- **An instant network of peers:** Recipients become part of a group of second-stage companies known for leadership, innovation, and impact. They can participate in future CTW events, including roundtable discussions and leaders retreats designed for CTW recipients from across the country.

States and communities also benefit from the recognition and exposure of CTW award winners, by showcasing leaders in diverse industry fields that contribute significantly to the economy.92

Unlike trade or industry awards, CTW seeks businesses of varying industries throughout a state, allowing honorees to interact and network with new industries.

**How it’s deployed:** The Edward Lowe Foundation oversees the application and selection process in partnership with the local host (typically an entrepreneur support organization). Anyone can nominate a company, but nominations typically come from groups that work directly with second-stage companies, such as economic development offices, service providers, universities, the media, and trade, business and community associations. Company eligibility criteria vary slightly among different states’ programs, but typically, nominees must:

- Employ 6-99 people and have annual revenues between $750,000 and $50 million
- Be a privately-held commercial enterprise with demonstrated intent and capacity to grow
- Headquartered in the state in which they are applying
- Not be previous recipients of a CTW award

In addition to eligibility criteria, the award is based on employee growth; impact of the business in the job market; increase in sales or unit volume; innovativeness of the product or

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92 Edward Lowe Foundation, [Companies to Watch: Colorado Companies to Watch](http://www.companiestowatch.coloradochamber.org/)
service; response to adversity; community-oriented project involvement and other criteria deemed appropriate by the judges.

The process culminates in a recognition event to celebrate the winners and their supporters. In 2008, at the height of the recession, Michigan CTW winners were notable for 36 percent growth in job creation. More than 1,200 jobs were created by these companies. \(^{93}\)

**The economic developer’s role:** Economic developers can rally interest in starting a CTW program in their state, enlist the support of business leaders, and identify and nominate companies.

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**Colorado Companies to Watch**

Deployed in 2009, Colorado CTW has recognized nearly 200 second-stage companies with exceptional growth in revenue and employment over the last four years. Colorado CTW is made possible through the collaborative effort of the Edward Lowe Foundation, the Colorado Office of Economic Development and International Trade, as well as public and private development organizations, associations and service providers located throughout the state.

The class of Colorado CTW award recipients recognized in June 2012 generated $377 million in total annual revenue in 2011, a 65 percent increase over total revenue in 2010; employed over 1,787 full-time employees; and were projected to create 607 new jobs in 2012. For this same group of companies, annual revenue growth is projected to increase 47 percent in 2012 and employment to increase 34 percent. If the projections hold true for these companies in 2012, they will result in a 199 percent increase in revenue and 171 percent increase in jobs since 2008, holding true to the expectation of high growth among second-stage companies. \(^{1,1}\)

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\(^{93}\) Edward Lowe Foundation, [Companies to Watch](#).
7. **CEO Roundtables**

CEO Roundtables are special, ongoing networks of business leaders, often housed under the umbrella of a chamber of commerce or economic development organization. Roundtables can serve different audiences. Some are targeted to CEOs of large companies or of target industry groups while others convene groups of small business owners.

**Goals and benefits:** CEO Roundtables benefit their participants, EDOs and the community. They facilitate networking and communication among leaders who may struggle with similar business issues. Sometimes, they are a forum for business leaders to discuss and align their priorities regarding broader community goals. CEO Roundtables are of special interest to economic developers because they help illuminate the needs of a community’s top employers, small businesses and special industry sectors.

**How they are deployed:** Eligibility requirements for joining a CEO Roundtable differ depending on the focus of the group. For example, the CEO Roundtable hosted by the Metro Orlando Economic Development Commission is by invitation and targets large employers. Roundtable members must be the most senior executive of a private company located in the metro Orlando area, and the company must have a minimum of 50 employees and annual revenues of at least $7.5 million.94

On the other hand, the Traverse City Area Chamber of Commerce in Michigan convenes multiple CEO Roundtables to ensure compatibility within each group.95 To facilitate open conversation, competitors are not included in the same group. The chamber also tries to group businesses that are similar in geographic proximity and business size.

Other CEO Roundtables target entrepreneurs and small business owners. The Florida Economic Gardening Institute (GrowFL) at the University of Central Florida brings entrepreneurs together to discuss and advise each other on shared hurdles.96 Eligible entrepreneurs must operate a for-profit small business of seven to 100 employees and be focused on growth. The business must operate in Florida but serve markets beyond the state.

GrowFL’s CEO Roundtable participants share their lessons, knowledge and expertise on a variety of issues close to the entrepreneur’s heart, including financing, management techniques, legal compliance and marketing. The Roundtable essentially serves as a peer mentorship program in which entrepreneurs learn from each others’ successes and mistakes. Peer learning allows business owners to learn new strategies and gain valuable insight without incurring hefty consultant fees.

Metro Orlando’s CEO Roundtable, in contrast, focuses on issues that affect the region’s business

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94 Metro Orlando Economic Development Commission. CEO Roundtable.
95 Traverse City Area Chamber of Commerce. CEO Roundtable.
96 GrowFL. Connect with Your Peers to Grow Your Company.
environment, including workforce quality, education, transportation and infrastructure. Roundtable meetings regularly feature a guest speaker who addresses a key community development topic.

Some CEO Roundtables work to develop a specific industry or sector. The Oklahoma Bioscience Roundtable is an independent group of bioscience CEOs in the Oklahoma City area, many of which are based in the same research park. The needs of bioscience companies can be very specific, so the Roundtable allows the firms to identify common obstacles, discuss policy issues, and share resources. The Roundtable also collaborates with the larger state bioscience association, Oklahoma Bioscience Association (OKBio), by contributing three members to the OKBio board of directors.

One characteristic of all CEO Roundtables is that participants don’t sell to each other. Roundtables are not a lead-generating tool, but an opportunity for give-and-take among business leaders regarding the issues of individual firms or the broader business (or industry) environment. Any business deals that take place are an added benefit to the mission of the Roundtable.

Logistics: CEO Roundtables generally share a similar meeting framework. Groups usually comprise 8-15 members – large enough for a meaningful diversity of perspectives but small enough for intimate discussion. (With too large of a group, participants are less likely to voice their perspectives and get feedback on their unique struggles.) Also, reaching consensus on broader community issues becomes more of a challenge as the group grows in size, especially in early stages of a discussion.

Most CEO Roundtables meet monthly. Roundtables geared toward CEOs of large companies may meet quarterly to accommodate CEOs’ busy schedules. Meetings typically last an hour or two. There may be a professional facilitator who helps guide the meetings (often a staff member of the local chamber of commerce or EDO). Or, the group may elect a participant to be the facilitator.

A common element of all CEO Roundtables is some kind of confidentiality agreement to assure that participants can voice their experiences and challenges freely. Confidentiality agreements are taken very seriously in these settings, with some CEO Roundtables ousting participants who violate them.

The economic developer’s role: Many CEO roundtables are founded and hosted by chambers or EDOs. Grand Rapids, Mich.; Peoria, Ill.; Cincinnati and Tulsa are just a few examples of many cities where the local chamber hosts the CEO Roundtable. EDOs also can identify target industries or clusters that it hopes to nurture and can work to develop CEO Roundtables within these industries. Once the roundtable gets off the ground, EDOs can continue their support by providing logistical resources such as meeting space and a meeting facilitator.

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8. Innovation Engineering

The Innovation Engineering Management System (IEMS) was developed by the U.S. Department of Commerce’s National Institute of Standards and Technology/Manufacturing Extension Partnership (NIST/MEP) System, the University of Maine and Eureka! Ranch. It applies the system mindset and principles of Dr. W. Edwards Deming to provide a systematic approach to innovation.98

Goals and benefits: IEMS is self-described as “a scientific method for accelerating more profitable products, services, customers, markets and processes.” It is particularly well suited to manufacturers but can be applied to any company, nonprofit or government organization. The program is now a core MEP offering as part of its mission to help small and mid-sized U.S. manufacturers create and retain jobs, increase profits, and save time and money.

According to the MEP website, implementing IEMS provides organizations and companies with:

- A system that increases innovation speed and decreases risk: This is accomplished through teaching and installing a reliable system for how organizations create, communicate and commercialize meaningfully unique ideas.
- A quantified pipeline of innovations: Organizations start by accelerating existing ideas and then move to the definition and discovery of new ideas that address important problems and opportunities.
- Transform cultural attitudes about innovation: Participating organizations see a transformation of employees’ cultural attitudes, acceptance and proactive involvement with innovation. Every employee, every week, is thinking of ideas to help the company work smarter towards profitable growth.99

The idea is that in today’s economy, “if you’re not meaningfully unique, you’d better be cheaper” – but being meaningfully unique is more profitable.

How it’s deployed: The technique is taught at Innovation Engineering Leadership Institutes (IELI) that are sponsored by MEP, frequently with local or state partners (e.g., a September 2012 IELI in Rochester, N.Y., was co-sponsored by Greater Rochester Enterprise, High Tech Rochester, the N.Y. State Economic Development Council and private company Complemar). The workshops last three days and are held in various locations around the United States (as of this writing, five Institutes were scheduled for Sept.-Dec. 2012).

98 Innovation Engineering Labs. Home page.

A typical training event might have up to 350 attendees, including representatives of major local companies, MEP organizations, economic development groups and industry support groups.\textsuperscript{100}

During the day at IELI, participants learn the concepts and tools of the Innovation Engineering System. In the evenings of the first two days, participants (typically with a team of colleagues from their firm) apply lessons learned to their organizations with the help of Innovation Engineering coaches. At the end of the three days, teams have a whole new set of ideas and plans to implement when they return to work.\textsuperscript{101} Some of the topics on the agenda include:

**Create**
- Using Insight Mining (Voice of the Customer) to Create ideas
- How to Use Classic Creativity to Create Ideas
- How to Use Market Mining to Create Ideas
- How to Use Mechanical Creativity to Create Ideas

**Communicate**
- Fundamentals for Persuasive Concept Communication
- Focus on Problems to Spark New Ideas
- Think Deeper about Adapting for New Customers

**Commercialize**
- How to Structure Your Innovation Development System
- Fail Fast-Fail Cheap Cycles for Dissolving Risk
- Process Roles and Rhythm for Leading Innovation Engineering
- How to Transition to the IE Commercialization System
- How to use a Mission Focus to Increase Speed & Decrease Risk\textsuperscript{102}

The registration fee typically ranges from $995 to $1,995 per person, but discounts are frequently offered. For example, an IELI course in Vermont charged $995 per person for companies with fewer than 500 employees and for non-profit, government and academic organizations, and $1,995 per person for employees of companies with 500-plus employees. Companies in target sectors (including manufacturing, healthcare, telecom, information technology and environmental industries) were eligible for a $495 rebate.

The institute includes 20 hours of interactive classroom work, six hours of company coaching and a one-year membership to the Innovation Engineering Labs web portal of tools.

Vermont Teddy Bear Company attended an Innovation Engineering Leadership Institute hosted by the Vermont Manufacturing Extension Center to gain tools and methods to improve its new product development process. Following the theme of developing “meaningfully unique” ideas that customers will pay more money to have, staff members used new processes and tools to develop prototypes and test the market for next

\textsuperscript{100} Ohio State University, Industry Liaison Office. **Innovation Engineering Leadership Institute**, June 6, 2012.

\textsuperscript{101} NIST-MEP. **Innovation Engineering**.

\textsuperscript{102} Innovation Engineering. **Agenda**.
year’s Valentine’s Day and Mother’s Day products.\textsuperscript{103}

**The economic developer’s role:** Innovation Engineering Leadership Institutes are co-sponsored by local, regional or state economic development groups. EDOs can work with their MEP to bring an IELI to their community, or can promote the availability of IELI to key local firms. Economic development staff also go through IELI themselves and get certified in Innovation Engineering methods to apply to client companies or within their EDO.

For example, four staff members of PolymerOhio (a state-sponsored group focused on the growth and competitiveness of Ohio polymer companies) have gone through IELI and also will attend three days of “Black Belt” training to become certified innovation coaches. The group aims to use its staff-based innovation black belts to apply the IEMS process for small and medium-sized firms in the polymer industry. Seven staff from Cincinnati-based TechSolve (which offers manufacturers and other firms business and process improvement solutions) also have attended IELI.\textsuperscript{104}

### Resources Required

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<td>Entrepreneurial ecosystem strength</td>
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### 9. Economic Gardening

The technique of economic gardening is best described by its creator, Chris Gibbons, who defined the program as follows in a 2010 *Economic Development Journal* article:

*Economic Gardening is an entrepreneurial alternative to traditional economic development strategies. This new approach, created in Littleton, Colorado, in 1987 in response to massive corporate layoffs, uses high-end, corporate-level tools and cutting-edge scientific concepts to help entrepreneurial growth companies identify markets, monitor competitors, track industry trends, locate customer clusters on maps, and use search engine optimization/Google Adwords/social media for marketing and various customized research. Entrepreneurs have increased the job base in Littleton from 15,000 to 30,000 and the sales tax base from $6 million to $20 million. The model has been picked up by a number of communities and states including Wyoming, Oregon, and Florida.*\textsuperscript{105}

\textsuperscript{103} Vermont Manufacturing Extension Center. [Innovation Engineering Leadership Institute](#), Aug. 2011.

\textsuperscript{104} Ohio State University, Industry Liaison Office. [Innovation Engineering Leadership Institute](#), June 6, 2012.

\textsuperscript{105} Economic Development Journal. [Economic Gardening](#) (pdf), Summer 2010.
More concisely, economic gardening is a specific process and technique for providing high-level technical assistance to individual second-stage companies.  

According to the Edward Lowe Foundation, which hosts the National Center for Economic Gardening, the public sector has three major roles to play in economic gardening:

- **Information** – providing critical information needed by businesses to survive and thrive.
- **Infrastructure** – physical, quality-of-life and intellectual infrastructure.
- **Connections** – developing connections between businesses and the people and organizations that can help take them to the next level — business associations, universities, roundtable groups, service providers and more.

Below is more information on each of those roles.

**Information.** A firm that has entered an economic gardening program works quickly with a highly trained team that uses sophisticated corporate tools to address four key issues:

- *Core strategy* – Dealing with changes in strategic direction, the business model and opportunity development.
- *Market dynamics* – Involving the unique relationship between the company, its customer and its industry.

- **Marketing leads** – Identifying and finding markets and customers to match the company as it evolves.
- **Management team** – Issues around the changing role of the entrepreneur and his or her team as the company grows.

For example, market research specialists can conduct extensive research on a company’s competitors, provide case studies that help the business owner make better decisions and provide lists of potential new markets.

Search engine optimization (SEO)/social media specialists can provide client firms with an in-depth analysis of existing websites; educate clients on Google Analytics and ad word campaigns and enlighten clients on the power of social media for business.

Geographic information systems (GIS) specialists can map potential clients in a geographic region, provide spatial intelligence about expansion locations and define demographic profiles around specific industries.

**Infrastructure.** The infrastructure element focuses not just on the basic physical infrastructure of a place, but also on quality-of-life infrastructure and intellectual infrastructure. Quality-of-life infrastructure – such as parks, trails and downtown vibrancy – creates an environment where entrepreneurs want to live. Intellectual infrastructure refers to training and education

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107 Ibid.

108 Edward Lowe Foundation. Strategic Research Team (SRT) model document.

opportunities, as well as access to information and best practices.  

**Connections.** This component aims to make connections among similar firms; among CEOs; and among resource groups such as trade associations, think tanks and academic institutions.

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**What economic gardening isn’t:** While economic gardening clearly differs from business recruitment, it often is conflated with other forms of business assistance or entrepreneur support.

The following table helps illustrate key differences between economic gardening and traditional business assistance.

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<th><strong>Economic Gardening</strong></th>
<th><strong>Traditional Business Assistance</strong></th>
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<tr>
<td><strong>Type of company assisted</strong></td>
<td>Second-stage, growth-oriented companies in any industry that have been vetted and recruited</td>
<td>Any; sometimes narrowed to startups, economic base, cluster-focused or high-tech firms</td>
</tr>
</tbody>
</table>
| **Type of assistance provided** | • Core strategy  
• Market research  
• Marketing leads  
• Search engine optimization  
• Management team structure | • Business planning resources  
• Access to financing  
• Permitting issues  
• Physical space issues  
• Incentives or grants  
• Assistance with workforce training, façade improvement, etc.  
• Legal aspects of business and management  
• Succession planning  
• Cash-flow analysis  
• Etc. |
| **Assistance provided by** | Specially trained teams, often located remotely | EDO, SBDC, SCORE, government, other nonprofit partners, usually local or regional |
| **Intervention time frame** | Immediate (30 days) | Short- to long-term |
| **Focus**            | Strategic research, innovation | Cost savings (frequently) |

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110 City of Littleton, Colo., Office of Economic Development.  
111 Ibid.  
**How it’s deployed:** While infrastructure and connections are two vital components, economic gardening in practice is distinguished by its approach to quickly providing information directly to companies. This section focuses primarily on the information component.

In Littleton, economic gardening services are delivered by staff members in the city’s division of Business/Industry Affairs. For political reasons, services are available to any business in Littleton, not just second-stage companies. After the program began receiving widespread attention, numerous communities began implementing economic gardening on their own, creating widely varying versions.

To scale up, professionalize and standardize the delivery of economic gardening programs, Gibbons partnered with the Lowe Foundation, mentioned above, to establish the National Center for Economic Gardening (NCEG, on the web at [https://nationalcentereg.org/](https://nationalcentereg.org/)).

NCEG offers several ways to help states and communities implement EG programs. One option is its turnkey program, in which a community can identify companies to participate and pay NCEG a flat fee ($4,000 for 35 hours of research) to deliver services virtually through its National Strategic Research Team. For communities that want to implement the program themselves, NCEG offers in-depth training to develop a team of certified specialists. NCEG also offers Economic Gardening Program Director Training for those who want to learn how to assemble, launch and administer an economic gardening program.

Fidelity to the program’s original design requires the following elements: working exclusively with second-stage companies (10-99 employees and $1 million to $50 million in sales, with intent and potential for additional growth); assistance provided by a trained, certified Strategic Research Team (SRT); in a three-part, 30-day process. (This is not always the case in practice, however, as discussed later.)

**Fidelity issues and program variations:** It’s not uncommon for communities that are focusing on internal growth through business retention/expansion and entrepreneurship efforts – essentially, anything other than recruiting – to say that they practice economic gardening.

But as explored here, economic gardening is a very specific process and technique. Gibbons and Mark Lange, director of the Lowe Foundation, created the NCEG certifications partly out of concern that communities were implementing economic gardening elements selectively or without adequate training and background in the underlying concepts. This results in much lower success rates, fewer benefits to the community, and compromises perceptions of the program’s effectiveness. For example, the program does not focus on startups and stage one companies because the return on investment is much higher with second-stage companies. Similarly, the program does not focus on particular industry sectors or clusters because the approach is limiting. The number of second-stage companies in any community is not large, and presumably, economic developers are interested in growing jobs at any company that has the potential, regardless of industry.
Florida Creates Its Own Statewide Program

Funded by the Florida Legislature, the Florida Economic Gardening Institute at the University of Central Florida and its GrowFL program deliver services statewide to help second-stage companies achieve their potential. In addition to the typical information services to individual firms, GrowFL also offers referral networks and events, CEO forums and CEO roundtables.

Companies apply to the free program through an online application. Once accepted, CEOs are paired with an Economic Gardening Team that operates as an extension of the CEO’s staff for the duration of the engagement.

Referral networks and events assist companies seeking business relationships, qualified introductions or outside vendors for capital or labor services. The program maintains a database of company offerings through its referral services and hosts events to fit the unique needs of second-stage companies.

CEO Forums are informational presentations that bring together leaders of second-stage businesses in a confidential setting to meet and learn from their peers. CEO Roundtables bring 10 to 12 qualified entrepreneurs together 10 times each year for collaborative problem-solving sessions that address key issues for their companies.¹

From its inception in November 2009 through September 1, 2011, UCF provided technical assistance to 250 companies that created a total of 3,285 direct, indirect and induced jobs. GrowFL also contributed more than $510.4 million (direct and indirect impact) to the state’s economy and helped generate $18.17 million in state and local taxes, above and beyond the cost of the state’s total investment of $3.5 million over 22 months. The $3.5 million funding for the economic gardening technical assistance pilot program resulted in an investment per job created of $1,065. If only direct jobs are considered, the investment per direct job created was $2,467.¹

Hampton Roads Creates a Regional Program Using the NCEG Team

Hampton Roads, Virginia, recently completed a strategic plan that calls for greater emphasis on growing local companies than recruiting. That’s being implemented through Innovate! HamptonRoads, an initiative of the Hampton Roads Partnership that aims to promote locally grown businesses and technology-based economic development. Economic gardening is a key part of the approach, along with incubators and cluster support activities.

According to Dana Dickens, president of the Partnership, the region doesn’t have the critical mass of companies to create its own Strategic Research Team of economic gardening specialists, so it is using NCEG’s team to serve its companies, using funding from an EDA grant.
It started with a five-company pilot program that has expanded with the goal of serving another 50 companies. The group is working with economic development directors of the 17 cities and counties in the region to recommend local firms that would be good candidates for the program. Ideally, participating companies will be in the strategic plan’s target clusters of aerospace, bioscience, modeling and simulation, robotics and sensors – as the partnership already has activities in place to nurture these groups – but it is not restricting companies outside the clusters from participating.

Dickens reports that economic developers in the region are excited about the program and see enough potential in it to be willing to fund companies in their cities to go through the process. The five pilot companies are pleased with the results as well – so much so that some have even offered to “help the next guy along” by paying for another company to go through the process. Projections are that due to the assistance they received, the five pilot companies will add 270 jobs, collectively, in the next two years.

Implementing the program in smaller cities and rural communities: Colorado cities Longmont (pop. 86,000) and Loveland (pop. 66,800) both have economic gardening programs (Longmont’s program is part of city government; Loveland’s is a separate entity). Each serves any business that is located in its respective city, as neither is large enough to have a critical mass of second-stage companies to serve annually. They also focus primarily on providing immediate, tactical and strategic help to firms to increase sales, improve market share and find new markets and vendors, rather some of economic gardening’s more sophisticated elements, such as analysis of CEO temperament.

The economic developer’s role: Some local economic development organizations run their own economic gardening programs, as noted above, but the significant time and investment required to set one up makes it impractical for most communities to do it themselves.

In addition, historically transaction-based economic development, focused on deal-making and real estate, requires a different temperament from economic gardening’s emphasis on heavy research and strategy development, one company at a time. Yet economic developers still can play key roles – first by generating support for an economic gardening program in their communities and then identifying and vetting candidate firms to participate in the program.

Another important role for economic development professionals is in ensuring that a robust entrepreneurial ecosystem is in place to support growth-oriented companies aided by economic gardening.

Resources Required

To establish an economic gardening program locally requires considerably more effort than using a state program or NCEG:
To use an existing economic gardening program, e.g., the National Center for Economic Gardening:

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Conclusion

This paper has covered a wide range of tools, strategies and programs that can boost the prospects of growth-oriented companies. It is important to note, however, that each has nuances and variations beyond the scope of this paper. In addition, each requires partners to execute, involvement of the private sector, time and money.

Yet the key to getting the highest impact from any one tool or strategy, ultimately, is knowledge and understanding of local community conditions. This means deep knowledge of the strengths and weaknesses of the local business climate, available support services and the broader entrepreneurship ecosystem; of a community’s attitudes toward risk and failure; and of the needs, challenges and successes of local businesses (ideally through a strong business retention and expansion program). It is only with this knowledge that economic developers can know what’s missing, where the potential lies, and what should be celebrated – in other words, which of one or more approaches local businesses need or are ready for.

Through this local knowledge, plus online research tools such as YourEconomy.org, economic developers can identify high-growth companies in their area as well as those with growth potential. Both have an important role to play in the diversification of a local economy, the growth of investment and new job creation. In the end, economic developers are the ones best positioned to identify those firms and the most effective interventions to meet their needs, and to rally the partners needed to put them in place.