

ENTREPRENEURS TIMES TWO

IDEs Require Different Approach

By Tom Schuman

All entrepreneurs have a number of important choices to make. But one crucial selection – whether they are an SME or an IDE – is largely determined by the type of business they choose to engage in.

Example A: Tom sees a need for a dry cleaning operation in his neighborhood. He has some experience in the industry and believes his new operation could both provide a valuable service to the community and a solid living for his family and the associates he hires. Tom is starting an SME – small and medium enterprise.

Example B: Mary has worked for 14 years for a software company. She and several colleagues see the opportunity to start their own business, assisting potential customers around the country and globally by more thoroughly analyzing the results and implementing strategies based on feedback reports of customer experiences. Mary is starting an IDE – innovation-driven enterprise.

Both businesses are entrepreneurial. Both are important in the jobs they will create and the services they will provide. Each is very different, however, in the type of support they will need in order to be successful.

In other words, an SME and an IDE cannot be treated the same.

That is the premise of *A Tale of Two Entrepreneurs: Understanding the Differences in the Types of Entrepreneurship in the Economy*, a 2013 Kauffman Foundation report authored by two directors of the Martin Trust Center for MIT (Massachusetts Institute of Technology) Entrepreneurship.

More than technology

John Wechsler, CEO of Launch Fishers and a veteran entrepreneur, is quick to cite the Kauffman paper. His work in Fishers and through the broader Launch Indiana program is focused on IDEs.

He calls the nine-page report a “validation of the kernels of ideas and thoughts I have formed over a career in innovation tech. When I saw that white paper, it was kind of the “aha” moment. I finally had some blue chip research to back up the crack ideas I was walking around talking about.

“It really crystalized why this is important for economic development folks, municipalities, states, leaders that are looking to build environments for entrepreneurs – which is where I have kind of found myself the last four years. It really became apparent that this is the model we need to look at for creating wealth for the state of Indiana.”

John Wechsler passionately advocates for assisting Indiana’s innovation-driven businesses.



The Kauffman researchers make clear that this is not simply a technology push. They wrote: “We very consciously do not use the term ‘technology-driven’ entrepreneurship because innovation is not limited to technology. Innovation can come in many varieties, including technology, process, business model and more.”

What is the primary difference between SMEs and IDEs? Again, in the author’s words: While SMEs are the “lifeblood of many

economies, they are serving local markets with traditional, well-understood business ideas and limited competitive advantage. IDEs pursue global opportunities based on bringing customers new innovations that have a clear competitive advantage and high-growth potential.”

Go two steps further and we are talking about jobs and wealth. Let’s say Tom’s dry cleaning business creates 14 jobs and provides a steady income for himself and his employees. Mary’s strategic operations and consulting firm may end up with 14 worldwide offices, 1,000 employees and be valued at \$300 million before it is acquired by a larger firm.

“Enterprises that sell on a local, or even statewide or regional basis, have limited opportunities to bring a lot of wealth back into a community,” Wechsler offers. “They tend to circulate wealth. But these IDEs sell on a national or global basis. The opportunity is to not only bring money from operations into a community but ultimately create significant wealth for the shareholders, investors, early employees. To me, that’s super exciting.”

A Tale of Two Entrepreneurs outlines the differences between SMEs and IDEs (see chart). It also acknowledges the risk/reward factor.

“IDEs have a job multiplier effect, creating five jobs for every direct IDE job. Of course, these companies are highly risky – they have a high chance of failure. On the other hand, they have a small chance of being an overwhelming success and being the next Google or Genzyme, creating hundreds of high-skilled jobs and many thousands of auxiliary jobs.”



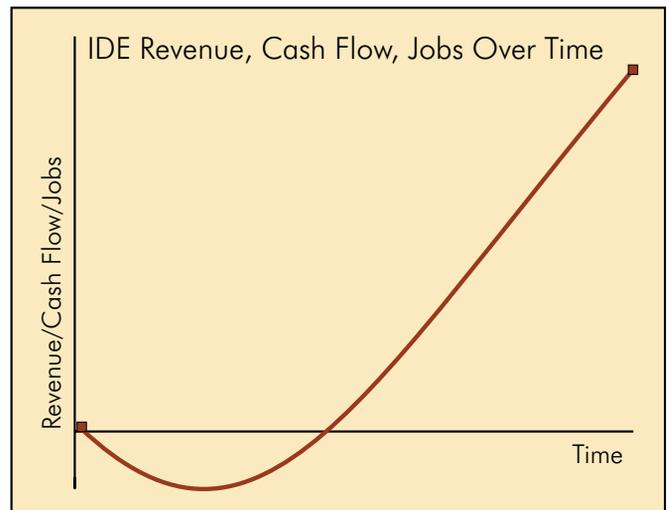
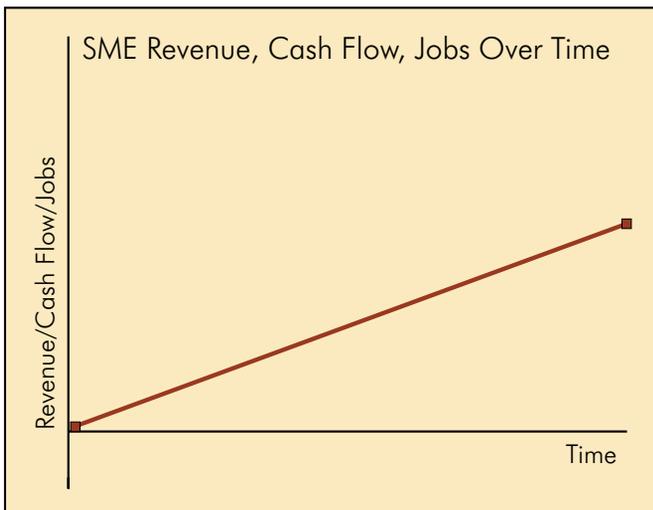
Small and Medium Enterprises (SME)

- Focus on local, regional markets only.
- Innovation not necessary to establishment and growth.
- “Non-tradable jobs” – jobs generally performed locally.
- Most often family businesses, very little external capital.
- Grows at a linear rate. When money put into the company, revenue/cash flow/jobs/etc. will respond quickly in a positive manner.



Innovation-Driven Enterprises (IDE)

- Focus on global markets.
- Based on some sort of innovation (tech, process, business model) and potential competitive advantage.
- “Tradable jobs” – jobs that do not have to be performed locally.
- More diverse ownership base including wide array of external capital providers.
- Starts by losing money, but if successful will have exponential growth. Requires investment. When money put into the company, revenue/cash flow/jobs numbers do not respond quickly.



Money talks

Wechsler gives a practical example, one that involves dollars and sense.

“If you couch it as care and feeding instructions for different types of businesses, these IDEs really require a different kind of handling. Responsiveness to capital is a really big one,” he explains. “People understand that from a manufacturing enterprise, putting a piece of equipment on the plant floor, making things, selling them, shipping them and having profits at the end versus somebody who is decoding the human genome or working on drug discovery or working on software that is going to change the world. Those things don’t immediately turn around and start generating revenue.”

Mark Dobson, president and CEO of the Economic Development Corporation of Elkhart County, says he spends the bulk of his time with traditional brick and mortar businesses. But in working with those in

the IDE space, he shares, “Probably the biggest thing we can do is get them access to angel capital.

“The angel network has been extremely valuable. The initial motivation (for investors) is growing their region instead of their own bottom line. They see how their investment in this entrepreneur might grow the region.”

Regions, and states, benefit when the IDEs hit it big. ExactTarget in Indianapolis is one prime example as its leaders and many employees have reinvested both their proceeds and talents into new enterprises.

“The real big thing at the end of the day,” according to Wechsler, “is we need to get the flywheel effect going – start-up, success and then reinvesting. Once that flywheel is going, it is its own little engine. That’s what you see in Silicon Valley after like 45 years. They had decades of a head start on the rest of the world.”

When an ExactTarget or Interactive Intelligence, for example, are acquired, it’s big news in Indiana. Some lament the fact that local

leaders are bowing out, while others recognize the opportunities the additional capital brings.

Wechsler cites the history of success for an Eli Lilly and Company, which means less public attention regarding releases of new drugs, earnings reports or similar news.

“It’s not something that becomes a huge celebration for the community because there’s a level of success happening there,” he contends. “We’ve got to get our tech economy, our innovation economy to the same level where these are just every day successes and they ultimately feed back into that ecosystem.”

Different approaches

The Kauffman report is adamant that “lumping” IDE and SME entrepreneurs together in regard to public sector support is a recipe for disaster. “Regardless of their stated intentions, over time they tend to allocate proportionally more resources to SMEs at the expense of IDEs because of the need for immediate and visible results.”

Dobson is a big fan of the Launch brand – there are iterations in Elkhart and Goshen. “That shared space, that co-working space, the investment of some local government funds in those entities is really helpful.

“Most of this innovation stuff doesn’t really fit that traditional economic development model – bricks and mortar, groundbreaking, ribbon cuttings,” he continues. “It’s not what elected officials are accustomed to. Investment in broadband and WiFi in a downtown,

while seemingly innocuous, is really helpful in that innovation space.”

Regional partnerships are also essential. In the north central part of the state, Dobson acknowledges that Innovation Park at Notre Dame is likely to be approached first by entrepreneurs with an IDE plan. He cites a recent example of a factory direct RV idea that launched at Innovation Park but now has advanced to start-up status in the RV Capital of the World in Elkhart County.

At the state level, Wechsler points out that all businesses can benefit from government limiting regulation and staying out of the way. With the focus on IDEs, he is particularly enthused about the \$1 billion entrepreneurship initiative announced last summer by Indiana’s executive and economic development leaders.

“I think at the end of the day it’s a responsible part of portfolio management to make sure you have some money in these early-stage ventures. Creating an environment in which it’s favorable for Indiana investors to invest in our companies. Investing with pension funds and state monies into our communities. It gives us a great opportunity to generate wealth that stays inside the state.

“You look at some of our most successful IPOs (initial public offerings) and M&A (merger and acquisition) activity, multiple billions of dollars, most of the capital, especially in the later stages, came from outside the state,” he confirms. “One in particular that sold for \$535 million; 65% of its cap table came from outside the state of Indiana. So when that enterprise sold, ultimately that money went back outside the state and we’re right back on the treadmill again.”

RESOURCES: *A Tale of Two Entrepreneurs* at www.indianachambertech.com/resources-and-materials | John Wechsler, Launch Fishers, at launchfishers.com | Mark Dobson, Economic Development Corporation of Elkhart County, at www.elkhartcountybiz.com



Trust is the most
valuable thing you
can put in a bank.

All things considered, trust is the highest form of currency. It’s the foundation upon which lasting relationships are built. And strong relationships, in turn, help businesses like yours thrive.

At MainSource, we work hard to earn not just your *business*—but also your *trust*. We employ experienced, trusted advisors who provide customized and responsive solutions including access to a full suite of business banking products.

Talk to us today. We think you’ll be glad you did.

MainSourceBank.com



MainSource

Life needs a great bank.

