



Dan Carr, CEO, The Collaborative

1600 Utica Ave S, St. Louis Park, MN

Friday, May 21, 2010

Present : Verne Johnson (Chair, phone); David Broden, Janis Clay, Jim Hetland, Jan Hively, Dan Loritz, Tim McDonald, John Moody, Wayne Popham, Clarence Shallbetter, Paul Taylor

Executive summary : *Minnesota ranks fifth in the country in the number of jobs created by venture capital-backed companies - an especially significant ranking because venture capital-backed companies account for 21 percent of the country's GDP, according to a 2008 report issued by Global Insight. In the years 2008/09 Minnesota-based companies raised over \$700 million in venture capital investment. The speaker today represents an association of growth-orientated companies, venture capitalists and innovators. He believes that Minnesota is well positioned to be an innovation-leader, and that government leaders should look to shore up the fundamentals that attract start-up companies to the state (and it's not only about taxes).*

A. Context of the meeting - The Civic Caucus has been hearing about Minnesota's strong position- as compared to it's neighbors-on the amount of venture capital coming in to start and expand local companies. Seeing this as an indicator of interest and confidence in the state's economy, Dan Carr has been invited in to talk about the entrepreneurial sector of the Minnesota economy, and the prospects for economic growth in the state.

B. Welcome and introductions - Dan Carr has served Minnesota innovators since 1987 as CEO of The Collaborative, a Minneapolis-based membership organization of growth-orientated companies, entrepreneurs, investors and advisors. In addition to his efforts convening Minnesota's innovation economy and helping growing companies over the past 20+ years with The Collaborative, he also has first-hand entrepreneurial experience as a co-founder of four businesses including Minnesota Law & Politics and Minnesota Ventures magazines. Previously, he worked as a CPA in New York and Minneapolis. Carr also writes occasionally on entrepreneurship, innovation and the Minnesota economy. The Collaborative is online at: <http://www.collaborative.net> .

C. Comments and discussion -During Carr's visit with the Civic Caucus, the following points were raised:

1. Minnesota tops in Midwest in venture capital— From 2008-2009 MN companies raised over \$700 million of venture capital (VC), the largest amount in the Midwest. Illinois was 2nd at \$640 Million (Minnesota consistently attracts more venture capital investment than Illinois, which has an economy

and population 2 ½ times our size). Coming in 3rd & 4th are Ohio and Michigan with a little more than half Minnesota's total and it goes down the line from there. Incidentally, Minnesota companies raised 10 times as much Venture capital than Wisconsin companies in 2009.

The state has the fifth highest employment in the country for companies that were backed by VC money. There have been 40,000+ companies created by venture capital in the country over the past 50 years, and revenues represent 21 percent US GDP.

Carr said that The Collaborative is geared very much toward a small segment of companies—those looking to grow fast. He got involved in the work of connecting people out of an interest in the entrepreneurial space of the economy. "That's where the interesting people are. I thought I could convene people in a way that is of interest to them, provides value to those companies, investors and the broader Minnesota ecosystem."

The Collaborative serves its members through its publication *New Venture Review*, which is dry, Carr said. "But the goal was to get consistent information on companies into the hands of people," and as a result it was effective.

The Collaborative also hosts an array of events each year on issues growth companies need to address and specific innovation clusters in Minnesota.

2. The actions of entrepreneurs say Minnesota's economy has a lot going for it— "I'm more optimistic than some," he said, on Minnesota's prospects. "One need is more new business starts—people that want to go out and start companies."

"When we look at Minnesota there are a lot of things that are going quite well," Carr said. The state's unemployment rate is one of the lowest in the country and is 1.5 percent below the national average. The innovation sector of the economy has held up pretty well.

Carr made it clear that he does not think an organization like his would sustain in all other communities. "I'm not sure many of our members would relocate to other states. Here they have access to talented people to support their work in industry clusters, overall business acumen and infrastructure - law, finance, venture capital - and a strong work force."

Job losses hit hardest in established companies more than VC-backed companies, who are smaller to begin with, Carr pointed out. So Minnesota should be encouraged that it has a river of capital still coming in.

"What VC companies do right out the gate is bring people into the state—though they may not generate tax revenue for ten years," they bring jobs that one by one grow the economy and bolster personal income tax revenue.

3. It's the business model, not the tax rate — "Marginal tax rates are not the central issue for entrepreneurs."

Carr said that in the venture-space marginal tax rates tend not to have as much of an impact as in other sectors where talent is more of a commodity. "People are focused more on whether they can succeed — hire the people they need and get a return on their investment for their investors. These factors have to do with the resources available to get their operation off the ground.

"Entrepreneurs want to be able to build their widget and tell the world about it," not worry as much about having the people available, business infrastructure, or encountering onerous hurdles.

4. Concern over regulations — Carr refrained from commenting too much on regulations, other than to say that they matter. "You can't have a situation where you need to move on something new but don't know how long it will take, such as the recent climate at the FDA." There are others that can and should be looked to speak more thoroughly about regulations-the Minnesota Chamber is active.

The capital formation process for entrepreneurs in the U.S. is under pressure with fewer companies going public or being acquired. The venture capital model needs exits to deliver the returns to their investors. "An additional complication is that nobody knows now what's going to happen with the financial reform going on in Washington," so this does create uncertainty and hesitation.

"In Minnesota there is a bit of complacency. We need to streamline, and make sure that we do not over complicate things. Little companies in Wisconsin have been able to get more personal attention from people in government. Minnesota outperforms Wisconsin in the jobs provided by startups, but that is something that could be done better."

He added, "Innovation is a high risk endeavor; we should expect a certain amount of failure. You don't want all companies to get funded. You want the *good* companies to be funded."

5. No preoccupation with medical technology — One member said that he has heard people in startup circles around the country say that Minnesota is not welcome to their ventures, and that there is an impression the state is concerned primarily with medical technology.

"We certainly are known nationally and globally for medical technology but I don't think we incentivize medical technology any more than other states or other industries. I think there are plenty of other rich industry clusters, just perhaps not as large as medical here in Minnesota. Some of those are data storage, healthcare services, software and clean tech."

6. Message to the gubernatorial candidates: Get the fundamentals right — What would you counsel, a member asked, if you were advising the gubernatorial campaigns?

"I would suggest that job growth fostered by venture capital backed companies should be a well known fact, and recognition and fostering additional investments is encouraged."

"The most important thing government can do is get the fundamentals right. Minnesotans have a history of valuing and ponying up for highly ranked education. We've also paid to underwrite the broader infrastructure that innovative people seek for their employees when choosing where to make a home, such as beautiful parks, reasonable housing costs, and good transportation and roads. Those factors made Minnesota a good place to build a business in the past, and today, the Minnesota innovation economy is capitalizing on those past endeavors. It also helps if you're in a place with a rich quality of life including good schools, cultural and environmental amenities, as well as sports and entertainment. Nightlife, theater, music venues like nationally known First Avenue, the Twins ballpark, and the Warehouse district-these are not trivial. They fit into the social and economic context of the state and the Twin Cities that helps to draw people here.

"Make sure you keep all that going, and meanwhile don't increase the burden too much by getting in the way." If there are changes to be made such as in education, go ahead, take the pill and make those changes. These changes shouldn't need to fall along party lines, but these are the business realities, economic realities and quality of life realities for our state.

7. Other similar organizations?— A member asked Carr where else organizations like The Collaborative exist: He replied that they have looked at expanding, and there really are no other organizations quite like theirs. In Silicon Valley there are "more groups like us than you can shake a stick at." There are many, different kinds of groups. "Here in Minnesota we have 70 percent of the membership of these types of organizations. We convene a high quality group and we do it through our events that members see as adding value."

8. Does government do more chasing of development than leading it?— One piece of information was particularly telling, about the government's limited capacity to direct the development of industry: "When you look at the most popular government initiatives that are trying to spark an industry by creating these sorts of associations-often they were active in all 50 states-they were the dot-com and biotech initiatives as each of these bubbles surged and passed." The government often tends to come in late, he said, chasing a development rather than leading it.

We need to be mindful not to mortgage our overall core Minnesota qualities in exchange for too many specialized taxpayer funded efforts aimed at job creation - when, candidly, the very best things we can do is continue to feed the Minnesota ecosystem that drew innovators here and spawned more of them - and then get out of their way.

Any adjustment made to overall tax revenue could affect our ability to be a talent magnet economy. Talent magnet economy employees seek quality of life beyond tax rates. And their employers compete globally - with high tax places, like Silicon Valley, New York and Boston - and lower tax global talent magnets like Shanghai, Sao Paulo and Austin, Texas.

Tax policy is indeed important, but we need to be careful not to deplete state general fund revenues to the extent it reflects our values and empowers our quality of life as a talent magnet economy.

9. The angel-investor tax credit is good, but limited — "We have lost some people to angel investor tax credits in other states, so it's a fine idea." But he was clear that angel investment is only one portion of the venture capital industry.

Angel investors tend to support smaller investments in their first stages and in overcoming particular hurdles. Individuals can put up one, two, five million. Pools can be around 10-15 million. That's just one kind of VC need.

"We need to embrace and encourage the companies doing the larger transactions as well." New medical technology companies can spend upwards of \$150 million getting through ramp-up, including FDA regulatory hurdles. This is the kind of money that is not typically put up by individuals.

"People come to Minnesota, get VC, and grow. I have immense faith and confidence in the entrepreneurs out there. They're here because their business model can succeed here. What they want is a place where their business can thrive."

10. Our competitive advantage is the metropolis — "I do see the metro area as one that can be a world-changer."

Minnesota's major competitive advantage is the co-location of so many critical functions. "The metro area has been a talent-shed," with high functioning people from all areas around us coming in. "I'm a free market pragmatist. I believe strongly in clusters-that we need to celebrate and shine a light on clusters where we're doing very well."

We've heard from Elizabeth Kautz, mayor of Burnsville, who is talking about the 'med-alley' from Rochester up to Saint Cloud. Is that being pushed by the businesses themselves, or is it artificial?

"The VC-backed companies come to places where the business models can be successful today, i.e. with the people living and commuting to the workplace. Even in the information age, geography matters."

Most of The Collaborative's programming is in the metro, and 75 percent of their members are in the metro area.

D. Closing

To close, Carr re-emphasized that the best thing the government can do now is to make sure the fundamentals of the state are set right. "It's ecosystem," as he put it: roads, schools, and cultural institutions. Meanwhile make sure that things operate efficiently, and that there are no unnecessary hurdles.

The Wall Street Journal's Market Watch operation named Minnesota the top place to grow a company in 2007, 2008 and number three in 2009.

"There is a lot to celebrate. At The Collaborative we want to shine a light on those successful companies. Recent coverage has tended to be disproportionately negative (e.g. perhaps a story highlighting a 3 person firm moving to Wisconsin without a corresponding story of a MN venture capital backed-company increasing employment by 50). Part of what we need to do is shine a light on what is going well. Minnesota needs to make sure we are appealing to young bright young people with ties to Minnesota, so that they want to come here."

Thank you, to Mr. Carr, for an interesting discussion.