

Investing in Entrepreneurs: A Strategic Approach for Strengthening Your Regional and Community Economy

Thomas S. Lyons, Ph.D.

Lawrence N. Field Family Chair in
Entrepreneurship

Baruch College, City University of New York

Three Values Underlying this Work

- A focus on the entrepreneur, not the business
- A commitment to development / transformation (of individuals as well as communities)
- A dedication to creating systems where the whole is greater than the sum of the parts

Why Does Entrepreneurship Make Sense for Community Development?

- Small businesses make up 99% of all employers in the U.S.
- Small businesses create at least 75% of all net jobs.
- Small businesses account for nearly 50% of total U.S. sales and 50% of GDP.
- 95% of all radical innovation is done by small, entrepreneurial firms (Timmons, 2007).
- Entrepreneurs build *wealth*, not merely generate income.

Why Entrepreneurship?

- A low-cost, bottom-up strategy for generating economic development
 - Economically sustainable: Small scale
 - Draws on local resources
 - Oriented to human capital over physical capital
 - Creates businesses with local roots

Questions to be Answered

1. How do we segment the marketplace of entrepreneurs in a *useful* way?
2. Why must we do it?
3. How do we benefit from segmenting the marketplace of entrepreneurs and enterprises?

How *should* we segment the marketplace of entrepreneurs and their enterprises?

This begs the question: What are the crucial differences among entrepreneurs?

The Three Dimensions of the Pipeline of Entrepreneurs and Enterprises

1. The vertical dimension represents the rungs in the skill ladder and sorts entrepreneurs into five skill levels.
2. The horizontal dimension represents the six life cycle stages of the business.
3. The depth dimension represents the quantity of entrepreneurs and / or enterprises (capturing volume and flow).

The Entrepreneurial Skill Ladder



Performance Differentials by Skill Level

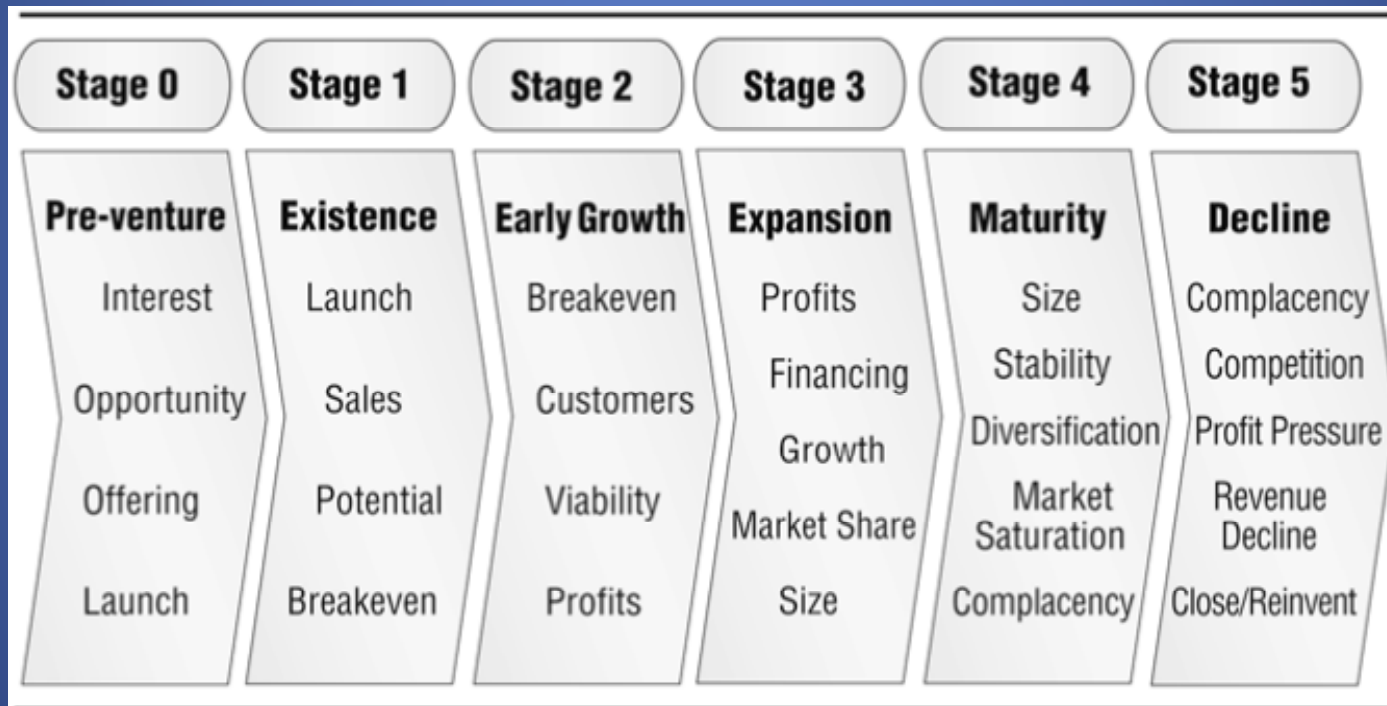
Sales Revenue by Skill Level for Clients Participating in the
 Entrepreneurial League System[®] of Central Louisiana
 Data Reported as of 6/30/09, N = 109

Skill Level	Average Sales Revenue	Ratio Between Levels	Median Sales Revenue	Ratio Between Levels
AA (13)	\$5,114,762	4.9	\$3,616,748	7.14
A (43)	\$1,042,913	2.3	\$506,375	2.1
Rookies (53)	\$456,745	1	\$242,665	1

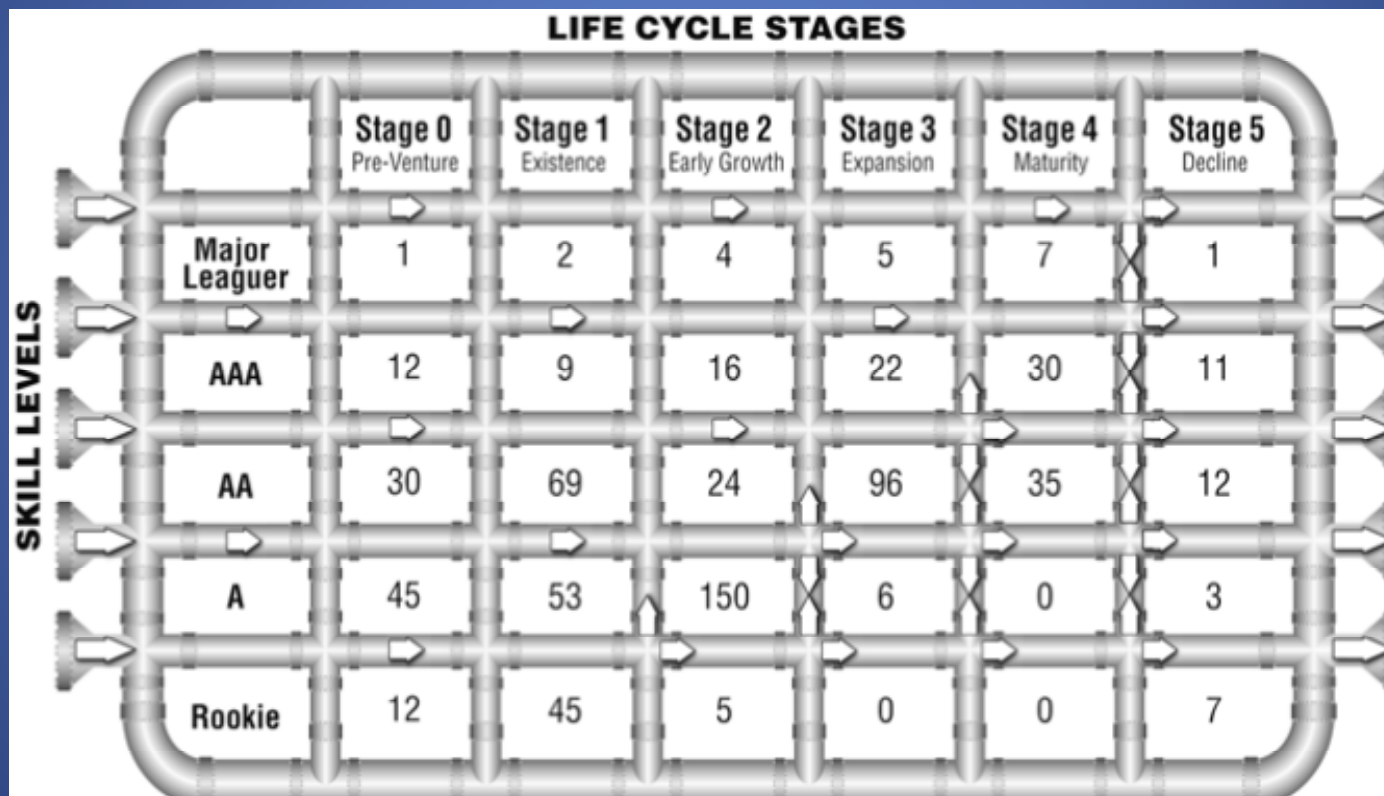
A Comparison of the Developmental / Skill Level and Annual Revenues for 13 Entrepreneurial Professional Ophthalmologists

Skill Level (n)	Average Sales Revenue (1987)	Ratio Between Levels	Average Age	Average Years in Practice
AAA (0)	n/a	n/a	n/a	n/a
AA (3)	\$4,200,000	3.23	n/a	13
A (5)	\$1,300,000	3.9	43	9
Rookie (5)	\$330,000	1	40	14

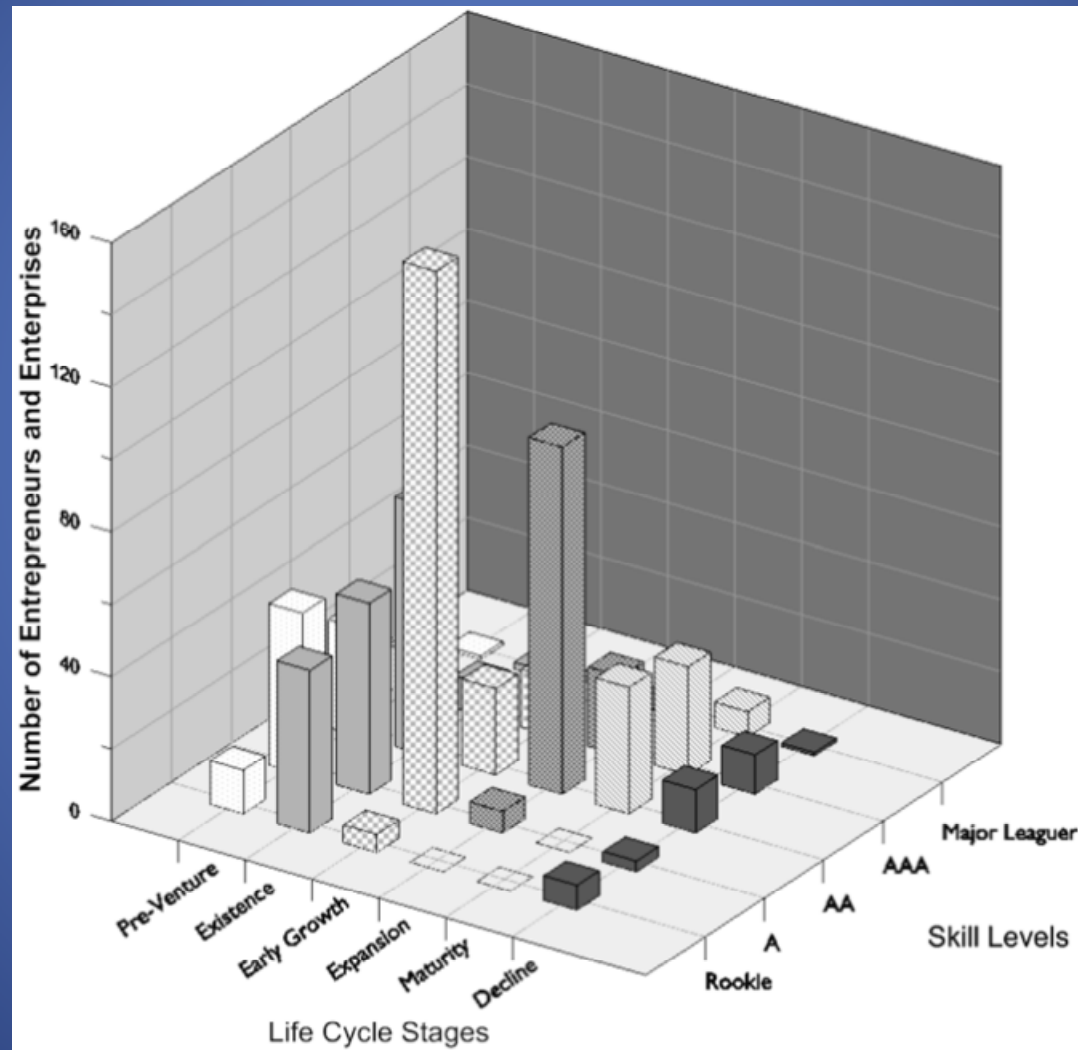
Business Life Cycle Stages



The Pipeline of Entrepreneurs and Enterprises: Two-Dimensional Representation



The Pipeline of Entrepreneurs and Enterprises: Three-Dimensional Representation



How can the Pipeline be Used by
Community Economic Developers?

Understanding Pipeline Dynamics

Skill Level	Stage 0 Pre-Venture	Stage 1 Existence	Stage 2 Early Growth	Stage 3 Expansion	Stage 4 Maturity	Stage 5 Decline
Major Leaguer						
AAA						
AA				Stuck Point	Crash Point	
A			Stuck Point	Crash Point	Acquired / Inherited: Weak Point	
Rookie		Stuck Point	Crash Point	Acquired / Inherited: Weak Point	Acquired / Inherited: Weak Point	

Key Observations about the Pipeline

- Movement from one segment of the Pipeline to another requires a transformation – either the development of new skills or the evolution of the business to the next stage in the life cycle.
- The needs of entrepreneurs and enterprises in each segment of the Pipeline are different, as are the services and the infrastructure necessary to support them.
- Entrepreneurship and innovation is an issue at every cell in the pipeline.

Observations (continued):

- The ability to use technical and financial assistance is a function of entrepreneurs' skill level
- Entrepreneurs at each skill level must be worked with differently
- To help an entrepreneur grow their business, you must often first help them develop their skills

Observations (continued):

- To transform your economy, you must create a pipeline that emphasizes both volume and flow
- To achieve flow in pipeline, the individual segments must be connected
- The ideal flow in the Pipeline is up and to the right (higher skill levels and later stages in the business life cycle)
- Understand who your customers (the entrepreneurs) are according to where they are located in the Pipeline, then you will know what you need to do for them

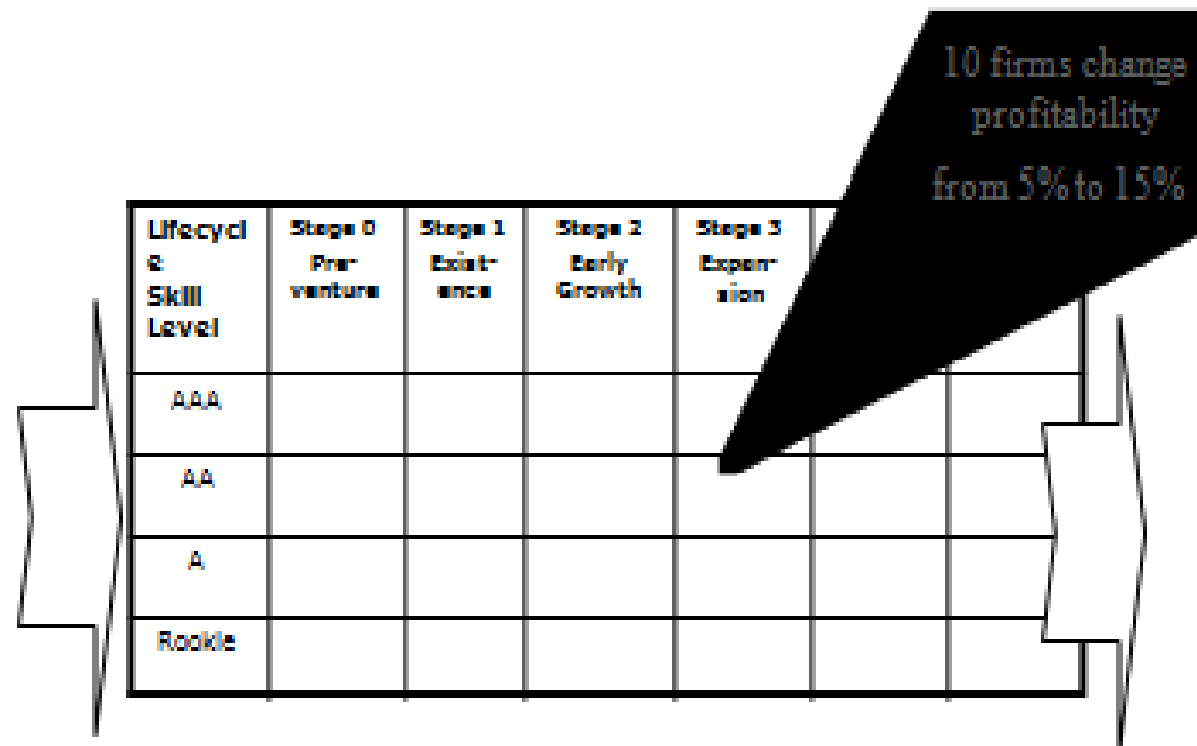
Still More Observations:

- The Pipeline illustrates the critical differences between growth and development.
- A system of service provision needs to be created in which everyone plays a specific role
- To be effective, economic development strategies must be targeted to a specific part of the Pipeline.

Three Strategies for Managing the Pipeline

1. Performance enhancement strategies: designed to improve the quality of the assets or stock within each segment of the Pipeline
2. Incubation strategies: designed to change (i.e., transform) assets or stock by improving the flow or movement of entrepreneurs and enterprises between segments in the Pipeline
3. Selective attraction strategies: designed to add new players or stock to the Pipeline

Performance Improvement Strategies focus on improving business outcomes within an individual cell in the pipeline



The structure of the business and the skills of the entrepreneur are left unchanged.

Incubation strategies are designed to change the stock by improving the flow or movement of entrepreneurs and enterprises between sections of the pipeline

Life-cycle/ Skill Level	Stage 0 Pre- venture	Stage 1 Exist- ence	Stage 2 Early Growth	Stage 3 Expansion	Stage 4 Maturity	Stage 5 Decline
AAA	↑	→		↑		
AA	↑	→		↑		
A		→				
Rookie						

Selective attraction strategies are designed to add new players (i.e., stock) to the pipeline – e.g., plastics

Life-cycle/ Skill Level	Stage 0 Pre-venture	Stage 1 Existence	Stage 2 Early Growth	Stage 3 Expansion	Stage 4 Maturity	Stage 5 Decline
AAA			X		X, X	
AA				X, X, X		
A		X	X, X			
Rookie						

“X” represents the addition (i.e., attraction) to the region of a plastics company with complementary capabilities that fits in this segment of the pipeline.

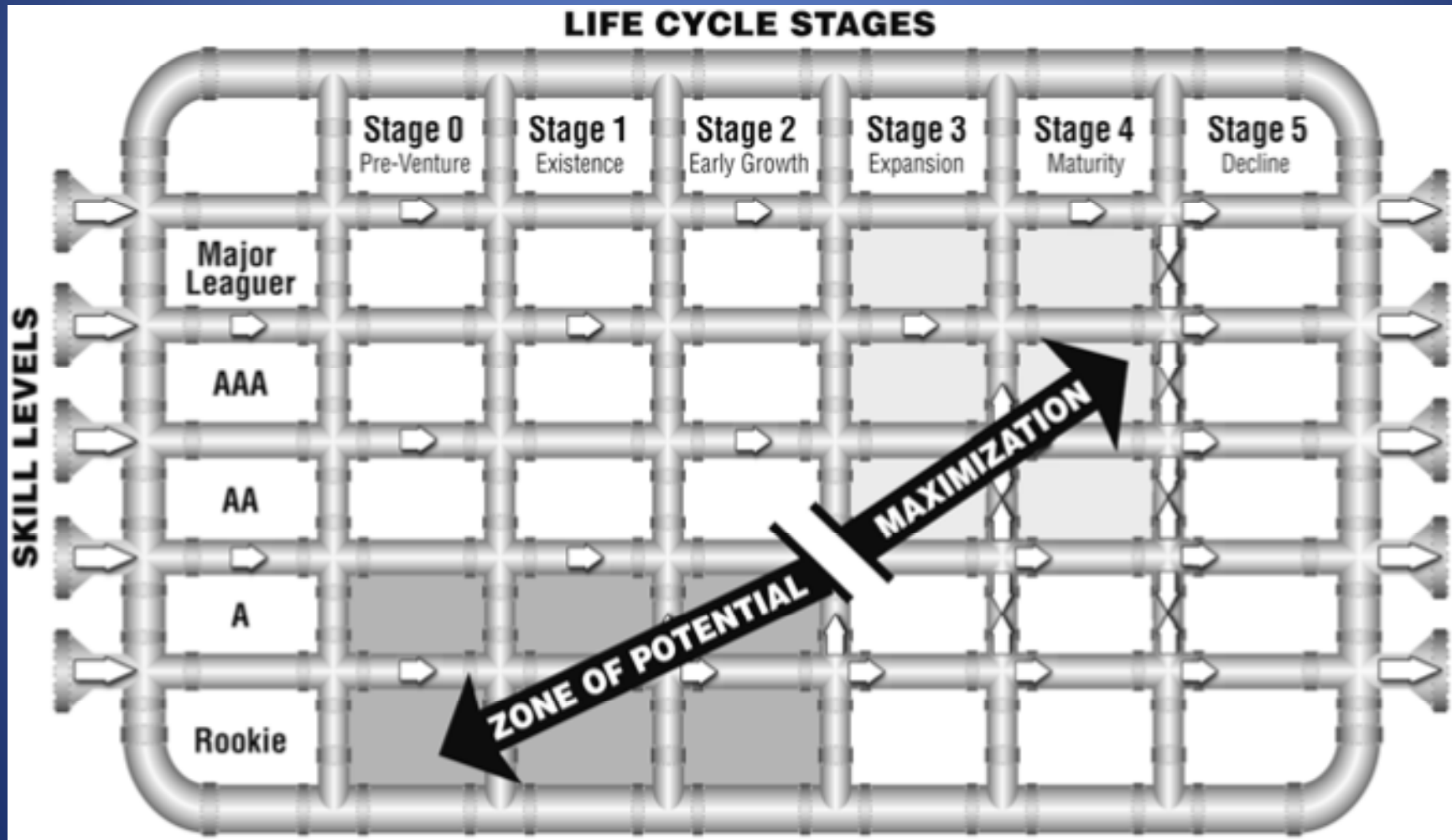
What are the benefits of mapping the Pipeline of entrepreneurs and enterprises to your community or region?

1. The business assets in our communities are larger than we think.
2. We now have a concrete basis for making *strategic* decisions about how and where to invest our limited resources – and for how long.
3. We can avoid the two limited approaches to working with entrepreneurs: treating everyone the same (one size fits all) or treating everyone differently (a highly customized approach).

Policy issues in enterprise development that the Pipeline enables us to see more clearly:

- Most community and regional Pipelines have a serious bifurcation: the missing middle – no bridge
- Everyone starts as a Rookie, which means that all successful, serial entrepreneurs came from somewhere. What is our responsibility for creating more? What are the equity issues? How does this affect the way we think about “necessity” entrepreneurs?
- The entrepreneur and the business are not the same thing. The big policy question is not whether to invest in the business, but how to invest in the entrepreneur.

Bifurcation of the Pipeline



Your Questions and Observations