

NMJC PROGRAM THEATER PROFILE:

Startup

Introduction

Attendees at the Jobs Council meeting in Ruidoso on July 6, 2015, utilized an advance report prepared by sector experts on the Startup sector. They reached the following conclusions through a consensus process. Attendees were legislators, Council board members, state and local governmental agency staff, private industry representatives, and local citizens.

Theater Definition:

How is the Startup Theater defined?

This Theater focuses helping local entrepreneurs create new economic base employers. An economic base start up is a new enterprise that becomes a significant employer that derives over 51% of its income from out of state.

Other terms used to describe program efforts in this theater include: Entrepreneurship, Business Startup, Innovation, Idea to Enterprise, Tech Transfer.

It should be noted that most community sponsored start up efforts are not focused on job creation. The few that are rarely differentiate between economic base start ups and those that would merely compete with other local established businesses.

To have a significant impact on job creation, start up programs must create economic base enterprises that are bound to scale. Programs that invest the community's resources into starting up new businesses that are not economic base often create no net new job growth because the projects must steal market share from existing taxpaying employers.

Definition of an Economic Base Transaction

How is an economic base job creation transaction defined for this theater?

A economic base transaction occurs when a new business is established that meets the following conditions: 1.) has a New Mexico tax ID number, 2.) earns in excess of \$300,000 of revenue per year, 3.) earns a minimum 51% of that revenue from out of state, 4.) Has at least one full time employee other than the owner. Otherwise it would be counted in the Solowork theater.

It is also important to be consistent about counting the creation of new economic base jobs from employers who graduated from the incubator or accelerator program. New economic base jobs added to an existing enterprise participating in an incubator or accelerator or an angel fund can be counted as new jobs created. New economic base jobs added by an employer started by an incubator or critically assisted by an accelerator can be counted as procured by the program providing the expansion was not a client of the region's retention and expansion program. In such a case, the jobs would be counted for the Employer theater operations.

Currently, few start up programs actually focus on, measure or report economic base job production over time so these reporting protocols need to be developed. Clients of an incubator or accelerator would be considered leads, suspects and prospects in the sales pipeline but would not be counted as an economic base transaction unless such protocols were applied.

Program Approaches

What are the different ways that programs in this theater procure or preserve economic base jobs?

Program activities in support of the Start up Theater can be organized into several areas:

- **Ideation** - Activities intended to increase the metabolic rate of a region's start up theater. Market development program efforts are designed to systematically elevate the quantity and quality of new ideas with the potential to create new economic employers. These strategies include: efforts to increase research, increase the number of collisions between innovators and entrepreneurs, increase the rate of intellectual property development that can be converted, the conversion of ideas into viable enterprises, and helping those new enterprises stabilize and grow.
- **Intellectual property development:** Tech Transfer: This mode is the recruitment of innovators out of existing government or higher education organizations who have a strong proof of concept and would like to turn it into an economic base enterprise. While tech transfer is a legitimate activity within the theater and can result in major wealth creation events for the inventors and their sponsors, economic base job production is relatively low since most patent and licensing work does not require or result in local job creation.
- **Enterprise Development:** This involves cultivating individuals who have innovative enterprise ideas with the potential to create significant numbers of economic base jobs. Incubators, Accelerators and Angel Fund programs help move these ideas from concept to business plan to proof of concept, launch and stability.
- **Enterprise Conversions:** This should not be confused with employer conversion, retention, or expansion efforts that are focused on merely finding additional out of state markets or a simple clean up of business practices to make the enterprise economic base. This refers to the conversion of non economic base employers to economic base or attempting to secure their survival by changing or adding core elements of the business in a significant way through the acquisition or invention of innovative technology, material, product or business model. Essentially, activity would have to involve a reinvention of the business to qualify as Startup theater activity and not fall under the scope of the Employer theater.

Attributes and Insights

What important attributes, distinctions and insights are important to understanding the nature and capacity of this theater?

The presence of a rapidly growing entrepreneurship sector is widely considered to be a primary bellwether indicator for a region's economic development in the 21st Century.

However, for the Jobs Council, economic base job creation is the primary metric.

While job creation numbers of this theater are relatively low and the cost relatively high compared with other theaters, the significance of the sector is expected to rapidly increase over the next 20 years.

2. Players/Procuring Agents:

What organizations and institutions are formally missioned, funded and staffed to create economic base jobs in this theater?

Job procurement in this theater falls mainly to the program efforts of incubators and accelerators. Incubators are often membership based, specializing in business coaching and business service offerings. Accelerators are typically programs designed to take a business to the next level in a given time frame through workshops, business profile development and pitch competitions. Both often include some lending and venture capital investment. Below is a list of known incubators and accelerators in the state.

- Navajo Center
- FatPipe
- Bioscience Center
- Arrowhead
- Wesst
- Science and Technology Center
- San Juan College
- Santa Fe College
- TVC-SSTP
- HD3
- C3
- Richard Feynman Center
- South Valley EDC
- New Horizons
- ABQ ID
- Creative
- New Mexico Tech
- Valley Entrepreneurial Network
- Las Vegas First
- Los Demora
- Team Tec. Sachs
- NM Consortium
- VRF
- Innovate ABQ

3. Economic Sectors

Which are the primary economic base sectors in this theater?

Economic base Start ups can be developed in virtually any economic sector.

4. Jobs/Goals

How many new (gross) economic base jobs are estimated to be created in each sector?

Estimated number of jobs in this theater by region:

Northwest:	200
North Central:	1,230
Eastern Plains:	30

Mid-Region:	5,100
Southwest:	51
Southeast:	425
<u>South Central:</u>	<u>1,735</u>

Total: 8,771

5. Program Reliant

How many of the jobs in these sectors are to be directly caused or procured by the organizations specifically missioned, funded and staffed to generate economic base transactions in this theater?

How many are expected to be generated organically?

There is no current accounting of the number of jobs that have actually been created by this theater in the last ten years or how many enterprises were economic base in nature. This introduces difficulty in estimating what share of future start ups would or could be generated by a reasonable strategic increase in program and policy support.

The current operating estimate is that 70% or 6,140 of the total economic base jobs will rely on programs to be procured in this theater and that the remaining 2,631 will be created organically without program assistance.

FACTORS OF PRODUCTION

What factor of production gaps must be cured if the economic base jobs in this theater are to be created?

6. Marketing and Sales Capacity

Is the marketing, sales and completion apparatus in place and at scale to generate the necessary interest, manage the pipeline of prospects, and complete transactions?

What is the current gap and how will it need to scale over the next decade to meet the ten year transaction goals for this theater? Refer to the start up theater players matrix project.

Stages of the marketing and sales continuum: lead > Suspect > Prospect > Transaction

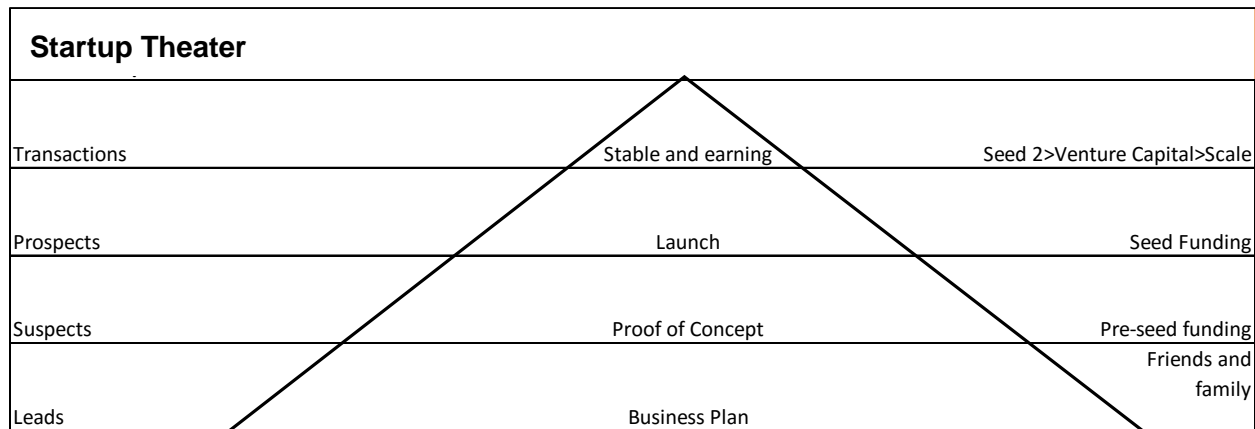
1. Lead: An enterprise that has a business plan, is working to prove the concept, find a market and build an organization

2. Suspect: An enterprise with a proof of concept that is building the market and operational capacity to attract seed investment, and build sales

3. Prospect: An enterprise is launched and producing but may not yet be viable or not earning enough from out of state to the economic base and needs continued financial and technical support to reach the next level.

4. Transaction: An economic base transaction occurs when a new business with a tax State ID number makes more than \$300,000 per year with 51% of that revenue being generated from out of state and has a full time employee in addition to the principal.

Marketing and lead generation are activities associated with raising the metabolic rate of innovation in the region in order to systematically increase the quantity and quality of new enterprise ideas.



Marketing : Innovation > Ideation > Collisions > Business Pitches > Business Planning

Gaps:

- A significant proportion of the program assets in this theater lack a job creation focus and do not prioritize or differentiate between economic base and non-economic base projects.
- The current scale of the marketing and sales apparatus for this theater is well below what is needed to achieve the new 8,771 economic base jobs estimated for most of the Start up programs.
- Incubators are operating at capacity and are not in a position to expand. Existing funding for this Theater at the local level depends heavily on grants and local fundraising efforts.
- There are no programs in place that focus on converting non-economic base employers into economic base by helping them to pivot to new out of state markets.
- A significant proportion of the program assets at work in this theater are dedicated to tech transfer and intellectual property perfection is out of balance with those dedicated to program efforts focused on starting new economic base employers.
- There is a limited awareness of services provided by local incubators and accelerators.
- The state lacks the ability to assess, plan and measure the job creation production of the Theater.

Solutions:

- Wherever possible, refocus Start up Theater program resources on high value economic base projects that have significant job creation potential.
- Establish a program effort to help the state's private sector federal contractors to transition to private sector markets.
- Establish a program effort focused on converting the state's non-economic base employers to economic base by helping them to pivot to new out of state market opportunities.
- Add staff at NMEDD to market startups around the state.
- Promote entrepreneurial success stories through multi-media.

7. Real Estate, Infrastructure and Capital

Does the region have the land, buildings, infrastructure, utility capacity and capital resources to fulfill the transactions envisioned for the theater over the next ten years?

Gaps:

- Most existing incubators are full and there is a shortage of business incubator space in rural areas.
- Internet connectivity is inadequate for this Theater to achieve its goals.
- The availability of investment capital is inadequate for the theater to meet its goals.

Solutions:

- Expand eligibility for the Angel Investment tax credit to non residents.
- Encourage the State Investment Council to re-invest in the secure investment money for startups.

8. Workforce, Housing and Community Quality

Does the region have the qualified workforce, workforce housing and community quality necessary to grow, attract and retain the workers needed over the next ten years?

Gaps

- The state is failing to retain or acquire new qualified talent to keep enterprises growing.

Solutions

- Set a "Return to Sender" tax credit for NM natives that are moving back to the state to work.
- Add financial literacy and entrepreneurship programs to grade school curriculum.

9. Leadership, Organization and Business Climate

Does the region have the leadership, organizational assets, planning and the business climate needed to compete for the theater's targets?

Gaps

- The state lacks a coherent process and framework for assessing, planning and measuring the performance of the Start up Theater.
- There has been an over reliance on University and Federal Government tech transfer program efforts.
- There is a lack of mentors for entrepreneurs in rural areas
- There is inadequate education or encouragement of youth in creative and enterprising thinking

Solutions

- Streamline state and local tax and regulatory hurdles for starting new economic base businesses.
- Extend angel investment tax credits to out-of-state investors.
- Remove capital gains taxes on investment that is rolled over from one economic base startup to another.
- Promote engagement between the entrepreneurial community in the metro area and entrepreneurs in rural communities.
- Reduce capital gains tax for small growing businesses.
- Establish data sharing between the Tax and Revenue and the Economic Development departments.

Action Taken: Legislation or policy proposals:

- Tax incentives for out of state angel investors
- Data sharing between Tax and Revenue and NMEDD
- Capital gains tax breaks for small businesses
- SIC involvement in securing investment for startups
- Tax credit for return to sender workers
- Remove capital gains tax on rollover investment

Advance Team:

- Kathy Keith, Executive Director at Regional Development Center
- Kevin Boberg, Vice President of Economic Development at Arrowhead Center
- Patricia Knighten, Manager of the Office of Science and Technology
- Ray Hagerman, CEO at Four Corners Economic Development
- Stu Rose, Co-Founder of Fatpipe ABQ, President of the BioScience Center
- Mathis Shinnick, Advisor to Skyworks Capital
- Bill Knauf, President of Advanced Insights Group

Council Meeting Attendees:

- Tony Gallegos, Executive Director of SVEDC
- Elizabeth Davis, Research and Marketing Director of NMEDD
- Patricia Knighten, Manager of the Office of Science and Technology
- John Heaton, New Mexico Energy Coordinator at Carlsbad
- Todd Bisio, Founder of LeaderMatch ABQ
- Stu Rose, Co-Founder of Fatpipe ABQ, President of the BioScience Center
- Vince Alvarado, Business Manager of SMART LU 49
- Sierra Duran, Director at SBDC Alamogordo
- Mike Espiritu, Chamber and OCEDC President at Alamogordo
- Shandra Clow, Venture Acceleration Fund at Los Alamos Labs
- Kim Sherwood, Economic Development at Los Alamos Labs

Council Members Present

- Sen. Mary Kay Papen, Co-Chair
- Rep. Don L. Tripp, Co-Chair
- Vicente Alvarado
- Dale Armstrong
- Terry Brunner
- Jason Espinoza
- Rep. Roberto “Bobby” Gonzales
- Rep. Sarah Maestas Barnes
- Alex O. Romero
- Sen. Mimi Stewart
- Rep. Alonzo Baldonado
- Sen. William F. Burt
- Rep. Kelly K. Fajardo
- Rep. Bealquin Bill Gomez
- Rep. Yvette Herrell
- Rep. Larry A. Larranaga
- Rep. Bill McCamley
- Sen. Howie C. Morales
- Rep. Debbie A. Rodella
- Sen. William P. Soules
- Rep. Monica Youngblood
- Sen. Linda M. Lopez