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Entrepreneurial hotbeds: A mix of science and luck

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By Deborah L. Cohen

CHICAGO (Reuters) - Nick Cronin moved to Chicago from Milwaukee to stack the entrepreneurial deck in his favor, hoping to leverage the city's improving climate for emerging ventures.

"There is more excitement about startups, which means more events, more willing mentors, more media coverage and more overall buzz," said the founder of ExpertBids, an auction site where service providers compete for business from small and mid-sized companies. "All of these things have trickle-down effects."

Cronin, a 28-year-old former corporate attorney, launched an earlier startup in Milwaukee but was discouraged by the city's lack of resources. His latest venture operates through the Illinois Technology Association, an incubator in downtown Chicago, where it shares space with other fledgling companies.

"There's always a high level of energy," said Cronin, who received seed funding from local angels. "There's 30 other companies doing the same thing at various stages."

Trying to predict which cities have a shot at becoming entrepreneurial hotbeds is often anybody's guess, attributable partly to planning and blind luck, according to experts, who claim there are no hard and fast rules when it comes to development.

"Communities looking to support an entrepreneurial ecosystem need to first and foremost have the will to do that, to have community buy-in broadly," said Thom Ruhe, director of entrepreneurship for the Ewing Marion Kauffman Foundation. That means endorsement from local government, investors, larger corporations and universities.

Even so, regions aiming to replicate the success of Silicon Valley are setting themselves up for failure, said Ruhe, who notes the organic factors that led to the West Coast's ascendance as a technology mecca are next to impossible to reproduce.

"There will be no such thing," he said, adding that successful startup communities play to their inherent strengths. Boston did that by leveraging a strong base in health sciences; Detroit, Cleveland and other Rust Belt cities are attempting to do so as they transform their legacy manufacturing capabilities into more high-tech modes of production.

"It's going to be the next 'Polymers-and-Advanced-Materials Valley,'" Ruhe said.

WHY AUSTIN AND NOT ALBANY?

Still, there are common underlying factors that seem to help cities such as Austin and Boulder spawn tech successes while other metro areas languish. High on the list: strong research universities to produce talent, favorable tax environments, access to transportation and at least one or two noteworthy startup stars that serve as a magnet for investors and other entrepreneurs.

"It starts with entrepreneurial success stories. We have 20 mentors who have bought and sold multiple companies," said Joshua Baer, founder of Austin's Capital Factory, an accelerator that seeds early-stage companies. "Those entrepreneurs stay active in the community. People see them and they get inspired by them."

In the case of Austin, the birthplace of computer giant Dell Inc. and subsequent growth stories such as software development firm Spiceworks, artistic talent is another important catalyst, said Baer, touching on one of the less tangible factors that can tip the scale in favor of a community's startup activity.

"Dynamic and creative people contribute to innovation," said Baer, whose city is host to the well-known South by Southwest interactive music and film festival, which annually brings together an unusual mix of artists and business people.

Lifestyle is arguably one of the most important features that talented young graduates seek when choosing where to develop their careers, said Brian Uzzi, a professor of leadership at Northwestern University's Kellogg School. Uzzi, who has studied the impact of social networks on entrepreneurship, said today's entrepreneurs have freedom of mobility, unlike those in the manufacturing era who were tied to a region's natural resources.

"Do I want to be in a hip, cool place like Austin or in Albany?" said Uzzi. "The rise of California comes not because there's raw materials, but because the human capital for entrepreneurship was free to roam any place they wanted."

Gallup chairman Jim Clifton said the difference between cities ultimately comes down to the kind of entrepreneurial "spirit" they foster. "There's no reason Austin should be the runaway success it is and Albany has never taken off - they're capital cities in the middle of nowhere," said Clifton, who addresses the issue in his new book "The Coming Jobs War".

Clifton points to Omaha, Nebraska, which enjoys just 5-percent unemployment, as a city that has created a favorable climate for startups. "There's a lot of economic energy in that place," he said, adding the city's business leaders have developed an "extensive" network of angel investors to seed new ventures that has created a mindset that it's a good spot to start a business. "When your city has an image that it's not you're screwed."

HOMEGROWN CONTRIBUTORS

Tim Miller, CEO of Boulder's Rally Software, a maker of agile development software, agrees. His company has grown to more than 265 employees since founding in 2002.

"The best and the brightest can go anywhere they want so you have to have a lifestyle environment," said Miller, a serial entrepreneur. "Our outdoor lifestyle is second to none."

Among other factors, Miller also credits Boulder's open and collaborative entrepreneurial network, one that is large enough to have scale but still intimate enough to provide a strong sense of community to newcomers.

"In a meeting or two, you can meet who you need to," he said, adding: "It's very easy to be able to pitch all the angels and the VCs in this community."

Venture capitalist Zachary Shulman is banking on characteristics like these to help put New York State's Finger Lakes region on the entrepreneurial map.

"We're not at critical mass yet but we're definitely getting better," said Shulman, whose firm, Ithaca-based Cayuga Venture Fund, is raising capital for a \$50 million dollar fund, its fourth since founding in 1995.

"People are attracted to attractive communities," said Shulman, citing the scenic beauty of the region, which is also home to Cornell University and Ithaca College, among other schools.

Cayuga's portfolio includes companies like BinOptics, a maker of laser chips and e2e Materials, which makes petroleum-free composites. A prior holding, Kionix, a maker of silicon microstructures, was purchased by Japanese specialty chipmaker Rohm Co Ltd in 2009. It has grown to 200 employees, Shulman said.

"We have homegrown businesses that are growing here, being sold and then staying here," he said.



(Additional reporting by [Jon Cook](#); Editing by Jon Cook)

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