



# Mayors Blue-Ribbon Task Force on Regionalism Entrepreneurial Action Group Report

November 8, 2019

**“Entrepreneurs create most new jobs ...  
why aren’t we talking about them”**

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## **Finding**

State governments, cities, hospital systems and universities around the Southeast are jumping into the entrepreneurial development business with major new efforts. The region has put basic entrepreneurial ecosystem infrastructure in place yet faces a serious deficiency in venture funding and recruitment efforts.

## **Recommendation**

The Entrepreneurial Action Group believes regional leaders must spur creation of significant early-stage angel and venture capital funds to support a regional innovation economy. Support of efforts now underway to create a medical, technical and advanced manufacturing accelerator to recruit and retain start-ups is crucial as we move forward to enhance the existing support ecosystem.

Both recruited entrepreneurs and startup businesses as well as homegrown businesses must be assisted through these efforts, which have a demonstrated higher success rate with effective ecosystem support.



## Discussion

Since the end of the Great Recession, small businesses have created 62 percent of all net new private-sector jobs. Of those jobs, 34 percent were created by startups.<sup>1</sup>

Regionally, non-employer businesses (those employing only the owner) accounted for 31,000 jobs and \$1.3 billion in total payroll, larger even than Ballad Health system with an estimated 14,000 employees and \$1.1 billion payroll.<sup>2,3</sup>

After thorough review, this sector proved so important that the Action Group believes a regional focus would provide the best approach to create the strongest possible return.

Much as traditional industrial development recruits established businesses and industries to the region, entrepreneurs and startup businesses similarly can be recruited to the area.

A strong business accelerator that attracts seed capital and expertise along with a clearly established ecosystem that encourages local entrepreneurship from high school on are all attractors for the region.

With the proper support systems in place, including venture funding, the region can become known as a startup hub while attracting new jobs and retaining some of the region's best and brightest often lost to bigger markets.

BIP Capital, an Atlanta based venture capital group reports that investors from the "Innovation Hubs" of Boston, San Francisco Bay area, and New York City, are actively looking to the Southeast for new opportunities. Nearly a third of all Southeastern state venture funding is coming from Innovation Hubs, while more local dollars also flow to are flowing into angel and venture investments.

Why? Put simply, Southeastern startups offer greater value per venture investment dollar and often generate more revenue at any given point on the growth spectrum than comparable Innovation Hub startups.

As of 2018, all nine Southeastern states now offer state funding for entrepreneurial development, with state government most active in Florida, South Carolina, and North Carolina. Tennessee is mid-pack, with a first-term Governor keenly interested in rural development.

Since 2014, some 964 investments totaling \$2.1 billion have flowed into Tennessee startups, principally led by investments in healthcare IT, software-as-a-service (SaaS), and biotech/pharma companies, according to BIP.

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<sup>1</sup> Bureau of Labor Statistics

<sup>2</sup> Non-employer figures courtesy Core Data based on 2017 data.

<sup>3</sup> 2016-2017 growth of 1,000 jobs and \$100 million in payroll.



## Primary findings endorsed by the Action Group

- I. Current entrepreneurship efforts need greater support to ensure the fullest contribution to overall economic development. As a regional approach has been taken in this area through the work of AccelNow and others, moving forward should present minimal local opposition.
- II. While the entrepreneurial ecosystem has improved greatly over the last five years, it needs focused staffing and funding to improve the ecosystem at a faster pace.
- III. For this region to retain and attract young talent it is essential to have a strong entrepreneurial ecosystem.
- IV. A vibrant entrepreneurial environment can also be very attractive to “trailing spouses” of professional recruits to our key existing businesses and industries.
- V. Our region has a great store of untapped human capital in engineering, logistics, medicine, manufacturing, advanced digital visualization, materials and international business that few regions can match. This human capital can play a major role in both product development and venture funding to fuel a wide array of startups.
- VI. Studies demonstrate that accelerators, incubators and other entrepreneurial support efforts result in 50% or greater success rates for start-ups compared to 20% or less for start-ups without that support. It also assures more people are willing to try, creating more diversity of businesses.
- VII. Given the current strong state of the national and regional economy, the development of small businesses more closely aligns with the limited labor pool currently available.
- VIII. While we should continue to explore all avenues to raise venture capital, including reaching out to other Tennessee based groups, we must have a locally controlled and substantial angel/venture fund dedicated to attracting start-up companies from around the country as well as provide a helping hand to local startups.
- IX. Major regional private corporations should assist the effort by developing their own venture funds for the region and/or assisting in funding a collaborative regional venture fund.
- X. In addition to lending talent, regional corporations can further assist by becoming customers of regional entrepreneurs.
- XI. Agencies like KOSBE, TSBDC and AccelNow should continue to enhance coordination with existing incubators, co-working spaces, maker spaces, and higher education institutions while providing additional funding to increase the effectiveness of the entrepreneurial ecosystem.



## Ecosystem Development

Initiatives recommended by the Action Group include:

- 1) Build network of engineers, scientists, physicians, academic researchers, attorneys, accountants, and business mentors to assist start-ups in developing their craft, product, or service.
- 2) Work to expand co-working spaces to cities outside of the core Tri-Cities region.
- 3) Work to expand maker spaces throughout the region.
- 4) Provide coordination and focused marketing of regional incubators and establish new incubators in suitable locations and integrate ETSU's ValleyBrook lab. Existing incubator space collectively rivals that available in Chattanooga, home of the 3<sup>rd</sup> largest incubator in America.
- 5) Sponsor 3-4 pitch events annually focused on advanced manufacturing, health care information technology and tourism.
- 6) Push to establish entrepreneurial education programs in regional high schools, with a high-level goal of exposing at least 500 students a year to entrepreneurial and business studies.
- 7) Seek support from regional industries and universities to host reverse pitch events featuring key intellectual property or market challenges that could potentially be commercialized and/or solved by startup businesses.
- 8) Reinstigate summer coding and CAD camps offered at convenient times such as fall and spring breaks.
- 9) Conduct up to eight co-starter cohorts per year featuring mini pitch contests at their conclusion.
- 10) Develop marketing plan to advertise availability of regional start-up ecosystem services.
- 11) Partner with entrepreneurship programs in other Tennessee and North Carolina cities to develop new venture capital resources connections and assisting in development of startup pipeline.
- 12) Preach patience as development of this new economic development initiative will take time. However, startups expand in employment over time, where more mature industries tend to seek greater efficiencies and lower head counts.



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