

United Senate Small Business Committee
Statement on Innovation Support in Lesser-Known Markets

My Background

My background is not like most “experts” in early stage and venture capital investing. I’m not from Silicon Valley, New York, or Boston. I’m an Idaho native, who learned about investing, ecosystem building, and startups right here in Boise. I graduated from the College of Idaho in 2001, went on to get a Master’s Degree in the Arts, and spent the next six years working as an actor in New York City. When my wife and I decided to move back to Idaho in 2010, I earned my MBA from Northwest Nazarene University and have been plugged into the Boise Idaho economy ever since.

It was while I was getting my MBA that I started interning with the Boise Angel Alliance. Later, after spending time working in multiple Boise-based startups, I went back to the investing world and became Managing Partner for a local angel fund administration firm focused on supporting one of Boise’s only active early stage funds. During this time, I joined the Angel Capital Association membership committee, of which I am still an active member.

I then started my own small investing support firm, and have been assisting in the creation of new investors and funds across the country. I’m currently actively working with the San Diego Angel Conference as well as the Alaska Angel Conference to support their efforts to jump start new investor activation and greater access to early stage capital.

My main work is with the Idaho Small Business Development Center, which last year worked with over 1,600 Idaho companies that raised over \$50 million in capital, added over \$67 million in revenue, and created almost 1,000 jobs across the state. Our PTAC (government procurement assistance) helped Idaho companies bring in \$132 million in government contracting dollars. Additionally, I serve on Idaho Innovation Awards selection committee and the Board of Directors for the Nampa Chamber of Commerce.

As it turns out, Boise and the rest of Idaho has similar attributes to other small cities and states in the United States trying to grow its innovation-based economy with the possible difference that Boise is one of a handful of cities experiencing high population growth and a growing tech-based economy

It is from this perspective, not a wall street broker, or a Silicon Valley Venture Capitalist, that I make the following observations and recommendations to the committee and attendees of this hearing.

Investing Activity in Lesser Known Markets

I’m of the strong belief that innovation is not siloed to a few areas of the country. There are new ideas and technologies being commercialized in places outside of what most of the country recognizes as the “Big Three;” Silicon Valley, New York City, and Boston. We know this is happening because of anecdotal stories we hear, but there is some data that backs up this assertion as well.

For example, a survey conducted by the Angel Capital Association in 2017 found that over 60% of the active early stage investors are located outside of the “Big Three.” This means early stage innovations are being funded all around the country, and the majority of active investors are located in lesser known markets.

Funding Gap

While access to early stage capital is available in lesser known markets, there is a funding gap for those companies that have made it through commercialization and are looking to quickly grow. This capital is a critical component for many companies to become full-scale commercialized success stories. This gap is commonly referred to as the “Series A Gap” - in reference to the Series A round of funding (\$1M+) that is required for most startups to begin to fully scale and reach market potential. In lesser known markets, companies often have to “break in” to other regions for access to this type of capital, and compete for the attention of funds that are not familiar with the region/ecosystem of the company, thereby making the barrier to get that capital infusion higher.

An example of this is a local Idaho Company called T-Sheets. T-Sheets is a hometown hero, in that it was founded by a scrappy local entrepreneur, scaled, and ultimately exited (was acquired) by Intuit. T-Sheets didn’t take on any serious capital until it raised millions from a Venture Capital fund out of Salt Lake City. With no larger funds in the immediate geographic area, this company had to “break-in” to a new market, convince the fund they were a viable investment, and manage that relationship. This is a success story as T-Sheets was ultimately acquired by Intuit, but it demonstrates the funding gap in Boise and other lesser known markets.

This is important because the volume of innovations being commercialized and reaching maturity is lower than it otherwise could be if there were larger funds located in Idaho. The T-Sheets story only happens once every 5-10 years in Idaho. We should be seeing those stories happening much more frequently.

Additionally, the lack of bigger funds, and bigger success stories means the number of pedigreed entrepreneurs and successful investors in Idaho is very small, and may cause new entrepreneurs to set their sights too low because there are no local mentors and/or role models.

Indirect Benefits

There is the clear benefit of potential direct investment associated with larger sized funds in an ecosystem. However, there are indirect benefits to the ecosystem that should not be overlooked. Organized capital can be a multiplier for startup success. To receive investment, companies are challenged to meet certain criteria given by early stage investors. These criteria are generally; a highly scalable business model, an outstanding leadership team, the ability to effectively execute, and financial viability. When these criteria saturate an innovation ecosystem, they become the “true north” for what a company should look like to be successful. This, in effect, drives how entrepreneurs think about scale, team building, and other company building factors. This also drives service and resource providers to structure support in a way

that meets those needs. When these criteria take hold, an ecosystem develops that is focused on making highly scalable, growth-oriented companies.

Another indirect benefit of having a larger fund located in an ecosystem is the overall involvement and support given by the fund manager and their staff. A good example of this in Boise is Micron. Micron just announced it has allocated \$500m to create a venture fund focused on Artificial Intelligence. While this fund may not invest in any Idaho companies, Micron executives are actively engaged in the Boise innovation ecosystem through participation in startup and educational events, financial support to local resource providers, and personal accessibility to startups and aspiring fund managers. This benefit needs to be replicated throughout the ecosystem in order for the growth curve to accelerate.

Lastly, in Idaho we've seen multiple efforts fail around gaining State support for initiatives that would boost available capital for innovation-based companies. An angel tax credit, and state matching funds for organized early stage capital are two examples of initiatives not achieved in Idaho. With the presence of larger funds, and the investment activity, ecosystem support, and attention that come with those larger funds, the likelihood of getting state sponsored investing benefits approved through the state legislature may increase.

Recommendation:

There is opportunity across the United States to support faster growth via access to capital. Federal government should recognize this opportunity and support those states that have engaged in supporting an innovation-based economy by assisting them with programs that allow for the formation larger pools of capital. This capital, once formed and deployed, will help build a nation-wide "engine of innovation" that will keep us ahead of our international competitors, create new wealth outside of the Big Three, and harness the power of our National ethos of innovation.

My recommendation is to strongly support, through committee legislation and awareness, lowering the barrier for programs like the SBIC to exist in Idaho and other lesser known markets. This is important because Idaho has the building blocks and foundation in place to show exponential growth in the innovation ecosystem, but lacks a strong capital infrastructure to fund that growth.

Additionally, I recommend rethinking the SBIR program, which has had little effect on the Idaho innovation ecosystem, to be focused more on commercialization and less on IP and tech-transfer. New technologies that are eligible for SBIR grants are, in my opinion, only a very small sub-section of the overall innovation ecosystem in Idaho. Because startups are largely focused on scaling revenue, users, etc., the technology used accomplish these goals iterates very quickly and may not meet SBIR requirements. A decentralization of the SBIR approval/funding process, organized locally or regionally in order to adapt to the nature of the innovation ecosystem and quickly make decisions would be more in sync with local competencies.