

Fostering the Entrepreneurship Ecosystem in the Frankfurt Region?

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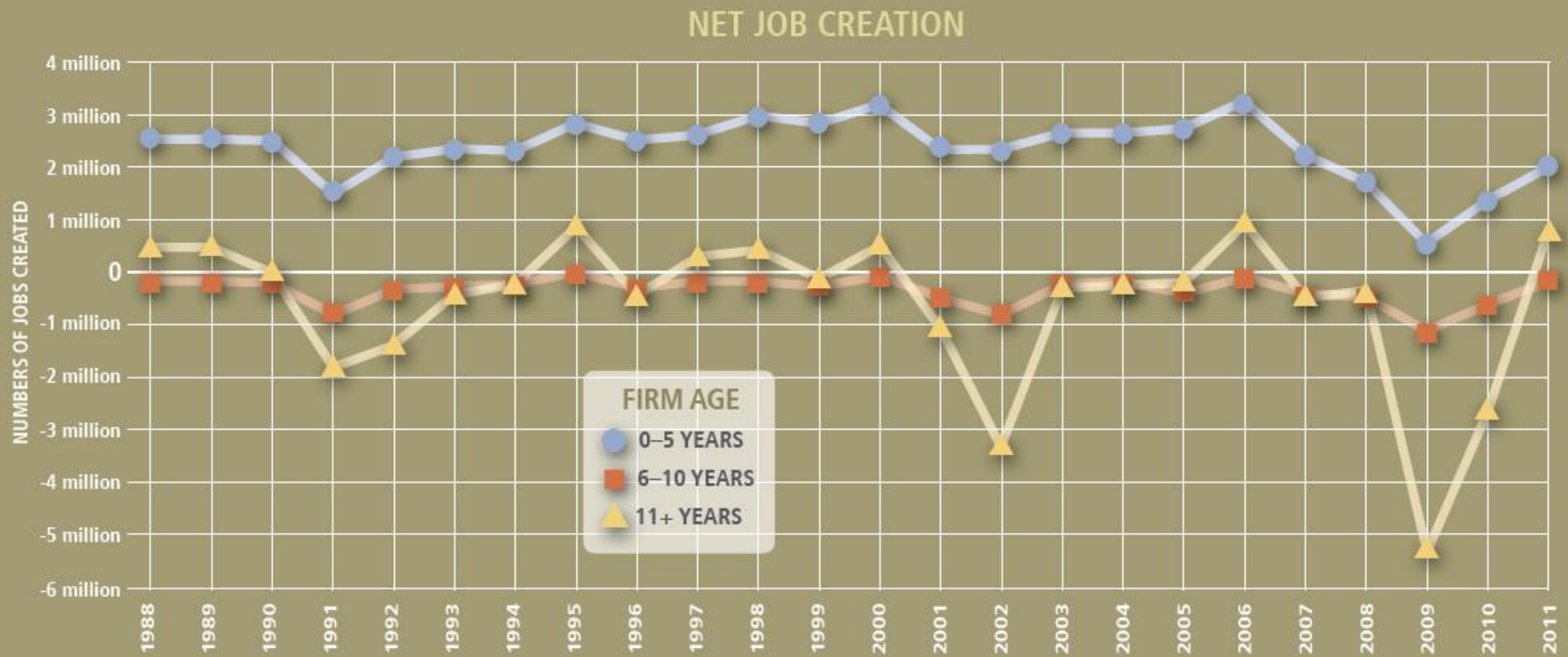
Framing Today's Subject

- Entrepreneurship ecosystem \neq Innovation ecosystem
 - Nelson & Winter (1982); Cooke (1992); Lundvall (1992); Etzkowitz (2008)
- Entrepreneurship ecosystem \neq Industrial clusters
 - Porter (1994, 1998, 2000); (See Motoyama (2008) for review)
- Entrepreneurship \neq small businesses



Importance of Entrepreneurship

- New and young companies generate net new jobs



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Past Works on Entrepreneurship Ecosystem

- Van de Ven (1993); Feldman (2001); Neck et al. (2004); Cohen (2006); Isenberg (2013)

- Identified major elements

- 1) Startup firms / spin-offs
- 2) Talent / skilled labor
- 3) University & research
- 4) Finance / risk capital
- 5) Incubators
- 6) Core customers
- 7) Social capital / culture

This Event Website:

“Important aspects of an entrepreneurial ecosystem include its culture, entrepreneurial role models, the presence of large firms, universities, service providers, money and expertise in supporting new entrepreneurial activity and an information-rich environment in which this information is both accessible and shared.”

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Domains of the Entrepreneurship Ecosystem

Leadership

- Unequivocal support
- Social legitimacy
- Open door for advocate
- Entrepreneurship strategy
- Urgency, crisis and challenge

Early Customers

- Early adopters for proof-of-concept
- Expertise in productizing
- Reference customer
- First reviews
- Distribution channels

Networks

- Entrepreneur's networks
- Diaspora networks
- Multinational corporations

Labor

- Skilled and unskilled
- Serial entrepreneurs
- Later generation family

Educational Institutions

- General degrees (professional and academic)
- Specific entrepreneurship training

Infrastructure

- Telecommunications
- Transportation & logistics
- Energy
- Zones, incubation centers, clusters

Support professions

- Legal
- Accounting
- Investment bankers
- Technical experts, advisors

Government

- Institutions
e.g. Investment, support
- Financial support
e.g. for R&D, jump start funds
- Regulatory framework
Incentives
e.g. Tax benefits

- Research institutes
- Venture-friendly legislation
- e.g. Bankruptcy, contract enforcement, property rights, and labor

Financial Capital

- Micro-loans
- Angel investors, friends and family
- Zero-stage venture capital
- Venture capital funds
- Private equity
- Public capital markets
- Debt

Success Stories

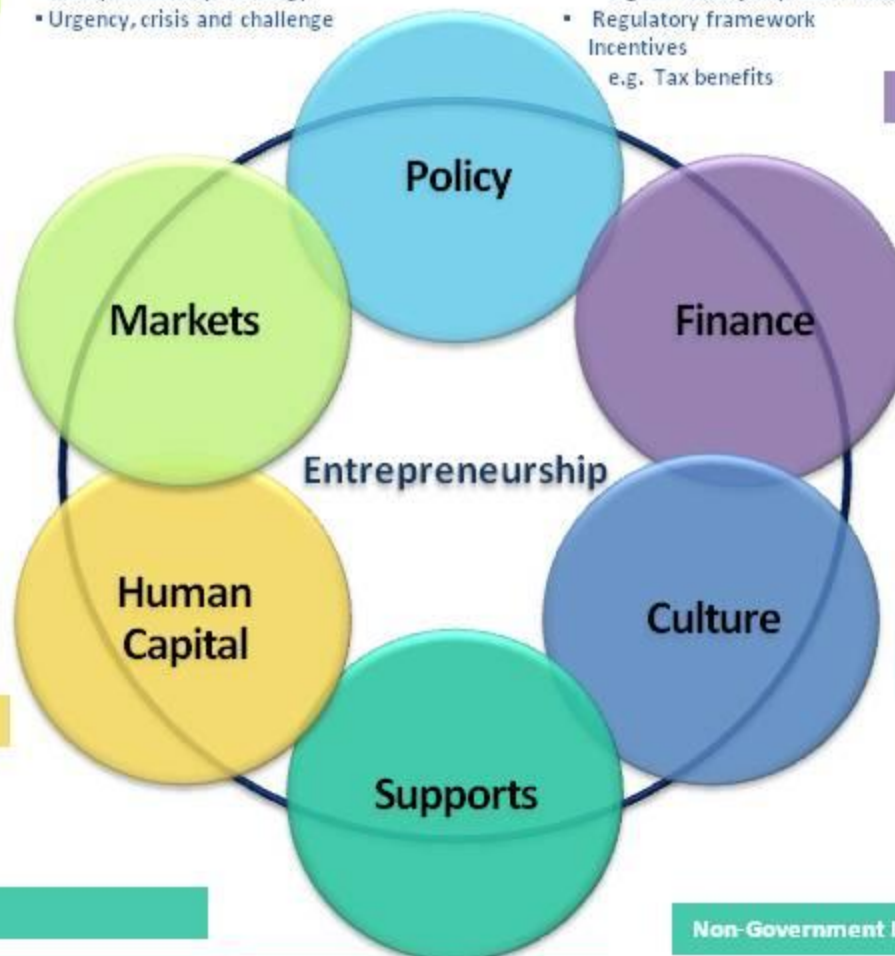
- Visible successes
- Wealth generation for founders
- International reputation

Societal norms

- Tolerance of risk, mistakes, failure
- Innovation, creativity, experimentation
- Social status of entrepreneur
- Wealth creation
- Ambition, drive, hunger

Non-Government Institutions

- Entrepreneurship promotion in non-profits
- Business plan contests
- Conferences
- Entrepreneur-friendly associations



Challenging Conventional Approach

- Should all ecosystems look alike?
 - Does every ecosystem have to have all those elements?
 - Do we have to imitate the Silicon Valley model?
- Does injecting a missing element help?
 - Such as establishing venture funds or incubators



Myth Element 1: Finance / Venture Capitals

- Failure of private venture funds
 - 80% of VCs unable to return 3% / year (Bradley et al. 2012)
- Alternative methods of finance
 - Bootstrapping (Motoyama et al. 2013)

Source	Count	Share
Personal savings	322	67.2%
Bank loans	248	51.8%
Credit card	163	34.0%
Family	100	20.9%
Business acquaintances	57	11.9%
Angels investors	37	7.7%
Close friends	36	7.5%
Venture capitalists	31	6.5%
Government grants	18	3.8%
Have not used finance	65	13.6%

Inc companies (n=479)

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Myth Element 2: Incubators / Accelerators

- Failure of incubators (Amezcuca 2010)
 - Likely prolonging dying firms
- Accelerators?
 - Competitive application process
 - Pre-seed investment, with equity exchange
 - Create a cohort of entrepreneurs, and focus on teams
 - Connect to mentors
- No evaluation research yet
 - Outliers (Y-Combinator, TechStars)
 - What happens after being funded?



Myth Element 3: University

- Scientific research, NIH funding, etc.
 - Little connection b/w scientific discovery & commercialization (Motoyama et al. 2011)
 - Little connection with startup or high-growth firm ratios
 - But % college graduate is correlated (Motoyama & Bell-Masterson 2014; Motoyama & Mayer, under review)
- Technology transfer office
 - When lawyers try to maximize revenues to university (Litan et al. 2007; Kenney and Patton 2009)
- Courses on business plan writing
 - Beautiful rice cake in picture

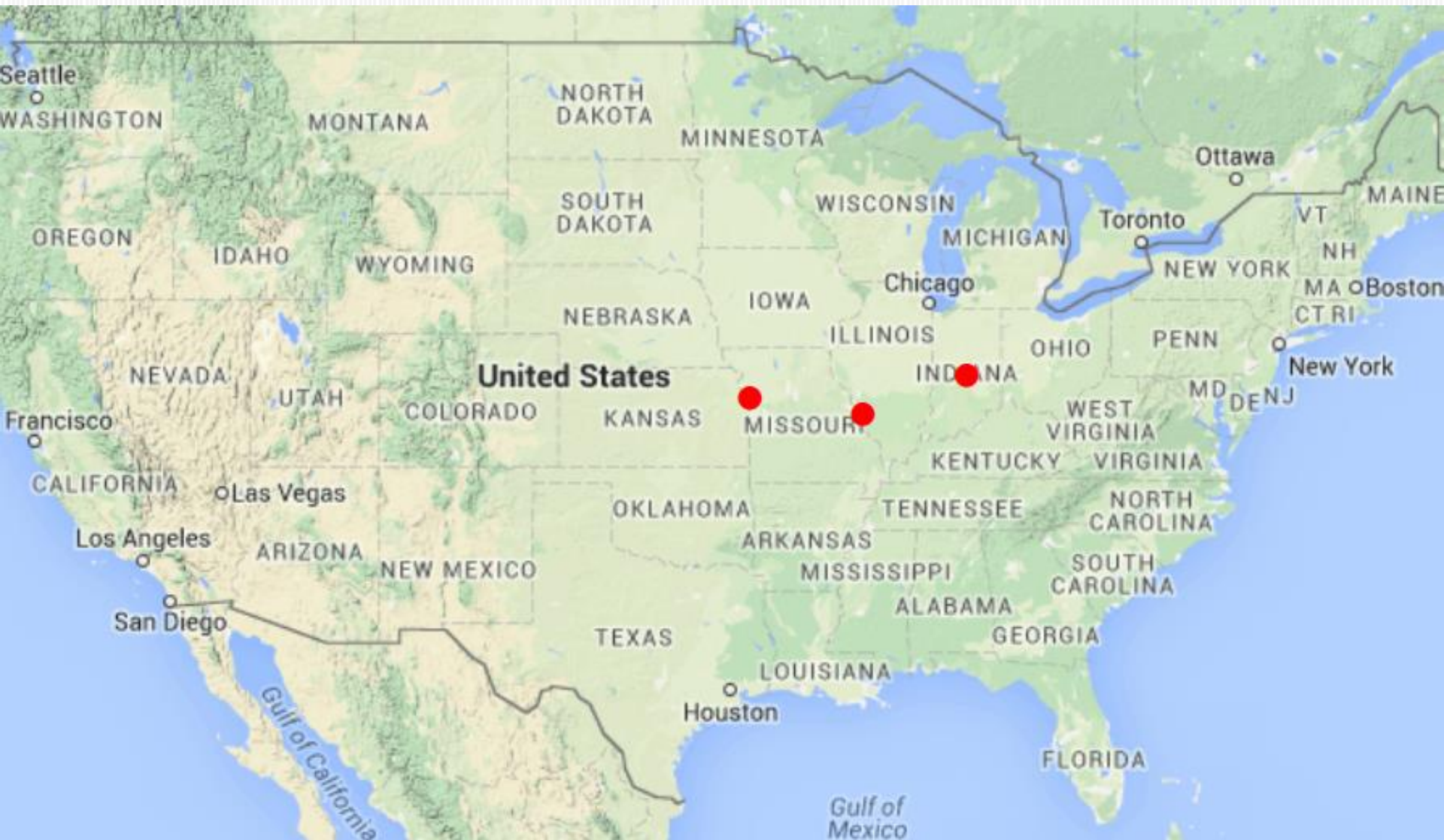


Questionable: Anchor (Large) Companies

- Should anchor firms interact with startup firms?
- Depends on the strategy and culture of the anchor firms
 - Free-flow company: old Fairchild, HP, Google
 - Captive company:
- Blind partnership may hinder startups and flow of talent



Studying Non-Silicon Valley Regions



The Biggest Challenge of Most Ecosystems

(Brasunas, interview, December 10, 2012)

- The typical problem I saw with entrepreneurs five years ago was like this:
- “I do this business alone, and I don’t know other startups in town. I don’t know investors here, and there is only old money from big corporations in St. Louis, so I go to Silicon Valley to find an investor.”
- Then, if you talked to investors, they would say: “I don’t find any startups in St. Louis, and, in fact, there may not be any prospective startups here, so I go to Silicon Valley to find companies to invest.”
- So somehow, they might find each other in Silicon Valley, but not in St. Louis.

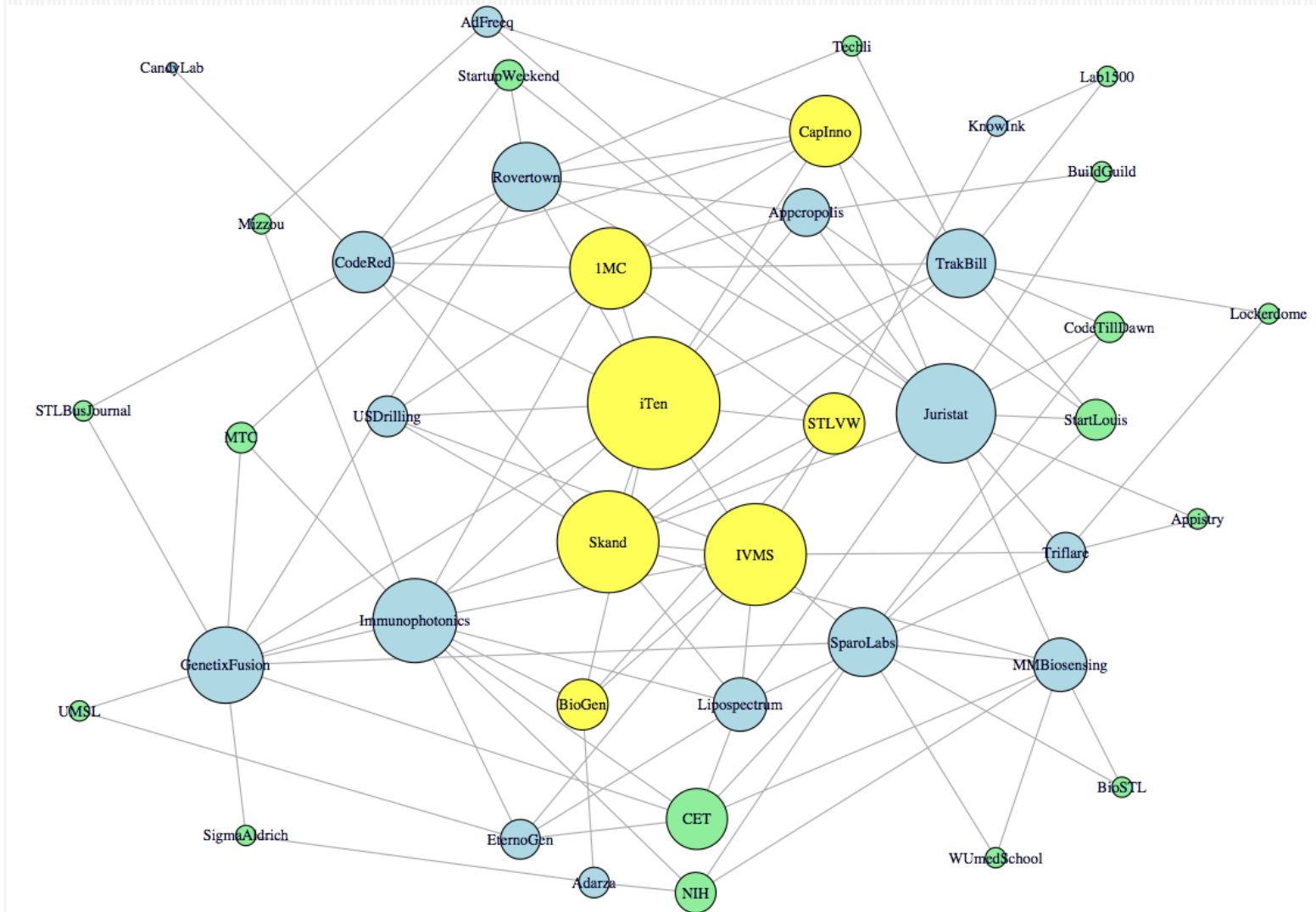


The Baseline Strategy

- Increase the dense connections between:
 - 1) Entrepreneurs
 - 2) Entrepreneurs & support organizations
 - 3) Entrepreneurs & mentors
- Promoting learning between entrepreneurs
 - Not about scientific knowledge or through business courses
 - But about how to run a business
- Where entrepreneurs can get constantly engaged
 - Local
 - Face to face



Connecting Individuals & Organizations



- Motoyama & Watkins (2014): Examining connections within startup ecosystem

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Guiding Questions 1

- Where do entrepreneurs in Frankfurt go and meet?
 - Instead of asking “What is lacking in Frankfurt’s ecosystem?”
- What kind of entrepreneurs are they?
 - Industry, gender, ethnicity, by stages
- What kind of connectivity do support groups provide?
 - (eg.) University/Incubator
 - By enhancing learning? Mixing with different kinds of groups?
 - By organize catalytic events to bring in people & ideas
 - Startup Weekend, 1 Million Cup, etc.
 - Invite guest speakers: successful local entrepreneurs
 - Arrange voluntary office hours by lawyers, accountants, technical experts
 - Avoid cocktail parties



Guiding Questions 2: Startup to Scale-up

- Are there support for scaling up?

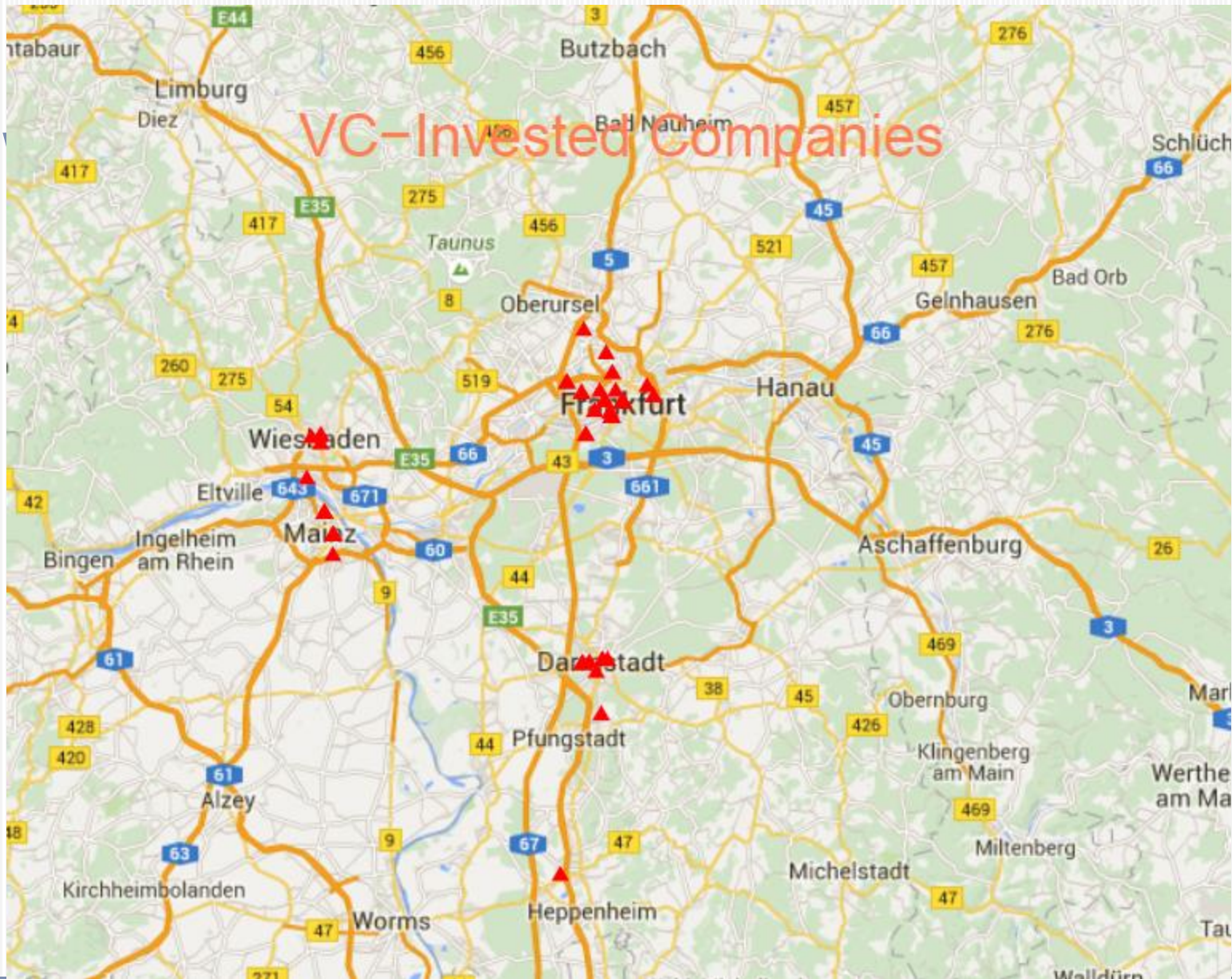
1) Pipeline Program

- “To create the lifelong connections among entrepreneurs” (Joni Cobb, Jan 17, 2014).
- Company CEOs of \$1 mil sales
- To connect with peers, mentors, and supporters
- Kansas City, Wichita, Omaha-Lincoln, St. Louis

2) HEMP (Helzberg Entrepreneurial Mentorship Program)

- For growth-minded business owners
- 3 years in business + \$1 million revenue
- Up to 20 mentees / year
- Matching with mentor(s)



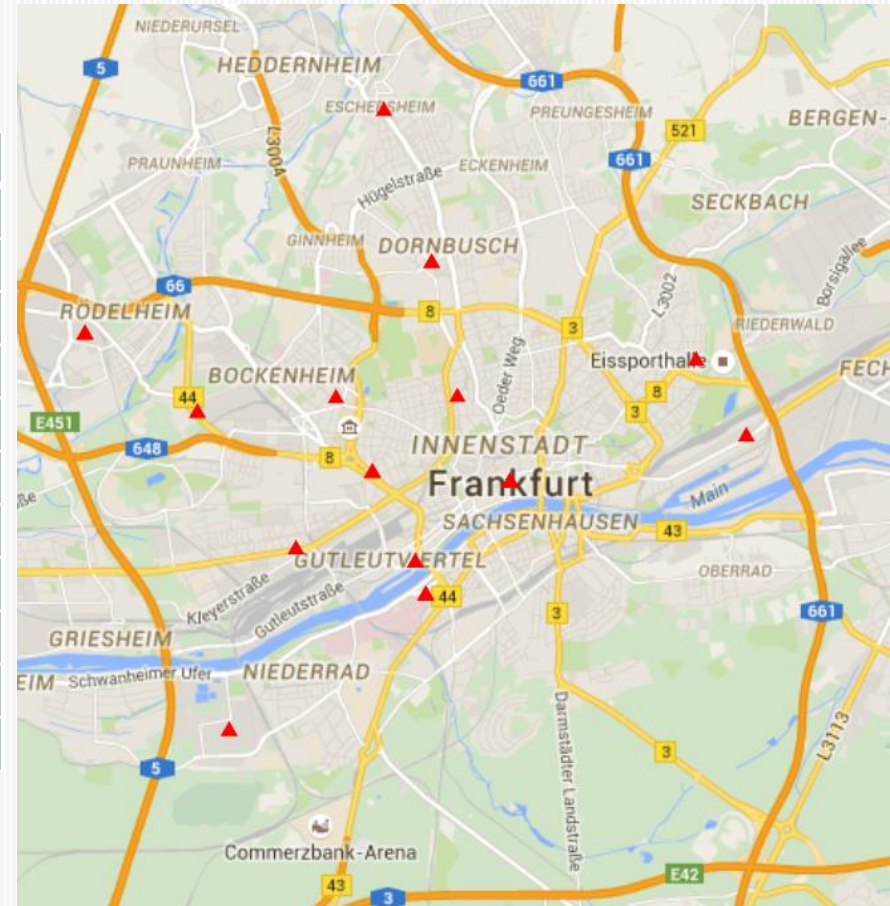


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VC-Backed Companies in Frankfurt

Year	Berlin	Hamburg	Munich	Frankfurt
2008	24	11	15	3
2009	24	3	16	3
2010	42	13	23	10
2011	50	16	28	8
2012	88	16	20	14
2013	130	18	36	13
2014	137	10	37	20
2015	34	7	6	6
Sub-Total	561	110	207	95
Pop (mil)	3.43	1.74	1.26	0.65
Per Capita	163.75	63.25	164.29	146.15



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Investor Region	2008	2009	2010	2011	2012	2013	2014	2015	Sub-Total
Bonn	1	1	3	1	4	5		1	20
Frankfurt				5	2	1	3	1	16
Berlin			3		4	1	4	2	14
Munich				1		1	4	1	11
London					1	2	1	1	6
New York City					1		3		6
Paris			2	1	1	1		1	6
San Francisco						3	1	1	6



Improving Connectivity by and between Stages

