

Venture Capital

We Still Have a Ways to Go

There's no denying that Indiana's venture capital scene isn't on par with that of Silicon Valley, Boston or other technology hotbeds. And why would it be? The coasts have had about a 20-year head start to build a concentration of investment firms, high-tech companies and entrepreneurial networks.

"It's always been challenging for small companies that are located at a distance from the venture world – as it originally formed – to raise capital from far away, because people tend to like to invest close to home, because those companies need to have a lot of support," affirms Ken Green, co-founder and managing partner of Spring Mill Ventures in Carmel, an early-stage venture capital firm focused on high-growth information technology and life sciences companies.

"In the last decade or so, people have recognized that we need to nurture our own here."

In fact, Indiana's venture capital landscape has vastly changed over the last 10 to 15 years.

The *Indiana Vision 2025* plan being coordinated by the Indiana Chamber points out that in 2000, Indiana was ranked 45th among all states in venture capital invested per capita. Fast forward 10 years and Indiana ranked 28th, according to the *PriceWaterhouseCoopers MoneyTree Report*.

Several factors play into that change. The state has enacted the venture capital tax credit (incentivizing investment in early-stage companies for a credit against Indiana income tax liability). It's launched and continually invested in the 21st Century Research and Technology Fund. Angel investor groups have formed around the state to fund early-stage companies. Indiana is getting the word out about Hoosier innovations and a friendly business climate backs it up.

But we're not there yet. *Indiana Vision 2025* has set forth a goal of reaching the "Top 12" among all states in venture capital invested per capita.

'Is it the chicken or the egg?'

A strong venture capital environment is necessary to keep Indiana moving forward, offers David Mann, also a managing partner and co-founder of Spring Mill Ventures.

"It's the driver of innovation in an economy and it starts with entrepreneurs," Mann explains. "It starts with innovation here. Graduates want to work at exciting companies that are doing great things – the Googles, the

eBays. The more opportunities that are here, the more it's going to bolster keeping our talent in the state."

How do we do that? More capital and more entrepreneurs, concedes Mann.

"We need to have more funds and larger funds, because the funds here, they're investing maybe one or two million. The larger funds are tenfold the kind of investment that you see here. That takes investment dollars and most have found there are not a lot of places here to start a fund," he notes.

"I think it's a chicken or egg. Do entrepreneurs go to Silicon Valley? There's a venture capitalist on every corner there. Once you get the talent there, it becomes its own ecosystem. Some follow the money, some follow the idea; you can't have one without the other. If we had enough



Indianapolis-based BidPal is changing the landscape of the silent auction by using handheld devices during fundraising events. There are about 50 current angel investors in the company.

venture capital here, people would come here.”

Green points to a desperate need of more entrepreneurs and a supportive climate for an entrepreneurial community to grow.

“We’ve always believed that there are plenty of ideas here, and nothing about my decade here indicates that’s wrong. ... We used to think it was a capital deficiency problem, and not to say that isn’t an issue. What would fix the problem is more entrepreneurs,” Green attests.



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Funding gaps

Part of Indiana’s venture capital growth comes from seed stage and angel investment networks that have been forming around the state, including TechPoint’s HALO Capital Group, BioCrossroads’ Indiana Seed Fund and the P3 Alliance of the Purdue University Research Foundation.

While those are positives, seasoned entrepreneur and former TechPoint President and CEO Jim Jay highlights a gap in the early stages of the “funding continuum” as something to overcome. (Jay, who will remain in Indianapolis, resigned in September and officially departed TechPoint at the end of October to head a San Diego-based telecommunications technology firm.)

“A lot of venture capital has moved to private equity. People have moved later in the process. Certainly the downturn in the economy is a factor; they’re looking for less risk. They’re looking for a higher probability in a higher return. The venture capital space isn’t a sure bet at all. Everyone moves up a step in the ladder and that leaves a hole,” Jay declares.

HALO Capital Group has now invested \$19 million in high-growth, technology-enabled businesses. Jay knows that funding amount wouldn’t have been possible 10 years ago.

“We have had enough entrepreneurs that understand the tech economy and they’re investing now in these early-stage technology companies, which is tremendous. There’s been nice growth in the seed stage and earlier stage funding rounds ... there’s a good group of folks around the state investing, which is great to see,” he adds.

Scott Webber is one of those investors. Webber is CEO of Indianapolis-based BidPal, which has automated the not-for-profit silent auction process with a handheld device that is “eBay in your hand,” offers chief financial officer Rich Rella.

Rella points to Webber’s experience and know-how as an important piece of the company’s growth.

“He knows how to sell, how to position. He is a good strategist,” Rella emphasizes. “He brings a real good sense. He’s also put together a helluva team.”

The right mix

Indiana faces challenges with venture capital – but there are some positives that the Hoosier state brings to the table.

“It’s not like deals aren’t being found. The advantage Indiana has is an incredible business climate and great work ethic and close talent,” Jay stresses. “Companies are moving here. We’ve had 500 jobs announced in the last two weeks (of August) alone. There is a reason for companies to invest here; it’s about getting visibility to those (reasons).”

Astute investment choices are critical, he indicates. “It’s also true that some companies and some ideas just do not deserve to be funded. They’re not positioned right or they’re talking to the wrong audience. Just because somebody gets turned down doesn’t mean that there’s not funding opportunities in the state of Indiana.”

Good universities, a rich talent pool and a group of young adults returning to Indiana are in our benefit mix, Jay adds.

Rella thinks it is a matter of time and effort for Indiana to move up the ladder.

“There’s not a critical mass of larger venture firms here locally and a lot of that is just due to where we are in the cycle. As we continue to get bigger as a city and market, those types of firms will start to find their way here,” he attests.

“It’s harder to find qualified people that have the business background and the subject matter to get through the clinical process. How do we do that?” Rella continues. “You can pull people in from the coast or the next best thing is creating these angel networks. With the right mix of sophistication some of those will make the leap over into the operation side, aside from putting dollars into an enterprise.”

INFORMATION LINK

Resources: Jim Jay, previously with TechPoint, at www.techpoint.org

Ken Green and David Mann, Spring Mill Ventures, at www.springmillvp.com

Rich Rella, BidPal, at www.bidpalnetwork.com