

# A Metropolitan Business Plan for the Minneapolis Saint Paul Region

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## Contact:

Jon Commers, Project Manager  
Brookings Metropolitan Business Plan Initiative  
commers@donjek.com  
(651) 645-4644

## Comments:

Snezhana Bessonov  
Urban Land Institute Minnesota  
Snezhana.Bessonov@ULI.org

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# 1. Introduction

In the early 1900s, the economy of the Minneapolis-Saint Paul region began a transformative change. Moving from a resource base to a knowledge base, the region's economy surpassed in performance many Midwestern and Northeastern industrial economies. Its current standing as one of the highest-performing regions in the nation rests on a core of top-tier talent and corporate and institutional assets. With the global economy now shifting faster than ever, the region can lead by using its strong knowledge-based advantages to foster a dynamic, innovative and entrepreneurial environment. This metropolitan business plan describes a course for the region to make the shift into the "next economy."

Minneapolis-Saint Paul is home to a treasury of high-growth companies, talented people, high levels of innovative activity, a penchant for collaborative action, and an enviable quality of life. The region's tight-knit formal and informal business and civic networks have shown a remarkable willingness to invest in education and infrastructure. The high quality of local education institutions (with the University of Minnesota in the lead), combined with the strength of local Fortune 500 corporations (now twenty in number<sup>1</sup>), helped to foster a cutting-edge research and development community, and produced top-tier student performance and a well-educated workforce.<sup>2</sup> Early adoption of regional governance and tax base sharing provided a vehicle for inter-jurisdictional cooperation on civic and governmental policies, revenue streams and operational systems, which supported efficient and effective approaches to region-wide growth.

While many U.S. regions struggled in the 1980s and 1990s, the Minneapolis-Saint Paul region continued to leverage its knowledge assets, and thrived in the new knowledge environment. As high education and skill levels drove worker productivity upward, wages rose in tandem. Well-established firms expanded and consolidated, while new firms were created at a robust pace and state workforce participation rates were among the highest in the nation.<sup>3</sup> Regional leadership responded to population and business growth by expanding infrastructure, especially transportation, to support movement of goods and people throughout the metro area and enhance global connectivity. The diverse, knowledge-based economy that developed during this time produced a compounding cycle as prosperity attracted more talent, capital and innovation, further stimulating growth.

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<sup>1</sup> CNNMoney, 2010 analysis. Austin-based Hormel Foods is Minnesota's 21<sup>st</sup> Fortune 500 headquarters firm.

<sup>2</sup> Brookings Institution analysis.

<sup>3</sup> Bureau of Labor Statistics, Region, Division, and State Labor Force Participation Rates with Confidence Intervals, Their Relationships to the U.S. Rate, and Over-the-Month Rate Changes with Significance Indicators, July 2010, seasonally adjusted.

While Minneapolis-Saint Paul's assets remain the envy of other regions, economic indicators lately reveal distinct signs of decline: modest wage growth, contracting innovation, weak sequencing of investment capital, slowing of proof of concept to commercialization, a widening achievement gap, and concerns regarding talent attraction. Missing, furthermore, has been a cohesive, regional economic development strategy.

As a complex, evolving system, the regional economy relies on a mix of inputs for performance and combines strengths unique to its assets and culture to move forward. The region's leadership has embraced a business planning framework for development of a metro-scale economic development strategy. This approach provides for clear analysis of market conditions and priority investments to support the region's future prosperity. This Metropolitan Business Plan articulates a framework for understanding the regional economy in a global context (chapter 2), and the economy's current status (chapter 3). Chapter 4 explores the region's primary challenges and key strategies to overcome them, organized by six areas of metro economic performance:

- Concentrations of industries, functions and occupations
- Human capital development and deployment
- An environment that facilitates innovation and entrepreneurship
- Spatial efficiency
- Effective public and civic culture and institutions
- Well developed and deployed information tools.

Chapter 5 presents the Plan's lead strategy: formation of a research-based entrepreneurship accelerator to stimulate growth of innovative early-stage businesses and ideas into venture-ready companies. This accelerator will link entrepreneurship and innovation in the region through five areas of intervention:

- Connectivity among entrepreneurs and investors
- Provision of public- and private-sector funding across stages
- Entrepreneurial expertise
- Market development of high-potential ideas
- Support and mentorship for entrepreneurs.

In combination, these interventions are intended to release the region's growth potential in initiatives that foster a more entrepreneurial, innovative economy and culture. The recommended strategic actions include elevating partnerships between industry, academia, the civic sector and investors to enable a greater churn of private-sector growth. Existing and emerging clusters will generate

growth and productivity through linkages to human capital development, acceleration of innovation and entrepreneurship, and more consistent contact among related firms and workers. The region's education and training systems will be retooled to capture human capital of young and mature workers, matching education and training to the demands of professional and technical fields. Firms and households will benefit from a more balanced distribution of jobs and housing, linked via high-quality infrastructure. Businesses, workers, investors and other stakeholders will have more and better information on a timely basis, improving their ability to evaluate investments in the region's economic system.

Minneapolis-Saint Paul is on the threshold of becoming a leading region in the "next economy." Robust assets arising from its legacy institutions and recent economic expansion remain embedded in the region. The strategies outlined in this Metropolitan Business Plan will catalyze emerging economic opportunities.

## 2. A “next economy” framework for regional economic development

The world’s labor, knowledge, networks, and other drivers of productive capacity are increasingly concentrating in its largest metropolitan areas.<sup>4</sup> In the U.S., the largest 100 metros in the U.S. occupy only 12 percent of the nation’s land mass but contain roughly two-thirds of the population, jobs, and research universities; at least three-fourths of graduate degree holders, knowledge economy employment, patents, and port and air cargo; and nearly all venture capital funding.<sup>5</sup>

### THE FOUR CHARACTERISTICS OF THE NEXT ECONOMY

The concentration of economic assets in metropolitan regions creates an opportunity to advance national economic prosperity by applying region-scale strategies developed and implemented locally. Matching the scope of such strategies to the basic unit of the next economy – the region – will reflect the scale of industry clusters, labor pools, governance and infrastructure that shape economic vitality and the extent to which it is shared. This approach promises to transform the U.S. economy into an engine positioned to take advantage of emerging global trends. Leading economists and government experts have identified four defining characteristics for strong economies of the future.<sup>6</sup>

- *Expansion of exports* of services and goods to reduce foreign debt while driving growth in jobs, productivity, wages, and skills.<sup>7</sup>
- *Low-carbon solutions* will create a new basis for competitive advantage and growth. Business strategies that incorporate low-carbon solutions will be

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<sup>4</sup> United Nations, “2009 Revision of World Urbanization Prospects” at <http://esa.un.org/unpd/wup/index.htm> (March 2010).

<sup>5</sup> Alan Berube, “MetroNation: How U.S. Metropolitan Areas Fuel American Prosperity” (Washington: Brookings, 2007). Metropolitan areas are where the nation’s assets combine to create disproportionate economic value: the 13 counties of the region represent less than 10 percent of Minnesota’s land area, 62 percent of its population, and generate nearly 75 percent of the state’s total economic activity, according to the Bureau of Economic Analysis, Regional Economic Accounts; U.S. Census Bureau, Intercensal estimates; Donjek analysis.

<sup>6</sup> Lawrence H. Summers, “Rescuing and Rebuilding the U.S. Economy: A Progress Report” at [www.whitehouse.gov/administration/eop/nec/speeches/rescuing-and-rebuilding-the-us-economy-a-progress-report](http://www.whitehouse.gov/administration/eop/nec/speeches/rescuing-and-rebuilding-the-us-economy-a-progress-report) (March 2010); “Remarks by the President in the State of the Union Address” at [www.whitehouse.gov/the-press-office/remarks-president-state-union-address](http://www.whitehouse.gov/the-press-office/remarks-president-state-union-address) (March 2010) and Bruce Katz, “The Next Economy: Transforming Energy and Infrastructure Investment” at [www.brookings.edu/~media/Files/rc/speeches/2010/0203\\_nextecon\\_katz/0203\\_nextecon\\_katz.pdf](http://www.brookings.edu/~media/Files/rc/speeches/2010/0203_nextecon_katz/0203_nextecon_katz.pdf) (March 2010).

<sup>7</sup> Jennifer Bradley, Emilia Istrate and Jonathan Rothwell, “Exports in the Great Lakes: How Great Lakes Metros Can Build on Exports and Boost Competitiveness,” Brookings Institution, July 2010; Howard Rosen, “Testimony prepared for the Senate Finance Committee Subcommittee on International Trade” at [www.iie.com/publications/papers/rosen1209.pdf](http://www.iie.com/publications/papers/rosen1209.pdf) (March 2010); Alexandre Mas, “Hearing on Exports’ Place on the Path of Economic Recovery,” at <http://finance.senate.gov/hearings/testimony/2009test/120909amtest.pdf> (March 2010).

positioned flexibly to respond to shifting consumer preferences, increasing world energy costs, and new regulatory policies.<sup>8</sup>

- *Innovation* will become even more critical to economic growth and competitiveness, intensifying pressure for U.S. regions to pool ideas for new systems and products.<sup>9</sup>
- *Opportunity-rich economies*, with strong middle-class earnings and more income equality, will position regions for success in the next economy. Regional prosperity will be founded on higher wages, education and skill levels across the population.<sup>10</sup>

## THE “LEVERAGE POINTS”

Metro regions aligned with these trends will capture the opportunities they create, and attract talent, capital, and ideas in support of a cycle of economic vitality. Success will depend on the effectiveness of interdependent economic systems. An integrated method of identifying the function and interrelationships of inputs essential to regional development can guide policy and investment in regional economies. These inputs have been here organized into six “leverage points” of regional economic development, to form the structure of the business plan approach. They are described in detail in chapter 4:

- “*Cluster*” strategies. The concentration of industries, functions and occupations in the region reduces transportation costs, attracts specialized labor, facilitates exchange of ideas and enhances innovation.
- *Human capital development and deployment* is the most important input to regional economic growth. High levels of educational attainment are required, plus effective ways to retain and match talent to employment opportunities.

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<sup>8</sup> For global opinions about climate change: Pew Global Attitudes Project, “2009 Global Attitudes Survey” (Washington, 2009); for growth in U.S. Energy Star purchases: “Energy Star Overview of 2009 Achievements,” [www.energystar.gov/ia/partners/annualreports/2009\\_achievements.pdf](http://www.energystar.gov/ia/partners/annualreports/2009_achievements.pdf) (March 2010); for national and international energy forecasts: U.S. Energy Information Administration, “Annual Energy Outlook Early Release Overview” (Washington, D.C.: U.S. Department of Energy, 2009), and U.S. Energy Information Administration, “International Energy Outlook 2009” (Washington, D.C.: U.S. Department of Energy, 2009). Global green economy growth forecast in U.K. Department of Business, Innovation, and Skill, “Low Carbon and Environmental Goods and Services: An Industry Analysis” (2009), available at [www.berr.gov.uk/files/file50253.pdf](http://www.berr.gov.uk/files/file50253.pdf). Growth in U.S. green jobs reported in Global Insight, “Current and Potential Green Jobs in the U.S. Economy” (Washington, D.C.: U.S. Conference of Mayors, 2008).

<sup>9</sup> Paul M. Romer, Implementing A National Technology Strategy with Self-Organizing Industry Boards,” in Martin Neil Baily, Peter C. Reiss, and Clifford Winston (eds.), *Brookings Papers on Economic Activity, Microeconomics 1993:2* (Washington, D.C.: Brookings Institution, 1993); Charles I. Jones, “Sources of U.S. Economic Growth in a World of Ideas,” *American Economic Review* 92 (2002): 220-239; Executive Office of the President, “A Strategy For American Innovation: Driving Towards Sustainable Growth And Quality Jobs” (Washington, 2009).

<sup>10</sup> “Strengthening the American Labor Force” in *The Economic Report of the President* (Washington, 2010).

- *An environment for innovation and entrepreneurship* is a longstanding driver of productivity gains. Within each stage of innovation, interventions can improve identification of markets, knowledge networks, university-industry partnerships, flows of investment capital for R&D and new ventures, and entrepreneurial environment and culture.
- *Spatial efficiency*. The location of businesses, suppliers, workers, and consumers within a region, and the infrastructure connecting them, determine transportation costs and influence benefits such as access to labor pools and knowledge spillovers.
- *Developing effective public and civic culture and institutions* can support private sector performance by shaping human capital development, regulatory efficiency, and infrastructure.
- *Well developed and deployed information tools* can help boost productivity, reduce transaction costs and risks, and influence consumer preferences, and help reach underserved areas of the region.

The leverage points and the interventions within them are interrelated and affect the entire regional economy; their goal is to shape integrated, multi-dimensional policies that connect the regional economy. Taken together with the four broad characteristics of the next economy outlined above, the leverage points provide a framework for analyzing regional economic performance and constructing a business plan to enhance it.

### 3. Market analysis and environmental scan

The Minneapolis-Saint Paul region has a history of economic success and a diverse economic base with multiple robust industry clusters. Growth in workforce productivity, high participation rates, and effective matching of worker skills to opportunities in evolving industry clusters have produced high wages and wage growth. The region's performance ranks in the top quartile of U.S. regions in productivity (22nd) and wages (14th), and has outpaced Midwestern and national averages in each for decades.<sup>11</sup> Our Fortune 500 companies support the region's ability to compete on a global stage.

Between 2000 and 2008, however, growth in regional economic output (13.0 percent), productivity (10.0 percent), employment (3.6 percent) and wages (2.7 percent) reveal an erosion in the pace of economic activity when compared to other metro areas.<sup>12</sup> In a 15-year period, firm starts and closings have fallen from a level 25 percent higher than U.S. metro averages to nearly even.<sup>13</sup> Minnesota's rank in number of entrepreneurs per 100,000 residents has fallen from 22nd in 2007 to 48th in 2009.<sup>14</sup> Because small employers create over 75 percent of new jobs,<sup>15</sup> flat entrepreneurial activity has direct negative consequences for job growth. The falling indicators point to missing links in an economy that has in the past served as a model.

- Idea generation in the region is not effecting a high birth rate of firms. Measures of entrepreneurial vitality such as the number of business starts and closures<sup>16</sup> and originations of small- and mid-size business loans<sup>17</sup> reveal a need to deliver more innovative ideas to the marketplace through technical assistance, funding and spinoff from private and public centers of research.
- A tradition of education excellence has produced one of the nation's most highly educated<sup>18</sup> and productive<sup>19</sup> pools of knowledge workers. However,

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<sup>11</sup> Bureau of Economic Analysis; Itasca Project analysis.

<sup>12</sup> U.S. Bureau of Economic Analysis Local Area Personal Income and Employment

<sup>13</sup> Small Business Administration Office of Advocacy; Donjek analysis.

<sup>14</sup> Kauffman Index of Entrepreneurial Activity, 2007-2009.

<sup>15</sup> U.S. Census Statistics of U.S. Businesses; Itasca Project analysis.

<sup>16</sup> Firm establishment births and deaths as a percentage of total establishments (business churn) was 23.2 percent or 44th among U.S. metro areas (2006 data from U.S. SBA Office of Advocacy, Brookings analysis).

<sup>17</sup> U.S. SBA, 2007 data, Itasca analysis in "Job Growth Taskforce: Innovation and Startup."

<sup>18</sup> The college degree attainment level is 37.6 percent (American Community Survey, 2008, Brookings analysis).

<sup>19</sup> Bureau of Economic Analysis Local Area Personal Income and Employment; Brookings analysis.

investment in training and our educational systems is falling: For the 2011-12 school year, metropolitan school districts have projected a \$187 million funding shortfall.<sup>20</sup> A persistent achievement gap and underutilization of older workers limit productivity.<sup>21</sup>

- Business retention and attraction efforts are challenged by lack of a shared regional economic development agenda. Private-sector boosters, local officials, and the State's Department of Employment and Economic Development (DEED) are responsible for regional economic development, but lack the resources, tools, and coordination required for high-impact action on a regional scale.
- Labor force growth has slowed significantly. Annual workforce growth in the metro region was over 1.5 percent in the 1990s but is projected to slow to less than 0.5 percent in the coming 25 years.<sup>22</sup>

These challenges are common to times of economic transition. The framework that enabled the region's initial move to the knowledge economy – an innovative and open business, government, civic, and cultural environment – now needs to adapt to the next economy.<sup>23</sup> Regional strategy must focus on the vital generators of new growth: creating and deploying skilled human capital, fostering innovation, and accelerating entrepreneurship. A cohesive, transformational and tactical business plan can take the region to the next level and secure prosperity in the next economy.

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<sup>20</sup> District survey, Association of Metropolitan School Districts. Districts have experienced widespread budget deficits in recent years and the current year.

<sup>21</sup> Itasca Project and Minnesota Business Partnership, "Minnesota's Future: World-Class Schools, World-Class Jobs," January, 2009.

<sup>22</sup> Minnesota Department of Economic Development, Minnesota Demographic Center data; annual growth is projected to fall from an average of 0.75 percent per year in 2010-15 to a low of 0.10 percent in 2020-25, then rise again to 0.27 percent in 2030-35.

<sup>23</sup> Robert D. Atkinson and Scott Andes, *The 2008 State New Economy Index* (Washington, D.C.: Information Technology and Innovation Foundation, November 2008).

## 4. Strategies by leverage point

The process of building the metropolitan business plan has highlighted the importance of a collection of economic development initiatives. These strategies together capture the opportunity to address the region's challenges in an integrated, comprehensive fashion, fueling the region's transition to the next economy.

### LEVERAGE POINT 1: CLUSTER STRATEGIES

#### Background

Dense networks of industries, functions, and occupations accelerate growth in employment, wages, number of firms, and innovation. These networks or clusters expand access to specialized labor pools and ideas with commercial potential and facilitate efficient use of physical infrastructure. They are stimulated by the presence of other clusters in the region, and new industries thrive in a strong cluster environment.<sup>24</sup>

Twenty-eight percent (465,000) of the region's workers are employed in traded clusters of firms that export products and services. Wages paid in these clusters exceed the regional average by 37 percent, reflective of added productivity observed in cluster analyses.<sup>25</sup> Some of these clusters are considered "strong": having markedly higher concentrations of workers than in other regions. These employ 17.5 percent of the workforce, one of the 25 highest proportions in the nation.<sup>26</sup> These networks can be utilized for economic expansion, through new firm starts and greater contact among existing firms within (and across) clusters. Ten particularly strong traded clusters have been identified and three were selected for comprehensive analysis due to their unique characteristics:

- **Medical devices** (3.51 location quotient)<sup>27</sup>; 85 percent of the state's medical devices activity is concentrated in the three metro counties of Ramsey, Hennepin and Anoka.<sup>28</sup> Employment growth, wages, and export levels are

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<sup>24</sup> Delgado, Porter, Stern: "Clusters, Convergence and Economic Performance," August 2010, and "Clusters and Entrepreneurship," *Journal of Economic Geography* (May 2010), pp. 1-24.

<sup>25</sup> Background analysis for Karen Mills, Elisabeth Reynolds, and Andrew Reamer, "Clusters and Competitiveness: A New Federal Role for Stimulating Regional Economies," Brookings Institution, April 2008.

<sup>26</sup> Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School, 2007 data, and background analysis for Karen Mills et al., *ibid.*

<sup>27</sup> Location quotient, or the region's industry job share divided by the nation's industry job share for each industry group (MSP Regional Cluster Initiative, 2006 data).

<sup>28</sup> MSP Regional Cluster Initiative, report on Medical Devices Cluster, May, 2010.

high; core needs include proximity to top-tier researchers, infrastructure, and innovative firms attractive for acquisition.

- **Distribution services** (1.37) form a cluster that originated in agricultural productivity and efficient access to marketplaces. Knowledge workers in research, finance, marketing and logistics, as well as physical infrastructure and innovation remain essential inputs for growth.
- **Financial services** (1.63) is led by the insurance industry (total employment, 50,900; location quotient, 1.74). Business and financial operations, key back-office functions of the cluster, employ the fourth-highest proportion of regional workforce in the metro, among the 100 largest metros nationally. Educated workers and access to concentrations of headquarters and their supplier firms are key ingredients of prosperity for the financial services cluster.

The other seven strong clusters are: analytical instruments (with location quotient of 2.04), publishing and printing (1.99), production technology (1.60), information technology (1.50), metal manufacturing (1.39), business services (1.26), and chemical products (1.15).

The clusters of analytical instruments, production technology, and metal manufacturing have primarily developed around manufacturing activity, presenting opportunities across wage levels and high potential for export. The Minneapolis-Saint Paul region is among the top twenty metro areas in manufacturing employment (14 percent of the workforce), an important pathway to skilled, well-paying jobs for workers without 4-year degrees.

In addition to these industry and occupational clusters, a concentration in headquarters functions has also developed in the region. The metro is home to 21 Fortune 500 headquarters – the most per capita nationally – including “back office” and management functions. Almost 6 percent of the workforce is employed in management, the second-highest proportion in the country.<sup>29</sup>

## Challenges and opportunities

Clustering, founded on the region’s skilled workforce and transportation and R&D resources, accelerated formation of new firms and attracted others from outside the region, even without an articulated strategy. Cluster strategies can optimally match specialized labor pools to corporate demand and increase connectivity among firms and researchers. Private- and public-sector leadership and support, provided regionally to reflect the scale of cluster networks, can advance the strategies<sup>30</sup> and connect clusters of neighboring regions. Cluster strategies can

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<sup>29</sup> U.S. Census Bureau, County Business Patterns, 2007; Donjek analysis.

<sup>30</sup> MSP Regional Cluster Initiative.

realign economic development efforts and focus leadership on sustaining the human and physical infrastructure that gave rise to the region's core industries. The strategies will have three objectives:

- **Expanding** the region's highest-performing traded clusters – through new firm starts and spinoffs and attracting existing companies – to drive entrepreneurship and job growth
- **Concentrating** key industries and occupations to reinforce a cycle of higher exports and attraction of skilled, specialized workers from outside the region
- **Linking** the activity of existing industry and occupational clusters to develop new clusters drawn to emerging opportunities in the region's innovation ecosystem and labor marketplace.

## Strategies

The four cluster strategies outlined below, implemented according to the findings of qualitative research and analysis, will provide benefits to new firms starting here, growing companies locating or expanding, and mature corporations, in the form of access to talent and spillover effects.

*Expand gateway for bioscience commercialization: the Biomedical Discovery District, University Enterprise Labs, and the Minnesota Science Park*

The University of Minnesota (U of M) is developing a Biomedical Discovery District consisting of over \$292 million in facilities housing translational research on diabetes, Alzheimer's, cancer, and other diseases. Aligned with the university's academic mission and benefiting human health, the district, as a key goal, will also benefit the state's economy and advance the biomedical technology industry. The U of M's efforts to commercialize technology and intellectual property have improved significantly in recent years. Furthering the translation of research in the Discovery District into clinical and commercial applications that contribute to our region's biomedical industry cluster will require greater interaction between researchers, clinicians, entrepreneurs, and financiers.

Creating facilities to foster interaction is a key ingredient to the Discovery District. To complement the new university buildings, private sector facilities to house companies, service providers, and other amenities are also needed. The University Enterprise Labs (UEL), a nonprofit business incubator in Saint Paul, is one such facility, housing companies wanting to be located near the university. Developed with leadership from the U of M, the City of Saint Paul, and with significant funding from several corporations, UEL is near capacity and exploring a \$23 million addition of 40,000 square feet of laboratory space. More private sector facilities are planned for the area, the result of UEL spanning westward to the doorstep of the Biomedical Discovery District. Dubbed the Minnesota Science

Park, it will comprise a series of buildings housing start-up and established companies attracted to the proximity to the university.

Facilities such as these strengthen networks in the region's competitively advantaged industries. They establish spaces for the exchange of ideas about potential commercial applications of innovative concepts. Finally, these initiatives provide a gateway for investors to access early-stage companies and for entrepreneurs to build relationships with funders.

*Implement the research-based medical devices cluster strategy: The MSP Regional Cluster Initiative*

The MSP Regional Cluster Initiative is a collaborative initiative of the Urban Land Institute Minnesota/Regional Council of Mayors, the University of Minnesota's Humphrey School of Public Affairs, and Minnesota DEED. Together with the BioBusiness Alliance of Minnesota, this project is stewarding a more formal network within the medical devices cluster. This private-public partnership will design and implement a cluster board and measure its use by existing firms located in the region and elsewhere, as well as entrepreneurs evaluating start-up or relocation opportunities. Expanding user access to industry-specific information will reduce barriers to entry and increase firm starts and job creation in high-impact regional clusters, as well as enhance the matching of skilled labor pools to opportunities. A cluster board serves as a conduit for collaboration on issues of particular importance to an individual industry cluster, including efficiency innovations, best practices, issues of capital access, workforce development needs, and technological advancement.

*Leverage headquarters concentration for entrepreneurship: Itasca Project Business Bridge*

The Itasca Project is evaluating the creation of a "Business Bridge" to stimulate direct connections between Fortune 500 firms headquartered in the region, and small and medium-sized vendors also located here. Regionally, an opportunity exists to create benefits both for buyers and sellers of products and services by enhancing their connections within the region. As buyers, corporations and other businesses in the region stand to benefit from aggressive pricing and a competitive advantage in awareness of companies suitable for potential acquisition. For sellers, contracts with larger corporate buyers strengthen predictability of cash flow, and enhance their hand in negotiations with lenders. The Business Bridge would take advantage of the region's concentration in headquarters to stimulate small business formation and growth. At the same time, the process could promote contact and transparency between large corporations and high-growth firms.

*Partner with statewide cluster efforts: BioBusiness Alliance of Minnesota*

The BioBusiness Alliance of Minnesota (BBAM) has examined clustering statewide in overlapping industries of medical devices, pharmaceuticals/biologics, animal health, food, renewable energy, and materials. BBAM's Destination 2025 initiative is an innovative cluster strategy to promote the exchange of ideas and advocacy among areas of competitive advantage across the state.

This year, BBAM released BIOMAP, a mapping tool allowing users to search the state's geography for firms by industry, knowledge cluster, supply chains, or educational programs. The tool is valuable for workers, entrepreneurs exploring location decisions, and investors. Integration of metro-scale efforts with statewide cluster initiatives will reinforce the value of strategies to build dynamic industry and occupational clusters in the region. It will also expand further the metro area's potential pool for workers and connect entrepreneurs around the state with peers and funders based in the region.

## **LEVERAGE POINT 2: DEVELOP AND DEPLOY HUMAN CAPITAL FOR ECONOMIC GROWTH**

### **Background**

Strong, accessible public education in the region is commonly credited for its economic success. Minnesota students consistently score among the highest U.S. states for math and reading skills. In 2009, students in Minnesota scored among the top five in math skills. Despite some decline since 2003, the state's students post reading scores among the top quartile of U.S. states.<sup>31</sup>

Highly skilled, specialized workers that pursue continued education after high school form a cornerstone of the metro's economic success. Two-thirds of the region's workers have pursued some post-secondary training or education, outpacing the national average of 54 percent.<sup>32</sup> The region's adult population has the 9th highest rate (37.6 percent) among the nation's metro areas in attainment of college degrees (bachelor's and higher). The region's productivity ranks 22nd among metro areas, with wages ranking 14th among the 100 largest metros.<sup>33</sup>

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<sup>31</sup> National Center for Education Statistics (NCES) data for 2000-2009. Minnesota ranked 3 in grade 4 math in 2009, compared to 2 in grade 4 math in 2000; 2 in grade 8 math in 2009 versus 1 in 2000; 21 in grade 4 reading in 2009 versus 4 in 2002; and 10 in grade 8 reading in 2009 compared to 11 in 2003. In 2009, Minnesota's ACT scores ranked highest of the states, according to the Minnesota Office of Higher Education.

<sup>32</sup> U.S. Census Bureau, 2008 American Community Survey; Donjek analysis.

<sup>33</sup> American Community Survey; Bureau of Economic Analysis Regional Economic Accounts Local Area Personal Income; Bureau of Economic Analysis Local Area Personal Income and Employment.

The percentage of workers employed in the region's professional and related occupations, and the median wages in these roles, rank in the top quartile nationally. The economy's manufacturing sector employs 14.1 percent of the workforce (18th highest), with median wages 12 percent higher than for metro areas overall. The region posts the nation's second-highest labor force participation rate.<sup>34</sup>

The metro unemployment rate, currently at 6.8 percent, has been consistently lower than the U.S. level, now at 9.7 percent.<sup>35</sup> Unemployment has fallen more rapidly in the Minneapolis-Saint Paul region since 2009 than in nearly any other, indicating the presence of a workforce with flexible, transferrable skills.<sup>36</sup>

These attributes indicate the region's powerful competitive advantage in human capital, attractive of strong clusters in high-knowledge industries and in headquarters functions. An economy led by these clusters, the University of Minnesota, and the region's high quality of life draw educated workers to the region from other states and countries: 47.5 percent of workers who move to the region from other states or abroad possess a bachelor's or higher degree, a proportion than even native Minnesotans (32.7 percent).<sup>37</sup>

The region's high productivity and wages are nonetheless growing at rates lower than in other U.S. metropolitan areas. Current average growth rates for wages and productivity in Minneapolis-Saint Paul rank 56th and 58th among the nation's metro regions.<sup>38</sup> With modest natural growth in the labor force projected, the leveraging of regional assets to attract highly educated workers, and a flexible system for linking them to occupational demand, is particularly important to the region.

## **Challenges and opportunities**

Measures of workforce education and skill indicate falling competitive advantage; the region's human resources are not fully deployed. Minnesota has one of the nation's highest gaps between white and black students as measured by test data and graduation rates.<sup>39</sup> In the region, 79.5 percent of white students graduate

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<sup>34</sup> Minnesota's labor force participation rate is 71.9 percent: U.S. Department of Labor Bureau of Labor Statistics, Local Area Unemployment Statistics, August 20, 2010.

<sup>35</sup> Bureau of Labor Statistics, Metropolitan Area Employment and Unemployment Summary, September 1, 2010.

<sup>36</sup> Bureau of Labor Statistics, Over-the-Year Change in Unemployment Rates for Metropolitan Areas, June 2009-10; Minneapolis-Saint Paul region's unemployment rate fell 1.7 percent during the year ending June, 2010; metro areas of Owensboro, KY (2.0 percent) and Toledo, OH (1.8 percent) experienced larger declines in unemployment.

<sup>37</sup> U.S. Census Bureau, 2008 American Community Survey; Donjek analysis.

<sup>38</sup> Bureau of Economic Analysis, Regional Economic Accounts, Local Area Personal Income and Employment (2002-08 data); Brookings analysis.

<sup>39</sup> Itasca Project and Minnesota Business Partnership, "Minnesota's Future: World-Class Schools, World-Class Jobs," January, 2009.

versus only 47.3 percent of blacks.<sup>40</sup> Disparities by race or achievement at the high school level are costly in social and economic terms. Recent analysis indicates that the 10,000 Minnesotans who drop out of high school each year wind up costing the public \$10.6 billion over their lifetimes.<sup>41</sup>

Improving educational performance and participation is an economic imperative for the region, including credentialing and training beyond high school. Post-secondary training across industries and occupations enables workers to pursue career paths that match opportunities available in the region. Credentialing creates worker flexibility and transferability, thus allowing the economy to respond nimbly to changing dynamics. Industry-recognized credentialing applied across occupations improves the matching of opportunities and skills for firms and workers, particularly in the region's traded clusters. Broader acquisition of post-secondary education and transferrable credentials is, however, impeded by budget shortfalls and declining public investment in our education and training institutions.<sup>42</sup>

By 2018, 70 percent of jobs in Minnesota are expected to demand post-secondary training and credentialing. The region's workforce, and its younger workers in particular, appear well prepared for this shift. Among residents ages 25-44, 73.9 percent have pursued post-secondary education. The level is slightly lower (68.9 percent), for workers ages 45-64 and much lower (48.2 percent) for those over 65.<sup>43</sup> The impact of the Great Recession and gains in longevity will drive residents to work later in life, increasing the importance of credentialing and retraining for older workers. Strengthening the community and technical colleges in the Minnesota State College and University (MnSCU) system in partnership with Adult Basic Education and Workforce Development is key to sustaining credentialed career pathways for younger and older workers.

Jobs in the region's key occupations are projected to multiply, according to recent analysis,<sup>44</sup> but overall "natural" regional workforce growth, which was 200,000

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<sup>40</sup> Minnesota Department of Education data, 2008; Minnesota Compass analysis.

<sup>41</sup> Growth and Justice, "Smart Investments in Minnesota's Students"; figure includes foregone earnings to individuals, as well as public costs associated with crime, health and welfare. Minnesota Compass reports that the region's high school graduation rate in 2008 was 68.1 percent, compared to 72.8 percent statewide.

<sup>42</sup> Minnesota Office of Higher Education, "Average Annual Full-Time Undergraduate Resident Tuition and Fees"; in constant dollars, tuition increases since 2000 include 71 percent for the University of Minnesota, 57 percent for state universities in the Minnesota State Colleges and Universities system ("MnSCU"), 48 percent for MnSCU 2-year and technical schools, and 25 percent among private colleges.

<sup>43</sup> American Community Survey, 2006-08; individuals pursuing at least some college represent 73.2 percent of residents 25-34, 74.6 percent of those 35-44, 68.9 percent of those 45-64, and 48.2 percent of those 65 or older.

<sup>44</sup> Martin Prosperity Institute projects job growth of over 10 percent for the Minneapolis-Saint Paul region, 2008-18: <http://www.theatlantic.com/business/archive/2010/08/where-the-jobs-will-be/61459/>

during 2001-10, is projected to go into deficit in the next 20 years.<sup>45</sup> Maintaining the metro's workforce as a magnet for building thriving industry and occupational clusters is critical; so is the attraction of workers from elsewhere through the creation of jobs in the region.

Slowing workforce growth increases the importance of initiatives to preserve our competitive advantage. Continued investment in education and training is key to protecting the region's strength in skilled workforce. Increasing the level and transferability of skills, and expanding access to education and training are key approaches to retain the region's prominence in human capital.

Aligning investments in education with workforce and economic development will be key in maintaining for state and regional competitiveness. Formidable metro-scale collaboration exists between the eleven one-stop workforce centers partnering with the Greater Metro Workforce Council and the Workforce Investment Boards, and inclusive of community based employment and training providers, Adult Basic Education, Community and Technical Colleges of MnSCU and foundation partners such as United Way, McKnight, Wells Fargo and Phillips Foundation. Minnesota is one of only two states delivering an integrated one-stop system but sustaining this model is becoming increasingly difficult due to strained resources.

## **Strategies**

### *Increase equity of access to education via coordinated local action: the Promise Neighborhood*

Saint Paul developed the Promise Neighborhood initiative utilizing a U.S. Department of Education planning grant to develop a cradle-to-career approach to education and youth development. The initiative focuses on the Frogtown and Summit University neighborhoods, which have a disproportionately young and low-income population. It brings together the City of Saint Paul, the Saint Paul School District, Ramsey County and the Wilder Foundation, the YWCA of Saint Paul, the Summit University Planning Council, and the Frogtown Neighborhood Association, to align resources to support kids in school, at home, and in neighborhoods. By providing a continuum of supports to increase student achievement, more kids will graduate from high school and go on to post-secondary training, to acquire the skills they need to compete in the 21st century workforce.

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<sup>45</sup> Minnesota State Economist Tom Stinson, "The Short- and Mid-Range Economic Outlook," presentation to the Regional Council of Mayors, November, 2009.

*Connect high school students to career pathways: AchieveMpls*

High school students have inadequate access to information about careers in the trades, technical fields, and colleges and universities in the region, and how to pursue credentialing and job opportunities. AchieveMpls is a strategic nonprofit partner of Minneapolis Public Schools with support from the City of Minneapolis, the Minneapolis Regional Chamber of Commerce and others. It invests private funding to staff high schools with guidance counselors able to advise students about postsecondary options that include technical and vocation training opportunities. Also in Minneapolis, vocation magnet high schools focused on industries such as manufacturing and health care provide early-track choices for students to develop expertise and identify specific postsecondary choices for credentialing. Establishing early awareness of career pathways deepens the expertise developed and supports prospects for high school and postsecondary program graduation.

*Link opportunities for human capital development to green jobs*

**A coordinated, regional initiative to grow and attract green jobs**

Thinc.GreenMSP is a partnership between Minneapolis and Saint Paul to facilitate the growth of the region's green manufacturing economy. It seeks to create regional distinction, to drive demand for green products and services, and to generate momentum and support for continued innovation in green manufacturing. Thinc.GreenMSP will partner with private, public and academic sectors to:

- To improve Minneapolis Saint Paul's green manufacturing base, including a local government green purchasing partnership, green building standards, matching existing industrial zones with manufacturers poised to thrive in a low-carbon economy, and financing tools for green manufacturers;
- Grow the market for green products and services;
- Brand Minneapolis Saint Paul as a great place to develop green business, expand the green business-friendly environment; and
- Create access to opportunities for the region's residents across levels of credentialing.

**Train and deploy underemployed workers to growth areas in green economy**

Renewable Energy Networks Empowering Workers (RENEW) is a 2-year collaborative project between the City of Minneapolis and Ramsey County Workforce Solutions designed to provide employment and training services and funded by \$4 million invested by the federal government's Pathways Out of Poverty effort.

The RENEW program builds on economic development opportunities to train and place jobseekers in “green-collar” careers. Trainees are equipped with skills that business customers use to manage energy usage and create and improve sustainable business operations. Recruitment is aimed at low-income neighborhoods throughout Minneapolis and Saint Paul, to strategically connect them to the opportunities of the emerging green economy. The project will serve participants over a 24-month period with job training in the areas of construction/deconstruction, manufacturing, building systems, and renewable energy with a focus on solar power. Training will be supplemented with adult basic education services and support services. Ninety percent of participants are expected to earn an industry-recognized degree or certificate.

### **Build internal capacity for organizations to leverage low-carbon advantage**

The Minnesota BlueGreen Alliance is a broad-based initiative to put Minnesotans to work in sustainable industries, formed through partnership of the United Steelworkers, the Sierra Club and others. The Alliance has launched GreenPOWER, an innovative new training program designed to give workers the skills required for Minnesota’s clean energy economy, bringing together labor unions, manufacturers and job training providers to implement energy strategies in workplace. With stand-alone modules, GreenPOWER can fit into trainee schedules and be customized to meet employer requirements.

GreenPOWER trains workers and jobseekers in energy efficiency, environmental awareness, waste reduction, and lean production techniques that can be applied to traditional manufacturing, materials production, and assembly, as well to clean energy and “green-oriented” producers. GreenPOWER anticipates serving 1,375 trainees through December 2011, including incumbent, unemployed and dislocated workers across the region.

*Retrain adult workers in the region: FastTRAC and ShiFT Midternships*

### **Link adult basic education, community and technical education in a coordinated system for adult workers**

The Minnesota FastTRAC (training, resources and credentialing) initiative is an integrated model connecting veteran, displaced or lower-skilled workers to adult basic education, community and technical education. Focused on engaging older workers in opportunities that lead to “stackable” credentials, FastTRAC is sponsored by the Minnesota Dept. of Employment and Economic Development (DEED) and envisioned for application statewide. Objectives include helping newly trained or retrained, low-skill adults to match skill sets to employment

opportunities in critical occupational clusters.<sup>46</sup> This effort to revitalize the workforce development system will partly depend on business participation to make it more employer-driven; included will be effective retraining options and credentialed career pathways for maximum transferability across the regional (and national) economy.

### **Facilitate redeployment of adult workers in midlife career transitions**

ShiFT is an innovative offshoot of the Vital Aging Network (a national leader in changing the perception of seniors as a needs-based to one of a strengths-based population). It is charged with delivering a transformative and innovative approach to vital aging in the workforce. SHiFT facilitates the “Midternships” pilot program in conjunction with DEED. These are programs for highly motivated individuals of 50 years of age or older to try their skills in a new work environment up to 32 hours a week for 3 to 6 months. Workers gain on-the-job, documented experience in a new career, while employers gain valuable temporary help from a qualified talent pool.

## **LEVERAGE POINT 3: DEVELOP THE INFRASTRUCTURE OF INNOVATION AND ENTREPRENEURSHIP**

### **Background**

By leveraging private and public research, corporations and entrepreneurs can convert new ideas into valuable products and services for export, and jobs and economic activity for the region. As a proportion of total gross domestic product, the value of research and development conducted in Minnesota ranks among the top fifteen states.<sup>47</sup> The Twin Cities campus ranks in the top ten institutions in a tally of scientific papers generated, and in aggregate dollar value of research.<sup>48</sup> The University of Minnesota is a major contributor. The University ranks in the 99th percentile for licensing income and 77th percentile for licenses executed for research generated in the institution.<sup>49</sup>

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<sup>46</sup> Lee Munnich, Jr. and L. Burke Murphy, “Minnesota’s Workforce Investment and Competitiveness Strategy,” presented to the European Commission Directorate-General for Employment, Social Affairs and Equal Opportunity, and University of Maryland School of Public Policy, November 7, 2009.

<sup>47</sup> Research intensity is 3.1. National Science Foundation, 2005; Itasca Project analysis. Also see Minnesota Department of Employment and Economic Development, Kyle Uphoff. Figures indicate the state’s rank in per-capita research and development investment has fallen from 20th in 1972 to 40th in 2004. A falling state rank in per-capita research and development investment presents particular cause for concern given the critical nature of research to the regional economy.

<sup>48</sup> American Community Survey, US News and World Report; National Science Foundation; Itasca Project analysis.

<sup>49</sup> The University’s role in developing Ziagen, an anti-AIDS drug, has generated an estimated \$300 million in royalties since 1999.

The private sector plays a larger role in the region's innovation system. Industrial research and development per capita in the region is nearly ten times that in the academic environment, and exceeds the national average by 65 percent. Between 2003 and 2007, 3M filed 1,584 patents (while the University of Minnesota filed 141).<sup>50</sup> Large employers fund the majority of private research in Minnesota: 61.3 percent of industrial research and development is invested by firms with more than 10,000 employees, versus 52.5 percent nationally.<sup>51</sup>

## Challenges and opportunities

Despite well-developed sources of innovation in the private and public sectors, the region's entrepreneurship levels are modest and falling. Among the 100 largest metro areas the region ranks 44th in business churn – the rate of starts and closings of firms in the region – and 64th in employment turnover resulting from business starts and closings.<sup>52</sup> Declines in the number of entrepreneurs per capita and the number of high-technology jobs, and flagging levels of venture capital<sup>53</sup> signify that promising ideas are not leading to new firms and jobs.

Two opportunities identified by research as vehicles to address these trends are improved technology transfer from public and private research institutions, and more investment for young, growing firms. The University's pace of investing in firms to commercialize research has quickened in the last 18 months, but it spun off just eleven start-ups between 2005 and 2009.<sup>54</sup> Among the top eight universities in licensing income, U of M ranks sixth, but it is ranked at the bottom in start-up activity.<sup>55</sup> The University's Office of Technology Commercialization and its partners are engaged in reversing this trend and policies that limit faculty investment in spin-offs are currently under examination.

Technology transfer from large corporations, which develop and retain a concentration of research and development with commercial potential, is limited by the proprietary and defensive nature of corporate patenting activity. Entrepreneurs and small firms are challenged to pluck and combine proprietary intellectual property generated by corporations headquartered regionally, presenting a barrier to growth. Improved access to intellectual property is a

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<sup>50</sup> Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.

<sup>51</sup> National Science Foundation data; Donjek analysis.

<sup>52</sup> Small Business Administration Office of Advocacy; Brookings analysis.

<sup>53</sup> Levin Center for Economic Development, "Minneapolis/Saint Paul Innovation and Entrepreneurship." August 2010.

<sup>54</sup> Start-up figures from University of Minnesota, Office of Technology Commercialization. The University ranked 35th among 157 research institutions with annual research budgets over \$1 million, according to the Association of University Technology Managers 2007 Licensing Survey; analysis by Itasca Project.

<sup>55</sup> Association of University Technology Managers 2007 Licensing Survey, analysis by Itasca Project.

priority in many metro areas, and is particularly important in the Minneapolis Saint Paul region due to the concentration of headquarters and knowledge functions.

The region's performance in formation of mid-size (20-500 employees) firms falls in the bottom half of U.S. metros, indicating that a strong stock of ideas is not linked to entrepreneurs to increase regional employment and growth.<sup>56</sup> The public and private institutions conducting most R&D are not transferring the projects quickly to entrepreneurs, which can be a barrier to growth.

In addition to improved transfer of technology, entrepreneurship can be boosted through an improved sequencing of risk capital. In a shift since the 1990s, few venture investments in the region are now made in the "seed stage" or first round of capital raising. Many regional venture firms and angel groups today favor companies with relatively complete management teams and products, as well as a few actual customers. Thus the supply of risk capital available to leaders of young, high-growth firms in the region is restricted. Minneapolis-Saint Paul venture capital firms invested in 98 prospects between 2004-2007, considerably lagging like firms in Boston (1,000+), Seattle (343), and Austin, Texas (200).<sup>57</sup>

Debt financing for more mature firms is also lagging, representing another gap in sequencing of business financing. The rate of loan origination to small and mid-size businesses in the region is less than 60 percent of leading regions.<sup>58</sup>

The region must link innovation to entrepreneurs, and entrepreneurs to risk capital, with more speed and effectiveness. The volume of intellectual property produced in the public and private sectors, and the presence of educated, skilled workers form the base for a more dynamic, flexible regional economy of the future. Connecting stakeholders to transfer technology and funding early-stage enterprises more quickly and effectively represents a critical next step to increase economic activity and shared prosperity.

## **Strategies**

### *Create a regional entrepreneurship accelerator*

The private-public collaboration of the Itasca Project, Urban Land Institute Minnesota / Regional Council of Mayors, Minnesota Department of Employment and Economic Development (DEED), Target Corporation, the City of Minneapolis

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<sup>56</sup> Small Business Administration Office of Advocacy.

<sup>57</sup> Capital IQ; Itasca Project analysis. Per capita, Minnesota's venture investment of \$24 is double the average of the Great Lakes states, but well short of the \$160 funded in Massachusetts, according to Frank E. Samuel, Jr., "Turning up the Heat: How Venture Capital Can Help Fuel the Economic Transformation of the Great Lakes Region," Brookings Institution, January 2010.

<sup>58</sup> Federal Financial Institution Examination Council, MSA aggregate report, 2007; Itasca Project analysis.

and the City of Saint Paul has engaged with JumpStart Community Advisors to build a regional entrepreneurship action plan (REAP). Originally an initiative focused on Saint Paul and Ramsey County, the City of Saint Paul has worked with regional leaders, JumpStart, and funders to expand REAP to include all thirteen counties in the metropolitan statistical area. Expanding and enlivening the region's entrepreneurial ecosystem is the primary objective of REAP and the proposal for an entrepreneurship accelerator. This initiative is the lead strategy of the metropolitan business plan.

The objective of REAP is to build the region's entrepreneurial assets. REAP will provide an independent analysis of entrepreneurial potential across the region based on stakeholder interviews and quantitative research. Specific programs and tools designed according to the metro's unique strengths can identify the potential and an action strategy to create high-growth, technology-based start-ups across all industries, from food sciences to medical information. Tools include technical assistance, mentoring and access to funding that prepares high-potential start-ups for support from angel investors and venture capitalists.

The plan for an entrepreneurship accelerator reflects the emphasis on improving the region's entrepreneurial ecosystem, to seize opportunities and address challenges examined in this metropolitan business plan.

*Stimulate innovation through links to statewide initiatives: Minnesota Science and Technology Authority*

The Minnesota Science and Technology Authority (MSTA), a state-supported economic development initiative, was created in July 2010 to stimulate innovation and encourage investment in new-technology products, companies, industries, and jobs. The Authority will connect science and technology businesses and nonprofit organizations with funding, resources, and counsel to enhance Minnesota's economic vitality with science and technology-based business development.

*Expand gateway for bioscience commercialization: University Enterprise Labs, Biomedical Discovery District, Minnesota Science Park*

Expansion of the University Enterprise Labs (UEL) and planned development of the Biomedical Discovery District and Minnesota Science Park represent initiatives to promote collaboration between the University and the entrepreneurial community. By enhancing the ability of entrepreneurs to translate research and development into products will reinforce a positive regional reputation among venture capital investors. More detail about these initiatives is provided in the discussion of Leverage Point 1.

*Expand informal advocacy for innovation and entrepreneurship*

Many organizations have served the region by convening entrepreneurs and advocates, including the Collaborative, LifeScience Alley, the BioBusiness Alliance of Minnesota, Metropolitan Economic Development Association and the Minnesota High Technology Association. In recent years, additional networks have formed to exchange ideas and raise the profile of entrepreneurship in the region, including Minne\*, MOJO Minnesota, and the Cleantech Open and Minnesota Cup business competitions. The networks seek to connect entrepreneurs with technical assistance, investors, and peers to enhance commercialization in the region. They also support strong and transparent regional civic culture and institutions; they are further discussed in Leverage Point 5 (*create effective public and civic culture and institutions*).

## **LEVERAGE POINT 4: INCREASE SPATIAL EFFICIENCY**

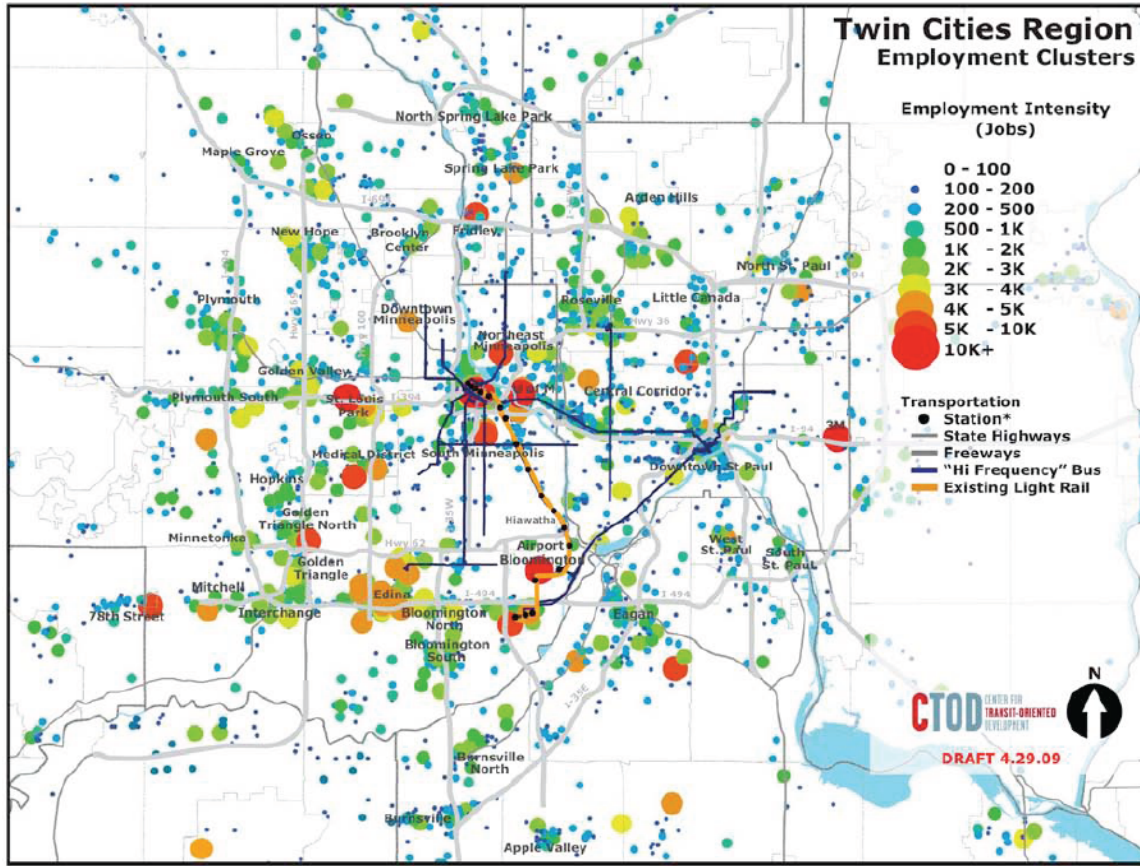
### **Background**

The Minneapolis-Saint Paul region's growth radiated from an urban concentration of jobs and housing to suburban and ex-urban development. This expansion was made possible by infrastructure investments (sewer, water and roads, affordable land, schools and sustained consumer demand for low-density, single-asset development.

The region's development as a center of knowledge workers and innovation in the 1980s, 1990s, and 2000s triggered a population expansion. Jobs, accessible education and quality of life stimulated immigration, and the rate of growth in workforce boosted demand for housing and services. The result was a 38 percent expansion in developed land area, and population growth of 25 percent between 1986 and 2002.<sup>59</sup>

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<sup>59</sup> Myron Orfield and Thomas Luce, *Region* (Minneapolis: University of Minnesota Press, 2010), p. 22. Between 1970 and 2005, residential land use in the seven-county region increased 91 percent and commercial land use increased 150 percent (Metropolitan Council data).



Major corporate headquarters such as General Mills, Medtronic, 3M and Cargill and C.H. Robinson concentrated thousands of employees at locations across the region. More than 30 percent of the region’s workers – 700,000 in total – are employed within one of twenty major regional employment centers, with 230,000 in the two core downtown areas.<sup>60</sup>

Regional transit is providing an evolving level of connectivity between centers and the two core downtown areas, primarily on a hub and spoke model. Inadequate service among the centers themselves, other than the downtowns, hinder fluid access to jobs. Transit ridership is increasing: Between 2004 and 2008, the Metropolitan Council reported increases of 34 percent in bus ridership and 248 percent in rail ridership following introduction of light rail (and more recently, commuter rail) service.<sup>61</sup>

The metro is directly connected to global marketplaces via well-developed infrastructure for air, rail, and river transportation for freight and passengers. The region ranks 36th among U.S. metros for the total value of international

<sup>60</sup> Ibid.; Center for Transit-Oriented Development, 2004; U.S. Census Longitudinal Employer-Household Dynamics (data derived at the census block level).

<sup>61</sup> Metropolitan Council data.

merchandise handled through its ports.<sup>62</sup> An international airport is ranked 16th in the nation for passenger volume.<sup>63</sup>

Digital infrastructure accelerates communication and enables firms to compete, particularly in the export of services, and our region boasts a high degree of residential broadband availability.<sup>64</sup> A recent report ranked residential broadband speeds in Saint Paul as the nation's best, with Minneapolis ranking seventh.<sup>65</sup>

## **Challenges and opportunities**

Research indicates that over half the region's population can reach over 1 million jobs in 30 minutes or less by car.<sup>66</sup> However, this accessibility is not universal in the region: between 1990 and 2000, the area reachable from key employment centers in 20 minutes fell by 24-51 percent.<sup>67</sup>

Geographic growth has influenced how broadly the region's economic benefits are shared. While 45 percent of the region's poor residents live in Saint Paul and Minneapolis,<sup>68</sup> less than 30 percent of low-wage jobs in the seven-county metro are located within the two core cities.<sup>69</sup>

Development of a surface rail system is building on a base of bus service to connect the region. The metro has completed the Hiawatha light rail line to link Minneapolis, Bloomington, and the international airport. Two additional lines are in development that will connect downtown Saint Paul, the Midway, the University of Minnesota, downtown Minneapolis, and concentrations of housing and employment in suburban cities southwest of Minneapolis.

There is growing support to expand the transit network, reflecting rising concerns about energy security and the desire to competitively position the region for

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<sup>62</sup> U.S. Department of Transportation. 2009. America's Freight Transportation Gateways. Washington, DC. Brookings analysis.

<sup>63</sup> Tomer, Adie and Rob Puentes, "Expect Delays: An Analysis of Air Travel Trends in the United States," (Washington, D.C.: Brookings Institution. 2009).

<sup>64</sup> Broadband is available to 97 percent of households in nine the eleven counties in the metro (ConnectMN study, cited in Ultra High-Speed Broadband Task Force, "Minnesota Ultra High-Speed Broadband Report," 29-31).

<sup>65</sup> Net Index results, cited in Steve Alexander, "Saint Paul gets top ranking for speedy Internet," Star Tribune, September 3, 2010.

<sup>66</sup> University of Minnesota, Center for Transportation Studies, "Measuring What Matters: Access to Destinations," 2010.

<sup>67</sup> Orfield and Luce, op. cit., p. 205.

<sup>68</sup> U.S. Census Bureau, Decennial Census (2000) and U.S. Census Bureau, American Community Survey (2006-2008). Twin Cities Compass analysis.

<sup>69</sup> American Community Survey data, 2006-8. The core-city proportion of individuals living under the poverty line in the seven-county region has been falling since 2000, from 58% to 51%. The 45% reflects the core-city proportion of individuals living under the poverty line in the entire 13-county metro. Center for Transportation Studies. Also, Metropolitan Council, 2009 Twin Cities Transit System Performance Evaluation, March 2010.

economic growth. As a key regional priority, the attraction of younger, skilled workers will require a supply of housing connected to jobs and regional amenities via multiple transportation options.<sup>70</sup>

The economic recession presents an opportunity to realign the region's land use to accommodate current consumer preferences. A pause in geographic growth<sup>71</sup> provides an opening to implement strategies to meet consumer demand and more efficiently connect transportation and land use investments into the future. Reducing vehicle miles through intentional land use strategies is an effective approach to cutting energy use, greenhouse gas emissions,<sup>72</sup> and our carbon footprint, which ranks among the ten worst in the nation.

Meeting the preferences of a market more focused on developed areas of the region for multiple modes of transport will require finance and policy tools to support reinvestment. The region expanded through easy access to green field development. An important opportunity exists to implement strategies that will make redevelopment – typically, more complicated and expensive – simpler and more attractive across the region.

### **The role of place**

The quality of life in any region plays a significant role in its ability to attract and retain workers and business leaders. A regional system of parks and open space, a diverse and acclaimed arts scene, an engaged and active citizenry, distinct and cohesive neighborhoods, and lakes in and near the city are the characteristics that make Minneapolis-Saint Paul an attractive destination for talented people.

Benefits associated with these regional assets span the leverage points of regional concentration, human capital deployment, spatial efficiency, effective public and civic culture. Threats to these amenities can affect the regional economy in multiple ways. Parks and open space present one example. The seven-county region contains 181,000 acres of parkland, or 10 percent of total land area. While the cities of Minneapolis and Saint Paul include 14-17 percent parkland, the metro figure is only slightly above the average for comparable areas. Land preservation has not kept pace with growth of developed land area, threatening a key element of what makes the Minneapolis-Saint Paul region desirable to individuals and firms.

Cultural amenities and attractive neighborhoods are expected attributes of metro areas truly competing for talent. Preservation and maintenance of quality of life represent important functions for continued regional collaboration, supportive of a dynamic and productive metro economy.

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<sup>70</sup> Cathy Bennett and John Carpenter, "Twin Cities Demographic Change Report," presented to ULI Minnesota/Regional Council of Mayors, May 18, 2009.

<sup>71</sup> David Peterson and Katie Humphrey, "Reverse Migration: Flight to the Exurbs Stops Cold," *Star Tribune*, April 12, 2010.

<sup>72</sup> Urban Land Institute, "Land Use and Driving: The Role Compact Development Can Play in Reducing Greenhouse Gas Emissions," 2010, pp. 15-19.

## Strategies

### *Leverage transportation and land use investments to build equity: Corridors of Opportunity Living Cities Initiative*

Without access to affordable, dependable, regional transportation, economic opportunities for low-income residents are limited and associated with high financial and time costs. To address these inequities, the Twin Cities Corridors of Opportunity Living Cities Initiative focuses on two related issues:

- Improving access to regional opportunities by advancing the build out of the transit system through enhanced regional decision-making structures and policy alignment, and
- Maximizing community benefits along transit corridors by creating new public-private models to serve those with the greatest need for transit development.

The initiative builds on the work of the Central Corridor Funders Collaborative (CCFC) and its partners. It will advance technical and marketing support to small businesses so that they can grow their customer base as the region's light rail transit system (LRT) develops. It will create new loan products to support affordable commercial building ownership and deploy tools developed by the Twin Cities Community Land Bank to transform transit-accessible vacant residential and commercial properties into affordable homes and community assets, while providing jobs for neighborhood residents. In collaboration with ULI Minnesota, the Center for Transit-Oriented Development (CTOD), and Hennepin County along the Southwest LRT corridor, the initiative will create a regional strategy for public investments to support sustainable, equitable development. The initiative seeks to establish cross-jurisdictional planning and investment processes to create a predictable environment for private investment, support multiple community goals and catalyze neighborhood development.

The work will be led by the McKnight and Saint Paul Foundations. The mix of financial resources provided by Living Cities will offer a new incentive for using commercial capital creatively to further social good, leverage limited public sector and philanthropic funds, and accomplish more, faster.

The region will thus be pioneering a potential national model: for integrated planning, partnership and investment, for transit-oriented development, for intergovernmental collaboration around public investment decision-making. Most importantly, the project will demonstrate that transit corridor development can benefit lower-income populations. It can reduce transportation costs, allow people to live in homes they can afford and in neighborhoods with a diversity of amenities, help them find work or open a business, while granting dependable access to education, training, and employment opportunities throughout the region.

*Focus investment on intensifying use of existing infrastructure: The Metropolitan Council's Livable Communities Program*

Since its inception in 1995, the Livable Communities Program has invested nearly \$200 million in economic revitalization, affordable housing and other projects that link land use with transportation in the seven-county area governed by the Metropolitan Council. Investments from two funds (the tax base revitalization account and the livable communities demonstration account) have enabled partnerships with over 50 metro municipalities to increase tax base by \$80 million; created or retained 34,000 jobs in the region; and financed 3,700 housing units. The program provides gap financing and grants to support development projects that leverage existing infrastructure (including transit). Its success has enhanced regional connectivity of jobs and housing, and deserves further application on a metro-wide basis.

*Link development patterns and transportation: ULI Minnesota/Regional Council of Mayors' Connecting Transportation and Land Use (CTLUS) Initiative*

This initiative advances two outcomes. It seeks to raise awareness of how land use and transportation can reduce green house gas emissions and support economic sustainability and job growth in the region. It promotes reforms necessary to connect transportation and land use policy, planning, investment and development. These outcomes are being implemented through the following two strategies.

**Corridors of Opportunity/The Southwest Corridor LRT Community Works Project.** This comprehensive collaborative approach reaches across municipal boundaries of land use planning and transit engineering to maximize public benefits gained from transit investments. These include good housing and transportation, a healthy environment, and more jobs. Southwest LRT is the region's first light rail transit line to connect downtown Minneapolis to suburban communities with multiple land uses, financial hurdles, and complex redevelopment opportunities. The Southwest LRT line will foster further redevelopment, as it travels through job-rich employment centers with significant growth potential.

**Reinvesting in Our Region.** Redevelopment is much more complex than greenfield development. To realize the growth potential along rail corridors and meet changing rider preferences, the region's redevelopment toolbox must be strengthened. The "Great Recession" has left an oversupply of housing and cities are thinking strategically about how to support the kind of growth that will meet their community's needs. ULI Minnesota is leading a public/private effort to raise awareness of the economic reinvestment imperative, and work with our partners to revise and expand local and state strategies as needed.

*Implement tools and strategies to boost regional housing choices: ULI Minnesota/Regional Council of Mayors Housing Initiative*

The Housing Initiative was launched in 2007 and is funded by the Family Housing Fund. It builds on the collaborative relationships of the Regional Council of Mayors (RCM), ULI Minnesota, and multiple partners to implement tools and strategies to support a full range of housing types, sizes, and prices within the region, down to the neighborhood level where possible. This work is fully integrated with ULI Minnesota's transportation, jobs and environment initiatives.

Three key strategies have emerged from a pilot run by the initiative's collaborative partnership network; in the next phase, the Housing Initiative will focus on these key strategies.

- Importance of the regeneration of cities to support sustainable, prosperous regional growth.
- Expansion of housing choices based upon changing demographics and diverse market and consumer preferences.
- Implementation of tools and strategies that help municipalities proactively plan for a changing regional economy.

*Tie transportation to human capital and cluster initiatives: Sustainable Communities Regional Planning Program*

Several interrelated, multi-sector efforts to enhance regional economic competitiveness and spur job growth comprise the region's Sustainable Communities Regional Planning Program. The goals are to ensure that growth efforts take full advantage of new transit investments and the benefits are equitably available throughout the region.

The Minneapolis Saint Paul Area Sustainable Communities Consortium is part of the program. It was recently awarded a \$5 million, 4-year regional planning grant from the U.S. Department of Housing and Urban Development (HUD). One of its pilot projects is the Central Corridor Economic/Workforce Development Project, which will focus on neighborhood-level economic and workforce development along the Central Corridor LRT line. The pilot's cluster approach to align investments between job training and local industry will be a template for other areas in the region. The goal is to implement an economic and workforce development strategy linking the many community employment and training providers and the Ramsey County Workforce Center located on the corridor with the private/public planning of the West Midway Industrial Area Task Force. The goal of the Task Force is to strengthen the region's industrial area as a employment center in the context of a mixed-use urban environment.

The Ramsey County/Workforce Solutions and the MN Department of Employment and Economic Development will work together to align job skills assessment and training with industry and small business development. The Central Corridor Economic/Workforce Development Pilot Project will increase collaboration, reinforce regional occupational concentrations through its emphasis on leveraging physical infrastructure investments to improve worker mobility and access to employment information. These changes lead toward relevant job skills training in the corridor, credentialed career pathways, and business development for employers and job seekers.

*Plan future regional transportation network to expand capacity: The MSP Regional Cluster Initiative's Jobs/Housing Initiative*

This research into the potential for linking lower-income populations to jobs in competitive clusters through transit improvements is titled "Enterprising Twin Cities Transitways Regional Competitiveness and Social Equity in an Integrated Land Use and Transit Context." It was initiated by U of M faculty through the Transitway Impacts Research Program (TIRP) and seeks to explore the potential of the 2030 Transitway system in promoting regional competitiveness and equity using rigorous, future-oriented scenario analyses. The goals are: 1) to inform policy makers of the risks and rewards of various land use and transit scenarios; and 2) to develop best practices in regional land use and transit planning for promoting economic growth and social equity. Project sponsors include Surdna, McKnight, and Phillips Family foundations. The MSP Regional Cluster Initiative's broader agenda and cluster strategies are detailed under Leverage Point 3 (enhance concentration of industries, functions and occupations).

## **LEVERAGE POINT 5: CREATE EFFECTIVE PUBLIC AND CIVIC CULTURE AND INSTITUTIONS**

### **Background**

The region has been known for its collaborative, progressive approaches to governance since the Metropolitan Council was established and introduced regional tax base sharing in the 1960s. The Metropolitan Council has helped tie local government units into a regional framework for housing, transit, parks and open space, water quality and management. The region's division into many local governments (25th per capita among U.S. metro areas<sup>73</sup>) underscores the value of this key regional institution.

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<sup>73</sup> U.S. Census Bureau, Census of Governments Integrated Governments Directory, 2007 edition.

Yet, the proportion of the region's residents who live in the counties covered by the council fell from 92.8 percent in 1990 to 85.8 percent in 2005.<sup>74</sup> The Mayo Clinic, for example, a world-renowned center of innovation, is located 80 miles from Minneapolis and Saint Paul and remains outside the formal metro governance structure.

The region has invented additional forms of collaborative governance over time to address changing circumstances. The Itasca Project, a private-sector initiative, has effectively elevated issues related to education, transportation and governance for the region since 2003. The Central Corridor Funders Collaborative, a venture of regional and national foundations started in 2007, coordinates investment in transit-oriented development and workforce initiatives around construction of the urban Central Corridor LRT line.

City and suburban leaders, with ULI Minnesota, founded the Regional Council of Mayors in 2005 to so that metro mayors can together identify and seize regional opportunities; its reach is documented in multiple strategies in this plan. The Counties Transit Improvement Board (CTIB) is a joint entity among five metro counties formed in 2008, to provide stable transit investment through a regional framework. Municipalities are now collaborating with private and philanthropic stakeholders within the Southwest LRT Community Works, which seeks to integrate land use into the design for the region's third LRT line, located in the southwest quadrant of the metro. These examples show the region's stakeholders convening around issues of regional importance.

Economic development represents a costly exception to the metro area's tradition of effective regional governance. Dozens of public agencies, chambers of commerce, and other entities engage in economic development activities without a common agenda, creating inefficiency and missed opportunities to leverage the portfolio of assets found across the region for local and metro-scale efforts.

## **Challenges and opportunities**

Presence of over 180 municipalities in the region has produced wide variation in land use, zoning, and licensing regulations. Cities often lead efforts to retain and attract individual firms, having neither the scope nor resources to do so on a regional or cluster scale. Business site decisions are influenced locally in a haphazard way, and made independent of a regional strategy.

Other economic development initiatives are pursued on scales that do not match the regional nature of today's metro economy. State agencies pursue recruitment and retention efforts, including investments in the region's education and training,

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<sup>74</sup> Census Bureau data for metro population, 1990-2005; Metropolitan Council data for seven-county region, 1990-2005.

infrastructure, entrepreneurship and its public-funded innovation. The region's private sector has engaged economic development primarily through the region's several chambers of commerce, but their separate initiatives while valuable remain insufficiently linked to a region-wide agenda.

The metro area has lacked civic institutions that elevate entrepreneurship. The region's cultural disposition to entrepreneurship and economic development is perceived as lukewarm. Average rates of entrepreneurship, a high concentration of workers employed in large firms, and cultural traits of modesty and risk aversion have hindered an essential element of the region's economic development.

A unified, regional economic development strategy will leverage the metro's assets more effectively as:

- Municipalities develop structures for sharing of systems not provided by the Metropolitan Council, and coordinate key economic factors such as workforce development, zoning, and business regulation.
- Economic development to assist new starts, and attract and retain firms advances on a regional basis, using each municipality as a key piece to a larger menu of assets, to reinforce and build upon strong regional concentrations
- Private-sector parties assume leadership in developing and implementing a unified strategy for economic development across the metro area
- Decisions about infrastructure investments are addressed regionally and strategically, to support key clusters, employer access to large employment pools, and the matching of jobs and housing
- The commitment to jurisdictional collaboration and private/public partnerships is retained and developed
- Dynamics that segregate the region by race and income are addressed to expand the degree to which metro prosperity is shared
- Civic institutions highlight the importance of entrepreneurship and business risk in the region's evolution to a more competitive, dynamic economy.

Establishing a single, private/public approach to regional economic development will leverage the region's deep tradition of collaboration and innovative governance.

## **Strategies**

*Launch an effective, unified regional economic development entity*

The region is forming the private-sector led, Regional Economic Development Partnership (REDP) to be charged with recruiting and retaining large and small

firms. It will integrate activities of over forty economic development organizations, represent the region via marketing channels to external audiences, and shift the focus of economic development from municipalities to the region as a whole. Regional economies do not respect political boundaries, and efforts to build concentrations in the region demand coordination.

The partnership will identify opportunities where transportation infrastructure and land use together present a compelling profile for certain firms or industry clusters. The partnership will tap local private-sector leaders to make the region's case to peers. Through marketing, the partnership will present the region's favorable characteristics and mitigate the negative ones.

*Commit to ongoing metropolitan business planning: The Brookings Metropolitan Business Plan Initiative*

Private and public entities are currently engaged in development of this document – the region's first metropolitan business plan. In partnership, the Brookings Institution, ULI Minnesota/Regional Council of Mayors, DEED, City of Saint Paul, City of Minneapolis, the Itasca Project, and Target Corporation are developing a business plan to guide private, regional, state, and federal investment in the region and its firms. By conducting a rigorous market scan of its clusters, human capital, innovation, spatial efficiency and governance, the region is developing a new approach to developing key priorities and recommendations for the future.

*Expanding informal advocacy for innovation and entrepreneurship*

Organizations convening entrepreneurs and advocates include LifeScience Alley, the BioBusiness Alliance of Minnesota, the Metropolitan Economic Development Association, and the Minnesota High Technology Association. Recently formed networks now speed the exchange of ideas and raise the profile of entrepreneurship in the region, including Minne\*, MOJO Minnesota, and the Minnesota Cup business competition. Events publicizing entrepreneurial contributions to the regional economy are valuable for highlighting innovation success stories.

## **LEVERAGE POINT 6: DEVELOP AND DEPLOY INFORMATION RESOURCES**

### **Background**

Dynamic rapidly adapting economic regions have access to rich, well-developed information tools to increase productivity and reduce transaction costs. Information resources can also help connect underserved urban areas to the larger market. They reduce transaction costs, enhance exchange and inclusion, thereby

improving labor and capital markets efficiency, cluster productivity, and ultimately the rate of innovation.

The region's strong private/public partnerships and governance have produced regional statistical information resources available to inform policy and business decisions. MetroMSP and BusinessConnection offer online data and analysis on regional conditions, interactive forums for business and regulatory inquiries, and information relevant to site selection across the region and state. Minnesota Compass is a clearinghouse of data on transportation, education and demographics. MetroGIS offers a robust exchange of data sets for mapping a conditions in the seven-county metropolitan area. Community Change reports convey information concerning demography, real estate and workforce trends.

Other information initiatives focus on transparency of the region's labor marketplace. State agencies in education, workforce development and economic development operate ISEEK, an interactive system for occupational and training information to the region's workers. MinnesotaWorks.net, a utility sponsored by DEED, provides helps match employers and prospective workers. JobConnect in Ramsey County is a network of employment, community and educational entities matching job seekers to opportunities on an online platform.

Collectively, these initiatives and others are using mapping and web technology to provide region-specific data that users can manipulate and analyze to improve policy and investment decisions.

### **Challenges and opportunities**

Open access to regional data is a valuable regional asset. Opportunities remain to expand the breadth of information related to innovation, further to emphasize the metropolitan region as an economic system, and measure the impact of strategies.

While a comprehensive set of measures related to infrastructure planning and demographics are accumulated and summarized by the Metropolitan Council, implementation plans are as fragmented as the region's governments and agencies. Further, the identification and continued use of key longitudinal metrics related to the six leverage points in this business plan could be further improved.

The use of regional economic data to guide industry cluster strategies could be enhanced. Alignment of cluster strategies and the region's plans for investment in innovation and infrastructure would strengthen the region's human capital development and efforts for more collaborative, efficient local government.

Entrepreneurs, investors and policy makers rely on flexible information sources to evaluate the financial viability of market niches, match workers with applicable skills to jobs, and design effective business development strategies. The Worldwide Innovation Network, a General Mills enterprise, is an example of

private-sector use of “crowd-sourcing” to improve products and processes through an exchange with innovative firms. More effective sharing of this significant and underutilized resource will stimulate growth in the region’s economic activity and employment base.

## **Strategies**

*Support and expand exchange of regional economic information*

### **Establish a cluster board for the medical devices industry**

The MSP Regional Cluster Initiative is a joint initiative of ULI Minnesota/Regional Council of Mayors, the University’s Humphrey School of Public Affairs. and Minnesota DEED. Together with the BioBusiness Alliance of Minnesota the project is building a more formal network within the medical devices cluster, including an industry cluster board to provide firms and workers with a collective industry presence and advocacy. A cluster board fosters collaboration on issues of particular importance to an individual industry cluster, including efficiency innovations, best practices, issues of capital access, workforce development needs, technological advancement and other topics of shared value. The cluster board initiative and the broader strategy of the MSP Regional Cluster Initiative are detailed in the discussion of Leverage Point 1 (Cluster strategies).

### **Leverage cluster mapping tools**

The BIOMAP mapping tool recently released by the BioBusiness Alliance of Minnesota allows users to search the state’s geography for firms by industry, knowledge cluster, supply chains, or educational programs. For workers, entrepreneurs exploring location decisions, or investors, the tool provides valuable information. Integration of metro-scale efforts with statewide cluster initiatives will reinforce the value of strategies to build dynamic industry and occupational clusters in the region. Integration will also expand the metro area’s potential pool for workers and connect entrepreneurs around the state with peers and funders. More detailed information about the BioBusiness Alliance of Minnesota is included in the section on economic concentrations above.

*Coordinate measurement of regional economic performance*

Several initiatives described above now collect and publish regional economic data. The Metropolitan Council’s Regional Benchmarks and Minnesota Compass produce longitudinal analysis that provides a base for decision making. However, the body of metrics raised in this Business Plan, which emphasizes a skilled, nimble workforce and innovation infrastructure, does not have a current steward in the region. The formation of a Regional Economic Development Partnership is an opportunity to house the tracking of measures specific to regional economic

development. Data should be updated twice each year and released on a schedule to inform the economic development agenda in legislative sessions.

## 5. The Detailed Development Initiative (DDI): An “Entrepreneurship Accelerator”

Of the many strategies the Minneapolis Saint Paul region has settled on as key ways to implement its metropolitan business plan, one particular strategy has been identified for development as the plan’s first Detailed Development Initiative (DDI). This initiative is coterminous with the plan’s initial lead strategy, the regional Entrepreneurship Accelerator (EA).

Market analysis as outlined in the leverage points above describe an enviable history of entrepreneurship and innovation in multiple high-profile industries, as well as underlying assets such as a base of knowledge workers that have enabled the region’s economic success. The region is home to many public and private organizations providing expert assistance and resources to early-stage commercialization projects (proof of concept, prototyping, etc.). Almost uniformly, these organizations report that they lack resources to assist all of the quality projects in need of them.

Despite this high level of entrepreneurial activity, the number of entrepreneurs and start-ups in the region is markedly down over the last 2 years.<sup>75</sup> The high level early-stage activity does not appear to be generating a commensurate number of start-ups, and the gap has emerged as a critical objective for the Minneapolis-Saint Paul region.

Regional data on venture capital investments is illustrative. The region benefits from at least 21 investment firms willing to make early-stage investments across a range of technologies and markets, including IT, healthcare, and medical devices. Several regional venture capital firms specialize in minority-owned businesses. The region also boasts a number of active and well-organized angel investment groups.

The presence of these investors, however, has not met the need for early-stage risk capital. Data for 2008, 2009, and the first half of 2010 indicate that few venture capital investments are “seed stage” or “first round” investments.<sup>76</sup> Investors, as well as regional organizations that work with entrepreneurs at the earliest phases of commercialization, report both an abundance of quality opportunities and a low rate of matching these to the resources (expertise, assistance, and capital)

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<sup>75</sup> Kauffman Index of Entrepreneurial Activity, 2007-2009.

<sup>76</sup> Data published by the Minnesota Venture Capital Association ([www.mnva.org](http://www.mnva.org)) and obtained through VentureSource ([www.venturesource.com](http://www.venturesource.com)).

necessary to qualify for first round venture capital investments. Regional leaders have identified a crucial shortage of concentrated resources in the form of expert advice, hands-on assistance, and capital to help entrepreneurs introduce their products to market and develop more complete management teams, both material drivers of angel and venture capital investment.

Given the level of entrepreneurial activity in the region, the closing of this gap would greatly accelerate the creation of high-value start-ups and the growth of further innovation in the region. Discussion across the leverage points above illustrates that private and public research in the region remains robust, as does the asset of an educated and skilled workforce. Contrary to past experience, however, potential for economic growth and job creation is unrealized because entrepreneurs encounter barriers en route to commercialization and growth. For these reasons the region has chosen an entrepreneurship accelerator as the first detailed design initiative it will pursue through its metro business plan.

### **THE ENTREPRENEURSHIP ACCELERATOR: THE REGION'S LEAD STRATEGY**

To help create venture-ready companies that attract angel, venture, and corporate investment, the region proposes that an Entrepreneurship Accelerator (EA) be created in the Minneapolis Saint Paul metro area. The EA will be a non-profit venture development company. EA's mission is *to accelerate the growth of innovative early-stage businesses and ideas into venture ready companies by providing a continuum of resources to entrepreneurs and the community*. The EA will connect big ideas and growth-oriented entrepreneurs to capital, as a "risk-oriented" organization focused on pre-venture opportunities and companies. EA will embrace and manage risk through its investment criteria, the assistance it provides, and its regional marketing campaign. EA's near-term objective is to create venture-ready companies that attract investment and increase regional economic activity. EA's long-term objective is to establish quality, high-growth companies that result in the growth of the regional economy.

The EA will deliver intensive business assistance services provided by experienced entrepreneurs (an executive or entrepreneur in residence, or "EIR). In addition, the EA will offer entrepreneurs the opportunity to qualify for direct investment of up to \$500,000 to help achieve the qualification milestones for angel and venture investment. The EIR will provide hundreds of hours of services during the course of a 6- to 18-month period. The EIR will advise and assist the entrepreneur in sales, marketing, finance, development, and business planning, but the primary objective of the EIR will be to help the entrepreneur acquire necessary financial resources.

Development of the EA is working to incorporate a number of crucial features:

### **ECONOMIC INCLUSION AND DIVERSITY**

Minority- and female-owned businesses must play an increasingly integral role if global competitiveness, employment growth, income equality, and wealth creation are to be realized. EA will develop and implement an inclusion and diversity strategy that specifically targets the creation and support of high growth female- and minority-owned businesses. To ensure both short-term and long-term success, EA will identify the current talent pool in each stakeholder category, while simultaneously establishing a pipeline for growth and sustainability. As the foundation for the entire strategy rests upon building solid relationships, the key to success will be a well-executed outreach plan.

### **COMPETITIVE ANALYSIS**

In the region, numerous organizations, agencies, and private investors provide services, and occasionally capital, to high-growth opportunities that are not ready for angel or venture capital. Few have had as their mission the provision of intensive, expert service assistance and capital needed to support the acceleration of high growth, pre-venture opportunities; nor have they typically had significant resources. Many of these entities will play a vital role in the development of the region's ecosystem, and form strong working alliances with EA. Given the number of opportunities for investment and the significant levels of assistance and capital required to prepare companies for investment by angels and venture capitalists, EA anticipates cooperation rather than competition from existing resource providers.

### **MARKETING PLAN**

EA will position itself as a comprehensive "venture development organization." Since this term is not always understood, EA will begin with an explanatory branding campaign, engaging entrepreneurs and entrepreneurial supporters throughout the region. Over time, EA will extend the campaign to venture capitalists and entrepreneurs around the country. EA will follow up with an outreach and educational campaign that targets entrepreneurs, investors, foundations, philanthropists, and the general public. EA is firmly committed to these campaigns as critical to long-term success. The campaigns will enable EA to attract the deal flow, partners, investors, and supporters necessary to sustain the effort and catalyze real change in the regional entrepreneurial ecosystem.

### **THE ORGANIZATION**

EA will recruit and build a management team of high-skill professionals with experience in the following areas: investing in and rapidly growing companies,

financing and raising capital for companies, advising companies, regional economic development, all aspects of marketing (market analysis, product development, branding, product launch, sales support, events, and other), operations, accounting, and IT. EA team members must have a passion for innovation-oriented entrepreneurship and acculturated for accountability, diversity, and integrity. They must be enthusiastic for performance measurement and continuous improvement. The management team will consist of people with direct experience in starting companies, attracting capital, growing the companies, and exits. The foundation of the EA model is entrepreneurs helping entrepreneurs.

## **DEVELOPMENT AND FUNDRAISING**

EA will model its fundraising approach on the approach followed by JumpStart Inc., a venture development organization located in Cleveland. As a venture development organization, EA expects to generate significant returns for the region in follow-on investments attracted by companies that EA supports. Unlike a venture capital firm, however, EA will not count on a traditional return on its investments. EA will be assisting and investing in companies that are earlier in their commercial development than those served by angel investors and venture capitalists. To sustain its efforts and help catalyze long-term changes in the Minneapolis Saint Paul region's entrepreneurial ecosystem, EA will have to raise a substantial portion of its funding from government and philanthropic sources. To do this, EA will employ a dedicated staff who will engage in fundraising efforts with the help of EA's Marketing Team. The regional sponsors of EA's regional sponsors have already raised \$200,000 to ensure that the entire region will be included in the project sponsored by the U.S. Economic Development Administration (EDA) and the Knight Foundation. In June 2010, the EDA and Knight selected Saint Paul as one of six regions to target for the development, funding, and execution of a business plan similar to the DDI. To accomplish this, the EDA and the Knight Foundation secured the assistance of JumpStart. In addition to helping create the plan, which will be an extension and refinement of this DDI, JumpStart will help the region secure the funding required to launch and sustain the EA.

## **METRICS**

The EA will be committed to setting and measuring its performance against a well-defined set of metrics. The Marketing Team will measure traffic to the EA website as a indicator of the success of certain outreach efforts; the Investments Team will track the number of companies advised or the time required to move from the advisory phase to a closed investment; the Acceleration Team will measure portfolio companies against pre-set milestones and will also track the companies' ability to attract follow-on investments; the Development Team will track "contacts made per week" as well as total dollars raised; and the Finance

Team will look at cash flow vs. plan as well as the performance of the overall organization in generating follow-on investments. EA will especially track the amount of follow-on investments attracted to EA portfolio companies, targeting a ratio of follow-on to EA investments of 1-2X during the first 3 years of operation. Ultimately, EA targets a leverage ratio of 6-10X investments as the portfolio matures.

## **FINANCIAL PLAN**

EA will need to secure funding from a variety of sources in order to support its efforts and plans over the 10+ year period of time required to begin to see real change in the entrepreneurial ecosystem. The region is confident it can raise the approximately \$12 million-14 million to fund the first 3 years of operations with the help of a dedicated staff, the regional leaders who have been a part of the efforts that produced this DDI, the EDA, the Knight Foundation, and JumpStart. One of the primary assumptions that drives the financial plan is EA's projection of approximately 14 investments during the first three years of operation.

EA's use of funds breaks down into three general categories: direct investments, salaries and benefits, and general business expenses. EA will invest approximately half of its funding directly into companies, use 30-40 percent for salaries and related expenses, and the remainder for general business expenses. EA will refine this model as it refines the plan in the course of the EDA project.

## **BUSINESS PLAN**

**A business plan addressing key elements of the region's opportunity for the Entrepreneurship Accelerator follows.**

### **Market analysis**

The Minneapolis Saint Paul region has a powerful economic engine fueled by 20 major Fortune 500 companies, an educated and experienced workforce, sound infrastructure and transportation systems, and high quality of life. However, the region is at a crossroads, like much of the U.S. facing an uncertain economic future. In addition to globalization and lower domestic economic growth, large multinational firms are becoming increasingly productive, employing fewer people and investing more in R&D outside their home regions. That combination presents a serious challenge for innovation, entrepreneurship, and job creation in the Minneapolis Saint Paul region. The following overview of the market highlights some of the challenges.

*Regional entrepreneurship is flagging*

Minnesota's state ranking in entrepreneurship, which is centered in the Minneapolis Saint Paul region, dropped from 22 to 48 between 2007 and 2009.<sup>77</sup> While the University of Minnesota, other research institutions, and local Fortune 500 companies have made the region a leader in technology patents and licensing, lack of commercialization is reflected in a low start-up rate.<sup>78</sup> Since 2002 Minnesota has had a declining rate of high-tech jobs and entrepreneurs per 1,000 population. Minnesota start-up investments averaged \$62 per capita for seed-stage and \$199 per capita for early stage (total \$261) vs. California's investment of \$1,230 in pre-seed and early-stage start-ups.

Qualitative research<sup>79</sup> indicates the region lacks a strong entrepreneurial infrastructure:

- Insufficient networking among the entrepreneurial community
- Lack of mentors for entrepreneurs
- Insufficient levels of pre-seed and early-stage funding

*Venture Capital Investment is stagnating, indicating a lack of deal flow and a more risk-averse climate*

The Minneapolis-Saint Paul region receives less venture capital investment than comparable regions, with the number of companies receiving venture capital 2008-2009 sharply declining, reflecting the recession.<sup>80</sup> Since 2008, seed and first stage venture investments appear to make up a relatively small percentage of overall venture capital investments.

*The region lacks the resources to help all high-potential pre-venture companies*

Although the region possesses many resources to assist pre-venture companies in attracting angel or venture capital, they are relatively fragmented and cannot provide the intensive entrepreneurial assistance and capital many require. Based on discussions with regional venture capitalists, angel investors, and support organizations, EA estimates that the region currently generates several hundred opportunities per year that appear to meet the high-growth, pre-venture standard. All sources confirmed that the market should generate at least five (and likely many more) high-quality investments per year for EA. Although EA will attempt to refine its knowledge of potential deal flow during the course of the EDA

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<sup>77</sup> Kauffman Foundation Index of Entrepreneurial Activity, 2010; reflects university and industry R&D, SBIR and STTR awards, and patents issued.

<sup>78</sup> Levin Center for Economic Development, "Minneapolis/St. Paul Innovation and Entrepreneurship," August 2010.

<sup>79</sup> Itasca Project, "Current Innovation and Entrepreneurship Environment," January 2010.

<sup>80</sup> Levin Center for Economic Development, 2010.

project, it is important to note that no source challenged the assumption that EA could find a continuing stream of quality opportunities in the near term.

### **Market opportunity**

Despite its steady decline in several entrepreneurial statistics, Minneapolis Saint Paul is not yet dealing with lagging innovation indicators.<sup>81</sup> Minnesota ranked 12th among U.S. states in R&D performed in 2007. On the positive side, U of M is a leader in technology transfer, ranking 8th among all U.S. universities in licensing income, and 16th of 679 institutions in R&D investment (2009), 72 percent of which was in the health science.<sup>82</sup> However, the region managed only 34 venture capital deals between 2006-2009, ranking 8th among 11 comparable states.

Minnesota is making strides toward enhancing its entrepreneurial environment: Science and Technology Initiative legislation is supporting R&D and early-stage investing and Angel Tax Credit legislation is focused on high-tech or new proprietary technology. Furthermore, the Minneapolis-Saint Paul region has clusters of industries with bright futures in technology, including healthcare and medical devices; bioscience; measurement, analysis, and control instruments; and chemicals and allied products.

Twenty-one early-stage investment firms have been identified in the region, indicating a viable source of funding for high quality deal flow:

- 4 invest only in technology companies: Brightstone Capital, HB Fuller Ventures, RainSource Capital and StarTech Investments
- 2 specialize in the health care industry: Lemhi Ventures, Tricardia
- 7 invest in technology and health care: Cedar Point Capital, Crawford Capital Corporation, InterMedco Fund, Sherpa Partners, Space Center Ventures, Split Rock Partners, Twin Cities Angels
- 1 specializes in minority owned start-up businesses: Milestone Growth Fund
- 1 invests in general early-stage ventures: Portage Equity Investments
- 1 invests in proprietary intellectual property: Clique Capital.

Between the market need and the market opportunities lies fertile space for an accelerator to gather more support and investment for innovative entrepreneurs. Several sources confirmed that EA will find many quality opportunities for investment (deal flow) during the next 3 years.

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<sup>81</sup> Levin Center for Economic Development and Itasca Project, 2010.

<sup>82</sup> National Science Foundation.

## **EA ACTIVITIES**

The EA will have three principal lines of business: The EA Exchange, EA Investments, and EA Acceleration Services.

### **1. The EA Exchange**

The EA Exchange is EA's events organizer. It will plan regular events to connect entrepreneurs and build a greater awareness and cultural appreciation of entrepreneurship. Through 2013, these events will reach thousands of people in diverse settings and geographies. Their goal was expressed by the National Commission on Entrepreneurship's December 2001 Report, *Building Entrepreneurial Networks*: "If there's one thing that nearly all entrepreneurs want and need, it's the opportunity to network with their peers and share new ideas and war stories. ... The need for such networking is probably even greater today. ... These new or aspiring entrepreneurs can learn on the job, or they can learn from the best teachers of all: other entrepreneurs. Local entrepreneurship networks offer the most effective path for this kind of shared experience." Networking events are where the stories of entrepreneurial companies are told, where role models are celebrated, and where entrepreneurial values are communicated.

In recent years, successful regional economies like San Francisco, Austin, and San Jose have relied less on traditional economic development approaches like business incentives and tax breaks and more on cultural themes such as building critical skills and boosting the attitudes of the workforce in the community. They have aggressively supported a culture of technological and cultural creativity. The EA Exchange is patterned on these approaches.

Some EA Exchange events will be open and highly visible to attract media coverage and publicity. Others will be small, peer-mentoring and educational events attended only by CEOs of high-growth startup companies. Others, such as the speaker series, will fall somewhere in the middle. These events will be held in all 11 counties in the region to facilitate connections among entrepreneurs, financiers, resource providers, scientists, and others who can help generate, develop and commercialize "big ideas." These connections will also nourish the "little idea": the introduction of a product, identification of a new distributor, resolution of a technical problem, etc. EA intends to have held dozens of such events by the end of 2013, reaching and satisfying the needs of thousands of attendees.

EA Exchange will operate as a cost-neutral center, charging fees for some events and raising sponsorship revenues to cover the balance of the costs. EA will develop a detailed menu of sponsorship options and dollar amounts to address the needs and limitations of a wide range of funders and employ a dedicated staff to organize and fund Exchange events.

Successful entrepreneurial networks are best led and managed by entrepreneurs, and for this reason EA's Exchange Team<sup>83</sup> consists of entrepreneurs. EA's leadership team, including its CEO, will be present at many of these events.

### *Entrepreneurs' Online Community*

EA Exchange will also deploy an online community for entrepreneurs. Its purpose will be facilitating the growth and development of the regional entrepreneurial network. The Online Community will be a source of information for all who play an important role in building a culture of entrepreneurship and helping bring individual opportunities to market. Entrepreneurs will be provided with a secure, online space to store important documents, to share information with their personal networks, and to collaborate. The Community will also connect persons and entities interested in joining an entrepreneur's network to help advance the opportunity. Area entrepreneurs can, for example, post their ideas and seek other entrepreneurs interested in working with them. Patent holders can post their patent information and seek persons or companies interested in funding the patent. Service providers will be able to seek entrepreneurs who can benefit from their expertise. All interactions are permissions-based, so no one will receive solicitations without their consent. The Online Community will provide metrics and other valuable information to help EA and regional economic development organizations improve the impact of scarce marketing and assistance resources. The Online Community is another important tool to help EA accelerate the development of the regional network and increase the number of connections beyond those that EA can achieve through its intensive assistance process.

Through the EA Exchange and related marketing efforts, EA will:

- Build a higher regional awareness of entrepreneurship and innovation;
- Increase the willingness of investors, entrepreneurs and others to confront the risks associated with entrepreneurship, and;
- Accelerate the development of an entrepreneurial network that facilitates high-value connections among people interested in forming and growing new businesses.

### *Entrepreneurs' Confidence Index*

In support of EA's marketing and communications efforts, in partnership with a college or university located in the region, EA will produce a "Entrepreneurs Confidence Index," identifying prevailing opinions in the region regarding a host of business factors related to early stage economic development activity. This

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<sup>83</sup> The Marketing Team will run the Exchange line of business.

report will be produced annually with the intention of tracking changing perceptions within the region.

## 2. EA Investment

### *Target customer and investing thesis*

During the first 3 years of operation, EA Investments anticipates investing at least \$6.45 million in approximately 14 early-stage companies (revenues under \$5 million in revenues<sup>84</sup>) in the Minneapolis-Saint Paul region.<sup>85</sup> These companies will be high-potential, high-growth companies with their U.S. headquarters located in the region. The term “high-potential” means that the opportunity will be considered as capable of reaching revenues of \$30 million-50 million in 5-7 years. Three factors will be considered when determining whether the goal is achievable.

- **A protectable idea.** If the company’s business plan is technology-based, then, at a minimum, the company will have filed a patent claim or used some other mechanism to protect the technology. If the company’s business plan involves a service or is not otherwise based on proprietary technology, the company must possess a highly differentiated marketing plan and strategy.
- **A large (\$1 billion) potential market.** Starting with a niche market of less than \$1 billion would occasionally be acceptable, but the plan must indicate some way by which the idea will be expanded to address a market of \$1 billion within 5 years.
- **A solid, committed, and ambitious team.** At least one member of the senior management team must be experienced in the industry or in entrepreneurship, committed (with skin in the game), and possess high-growth ambitions.

The primary objective for the EA Investment Team is to help these companies attract follow-on capital, typically in the form of angel and venture capital, and occasionally in the form of government and grant funding.

Within this investment thesis, the EA Investment Team strives for a balanced portfolio. Factors that will be used to balance the portfolio include:

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<sup>84</sup> The majority of businesses will have no revenues, but EA believes that organizations with revenues of up to \$5 million may need EA’s level, type and style of investment. Organizations with over \$5 million in revenue will likely generate enough cash flow to invest in its own innovation at the \$300,000 level (if not, then it is likely in a turn-around situation and unsuited for EA assistance).

<sup>85</sup> Fourteen investments of \$350,000; half will need a follow-on investment of \$350,000 within 12 months.

- **Operating stage.** The Investment Team will strive to achieve a portfolio divided equally among the commercialization stages of imagination, incubation, and demonstration.<sup>86</sup>
- **Capital stage and funding need.** EA will typically be the “first money in,” but will occasionally co-invest. EA prefers that its funding last the company for at least 12 months (and preferably 18 months) so that the company has enough runway to reach significant, value-creating milestone(s).
- **Industry.** To start, EA will invest in multiple industries. Over time it is expected that concentrations of deal flow will be identified in certain industries. If these concentrations develop, EA will add staff with relevant experience in those industries.
- **Need.** A company should need and want assistance from EA, although the level of need can vary. For instance, EA may invest in a company whose founder is inexperienced in both business and entrepreneurship, in which case the amount of assistance required would be high. In other cases, EA may invest in a company with a founder experienced in both business and entrepreneurship, and therefore in need of less assistance.<sup>87</sup>
- **Capital structure and deal complexity.** Many early-stage companies in the region have “jury-rigged” financing and therefore complex capital structures, making a responsible investment difficult. The Investments Team calls these companies “adjust” companies (see “Investing Process” below).

In putting together its portfolio, EA will track factors that may catalyze changes in EA marketing other than those which drive the investment decision, including:

- **Geography.** EA plans to invest in companies that are located throughout the Minneapolis-Saint Paul region; the county location is not a driver of the investment, but EA is committed to investing in all counties to the extent possible.
- **Inclusion.** Minorities represent over 15 percent of the metro population. Women of all backgrounds are starting companies at a dramatically ever-increasing rate when compared to men. EA aims to represent these growth segments in all aspects of its business, and will employ a chief economic

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<sup>86</sup> The imagination stage is the earliest phase of commercialization. It begins with a “techno-market insight” conceptually linking a technology to a market opportunity. The activities focus on generation of a “proof of principle,” often in a laboratory setting. In the next stage, “incubation,” determinations are made concerning targeted performance specifications (often using a prototype) and commercial viability (using a conceptual business plan). In the demonstration stage product performance is evaluated in a commercial context (in the hands of customers); a version of the product is usually introduced into limited commercial use and a comprehensive business plan set forth.

<sup>87</sup> EA will not invest in companies that only desire an investment of capital. EA believes that a key point of differentiation and credibility for the organization is its combination of these two services and does not plan to separate them for any candidate company at any time.

inclusion officer to turn this aim into a reality (CEIO). Further discussion can be found below under the heading, “Economic Inclusion and Diversity.”

### *Investing process*

EA will invest an average of \$350,000 per company, with a range per company of \$50,000 and \$900,000. Because EA will make approximately five investments and several follow-on investments per year, the Investments Team uses a high-velocity, risk-oriented investing approach, with go-forward invest decisions made regularly via a thorough selection process. The process consists of four primary stages.

- **Advise.** Each month, EA expects to receive dozens of inquiries about investment possibilities. Investment Associates and other EA staff will advise a company as to whether it appears to be well positioned to receive an EA investment. The Investment Associates spend up to 4 hours with a company, considering the team, capital structure, intellectual property, market size and growth potential, desire for assistance, etc. EA expects to engage in as many as 1,000 advising sessions during the first 3 years of operation.
- **Apply.** From the advising sessions, EA will likely invite 30-50 companies annually to make an application online and include executive summaries and business plans.
- **Assist.** The EA staff will choose to assist about half the applicants. In the assistance process, EA entrepreneurial experts work intensely with a company for 4-8 weeks to build a strong business plan and presentation. The company will then present to a panel that consists of the EA Investment and Acceleration teams, as well as subject matter experts and, sometimes, venture capitalists.
- **Accelerate.** From the pool of assisted companies, EA will invest in 4-6 each year. EA will also make secondary investments in 2-3 existing portfolio companies per year. For most companies chosen for acceleration, EA will take 16 weeks to conduct due diligence, set budgets and milestones, write an investment memo requesting approval from the EA Investment and Executive committees. If approval is given an investment will be made and released in tranches: if a \$300,000 investment is approved, EA might release \$100,000 initially, and then twice more at 4-month intervals. The tranches are released based on a company’s ability to hit its milestones, spend within the burn rate established in its budget, and communicate regularly and well with EA. If required, the Investment Team may decide to accelerate a limited number companies with highly complex capital structures. For these companies (known as “**adjust**” companies), the Investment Team must consider the additional work and time required to transform the capital structure into one acceptable to potential follow-on investors.

The investment process described above enables EA to identify “high-potential” companies. If a candidate company is not a good fit for EA, then it will refer them elsewhere. If the candidate company appears to be a good fit, EA will continue to work with the company through the investment process. Once a company is an accelerated company (after the EA investment), the Investment Team is involved in making regular decisions to release or not release further tranches of funding.

Core to EA’s active, engaged business model is the concept of “going passive” in some investments. If a company is hitting milestones, EA will continue to release funding installments as scheduled, and EA may approve additional funding. This is the expected trajectory for accelerated companies. Many companies will struggle to hit milestones and fail to advance rapidly enough, in EA’s opinion, to attract follow-on investors. These companies may well have great ideas with great entrepreneurs, but are unable to grow fast enough (a core part of EA’s mission is to *accelerate* the growth of companies). If a company is progressing more slowly than projected, EA will reallocate its entrepreneurial experts to another company in the EA portfolio, one that is progressing more rapidly. EA will cease to release scheduled installments of money, but continue to monitor the company’s progress. While this is often a difficult decision, it is fundamental to EA’s “high-velocity” business model.

### *Returns and Evergreen Fund*

EA is a non-profit “venture development” organization because EA’s role and objectives are more ambitious and complex than those of a traditional for-profit fund. A for-profit fund has a single objective – earn a high return on investment (ROI). A disproportionate share of its resources must therefore be committed to opportunities that are venture-ready or near venture-ready. EA, however, has a more ambitious set of objectives. First, EA seeks to fill a gap by working with projects that are earlier in their development than those generally serviced by for-profit funds. Second, while filling this gap, EA seeks to solidify, celebrate, and continually grow the Minneapolis Saint Paul region entrepreneurial and innovation ecosystem. EA’s process and focus will be on generating significant economic returns for the region through its intensive interaction with early-stage opportunities. This is the basis for the third objective, attracting follow-on investment to help EA’s portfolio companies successfully reach market with their products and services while simultaneously fueling the regional economy. EA will measure progress by the amount of follow-on funding raised by its portfolio companies – monies that would not have been attracted by the companies or the region in the absence of EA’s services and investments. As a venture development organization, EA does not anticipate that ROI will sustain its operations, at least not during the first 5-10 years.

EA believes that this vision, including investing in and assisting early-stage companies to become venture-ready and attracting follow-on capital, will likely earn a solid ROI, expressed as an internal rate of return (IRR). The 10-year IRR (the most meaningful IRR time frame) is expected to be 10 percent, which is similar to the IRR on investing in a stock market index, but certainly less than what venture capitalists would expect for the risk incurred. So, ROI may be a key result, but it is not the core goal of EA. (If ROI became the core goal, it would signal EA’s failure to fulfill the broader economic development vision and mission it was established to achieve, and its transformation into a standard venture fund that could not be classified as a not-for-profit organization.)

*Venture development versus venture capital*

Some observers of EA and its activities may confuse its goals, objectives, and operations with a venture capital firm. EA’s vision and mission are much more aligned to long-term economic development versus return on investment. Ultimately EA’s mission is to help create companies that provide tremendous economic development opportunities, including jobs, to the residents of the Minneapolis-Saint Paul region. If EA is able to create a handful of companies that hundreds or thousands of people in the region, it will have made a tremendous success, whatever the financial returns back to EA from its initial investment. In other words, EA seeks first to generate a significant economic return measured in terms of its impact on the regional economy.

The table below identifies many of the key differences between EA’s venture development activities as compared to a venture capital firm.

|                                   | <b>EA (venture development)</b>  | <b>Venture capital</b> |
|-----------------------------------|--|------------------------|
| <b>Entity type</b>                | Non-profit   | For-profit             |
| <b>Priorities (first 3 years)</b> | <ul style="list-style-type: none"> <li>▪ Promote entrepreneurship in general</li> <li>▪ Provide significant technical assistance [6,000-8,000 hours] per year during the first 3 years</li> <li>▪ Fund/create [14] companies in the first 3 years</li> <li>▪ Help portfolio companies raise significant follow-on capital - [\$6 million during the first 3 years]<sup>88</sup></li> <li>▪ Help Minneapolis Saint Paul region become an innovation hotspot</li> <li>▪ Re-invest 100% of returns in additional companies</li> </ul> | IRR or returns         |
| <b>Funding partners</b>           | All forms of government grants, foundation grants, charitable contributions and grants from corporations, individuals, etc.  | Limited partners       |

<sup>88</sup> \$6 million in first 3 years; \$18 million over first 5 years (3X investment) assuming continuing operation and adequate ongoing funding and related support.

|                            | EA (venture development)   | Venture capital                            |
|----------------------------|--|--|
| <b>Operating resources</b> | <i>[\$4 million-5 million] per year during the first 3 years of operations</i> | Management fee equal to 2.5% of total fund |

### 3. EA Acceleration Services

EA’s Acceleration Services are delivered by the Acceleration Services Team, which builds partnerships with EA portfolio companies to help them hit milestones, build momentum and attract funding. The Acceleration Services Team consists of experienced entrepreneurs- and executives-in-residence (collectively, “EIRs”) who work closely with EA portfolio companies to offer honest, resourceful, and insightful guidance. In addition, the Acceleration Services Team has an extensive national network of industry experts, investors, and advisors who serve as resources to portfolio companies on an as-needed basis. Through its people, its network of resources, and its intensive partnership approach, the EA Acceleration Services Team accelerates portfolio company growth, which will ultimately lead to follow-on capital and accelerated wealth and job creation in the region.

#### *EIRs*

EA’s EIRs are the primary contact point between an “accelerated” company and EA. EIRs will be successful professionals who have started companies and attracted follow-on funding; run companies and divisions with over \$100 million in revenues; or served on boards of or been officers at publicly traded companies. The EIRs know first-hand the needs of a growing business and possess the desire, resources, creativity, and work ethic to help an accelerated company overcome obstacles and acquire the resources necessary to succeed. EIR talent, whether entrepreneurs or executives, are expected to interact similarly with their accelerating companies, but they may have different backgrounds and motivations. EIR entrepreneurs will have started and exited one or more companies and may be between opportunities; executives, on the other hand, are typically seeking to make a transition into entrepreneurship and EA is serving as their pivot point.

EIRs are expected to remain with EA for 1-3 years, in a position is akin to a fellowship. They often will learn as much as they contribute, in the areas of entrepreneurship, finance, deal structures, marketing, IT, or other disciplines. Ideally, they will go off to a regional start-up company, possibly one that EA has accelerated.

EA will apply the following process to identify and recruit EIRs. While the Acceleration Team expects to find most of its EIRs within the region, it may seek

to recruit EIRs from other regions. Cross-regional entrepreneur fertilization is vital to importing best practices into the region.

### *Accelerate Partnership*

This will be defined by an accelerated company and its assigned EA EIR. The EIR will help the company hit milestones, advance commercialization stages, and attract follow-on funding. EIRs abide by EA's core values and support the best interests of the accelerating company. The EIRs shall make strategic and operating decisions *with* entrepreneurs and not *for* entrepreneurs. EA EIRs (and EA staff in general) are expected to be:

- **Challenging:** we expect great things of entrepreneurs and will challenge them to exceed expectations.
- **Honest:** we will speak the truth, plain and simple, and hope entrepreneurs will do the same.
- **Engaged:** we will respond rapidly to entrepreneurs' inquiries, and become involved and active in their business, while not running it for them.
- **Resourceful:** we will be creative in helping entrepreneurs to develop relationships, contacts and other resources that will help their business succeed.
- **Insightful:** we will do our best to be current on entrepreneurs' industries and offer informed constructive advice, not reasons why they won't succeed.
- **Fun:** we will maintain a sense of humor as we travel with entrepreneurs through entrepreneurship's hills and valleys.

EIRs have an obligation to add value and accelerated companies are obliged to support EIR efforts. Specifically, the companies must make every effort to meet milestones, and work in a way that is not in conflict with EA's core values. To this end, EA and the EIR may "go passive" in some investments. If a company as expected is hitting milestones, EA will continue to release scheduled installments of funding, and EA may approve additional funding. Occasionally, however, even companies with great ideas and talented entrepreneurs may fail to hit milestones or find that their progress towards market is slower than anticipated. In these cases, EA may choose to reallocate its EIR to a more rapidly progressing company in the EA portfolio.

### *Acceleration Services Team Network*

The Acceleration Team will establish an Acceleration Team Network (ATN) to support its portfolio companies. The network will include both individuals and organizations divided into categories by the roles they could play with accelerated companies. Roles for individuals could include board member, coach, executive, consultant, or subject matter expert. EA will establish a database of resumes,

contact information, and past interactions. Organizations will be characterized by specialty and level of agreement with EA. Those that have worked with EA and provided EA portfolio companies with high-quality services at a substantial discount will be EA Service Partners. Organizations that provide high-quality services, but not material discounts will be Service Providers. EA will hire an ATN manager who will have business development and partnership experience to help establish and manage the ATN. Ideally, the ATN will include both regional and national partners.

The ATN Manager will be expected to generate over one hundred critical resources (high-quality people, companies) annually for EA's accelerated companies. EA will seek to match high-value resources with its accelerated companies, targeting a "match rate" of 10-20 percent (a "match" is a situation where the company and resource decide to work together). EA projects 15-20 high-quality matches each year. Examples of critical resources that EA will help provide to accelerated companies would include executives (e.g. CEO, VP Sales, VP Marketing, CFO, etc.); experts in branding and marketing strategies; and board members with extensive backgrounds and networks in applicable industries.

With these three assets – EIRs, Accelerate Partnerships, and the ATN – as well as through the use of many day-to-day management tools,<sup>89</sup> the EA Acceleration Team will increase the likelihood that accelerated companies will hit milestones and move through commercialization stages faster than they would if they simply received an EA investment. The team will measure success primarily through its ability to help companies acquire necessary resources and move through commercialization stages. The following illustration highlights the commercialization stages.



**MILESTONES  
WITHIN EACH  
STAGE:**

**Success** milestones are outside validation of the business, namely new funding, new customer(s), and/or new executives at the company  
**Progress** milestones are progress towards these success milestones, such as term sheets from v.c.s, customer partnerships, and employment agreement in place with an executive  
**Activity** milestones are activities that show that the company is executing on its overall workplan

Source: Taken from BizLogx "Commercialization Framework" document created for the State Of Ohio. JumpStart adapted certain elements of this framework

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<sup>89</sup> Tools include budgets, milestone maps, monthly dashboards and financials, and valuation tools.

## **Commercialization stages**

The Acceleration Services Team believes that angel capital usually becomes accessible once a company gets to the tail end of the incubation stage, and that seed or early stage venture capital (“Series A”) is feasible once a company is looking to extend and grow into a large market (the market entry stage). The Acceleration Services Team works diligently with accelerating companies to acquire the resources and generate the results necessary to move into the demonstration stage and acquire angel funding, and then the market entry stage to acquire venture capital funding. Throughout the accelerate process, EA is aware that profitable and successful exits most often occur in the form of strategic sales. As a result, the Acceleration Team incorporates the possibility of a strategic sale into the planning and assistance it provides to companies. About six months before a company reaches its “goal” stage, the Acceleration Team will interact closely with the Investments Team to help the company raise the required capital.

### *Follow-on capital*

EA expects to raise approximately \$6 million in follow-on capital (e.g., state and federal grants, co-investments, and follow-on investments) for accelerated companies within 3 years. By the fifth year of operation, EA expects the amount of follow-on capital to grow to [\$18 million]. Currently, EA expects to take approximately 18 months to raise the first round of follow-on capital for an accelerated company.<sup>90</sup> Within EA, the Acceleration Team leads the process of raising this follow-on capital, with the Investment Team assisting. Together the teams will work with the entrepreneur to devise a short list of funds, angels, and corporations to approach, update their business plan, create an Offering Memorandum and conduct the “road show.”

EA expects the composition of follow-on capital to be a mixture of angel and venture capital, individual investments, government grants, and corporate capital.

Critical to these projections is the assumption that a strong angel community will invest in EA portfolio companies within 18 months of an EA investment. It must be emphasized that in order for the region to have a healthy entrepreneurial community, *all players along the “capital continuum” pipeline, including angel investors, need to be actively participating.*

## **ECONOMIC INCLUSION AND DIVERSITY**

In the Minneapolis-Saint Paul region, African Americans make up 6.4 percent of the population, and Asians 5.0 percent in a population that is 15 percent minority

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<sup>90</sup> This is in line with numbers cited by Innovation Works, a Pittsburgh-based organization, that works with pre-seed and early-stage companies.

overall (2008 census data). Part of EA's mission is to tap into the creativity, entrepreneurship, and innovation of minority and women entrepreneurs, believing this to be critical to regional success now and especially in the future. No region can expect to succeed long-term without leveraging the best opportunities.

### **An Inclusion and Diversity Strategy**

To make this reality, EA will develop and implement an Inclusion and Diversity Strategy that specifically targets the creation and support of high-growth female- and minority-owned businesses. While maintaining consistency with the overarching strategic objectives of the organization, EA's Inclusion and Diversity Strategy initiatives focus on increasing speeding the inclusion for all minority entrepreneurship stakeholders. Specifically, the strategy aims to enhance minority and female representation as entrepreneurs, executives, managers, angels and venture funds, subject matter experts, directors and advisors, service providers and customers.

To ensure both short- and long-term success, EA will identify the current talent pool in each stakeholder category, while establishing a pipeline for growth and sustainability. As the foundation for the entire strategy rests upon building solid relationships, key to the success will be a well-executed outreach plan.

Reaching out to minorities and women with very specific objectives is critical. To ensure a timely and significant outreach effort, EA will seek to deepen relationships with minority and women leaders in the business, political, academic, and faith-based communities on a regional and national level. Short-term goals for this effort include:

- Enlightening leaders and constituent groups on the profile of ideas and companies that could become venture-ready businesses
- Shifting mindsets toward building larger minority- and women-owned businesses that are well capitalized, target growth opportunities and industries, and leverage the benefits of strategic alliances to maximize capacity and infrastructure
- Highlighting current successes and profiles of venture-backed minority and women-owned businesses to enhance the awareness of these segments
- Encouraging partnering among individuals and organizations to bring together entrepreneurial and technical expertise
- Further connecting with minority and women stakeholders within the medical, engineering, technical, and science industries, to ensure a thorough understanding of EA's mission and available regional resources for product commercialization

- Encouraging the participation, utilization and ongoing development of minority and women angel investors and niche venture funds that target these segments such as those represented by the National Association of Investment Companies (NAIC).

*A chief economic inclusion officer*

To accomplish these objectives, EA will hire a chief economic inclusion officer. The CEIO will be a person who understands the unique issues faced by minority and women entrepreneurs. The CEIO will engage in a variety of activities to connect with minority and women leaders, including:

- Engaging in direct one-on-one meetings
- Developing alliances with organizations such as the Kaufmann Foundation and the National Association of Investment Companies
- Speaking at group and organizational meetings and functions
- Establishing strategic alliances with networking organizations and executive level personnel recruiters
- Participating in and hosting joint seminars, panel discussions, and workshops
- Building relationships with minority- and women-specific media channels.

EA will also look into the feasibility of establishing an *Inclusion and Diversity Council* consisting of influential regional and national leaders. The Council's role, at least initially, would be to provide EA with a wide range of perspectives and experience relevant to the issues and challenges EA intends to address.

*Inclusion metrics*

EA will establish and implement a system to measure the effectiveness of its inclusion-related efforts, looking at the number of minority- and women-owned businesses that attend events, respond to marketing or other specific engagement efforts, apply for assistance, receive service assistance or funding. A further important metric will be the follow-on funding attracted by minority or women owned businesses that receive EA assistance or funding.

It will be important to analyze these metrics in the context of the region's population and demographics. These activity based metrics, when tracked over time, can provide insights into specific areas for improvement to ensure that both quantity and quality of deal flow is sustained.

*Creating a level playing field through inclusion*

In its purest form, EA's Inclusion and Diversity Plan aims to create a level playing field for all entrepreneurial stakeholders whereby every participant is granted equal access, consideration, and resources. In the final analysis, this level playing

field fosters healthy competition, which in turn “raises the level of play” of all involved. EA’s goal is to ensure that the region benefits from the best, most talented entrepreneurs and believes it can achieve this goal only through the application of the intensive efforts described above.

## COMPETITIVE ANALYSIS

Some of the many private, non-profit, and government organizations supporting innovation and entrepreneurship in the region are identified below. None of these, however, provides EA’s unique combination of assistance, venture partner support, technical support, and access to funding across an array of technologies and industries. In particular, none have access to funding from national sources to develop an entrepreneurial ecosystem for the entire region.

- **Bio-Business Alliance:** an effort to build the bioscience industry and position Minnesota as a biosciences leader
- **The Collaborative:** a membership organization serving companies, entrepreneurs, investors, and executives with networking, content, programs and publications
- **The Cleantech Open:** a national business plan competition focused on green innovations, which this year created a North Central competition based in Minneapolis
- **LifeScience Alley:** a trade association lobbyist for education, networking and research about emerging technologies
- **Metropolitan Economic Development Association:** for entrepreneurs of color, provides consulting, management and technical services, training, business planning, networking, and funding
- **Metropolitan Consortium of Community Developers:** a consortium of non-profits helping new and early-stage businesses with training, technical assistance and loans of between \$2,000 and \$25,000
- **MINNESTAR:** a community of designers, developers, investors, and business people focused on making Minnesota a great place to start and grow tech-based businesses. It has a website, quarterly events, and four divisions: minnebar networking for the tech design community; minnedemo, for tech demonstrations; minne\$spark for \$1,000 grants to teams with an idea/plan; and minne\$start, an annual cash-and-services prize to help launch an early-stage tech startup (started in fall 2010).
- **Minnesota Cup:** an annual statewide competition awarding cash prizes to aspiring entrepreneurs (“high tech and no tech”)
- **Minnesota Biomedical Discovery District:** a U of M center for medical research scientists

- **Minnesota Office for Technology Commercialization:** a U of M center for preparing intellectual property; supports university researchers in evaluating commercialization paths, and licenses technology to outside entrepreneurs and companies
- **Minnesota Science and Technology Authority:** a newly established state resource to support the development of new businesses
- **MOJO MN:** a group of business leaders “agitating for innovation policy and community in Minnesota”; supports innovation and entrepreneurship via events, advocacy, dialogue and networking
- **Score:** the local chapter of D.C.-based non-profit for entrepreneurial education and consulting
- **Twin Cities Small Business Development Center at the University of St. Thomas:** a center offering free consulting to help business owners develop strategies, attract customers, increase sales and improve profitability
- **University Enterprise Laboratories:** a Saint Paul incubator providing lab and office space to create an entrepreneurial community for early-stage bioscience companies; supported by 3M, Boston Scientific, Ecolab, etc.
- **University of Saint Thomas William C. Norris Institute:** a nonprofit revolving fund providing up to \$75,000 in pre-seed capital for innovation of IT, manufacturing, and environmental technology companies
- **WomenVenture:** a nonprofit providing tools and support to assist clients in starting and growing businesses, finding jobs, or developing a new career path.

Each of these organizations play a vital role in developing the Minneapolis-Saint Paul region entrepreneurial ecosystem but none has the resources to engage in the acceleration activities to which EA is dedicated. EA expects to partner, co-invest, and develop working alliances with these organizations to advance promising opportunities to market.

## MARKETING PLAN

### Positioning and branding

EA will position itself as a comprehensive venture development organization. Since the term “venture development organization” is often not well understood, EA will begin with a branding campaign that explains this role and engages entrepreneurs and entrepreneurial supporters throughout the region. Over time, EA will extend the branding campaign to include venture capitalists and entrepreneurs around the country. An overview of audiences, messages, metrics behind the message, and tools for communicating these messages is below.

### EA Audience and messaging over time

|  | Years 1 & 2   | Years 3-5  |
|--|---|--|
| <b>Target customer</b>                 | <ul style="list-style-type: none"> <li>▪ The regional innovation-oriented entrepreneur</li> </ul>   | <ul style="list-style-type: none"> <li>▪ The regional innovation-oriented entrepreneur</li> <li>▪ “Super regional” resource providers (e.g., Midwest) and national venture capital firms</li> </ul>  |
| <b>Key target audience</b>             | <ul style="list-style-type: none"> <li>▪ Regional                             <ul style="list-style-type: none"> <li>– Entrepreneurs</li> <li>– Angel Investors</li> <li>– Venture investors</li> </ul> </li> </ul>   | <ul style="list-style-type: none"> <li>▪ Regional and Super Regional                             <ul style="list-style-type: none"> <li>– Entrepreneurs</li> <li>– Angel Investors</li> <li>– Venture investors</li> </ul> </li> </ul>   |
| <b>Other audiences</b>                 | <ul style="list-style-type: none"> <li>▪ Regional                             <ul style="list-style-type: none"> <li>– Foundations</li> <li>– Corporations</li> <li>– Philanthropists</li> <li>– Business people</li> <li>– General populace</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>▪ Regional &amp; Super Regional                             <ul style="list-style-type: none"> <li>– Foundations</li> <li>– Corporations</li> <li>– Philanthropists</li> <li>– Business people</li> <li>– General populace</li> </ul> </li> </ul>   |
| <b>Message</b>                         | <ul style="list-style-type: none"> <li>▪ Minneapolis Saint Paul region is a great place for entrepreneurship and innovation</li> <li>▪ EA is central to making this happen, because of its people and capital</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Minneapolis Saint Paul region is emerging as an entrepreneurship and innovation hot spot with strengths in _____</li> <li>▪ EA has played a key role in this emergence</li> </ul>   |
| <b>Proof of this message (metrics)</b> | <ul style="list-style-type: none"> <li>▪ EA deals seen and done</li> <li>▪ Minneapolis-Saint Paul region Money Tree ranking: top 10 in country</li> <li>▪ Minneapolis Saint Paul region Venture Wire ranking: top 20 in country</li> </ul>                          | <ul style="list-style-type: none"> <li>▪ EA deals seen and done, plus follow-on capital raised</li> <li>▪ Minneapolis Saint Paul region Money Tree Ranking: top 5 in country</li> <li>▪ Minneapolis Saint Paul region Venture Wire ranking: top 10 in country</li> <li>▪ Cumulative raise of \$1 billion in Minneapolis Saint Paul region</li> </ul> |
| <b>Tools to convey message</b>         | <ul style="list-style-type: none"> <li>▪ EA website</li> <li>▪ Regional media: newspapers, radio, TV, facilitated or conducted mostly by EA</li> <li>▪ Regional speaking engagements, EA exchange, facilitated or conducted mostly by EA</li> </ul>                 | <ul style="list-style-type: none"> <li>▪ EA website and other online media</li> <li>▪ Super-regional or national media, newspapers, radio, TV, facilitated or conducted mostly by EA</li> <li>▪ Super regional or national speaking engagements, facilitated or conducted mostly by EA</li> </ul>  |

As the table illustrates, in the early years, the target customer is the innovation-oriented entrepreneur. Entrepreneurs are skeptical by nature and the landscape is crowded with well-intended but uncoordinated non-profit organizations designed to assist entrepreneurs. Additionally, marketing to this customer requires a careful

balance of practical, realistic advice and optimism. The entrepreneur teeters on the edge of hope and despair. They hope that their idea and business will grow within a capital and risk-friendly environment; they despair of it being blighted in a region with little capital and tolerance for risk. The key is to acknowledge the despair while offering fact-based hope relative to the prospects of the opportunity in the region. Finally, EA must deal with the reality that many entrepreneurs do not believe they need assistance. They want money. Again, EA must help them understand the realities facing an opportunity at the early stages of development. EA's primary tool for conveying the realities and engaging in a productive assistance-oriented relationship is the EA EIR. Having direct personal experience with entrepreneurship and innovation, the EIR can credibly address this challenge.

Over the next year, EA will activate its education, communications, and marketing plans within the region. The activation will include the launch of an EA web site to provide high-value information to entrepreneurs seeking assistance or funding. EA will employ a variety of online marketing tools, including e-magazines, paid advertising including pay-for-performance spots on search engines, editorials, TV, radio, blogs, social networking tools, etc. To measure the effectiveness of its education and marketing, EA will track media mentions, response rates, attendees at events, and related metrics.

In years 3 through 5, EA will add a target customer, namely the growth-oriented venture capitalist. The objective is to build a trusting relationship with this customer. The growth-oriented venture capitalist receives hundreds, maybe even thousands of requests for investment annually. EA's goal is to establish enough of a relationship that the venture capitalist will return EA's call and engage in a meaningful discussion. This is easier said than done, since this customer will tend to vacillate between greed and fear. Their greed drives them to look for great but undervalued deals, but they fear the deals are undervalued for good reason.

By assigning experienced EIRs to each opportunity and then following a disciplined approach to conducting research, providing assistance, structuring investments, and finding talent, EA should be able to establish these trusted relationships. EA anticipates hiring at least one full-time person with the experience and relationship-building skills necessary to create and maintain these trusted relationships. Through its communications and contacts, EA must clearly and factually demonstrate that the region is a good place to invest in, and that there are good companies with solid opportunities for rapid growth.

For this is complex and ambitious marketing plan to succeed, excellent execution and EA leadership are needed. Additional factors required for regional success are the subject of many studies. But a broad, high-level look at cities, regions, and countries that have proceeded from such a plan reveal that real economic success is achievable. The many success stories, from Singapore to Boston, from Seattle

to Shanghai, reveal the key role branding and international marketing play in attracting investors and creating prosperity. These examples all suggest that the unique advantages of the Minneapolis-Saint Paul region can be transmitted through branding and marketing to make the region an internationally recognized destination economy.

### **Development, economic inclusion, angel support**

EA's marketing team will provide substantial internal support to development and economic inclusion activities. The Development Team will employ dedicated professionals with expertise in identifying, meeting and following up with donors. The Marketing Team will assist the Development Team in gaining leadership-level and general gifts, responding rapidly to donors and showing unique appreciation, and establishing general brand awareness within the philanthropic community. The groundwork for this work will have been laid by EA's branding, positioning, messaging, and communications activities. Building on this preparation, the Development Team will arrange donors meetings, send special e-mails to the donor community, and refine the branding, positioning, and messaging to target the philanthropic community more precisely.

Economic inclusion activities will also require similar strategic and tactical support as these programs begin to execute their strategies during this time period.

## **THE ORGANIZATION**

### **Culture and management**

EA will recruit and build a management team that consists of highly skilled professionals with experience in investing in and rapidly growing companies, financing and raising capital for companies, advising companies, regional economic development, all aspects of marketing (branding, product launch, market analysis, sales support, events, and other), operations, accounting, and IT. Team members must have a passion for innovation-oriented entrepreneurship. Ideally, many of them will have lived and worked outside the region, and some will possess international experience. All management team members must have extensive experience in the for-profit sector. They must be able to relate to entrepreneurs trying to grow their for-profit companies.

In addition, EA team members must be committed to certain core values which EA believes are critical to long-term success.

- **Accountability.** Be accountable for outcomes and devise simple metrics to measure the progress of activities.
- **Diversity.** Demonstrate a commitment to diversity in portfolio companies, employees, board members, partnerships, suppliers, and stakeholders.

- **Focus.** Maintain a commitment to organizational focus on activities and programs that will make the greatest impact on realizing the vision of creating high-growth, venture-ready opportunities.
- **Integrity.** Uphold integrity as a critical foundation of all that EA does.
- **Quality.** Associate with highest quality product and service offerings to build stakeholder credibility.
- **Risk orientation.** As an organization, encourage and take calculated operating risks.
- **Teamwork.** Work collaboratively and openly, welcoming differences of opinion, to achieve common goals.

EA will be as committed to living up to its core values as it is to achieving financial metrics. EA must be a good investor but also forthright in its actions and interactions: resourceful rather than critical, creative rather than analytical, and refreshingly honest rather than condescendingly evasive. Overall, EA will provide entrepreneurs with the respect they deserve, even when the message is not what the entrepreneur wants to hear.

### **Organizational structure**

EA will structure its organization by seven critical functions and lines of business: Finance, Marketing, Investing, Inclusion, Development (fundraising), IT/Technology, Operations. EA will not compromise on the quality of any of these critical functions as each is a critical component of its long-term success.

### **Oversight**

EA will commit substantial time and energy to building a board of directors that can help drive organizational success and bring new and compelling insights to its operation. EA will seek board members who have many years of experience in regional economic development and government, education, entrepreneurship, investing, and advising entrepreneurs. A majority of the board members will reside in the region, but EA will also seek members who can bring a national perspective and insights to the operation. The board will include an executive committee of persons with investing and entrepreneurial experience. The Executive Committee will be ultimately responsible for approving investments on behalf of the entire board. The Executive Committee also approves compensation for the EA executives and senior managers.

EA also intends to assemble an informal, ad-hoc Investment Committee that consists of experienced angel, seed, and venture capital investors with national reputations. This committee's role is to review investment memos that EA writes and then offer feedback on whether EA should make the investment in question.

The following is a general view of the functional organizational chart the EA intends to employ:

[To be included...]

## **DEVELOPMENT AND FUNDRAISING**

### **Fundraising environment**

Because EA will be a non-profit organization, its funding will come in the form of grants and philanthropic donations. There is immense competition for philanthropic dollars within the region and throughout the nation. Economic development initiatives constitute a small proportion of charitable contributions nationally, regionally, and locally, perhaps 5 percent.<sup>91</sup> Furthermore, it is estimated that the individual giving sector nationwide will not be strong over the next few years as the U.S. economy continues to struggle.

Although in Minnesota individuals and corporations have a relatively strong history of giving, and unemployment is relatively low here, Minnesota foundations are also expected to face challenges in securing contributions.

Overall, then, the environment for raising money through charitable contributions is challenging on several fronts, and EA needs an organized, aggressive fundraising campaign in order to overcome these challenges.

### **Fundraising approach**

EA will model its fundraising approach on the approach followed by JumpStart during its early years of operation. As part of the REAP development project, the EDA and the Knight Foundation secured the services of JumpStart to assist in the development and execution of a fundraising campaign. The fundraising campaign will be tailored to the specifics of the final REAP, but will target both national and regional foundations. EA will also seek funds from state and federal sources, including the EDA. As noted in a section above (“The Organization”), EA will hire a senior executive to manage the fundraising function. With its venture development model and the likelihood that exits from investments may not occur for a substantial period of time (5-10 years), EA must continuously pursue all available funding sources to ensure the sustainability and ultimate success of the model.

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<sup>91</sup> This is the category into which Economic Development, and therefore EA, falls.

## **METRICS**

EA will be committed to setting and measuring its performance against a well-defined set of metrics. For instance, the marketing team will measure traffic to the EA website as a indicator of the success of certain of its outreach efforts; the Investments Team will track metrics such as the number of companies ADVISED or the time required to move from the ADVISE phase to a closed investment; the Acceleration Team will measure portfolio companies against pre-set milestones and will also track the companies' ability to attract follow-on investments; the Development Team will track "contacts made per week" as well as total dollars raised; and the Finance team will look at cash flow vs. plan as well as the performance of the overall organization in generating follow-on investments.

These are only a small sampling of EA's commitment to metrics. The following is a list of EA's primary strategic metrics for each operating function:

1. EA Exchange
  - a. Unique connections
  - b. Media mentions
  - c. National rankings on entrepreneurship
  - d. Quarterly reports on progress towards annual and overall goals
2. Investing Team
  - a. Total hours spent on due diligence –“Advise”
  - b. No. of advising sessions
  - c. No. of new investments
  - d. No. of add-on investments
3. Acceleration Team
  - a. Total hours assisting and accelerating
  - b. No. of assisted clients
  - c. No. of accelerated clients
  - d. Milestones hit
4. Acceleration and Investing Team
  - a. Amount of follow-on funding per year raised for “Apply” and “Accelerate” companies
5. Economic Inclusion and Diversity
  - a. Total number of hours advising, assisting, and accelerating companies
  - b. No. of advised companies
  - c. No. of assisted companies
  - d. No. of accelerated companies
6. Development
  - a. New resources secured

## **FINANCIAL PLAN**

### **Sources of funds**

EA plans to secure funding from a variety of sources to support its efforts over the 10+ year period required before we begin to see real change in the economic ecosystem. As explained throughout this document, EA will generate substantial near-term economic benefits in the form of follow-on capital, and these early successes will prove to be a powerful driver of change. As noted above in the section “EA Investments,” near-term economic benefits will not generally flow to EA, or will not be a predictable source of funds to sustain operations. As a result, EA must generate substantial, long-term commitments from philanthropic sources as well as governmental entities (federal, state, regional, and local).

*The Economic Development Administration, the J. L. Knight Foundation, and REAP*

In addition to the ongoing fundraising activities of the organization, described above under “Business Plan,” EA has begun to generate support from state and regional government bodies. In June, 2010, the federal Economic Development Administration (EDA) and the J. L. Knight Foundation selected Saint Paul as one of six regions to target for the development, funding, and execution of a Regional Entrepreneurship Action Plan (REAP). REAP is essentially a business plan that builds on existing regional assets and deal flow to help produce high-growth, scalable new businesses that ultimately increase economic activity, attract outside capital, and create new jobs. The ultimate goal of the project is to leverage the positive impact of the REAP to accelerate the creation of a sustainable, high-impact and transformative entrepreneurial ecosystem.

To accomplish this, the EDA and the Knight Foundation partnered with JumpStart Inc., a venture development organization located in Cleveland. Elements of the JumpStart approach were used as the model for EA, since it generated impressive results in Northeast Ohio over the last 6 years. JumpStart has raised over \$60 million, invested in over 50 opportunities (almost one-third minority- or women-owned at the time of investment), provided over 120,000 hours of free assistance, reviewed 8,000 business plans and helped raise over \$300 million in follow-on capital. Regional leaders determined that the project could generate additional benefits if it included the entire Minneapolis-Saint Paul metro. They secured \$200,000 of additional funding from the State of Minnesota through the Department of Employment and Economic Development as well as other local and regional sources to expand the project.

The EDA-Knight REAP project aligns well with the Brookings Metropolitan Business Plan Initiative. REAP and the Metropolitan Plan are catalyst projects, similar in definition, design, and purpose. The REAP project is also an important

step in securing substantial funding. After completion of the REAP, both the EDA and the Knight Foundation intend to be funding sources for the resulting EA operation. EA will actively and continuously fund-raise to support its successful launch and operations, while the REAP project will provide supporting fundraising help.

EA has already begun the REAP project. Over the next 6 months EA will complete the primary and secondary research, refine this plan using the results, produce a revised and more detailed business plan, and initiate fundraising activities. EA believes that this additional work will enable it to launch EA at scale, reduce the time and effort to secure long-term funding partners, and reduce the time required to generate tangible results.

### **Uses of funds**

EA's use of funds will be in line with the activities, processes and personnel described in this plan. There are three primary budgetary categories: direct investment, salaries and benefits, and general business expenses.

Approximately half of EA's funding will be used for direct investments. Because EA is committed to hiring and retaining a high-quality, experienced team, approximately 30-40 percent of its funding will go towards salaries and benefits. Business expenses, including marketing, will comprise the remainder. Although precise staffing levels will be determined as EA refines its plan during the REAP development process, the following projections are based on deal flow sufficient to make approximately 14 investments of \$350,000 each during the first 3 years of operation, with approximately 50 percent of the investments requiring a second investment of \$350,000 approximately 1 year from the date of the initial investment. Based on these assumptions, EA will require approximately \$6.5 million to \$7.0 million to fund these direct investments. Based on the staffing comparable to JumpStart during its early years of operation, EA will require an additional \$7.0 million to fund personnel and business expenses. Again, EA will refine these projections during the REAP development process.

## 6. Conclusion

The business plan approach to the next generation of regional economic development seeks to coordinate the substantial assets on which the economy of the Minneapolis Saint Paul metro region relies. A basic step in this approach has been to take an inventory of these assets, in particular our skilled human capital, our innovation base, and the concentrations of industries and corporate headquarters for which our region is known. By key measures, diminishing performance has been revealed across these critical economic inputs. Our region has a diverse economic base and a proud history of policy innovation. The quantity and scope of strategies outlined in this plan, designed to reverse the downward trend, builds on gathering creative momentum for collaborative regional action.

Flagging performance across the economic leverage points can be most effectively converted to growth and prosperity through a focused, strategic intervention in the commercialization of high-value ideas generated regionally. Intensive analysis to identify gaps in the entrepreneurial ecosystem will shape the key components to be included in an Entrepreneurship Accelerator in the region. An EA will play a critical role in expanding economic vitality and job growth through realigning our region's assets, including our public and private research infrastructure, corporate headquarters, and skilled workers. The case for action has been made in multiple ways here: indicators such as stalled productivity and wage growth, persistence of the achievement gap, and falling rates of entrepreneurship each illustrate the need for change.

Through the development of this metropolitan business plan, regional leaders have broken new ground. The metro-wide scale of the plan, and its use of a business plan framework for an economic development strategy, have allowed leaders to better understand the economic opportunities and challenges that must inform local, regional, state and federal policy in the future. The plan and the collaborative, private-public strategies articulated here represent vehicles to elevate the metro in the global marketplace, positioning the Minneapolis-Saint Paul region for a new chapter of sustained prosperity.