

A background image showing a close-up of a financial data screen with red numbers and currency codes like USD and EUR. The numbers are slightly blurred, creating a sense of motion or data flow.

ACCELERATE:

**A MINNEAPOLIS-SAINT PAUL
REGIONAL PROSPECTUS
FOR STIMULATING
THE ENTREPRENEURIAL ECOSYSTEM**

DISCUSSION DRAFT ■ DECEMBER 2010

December 2010

Dear Colleagues,

It was just a lunch. On the day after being elected in 2005, the two of us met over local Italian fare with the hope that our cities, too often divided, could come together and start acting like a single unified region. That simple lunch not only turned into a media frenzy covered by seemingly every news outlet around, but launched a partnership not seen in our region for over 30 years.

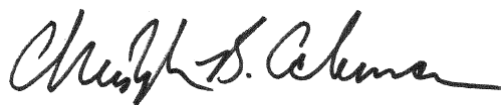
This beginning developed into a strong collaborative foundation that over the past five years, has, indeed, become the new normal—not only for our two cities, but for our regional partners as well. Together we have secured significant investments through public, private and philanthropic partners including Living Cities and the U.S. Department of Housing and Urban Development to strengthen economic opportunity along our transit corridors.

Because recent indicators reveal distinct signs of economic decline, we have formed a dynamic private/public partnership that includes regional mayors, CEOs, the Minnesota Department of Employment and Economic Development and the Target Corporation, to shape an economic development initiative that will take us to a new level of regional prosperity.

Ours is a region that gave rise to 3M, Control Data, Medtronic, and dozens of other success stories. We are home to one of the finest public research universities in the world as well as a host of small colleges. We know that there are good ideas ready to launch and companies ready to be born that will grow our economy. We propose to accelerate innovation and entrepreneurship and put the entire strength of this region squarely behind the most promising of those ventures. It is a business proposition, pure and simple. We know that as they grow, these companies will create new markets for local goods and services, provide meaningful employment, add vitality to our neighborhoods and expand our tax base, which will, in turn, give rise to more good ideas and the cycle begins again.

As Mayors, this is the work we were elected to do. That we have the opportunity to work together at the heart of such a forward-thinking region is indeed a privilege.

Sincerely,



Christopher B. Coleman, Mayor
City of Saint Paul



R.T. Rybak, Mayor
City of Minneapolis

The Proposition

The Minneapolis Saint Paul region is leveraging its tremendous asset base of well-educated workers, high-performing research institutions, and numerous homegrown Fortune 500 headquarters, as well as longstanding experience in regional collaboration, to regain economic momentum and shape a more dynamic, innovative, and flexible business environment. The proposed new **Entrepreneurship Accelerator (EA)**, one of several interrelated efforts to address gaps in the region's entrepreneurial ecosystem, will create jobs and strengthen the position and performance of the metropolitan economy going forward.

The proposal has many strengths. In particular, a regional EA will:

- Offer a comprehensive set of entrepreneurial resources, including mentoring, expert business advice, hands-on technical assistance, and capital
- Address a gap in available resources to help the region's numerous pre-venture, entrepreneurial opportunities region become advance successful startups
- Attract new capital for the region's entrepreneurs and startups
- Profit from the experience and recognized expertise of Jumpstart, Inc., which is advising the design and launch of EA
- Benefit from a significant degree of regional buy-in from prominent business, civic, philanthropic, and local government leaders

Regional, state, and federal leaders all have important roles to play in EA design and implementation:

- Federal, state, regional and local policymakers can initiate new forms of partnership to better align multiple agency resources to build on and integrate efforts already underway, and pursue policies that incent more angel and venture capital (VC) investing

EA warrants full stakeholder engagement. EA, with its focus on pre-venture opportunities and its mission to boost the entire regional entrepreneurial ecosystem, will offer the following key regional benefits:

- Address the regional resource shortages and investor preferences that pose a barrier in the development of many would-be entrepreneurs in the region
- Combine venture development best practices with the serious commitment and engagement of a broad base of regional stakeholders to provide a solid platform for launching the EA
- Deliver benefits to its own portfolio companies, as well as the surrounding regional entrepreneurial ecosystem and the broader Minneapolis Saint Paul economy

The Big Picture

Minneapolis Saint Paul is ready to re-establish itself as a center for innovation, entrepreneurship, and economic growth.

Strong fundamentals. Minneapolis Saint Paul boasts a considerable economic engine. The region is anchored by such assets as 20 major Fortune 500 companies (nearly all of them homegrown); a highly-skilled workforce where 37.6 percent of the residents (a top-10 U.S. metro ranking) hold at least a college degree; and a research infrastructure with a patenting rate nearly double the U.S. average. Together these and other economic drivers fueled the region's successful transition from a resource economy to a knowledge-based one in the 1980s and 1990s, and drove its advances in fields such as information technology, biosciences, medical devices, and financial services. Minneapolis Saint Paul's productivity and wage levels in 2008 were among the highest of the largest U.S. metros and it has fared better than many other metros in the Great Recession, with its unemployment rate falling more rapidly since 2009 than in nearly any other U.S. metro.

Needs a boost. And yet, despite a strong asset base, the regional economy suffers from gaps and missed opportunities. For example, Minneapolis Saint Paul's growth rates between 2002 and 2008 for productivity, wages, and employment all trailed national averages. Despite a high patenting rate, technology transfer and spinoff from the region's public and private research institutions are not generating a high and lasting impact on regional jobs and growth. Further, while a large number of venture prospects may exist in the earliest phases of commercialization, a need for additional financing and comprehensive business assistance prevents many from developing into successful start-ups.

Looking forward. National trends point to a post-recession economy that will be increasingly green-, innovation-, and export-oriented—and Minneapolis Saint Paul intends to participate. Along these lines, Minneapolis Saint Paul is strategically planning to leverage and redeploy its significant assets to renew a static regional economy and foster a more dynamic, flexible, and innovative business environment. Regional leaders are in the process of pursuing strategies to better link smaller firms to large corporate headquarters; promote more commercialization and formal networking in the biosciences and medical devices clusters; reduce racial education disparities and more fully utilize older workers in new job opportunities; develop a region-wide entrepreneurship action plan and create a new regional economic development partnership; and invest in new transit corridors informed by land-use connections.

Targeted focus. In the “next” economy, building up the region's entrepreneurial ecosystem has great potential for propelling Minneapolis Saint Paul to the next level of regional prosperity. Since 2002, Minneapolis Saint Paul has experienced declining shares of entrepreneurs and high-tech jobs. Further, a low percentage of regional venture capital currently flows to “seed stage” or “first round” investments and the rate of loan origination to the region's small and midsize businesses is less than 60 percent of that of leading regions. The proposed **Entrepreneurship Accelerator (EA)** will help reverse these trends and facilitate better sequencing of capital funding; the EA will accelerate development of early-stage firms into venture-ready investments capable of attracting later stages of follow-on capital, boosting regional economic activity. In order to do so, EA will provide Minneapolis Saint Paul entrepreneurs with a continuum of services in the region, including business planning, mentorship, networking, talent attraction, and capital acquisition.

The Venture

The proposed **Entrepreneurship Accelerator (EA)** will strengthen Minneapolis Saint Paul's entrepreneurial infrastructure to stimulate the development of more innovative, high-growth companies.

Designed to deliver. EA's specific mission will be to help high-quality pre-venture opportunities make the leap from the earliest phases of commercialization and connect them to various sources of growth capital. Its primary lines of business include:

- **EA Exchange:** Work with regional partners to elevate events that connect and educate entrepreneurs and celebrate entrepreneurship. In addition, a newly created online community will facilitate information-sharing among entrepreneurs, investors, and resource providers, and a newly produced report will track changing perceptions about regional business factors affecting entrepreneurship
- **EA Investments:** EA's investments will average \$50,000 to \$350,000 in four to six new companies and two to three follow-on investments in existing portfolio companies per year. A thorough four-stage selection process will narrow the pool of candidates seeking EA investment to the best prospects, and funds will be released in tranches as selected portfolio companies hit agreed upon milestones
- **EA Acceleration Services:** Experienced and successful entrepreneurs and business executives will mentor EA portfolio companies, connect them to management talent and other resources, and coach them through the process of attracting new private capital

EA will carefully direct its investments to entrepreneurs region-wide to produce a balanced portfolio of early-stage companies, representing diverse industries, funding needs, and deal structures. Specifically, EA will target companies that meet certain criteria:

- **High-potential:** Ventures capable of reaching \$30 to \$50 million in revenues in five to seven years
- **Protectable ideas:** Technology-based firms must have filed a patent claim or be using another mechanism to protect their intellectual property. Service-based firms must possess a highly differentiated marketing plan and strategy
- **Large potential market:** Venture ideas must address a market opportunity that is at least \$1 billion or have a plan to expand to reach that market size within five years

In addition, EA will specially focus on:

- **Women- and minority-owned businesses:** EA will represent these segments of the business community in all aspects of its work and will undertake various outreach, educational, and networking strategies to increase their presence at all levels of the regional entrepreneurial ecosystem from entrepreneurs and executives to angel investors and service providers

Seizing market opportunities. EA expects to entertain a continuing stream of between five and 10 quality investment opportunities every year. It estimates that while Minneapolis-Saint Paul annually generates several hundred opportunities that meet high-growth, high-quality, pre-venture standards, many fail to meet the requirements of the region's existing investment community which consists of a number of active angel investor groups and at least 21 firms interested in and capable of making early-stage investments in diverse industries as well as in women- and minority-owned firms. EA is purposefully designed to take advantage of the resulting investment gap to support the development of emerging venture prospects into new innovative companies.

Addressing market barriers. EA will tackle two major barriers that hamper many Minneapolis-Saint Paul entrepreneurs from attaining the capital required to develop their ideas into successful start-ups. First, EA's intense efforts to sufficiently prepare its pre-venture portfolio companies to attract follow-on private sector capital addresses general VC and angel investor preferences for sourcing companies with relatively complete management teams and products, as well as a few actual customers. Second, EA's continuum of services, including expert advice, hands-on assistance, and early capital will help startup ventures advance product commercialization and develop more complete management teams—both material drivers of angel and VC investment decisions.

Engaging partners. To advance a robust and healthy entrepreneurial environment, the design and implementation of EA will be led by engaged players along the region's "capital continuum," including angel, VC, philanthropic, and corporate investors, and government grant programs. Further, to identify and recruit experienced and successful executives and entrepreneurs to its team, EA will tap into many regional resources, including but not limited to research institutions, trade associations, entrepreneurship advocacy groups and angel and VC investor networks. EA will also form strategic alliances with minority/women-specific media channels, various networking organizations, executive-level personnel recruiters, and national entities like the Kaufmann Foundation and the National Association of Investment Companies to successfully reach out to women and minority communities across the region.

Making it all work. The vision of EA is as a nonprofit venture development organization, overseen by a board of directors experienced in regional economic development, government, education, entrepreneurship, and investing. EA will structure its operations around critical functions where a gap has been identified, such as finance, marketing, investing, inclusion/diversity, fundraising, IT, and operations, and each unit will be subject to specific performance metrics, such as the amount of follow-on investments generated; the number of development contacts made per week; and the time required to close a portfolio investment.

During the first three years of operations, EA will raise between \$12 and \$14 million in funds, primarily through government and philanthropic sources, and use about 50 percent of the monies to make 14 direct investments in portfolio companies, with the remainder going to staff salaries and general business expenses. As a nonprofit focused on relatively long-term investments in pre-venture stage companies, EA does not anticipate that its earnings from investment will sustain its operations, at least not in the first five to 10 years, and it will continuously work to secure government and philanthropic grants.

The Team

The EA proposal benefits from an impressive team of leading experts and prominent regional stakeholders committed to ensuring its successful implementation.

EA project lead. The City of Saint Paul, with close counsel of JumpStart Inc. and in conjunction with a group of regional entrepreneurship stakeholders, is leading the tailored design and launch of EA and modeling it using best-practices in venture development activities. A source of best practices in venture development, Cleveland-based JumpStart has raised over \$60 million over the last six years, invested in over 50 opportunities (almost one-third women- or minority-owned at the time of intervention), and helped to attract over \$300 million in follow-on capital for portfolio companies. A recognized expert in the field, Jumpstart has recently been awarded funding from the U.S. Economic Development Administration (EDA) and the Knight Foundation to partner with six other regions, including Minneapolis- Saint Paul.

Planning steering committee. A broader team of regional stakeholders, actively engaged in developing a metropolitan business plan for Minneapolis-Saint Paul, fully supports the implementation of EA as a crucial strategy for advancing economic growth. These regional leaders include officials from the cities of Minneapolis and Saint Paul and other local and state governments; representatives from the Urban Land Institute Minnesota, the Regional Council of Mayors, Target Corporation, and the Itasca Project (a collaborative of prominent regional CEOs); and participants from various philanthropies. This broad base of stakeholders ensures that plans for the EA are built on regional buy-in, address regional concerns and priorities, and reflect research that has identified gaps in the entrepreneurial ecosystem.

EA implementation team. EA will build a management team of experienced professionals highly skilled in financing, advising, raising capital for, and rapidly growing small companies. The team will also have experience in regional economic development, operations, accounting, IT, and all aspects of marketing (e.g., branding, product launch, sales support, etc.). With such a broad set of skills represented, the management team will be well-positioned to implement EA's activities and carry through on its mission.

The Ask

Regional, state, and federal leaders all have important roles to play in ensuring successful EA implementation and operations.

Business and regional leaders. For Minneapolis-Saint Paul leaders, EA presents a potentially high-impact approach to boosting the entire regional economy. To help, they can, in particular:

- Continue and expand ongoing efforts to fundraise for EA implementation
- Provide resources to further support the Regional Entrepreneurship Action Plan (REAP), being developed with the advice of Jumpstart and funding from the EDA and the Knight Foundation

State government. By expanding regional entrepreneurship, EA can bring new firms and talent to bear in targeted clusters such as medical devices and health sciences, distribution, and financial services. To specifically advance EA, the State can:

- Better align workforce development programs to growing industries so that worker retraining and skills upgrading support new business creation and expansion
- Leverage long-term resource commitments and state policy change to support the EA

Federal government. Supporting EA is a way for federal leaders to advance particular national goals for nurturing a more entrepreneurship- and innovation-based economy. To best engage in EA, federal policymakers can:

- Initiate robust, new, economic development-focused, outcome-oriented federal-regional partnerships to enhance a region's economic vitality and competitiveness. These partnerships would:
 - Provide near-term cross-agency funding to be matched 1:1 by regional sources
 - Align multiple federal resources and programs
- Create a new Federal Innovation, Commercialization, and Job Creation Network, where federally-designated Centers would be charged with working with surrounding metro regions to align relevant federal resources
- Provide new resources from the Small Business Administration to support VC investments in the "valley of death"
- Institute and expand the proposed federal angel tax credit, currently under consideration in the House, to include the full universe of startups, not just those that have received Small Business Innovation Research grants

The Returns

EA has an explicit goal to enhance Minneapolis-Saint Paul's entrepreneurial and innovation ecosystem and create new jobs.

Follow-on capital. EA's investments and services will attract additional funding to its portfolio companies (and hence the region) that would otherwise not occur. During the first three years of operations, if EA tracks Jumpstart's pace of investment, it will generate follow-on capital at a rate of two to three times its own investments, which amounts to \$12 to \$16 million of follow-on investment. As EA's portfolio matures, its own investments will leverage six to 10 times as much follow-on capital.

Regional Jobs. EA will create 120 jobs at its early stage of operation, expanding its impact in job creation as its capital and technical assistance lead to accelerated development of high-growth firms in the region.

Ten-year returns. EA is a long-term enterprise and it will require at least 10 years for Minneapolis Saint Paul to begin seeing real change in its economic ecosystem as a result of the EA. It expects that its own 10-year internal rate of return from boosting the region's entrepreneurial environment, supporting early stage companies, and attracting follow-on capital will be approximately 10 percent—less than what for-profit venture funds would expect for the risk incurred but similar to investing in a stock market index.

Downsides and Upsides

In pursuing EA, stakeholders will have to successfully negotiate a number of factors.

Competitive landscape. Minneapolis Saint Paul is already home to at least 15 public and private organizations that provide services and some capital to high-growth, pre-venture opportunities that are in proof-of-concept, prototyping, or other early phases of commercialization. The EA will be positioned to provide a combination of business and technical assistance, venture partner support, and access to funding across an array of technologies while avoiding redundancy with other effective players in the region. A disciplined focus on areas identified as critical gaps, and leveraging the value of the venture development model, will allow the EA to address these gaps without providing duplicative products in the region.

Risky investment portfolio. By focusing on pre-venture opportunities, EA is, by definition, a risk-oriented organization, and the risk of lagging or non-performing companies in its investment portfolio is high and unavoidable. However, EA will adeptly manage the risk involved by subjecting all of its investment prospects to a strict selection process, releasing funds only in tranches as company milestones are met, and, when required, suspending funding if a company is growing too slowly and redirecting those monies to better performing investments. In addition, EA will tailor the business and technical assistance provided to individual companies to best mitigate any risks they represent as investments, and it will conduct a sophisticated regional marketing campaign to generate a steady deal flow and ensure a diversified investment portfolio.

Sustainability. Because EA will be a nonprofit organization with a broad, long-term economic development mission, it will continuously need to secure resources to support some portion of its operations. Raising these private and public investments will be a challenge in the coming years as the national economy continues to struggle. EA will face this problem head-on with an aggressive fundraising approach, managed by a dedicated senior executive, that targets both national and regional funding sources. EA will employ a dedicated development staff and will closely tie development and fundraising activities to its ongoing marketing and promotion. EA will continuously promote its successes as well as the successes of other participants in the ecosystem to raise awareness of the transformational impact of their activities and secure an ongoing stream of support.

At the same time, EA merits full stakeholder engagement for several compelling reasons.

The right idea. The EA offers a clear value proposition: Developing high-quality, pre-venture opportunities in Minneapolis-Saint Paul and connecting them to appropriate sources of growth capital can strengthen the region's entrepreneurial ecosystem to ultimately boost the entire regional economy and support job growth.

The right place. Many other regions interested in enhancing their entrepreneurial environment would vie to have Minneapolis-Saint Paul's assets as a starting point. This region contains numerous resources and institutions able to connect to and support entrepreneurs and startups, including a highly educated workforce; top-quality research institutions, such as the University of Minnesota and the nearby Mayo Clinic; and a base of corporate headquarters, like General Mills, 3M, and Medtronic. Additionally, Minneapolis Saint Paul has a history of successful regional collaboration, beginning with the Metropolitan Council and tax-base sharing started in the 1960s and 1970s through the more recent Regional Council of Mayors that encourages more and better regional governance, and the Itasca Project that unifies CEO leaders behind regional priorities.

The right time. Minneapolis-Saint Paul is already moving forward with advice from Jumpstart and support from the EDA and the Knight Foundation in developing a Regional Entrepreneurial Action Plan (REAP). The proposed EA stems directly from this effort and advancing its implementation now would leverage the great regional excitement generated by the REAP work, as well as the momentum of other complimentary regional initiatives that are steadily advancing—namely the Itasca Project's work to link small businesses to large corporate headquarters, the efforts of the Minneapolis-Saint Paul Regional Clusters Initiative to strengthen targeted industry clusters, and regional commitment to create a single economic development partnership for the region.

About Metropolitan Business Planning

This prospectus is a part of a larger metropolitan business planning initiative led by the Metropolitan Policy Program at Brookings in partnership with Chicago-based RW Ventures, which have jointly been informing and advising the development of three regional business plans and associated documents with metro partners in Northeast Ohio, Minneapolis Saint Paul, and Puget Sound. Each plan situates the current market position of the pilot metro; details emerging regional strategies for generating metro prosperity; and advances a detailed development initiative in one pressing area that promises to deliver successful metro growth in a next American economy that is more export-oriented, lower-carbon, and more innovation-fueled. These business plans also solicit tailored responses for their achievement from federal, state, and local leaders.

Thank You

The Metropolitan Business Planning initiative in Minneapolis Saint Paul would not have been possible without the leadership provided by Cities of Minneapolis and Saint Paul, the Itasca Project, the Minnesota Department of Employment and Economic Development, Target Cooperation, and the Urban Land Institute Minnesota/Regional Council of Mayors. Special thanks for project management go to Jon Commers and Caren Dewar and to the steering committee including Allison Barmann, Cecile Bedor, Ben Edwards, Ernest Grumbles, Jeremy Hanson, Mayor Stan Harpstead, Leslie Holman, Mayor Jim Hovland, Michael Logan, Miles Mercer, Ann Mulholland, Ellen Muller, Burke Murphy, Carol Nielsen, Kathy Schmidtkofer, and Mayor Gene Winstead. Also, regional and state funders have been critical to this work including the above organizations and the Minneapolis Foundation, Saint Paul Foundation, and the Wells Fargo Foundation.

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Brookings, in particular, also thanks the Metropolitan Leadership Council—a bipartisan network of individual, corporate, and philanthropic investors that provide it financial support but, more importantly, are true intellectual and strategic partners. While many of these leaders act globally, they retain a commitment to the vitality of their local and regional communities, a rare blend that makes their engagement even more valuable.



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