

GROWING SUCCESS 2000
THE 2000 REPORT ON ENTREPRENEURSHIP IN GREATER LOUISVILLE

Prepared by
The Enterprise Corporation

April 14, 2000

Foreword

In March 1996, the Louisville Area Chamber of Commerce published *Growing Success, A Report on Entrepreneurship in Louisville*. That report (attached) cited many areas in which Louisville trailed its competitor cities for entrepreneurial vitality. Louisville's deficiencies included, among other things, relatively small pools of venture capital, limited success in placing companies on the Inc. 500 list, and low rankings on virtually all national indices of entrepreneurial hot spots.

The 1996 report strongly recommended that Louisville form an Enterprise Corporation to "heat up" Louisville's cool entrepreneurial temperature.

This *Growing Success* 2000 report will bring to light what has happened here across the past four years. It's particularly appropriate that this update is coming from Greater Louisville Inc's Enterprise Corporation—the very organization that was called into existence by the 1996 report.

Comment [TPM1]: Should we call it by name and italicize?

Table of Contents

Foreword

Summary of Findings

Summary of Recommendations

Section 1: Key benchmarks and output measures

- A. Cognetics Entrepreneurial Hot spot Rankings
- B. Inc. 500 Companies
- C. Initial Public Offerings
- D. Gazelles and the number of people they employ
- E. Venture Capital

Section 2: Five Entrepreneurial Success Factors

- A. Success factor #1: Talent
- B. Success factor #2: Capital
- C. Success factor #3: Know-How
- D. Success Factor #4: Technology
- E. Success Factor #5: Culture

Summary of Findings

Since the original *Growing Success* report was published in 1996, Louisville has made dramatic progress in its ability to generate high-growth companies. Evidence of that progress includes:

- Louisville's rise on the on the esteemed Cognetics' ranking of Entrepreneurial Hot Spots from 74th in 1994 to 16th in 1999.
- Louisville's improvement in the creation of Inc. 500 companies relative to our competitors. For the period 1996-1999, Louisville placed ten (10) companies on the Inc. 500 list, outpacing Cincinnati (9), Indianapolis (9), and Nashville (5).
- The increase in available venture capital from an estimated \$9 million pool in 1996 to more than \$150 million today.

While Louisville still trails its competitor cities in several key measurements of entrepreneurial growth, the positive trend of the past four years is an encouraging start.

Louisville has made significant gains in each of the five key "entrepreneurial success factors" identified in 1996:

- Talent --Louisville has reversed its slow-growth population trend, stanching the outflow of young talent and increasing in-migration. In 1999, Louisville exceeded the national average in population growth for first time in 25 years.
- Capital --As mentioned previously, Louisville's pool of venture capital has grown significantly. In addition, Louisville's venture capitalists often serve as conduits for money flowing in from major VC firms outside the region, including CMGI and Paul Allen's Vulcan Ventures.
- Know-how --Louisville's law firms and CPAs have developed significant expertise in addressing the special needs of high-growth start-ups and new business incubators that provide mentoring, capital, and traditional services are on the rise.
- Technology -- Louisville remains at a disadvantage to competitor cities in funding for institutional R & D; however, savvy entrepreneurs are finding innovative ways to use Internet technology to breathe new life into old industries.
- Culture --Anecdotal evidence indicates that Louisville's entrepreneurial culture is improving. Economic development entities are investing unprecedented resources into helping local enterprises start and grow, and entrepreneurial programs like Venture Exchange and Venture Club are drawing record crowds in attendance.

While the signs are encouraging, Louisville still has a long way to go. With regard to talent, Louisville still lags its competitors and the national average in educational attainment. Traditional capital sources such as debt are still difficult for entrepreneurs to attain, and special sources of funding like government grants remain largely out of the domain of fast-growth enterprises.

Summary of Recommendations

Louisville can continue its ascension as an entrepreneurial hot spot by staying on course with the strategy put forth in the 1996 report. Specifically, this strategy called for supporting The Enterprise Corporation, whose mission is to:

- 1) create a new “culture of entrepreneurship” in Louisville, and
- 2) dramatically increase the number and quality of entrepreneurial companies in the region

The Enterprise Corporation should continue serving as the hub of Louisville’s entrepreneurial community, facilitating the interaction among CEOs of the fast-growth companies, venture capitalists, angel investors, key service providers, economic development entities, the media, the public sector, and other key entrepreneurial constituents. This will allow The Enterprise Corporation to identify weaknesses in our entrepreneurial infrastructure and then take action to address those weaknesses.

Louisville should make every attempt to increase the size of its seed capital pools by mobilizing the wealth that’s already here into seed funds. We can also encourage State Government to follow the lead of other states and invest 1% or 2% of the state’s \$2 billion pension funds into a new venture capital fund targeted for young growth companies.

Encourage tax policies that are more favorable to new economy start-ups. Kentucky has been a national trendsetter in developing tax incentives to encourage companies to locate and expand here. However, most of those credits are targeted to larger employers rather than to small, fast-growth start-ups.

Additionally, we should carefully review the income tax policy for the State of Kentucky. Kentucky’s tax system is relative low for property but relatively high for income—a system that favors old economy businesses over new economy companies rich with intellectual capital.

Encourage more public sector innovation. Three good examples of leadership recently displayed by the public sector include

- 1) **eMainUSA.** This project is Mayor David Armstrong’s initiative to develop a high-tech corridor in downtown Louisville
- 2) **Young Professionals of Louisville Association.** County Judge Executive Rebecca Jackson started the YPAL program to develop a professional and social network for young people in the Louisville area.
- 3) **Bucks for Brains.** Governor Patton’s 1998 initiative has already led to the attraction of Nobel-level expert Suzanne Ildstad whose research efforts will likely spawn several start-ups.

We must continue to innovate and find ways to send the message that Louisville is serious about becoming a true entrepreneurial hot spot.

SECTION 1: KEY BENCHMARKS AND OUTPUT MEASURES

Cognetics Entrepreneurial Hot Spots Ranking

Perhaps the most highly regarded ranking of a city's entrepreneurial vitality is the Entrepreneurial Hot Spots list developed by Cognetics, Inc. This ranking, which was used as benchmark in the 1996 *Growing Success* report, is published each winter by *Inc. Magazine*.

The Cognetics Entrepreneurial Hot Spots Ranking combines two measures of entrepreneurial vitality: the number of "Significant Starts" and the percentage of "Young Growers" in an area. Cities that rank high on this list must have both a large number of significant start-ups and the ability to support their continuing growth.

Figure A shows Louisville's position in the Entrepreneurial Hot Spots list for the years 1994-1999. For that five-year period, Louisville was the most improved city in the entire U.S. on the Cognetics scale, moving from #74 to #16 overall.

Louisville has outstripped Cincinnati and is bearing down on perennial top-ten cities Nashville and Indianapolis.

Figure A

(Cognetics Hot Spot ranking graph)

Source: Cognetics Entrepreneurial Hot Spots, 1994-99

Inc. 500 Companies

The 1996 report used another key metric to evaluate Louisville's entrepreneurial vitality: The Inc. 500 list. Each year since 1982, *Inc. Magazine* has compiled and published this "honor role" of the 500 fastest-growing private companies in the U.S. While many successful growth companies never make the list, the number of Inc. 500 companies created in a community across time is a good indicator of entrepreneurial vitality.

Table 1, which appeared in the 1996 report, was a real eye opener. It showed that from 1993-95, Louisville produced 5 Inc. 500 companies, compared with 15 each in Nashville and Indianapolis and 13 in Cincinnati.

Table 1: Inc. 500 Companies 1993-95

	1993	1994	1995	Total 1993-95
Indy	10	2	3	15
Nashville	6	5	4	15
Cincy	5	4	4	13
Louisville	2	2	1	5

Source: *Inc. Magazine*

Table 2, which compares these cities for 1996-99, paints a much different scenario. Louisville's ten (10) Inc. 500 companies across that period place it tops among the group, eclipsing Cincy (9), Indy (9), and Nashville (5).

Table 2: Inc. 500 Companies 1996-99

	1996	1997	1998	1999	Total 1996-99
Indy	3	2	1	3	9
Nashville	1	2	1	1	5
Cincy	4	3	1	1	9
Louisville	1	0	6	3	10

Source: *Inc. Magazine*

Clearly, Louisville is now holding its own in terms of hatching “honor role” quality growth companies. Furthermore, the six (6) companies Louisville placed on the Inc. 500 in 1998 placed it ahead of cities like Austin, TX, and Boston, MA.

As a bonus, our strong performance with the Inc. 500 list across the last few years helped us land the Inc. 500 conference in Louisville for the year 2001—an event that will surely create even more positive perceptions for Louisville and its entrepreneurial vitality.

Initial Public Offerings

As the 1996 report indicated, only a few growth companies reach the stage of an initial public offering. Most companies never get large enough for an IPO, and some that do choose to remain private or to sell to another company. Still, publicly traded growth companies—such as the kind listed on the NASDAQ Stock Market—are powerful engines of economic growth. Across time, then, an interesting indicator of Louisville's ability to nurture entrepreneurial companies is the number of IPOs of companies headquartered in our region.

Table 3 shows that Louisville saw only three (3) IPOs issued from 1993-95. While that was only one less than Cincinnati's four (4), Louisville ranked well behind Nashville (12) and Indianapolis (11) for that period.

For the years 1996-99, however, Louisville shot up to eleven (11) IPOs, outpacing Indianapolis (10) and Cincinnati (5). Nashville still led among this group with sixteen (16).

Table 3: Initial Public Offerings 1993-99

City	IPOs	IPOs
	1993-95	1996-99
Indianapolis	11	10
Nashville	12	16
Cincinnati	4	5
Louisville	3	11

Source: Hilliard Lyons

Venture Capital

Venture Capital plays such a critical role in the entrepreneurial process that it was defined in 1996 as one of the key output measures for a community's entrepreneurial vitality. The incredible swell of venture-backed companies issuing successful public offerings on Wall Street (and the speed at which new companies must now develop) has underscored the importance of successfully marrying venture capital with entrepreneurs.

As 1996 report explained, a deep pool of local venture capital sends a clear cultural signal that "entrepreneurship is important here."

Additionally, local VC firms are conduits for the flow of venture capital from out-of-town investors. In fact, the size of a VC firm's portfolio reflects only a portion of how much money that VC can bring to the table. Several VCs have told us that while they not invest more than \$2 million to \$5 million in any particular deal, they can easily assemble as much as \$50 million for a single round of funding.

The current trend for VCs is to share each investment among a group of key venturing partners. The reasons for increased sharing are:

1. broadening their investment portfolio and therefore hedging risk,
2. maintaining relationships with other investors by sharing profitable deals, and
3. attracting strategic investors (those from a targeted industry sector, geographic region, etc.) into a local deal.

Although we can estimate the amount of venture capital in the portfolios of the larger funds/investors, it is quite difficult to estimate the value of their investment partnerships (and therefore the total capital available from an investor). Also, the significant presence of private, fragmented angel investors (and their informal networks) makes it nearly impossible to accurately estimate the amount of money a community has to offer.

The 1996 Growing Success report estimated that Louisville had roughly \$9 million of venture capital. Today, we estimate that the amount of venture capital in local firms exceeds \$150 million. The \$150 million estimate first appeared during the Greater Cincinnati Venture Association's "State of Venture Capital" speech by Jack Wyant, Founder and General Partner of Blue Chip Ventures. This number was corroborated by The Enterprise Corporation calls to area investors.

In regard to angel investors, a detailed study by Babson College estimates that angel capital is thought to exceed venture capital by approximately four times. However, because our estimate of venture capital includes several large angel investors, it would be inaccurate to apply that model to our estimate.

Number of fast-growth companies (gazelles)

Another useful measure, but one that was unavailable at the time of the 1996 report, is the number of "gazelles" (fast-growth companies) headquartered in Greater Louisville. For this report, we've established a benchmark by defining the characteristics common to gazelles. Additionally, we've estimated the number of gazelles currently operating in our region, as well as the number of people those companies employ.

Gazelle criteria

Companies that we call gazelles typically exhibit these characteristics:

1. Revenue growth that exceeds \$50 million annually in less than five years
2. Employee growth that results in at least 50 employees
3. Venture capital funding or major infusions of resources from outside parties
4. An exit strategy (sell or go public) planned for less than 7 years

2000 Results

Based on the four criteria above, The Enterprise Corporation estimates that Greater Louisville is home to 21 gazelles employing approximately 3,765 people.

The Enterprise Corporation plans to track annually the number of gazelles in Greater Louisville and the number of people they employ. In future years, we will attempt to collect this data for our competitor cities, despite the lack of a single, credible source for this type of information.

Conclusion

Judging from the factors we've considered here in Section 1—Cognetics Entrepreneurial Hot Spots, number of Inc. 500 Companies, number of IPOs, and amount of venture capital--Louisville has made an enormous amount of progress across the last four years in becoming an entrepreneurial hot spot. We've dramatically closed the gap between (and in some cases even surpassed) our competitor cities on these critical measures of entrepreneurial vitality.

While much seems to be working, however, we still have a ways to go. Section 2 will explore the key success factors responsible for the results in Section 1, and suggest areas in which Louisville needs to remain focused in order to sustain these positive trends.

SECTION 2: FIVE ENTREPRENEURIAL SUCCESS FACTORS

The 1996 report focused on five key factors that make some places more entrepreneurial than others: Talent, Capital, Technology, Know-How, and Culture (see Figure B).

Figure B

(five success factors in circles surrounding the entrepreneurial environment)

Following is an analysis of the five success factors and how they have changed in Louisville over the past four years.

Success factor #1: Talent

The 1996 report made three key points regarding the availability of entrepreneurial talent:

1. Entrepreneurs tend to start companies in the cities where they already live. In other words, the pool of potential entrepreneurs in a place is a subset of the existing population. Thus, if the overall population is growing, the pool of entrepreneurs is probably growing; if it's shrinking, the pool of entrepreneurs is shrinking.
2. Entrepreneurs tend to start businesses between the ages of 25 and 40.
3. Entrepreneurs have an average of 13 years of education.

Thus, it seems logical to conclude that places with growing populations—particularly growing populations of well-educated 25- to 40-year-olds—are likely to have a good supply of entrepreneurial talent.

So, how has Louisville's talent pool changed across the past four years?

Population

The population trend data in Table 4 appeared the 1996 report and signaled bad news for Louisville. In short, Louisville's population was not growing as fast at that time as its competitor cities.

Table 4: Change in Population, Selected MSAs, 1980 to 1994 (000s omitted)

	1980	1994	Growth
Charlotte	971	1,260	29.8%
Nashville	851	1,070	25.7%
Indianapolis	1,306	1,462	11.9%
Cincinnati	1,726	1,894	9.7%
Kansas City	1,566	1,646	5.1%
Louisville	954	981	2.8%

Source: US Bureau of the Census, *State and County Population Estimates and Components of Change 1990-1994*

What was particularly troubling, as illustrated in Table 5, was the exodus of young people. Note that Louisville exported on a net basis 28,684 young people ages 20-29. We were losing a steady stream of young people and not recruiting enough new people to make up the difference.

Table 5: Migration of Louisville's Youth 1970-1990

	1970	1980	1990
Age	0-9	10-19	20-29
Population	171,791	163,944	143,107
Change		-7,847	-28,684

Source: US Bureau of the Census, *1990 Census of Population and Housing*

Fortunately, that negative population trend appears to have abated. According to data from “The Louisville Labor Force Trends & Issues” report released in March 2000 by University of Louisville economics professor Paul Coomes, the population of the 23-county Louisville economic area grew 1%--exceeding the national average for the first time in 25 years (see Table 6).

Table 6: Change in population 1998-99

	1998	1999	Growth
Louisville	1,377,512	1,390,957	0.98%
U.S.	270,299,000	272,878,000	0.95%

Source: US Bureau of the Census, *The Louisville Labor Force Trends & Issues Report*

Furthermore, the Labor Force report concludes that Louisville’s increased growth rate happened for precisely the reasons we would have preferred; namely, we slowed the outflow of young natives and increased in-migration.

Next year, we will have the benefit of the 2000 Census data to explore even further Louisville’s population trends, and to compare Louisville’s trends to those of our competitor cities.

Education

In 1996, Louisville clearly trailed its competitors in educational attainment. Table 7 shows that while we lagged only slightly in the percentage of residents who have completed high school, we were significantly behind in the percentage of citizens who have completed college.

Table 7: Percent of Residents Who Have Completed High School and College, 1990

City	College	High School
Kansas City	23.2%	82.3%
Nashville	21.4%	74.0%
Indianapolis	20.2%	78.1%
Cincinnati	19.9%	74.4%
Charlotte	19.6%	72.5%
Louisville	17.2%	73.3%
U.S. Average	20.3%	75.2%

Source: US Bureau of the Census, *1990 Census of Population and Housing, Supplementary Reports, Metropolitan Areas as Defined by the Office of Budget and Management, June 30, 1993*

The story is only slightly better than for 2000. On the one hand, as Table 8 shows, we have increased the percentage of residents holding high school diplomas to 79.0, and increased the

percentage of college graduates to 20.7. However, the U.S. averages increased across that time period to 81.2 and 23.1, respectively, so our talent pool is still lagging in educational attainment.

Table 8: Percent of Residents Who Have Completed High School and College, 1998

City	College	High School
Louisville	20.7%	79.0%
U.S. average	23.1%	81.2%

Source: US Bureau of the Census, Workforce Trends & Issues

Conclusion

While Louisville’s talent pool isn’t growing as fast and isn’t as educated as that in our competitor cities, the trends for both growth and education are very positive. Meeting the national growth in 1999 was a huge milestone, and if we can continue accelerating our rate of growth we will close the talent gap between us and our competitors—a goal that seemed quite lofty just four years ago.

We must continue to take steps that will slow the outflow of young Louisvillians and increase the inflow of immigrants to our city. We also need continued focus on educating our citizens in order to catch up with the national averages for high school and college graduates.

Success factor #2: Capital

Capital is another critical element in any entrepreneurial venture. Fortunately, Louisville has a wider variety of capital sources than it had in 1996. As noted in the "Venture Capital" section on page ??, Louisville has increased its pool of venture capital from \$9 million in 1996 to over \$150 million today. Perhaps more important, local VCs have established strong networks with groups in other regions (Cincinnati, Boston, and the Bay Area), which means the supply of venture capital to local entrepreneurs is plentiful

For example, the contacts established by Chrysalis Ventures have been instrumental in the success of three local companies;

High Speed Access

The investment in High Speed Access Corp. by Paul Allen's Vulcan Ventures was invaluable to their success. Because Vulcan had invested various segments of the cable industry over several years, HSA was able to enter the market with easy access to key players. This gave the analysts and investment bankers two-year old media company the type of confidence in the deal that allowed HSA to become Kentucky's largest-ever IPO.

TechRepublic

Additionally, the recent \$80 million sale of TechRepublic to The Gartner Group can be tied to the significant contacts accessed through the company's initial investors. The reputation and contacts brought by Roger McNamee of Silver Lake Partners was key to making that deal.

Ironmax

An emerging story is that of Ironmax. Just before we went to press, CMGI invested \$10 million in Ironmax's "Series A" round of funding. CMGI's reputation as one of the nation's premier venture funds will undoubtedly help spur Ironmax along its IPO journey.

Chrysalis Ventures is not the only active venture capital firm that will be able to help new companies. The \$36 million Prosperitas SBIC fund, with all dollars committed and now in its final stages of approval, will undoubtedly establish similar relationships and lead to several important contacts for local businesses. Table 9 lists the largest VC funding sources in Greater Louisville.

Table 9: Venture capital funding sources

- 1) Chrysalis Ventures
- 2) Mayfair Capital
- 3) Bailey Capital Corporation
- 4) Pattco
- 5) Prosperitas Investment Partners
- 6) Humana Ventures
- 7) River Hill Capital
- 8) Rogers Group Investments
- 9) Other Private Sources (individuals and networks)

Source: The Enterprise Corporation

While Louisville appears to have plenty of venture capital for companies with a solid track record and explosive growth potential, the community's pools of seed capital for early stage venture funding are relatively small.

Unfortunately, there are particularly few seed investors focused on health care and life sciences businesses—a niche Louisville has identified as a key economic development priority. Many investors outside the community, however, are interested in funding entrepreneurial health-care ventures headquartered in Louisville. For instance, the partners of Taraval Associates, a Silicon Valley-based seed fund that focuses exclusively on health care and life sciences companies, have made several visits to the Louisville area this year with the goal of identifying new investment opportunities and signing up more investors.

Table 10 lists the seed funding sources of which we're aware, and Table 11 lists other seed funds in early stages of formation.

Table 10: Seed (early stage) funding sources

- 1) Anchorage Angels
- 2) bCatalyst business accelerator
- 3) Iceberg Ventures
- 4) Norton Ventures
- 5) African-American Venture Capital Fund
- 6) Winebrenner Capital Partners

Source: The Enterprise Corporation

Table 11: Seed Funds in formation

- 1) University of Louisville - Cardinal Ventures
- 2) Gray / Greenberg Fund
- 3) e10 Ventures
- 4) Ogden Associates - Angel Pool #1
- 5) Tupos Ventures
- 6) VO Data - inter-Prize incubator
- 7) Other Private Sources

Source: The Enterprise Corporation

Debt

While debt is not traditionally available to start-ups, some banks have made significant efforts to make resources more accessible to start-ups that show high-growth potential. At least one Louisville bank has created a new division seeking start-ups with high growth potential. Although banks can rarely offer debt financing through its commercial lending arm, banks are now leveraging contacts in the financial community to find other resources for the entrepreneur. They even extend their services in an investment banking capacity by soliciting a Private Placement Memorandum to potential investors.

Across the last four years, many banks have created equity investing arms--some focused on profitability and some focused on community development--that provide seed stage equity capital.

More than one regional bank now provides financial consulting and business development advice to start-ups. These programs have helped positively shape some bankers' view of emerging companies, and appear to have resulted in more loans issued.

Although banks are still heavily regulated, and therefore quite limited in their flexibility, they are following the lead of law and accounting firms in recognizing the importance of establishing relationships with start-ups that show high growth potential.

Foundations

Foundations and endowments are emerging as a force in the entrepreneurial world. In late 1999, Henry Heuser, Sr., a principal in the Vogt Machine Company for over three decades, endowed \$5 million for the purpose of supporting individual entrepreneurs. A qualifying entrepreneur can receive up to \$250,000 per year to develop innovative ideas or products the money does not need to be repaid, and the entrepreneur does not give up equity in exchange for the money.

Various other community foundations exist or are in development in the Greater Louisville region. For example, foundations at the University of Louisville and Jewish Hospital are setting up seed funds that can provide funding for a variety of entrepreneurial support agencies. We expect to see continued growth in foundations and endowments as more entrepreneurs experience financial windfalls.

Government programs

Federal and State government grant programs are underutilized in Kentucky as a funding source for seed-stage ventures. A prime example of this underutilization is the Small Business Innovative Research Grant program (SBIR), which requires 18 Federal agencies to dedicate approximately one percent (1%) of their annual budget for the development of innovative small-business ideas. These funds are awarded in two "Phases" and you cannot apply for a Phase 2 grant unless you have received Phase 1 funding. Phase 1 = \$100,000 and Phase 2 = \$500,000 to \$750,000.

In 1999, Kentucky companies submitted only 14 Phase 1 SBIR applications and received funding for only two. This compares with California's 680 Phase 1 applications (350 of which were funded). Using the same success rate, adjusted for our population, Kentucky should have applied for 137 grants and received funding for 68.

Table 12 lists some federal and state grant programs:

Table 12: Government Grant Programs

Federal Grant Programs

- 1) Advanced Technology Program (Department of Commerce, National Institute of Standards and Technology - a matching grant ranging from under \$1 million to more than \$5 million)
- 2) SBIR/STTR Grants (Phase 1 awards \$100,000 and Phase 2 awards \$500,000 to 750,000)

State Grant Programs

- 1) Epscor Phase 0 SBIR/STTR (\$4,000 for feasibility studies, consultants, etc.)
- 2) Kentucky State Tax Incentives - tax credits awarded for specific Jobs Development and Industrial Development efforts.
- 3) Kentucky Investment Fund Act - tax credits awarded to investors meeting specific criteria.

Source: The Enterprise Corporation

Conclusion

Louisville's pool of venture capital has grown significantly in the past four years, going from \$9 million to over \$150 million. In addition, Louisville's venture capitalists often serve as conduits for money flowing in from major VC firms outside the region, such as CMGI and Paul Allen's Vulcan Ventures.

Unfortunately, seed (early-stage) capital remains scarce. Few sources of seed capital are available, and much work remains to be done to increase the number and size of Louisville's seed capital pools. We especially need new sources for health-related enterprises.

As in most of the U.S., debt, foundations, and government grants are mostly unavailable to fast-growth start-ups. However, some progress is being made, and we should continue retooling our programs to assist start-ups.

Success factor #3: Know-How

Know-how is the skill and experience required to turn an idea and capital into a successful business. Entrepreneurial know-how (or "body of knowledge") is a resource that resides in a community's

- pool of experienced entrepreneurs
- professional firms (accountants, lawyers, and others experienced in advising and working with entrepreneurs)
- educational institutions (particularly post-graduate business schools)
- support agencies (economic development agencies, venture capital clubs, and small business development centers)

Louisville's know-how was characterized in 1996 as diverse and fragmented. While fragmentation still exists in 2000, much has improved in this sector of our entrepreneurial community.

Following is a brief rundown on the four categories listed above, plus information on an important new class of organizations called "business incubators," which offer start-up companies various combinations of capital, know-how, and other services in exchange for cash and/or equity.

Entrepreneurs

The 1996 report characterized Louisville's collection of entrepreneurial success stories as smaller than those in surrounding cities. This trend was very troubling, since success breeds success, and celebrated entrepreneurs serve as key role models and mentors to the next wave of young professionals.

Fortunately, Louisville has increased its pool of entrepreneurial successes across the last four years, and appears to be on the verge of dramatically increasing the number of entrepreneurs who will either take their companies public or sell them for a tidy sum.

Names of successful entrepreneurs in Louisville who wouldn't have necessarily made the honor role in 1996 include Greg Fischer of IceBerg Ventures (sold SerVend in 1997), Kent Oyler of High Speed Access Corporation (successful IPO in 1999), and Tom Cottingham of TechRepublic (sold TechRepublic in March 2000).

Perhaps more importantly, over 20 gazelle companies are headquartered in Louisville and appear to be on track for a public offering or sale in the next two years, including Darwin Networks, Construction Zone, Ironmax, ABCpoint, Unistar, Web Wide Insurance Group, Aperture, Vobix, and Emazing.com.

Professional firms

Law firms and accountants are critical to helping entrepreneurs succeed. Fortunately, Louisville's top law firms and accounting firms (including local offices of national firms) have developed significant experience working with fast-growth entrepreneurial companies across the past four years. Other key service providers are emerging as well, as we'll explain.

Law firms

A good attorney often makes the difference between success and failure for a founding CEO, and Louisville is fortunate to have a number of excellent law firms equipped to handle the unique needs of fast-growth start-ups, including:

- Brown Todd & Heyburn's Bill Strench specializes in issues surrounding pure dot-com start-ups and VCs.
- Greenebaum Doll & McDonald's Robert Brown worked extensively in Silicon Valley and authored the book "Financing Start-ups."
- Pat Mattingly of Wyatt Tarrant & Combs has executed several high-level acquisitions, including TechRepublic's recent sale to The Gartner Group.
- Jim Seifert of Stites & Harbeson called together the community's "new economy" leaders and is leading a committee organizing a Venture Capital Conference in Louisville later this year.
- Middleton and Reutlinger is perhaps the largest provider of Intellectual Property services in the Kentucky, dedicating as many as 16 attorneys at one time to patent, trademark, and copyright work.

This limited sampling of local attorneys is a good indicator of Louisville's ability to provide legal support to fast-growth entrepreneurs.

CPAs

Like the local law firms, Louisville's largest CPA firms have adjusted well to the recent swell in entrepreneurship.

Ernst & Young, for example, features its annual Entrepreneur of the Year Awards, which recognizes Kentucky and Southern Indiana entrepreneurs for outstanding entrepreneurial work in five to seven categories. Ernst & Young has recently stepped forward as one of the sponsors for bCatalyst, a new business incubator detailed on page 12.

Pricewaterhouse Coopers, LLP also sponsors local efforts to aid the entrepreneur. Its primary efforts go into offering pro-bono services to the University of Louisville's incubator, the iTRC, as well as sponsoring local events aimed at entrepreneurs. Nationally, PWC offers a wealth of resources through its website at www.pwcerc.com.

Deloitte & Touche plans to initiate its Fast 50 program in the community beginning in February of 2001. Currently, D&T fosters entrepreneurship through several event sponsorships and organization memberships.

Other service providers

The 1996 report did not comment on the availability of other specialized sources of know-how for today's ecommerce companies, such as ASPs, rich media marketing specialists, web developers, fulfillment (back office) partners, and so forth. While it's difficult to ascertain how Louisville is doing in this regard to other communities, it appears Louisville has a fair number of quality service providers in this space, in terms of both local companies (PriceWeber, Corvus Digital Solutions, Doe-Anderson, etc.), and local offices of national firms (Whitman-Hart, Oracle, etc.).

Educational Institutions

Like all communities, Louisville relies on its educational institutions as an important source of entrepreneurial know-how. In recent years, these institutions have taken major steps to provide effective "new economy" entrepreneurial programs for their students. Here are the highlights:

University of Louisville

The University of Louisville has received numerous accolades from *Success* magazine in the last three years. Ranked "Top 10 Up-and-Comer" (1996), "Top 25" (1997), and #7 among the "25 Best" (1998), the University of Louisville has established itself as a heavy hitter on the entrepreneurship scene.

But these commendations tell only a small part of U of L's story. Its on-campus business incubator, *Ideas to Action*, has launched an average of three technology start-ups per year over the past three years. Its MBA teams have competed in various competitions at all levels and earned "Best Written Plan" at the top international competition. Judges at the U.S. Association for Small Business and Entrepreneurship rated UofL's program #2 in competition for the Model MBA Program in Entrepreneurship, behind only to The University of Texas-Austin.

Bellarmino College

In February 2000, Bellarmine College announced plans to launch the "Bellarmine Center for eBusiness and eCommerce Education" to be located within the eMain corridor in mid-2001. The Center will provide education and training to companies and individuals engaged in eCommerce businesses in Louisville and beyond. The initial focus will be on high-tech business entrepreneurs with an eCommerce Leadership Seminar for executive development. Future offerings will include degree programs, customized education, and consulting.

Leadership of the center will fall under John Cranor and Tom Thomas. Cranor most recently served as chairman, president and chief executive officer of Long John Silver's Inc. and will serve as the executive director. Thomas, former chief information officer for Dell Computer and 3COM, will serve as the first faculty chair.

Bellarmino's integrated MBA program also offers six different modules of study, with one of those six entirely dedicated to entrepreneurship in which the students develop an idea, a financial plan, a marketing plan, and finally, a complete business plan.

Indiana University Southeast

Indiana University Southeast currently offers classes in entrepreneurship in both the undergraduate and Masters of Business Administration programs. While there is not a particular focus on entrepreneurship, the classes offered afford the students opportunities to not only learn the theory behind the business, but to also experience what they learn in action.

IUS's entrepreneurship classes require students to embark upon an "EntreTour," which includes a tour and subsequent critique of a local entrepreneurial company.

Students are also given the opportunity to critique a bona fide business plan supplied by a local investor. After the critiques are written and reviewed by the professor, the venture capitalist speaks to the class and reveals what actually occurred with the deal.

IUS has also recently received a \$1.1 million endowed chair in ecommerce, which falls under the entrepreneurship program as well.

Jefferson Community College

JCC, while it does not afford students extensive opportunities in the area of entrepreneurship, does offer classes at its Southwest location that focus specifically on entrepreneurial women business owners. The classes focus on how women can get funding in such a tight market and on the particular obstacles that face women in the marketplace today.

Business incubators

A significant new trend in the fast-growth, entrepreneurial sector is the advent of "business incubators," which are popping up all over the country. Historically, many universities and other not-for-profit groups have operated incubators that provide an array of traditional services essential for early-stage ventures, including

- physical space
- desks, phones, computers
- administrative support
- HR benefits

Not-for-profit business incubators typically offer all these services as a package in exchange for a monthly fee less than its occupants would pay for rent alone in another facility. These incubators seldom provide capital directly or take an equity stake, leaving the entrepreneur to fend for themselves to raise money.

iTRC (Information Technology Resource Center)

Since 1989, the University of Louisville has been home to a classic, not-for-profit business incubator—the Information Technology Resource Center at Shelby Campus. The iTRC, headed by Jim Graham, has graduated several companies, including Ironmax, one of the hottest dot-com companies in the region (Ironmax recently announced a \$10 million investment from giant CMGI). On the down side, however, the iTRC's capacity is limited to seven or eight companies at a time and—like most not-for-profit incubators—offers limited assistance with raising capital.

For-profit incubators

In recent years, a tidal wave of new, for-profit business incubators has come onto the scene, particularly in hot spots such as Austin, TX, and Atlanta, GA. These for-profit incubators typically are run by experienced entrepreneurs or VCs and are emerging as important engines for economic growth, as they tend to spawn several companies with explosive potential each year.

Examples of well-known for-profit incubators include IdeaLab! in Pasadena, CA, which incubated eToys.com, among other successes.

In addition to providing the traditional services common to not-for-profit incubators, for-profit incubators usually provide non-traditional—but critical—services such as mentoring, seed capital, introductions to VCs for later rounds of funding and direct access to the best attorneys, CPAs, and other service providers. Rather than charging their resident companies a monthly fee, for-profit incubators commonly sell sponsorships to service providers who become the incubator's "business affiliates." These sponsorships help offset the operating costs of the incubator (rent, compensation for incubator staff, etc.).

Sponsorships alone, of course, won't allow for-profit incubators to make much of a profit. The incubator makes money by establishing an affiliated seed fund that takes an equity stake in each company accepted into the incubator. In addition, the affiliated VC partners benefit by participating in later rounds of funding that eventually become liquid when the companies go public or become acquired.

bCatalyst

Until recently, Louisville did not have a for-profit business incubator to complement the not-for-profit iTRC. In February 2000, however, a team of investors and entrepreneurs formed bCatalyst--a business "accelerator." The founding partners are David Jones, Jr., Bob Saunders, David Grissom, Doug Cobb, Kent Oyler, Greg Fischer, and Keith Williams.

bCatalyst follows the for-profit incubator model described above. At present, bCatalyst has a \$5 million seed fund and plans to incubate between eight (8) and twelve (12) companies at a given time. bCatalyst will focus primarily on new economy, dot-com businesses with very high growth potential.

In addition to the iTRC and bCatalyst, several other new incubators are under development and will likely launch in 2000. All of the following incubators were announced before this report went to press:

- **MedVenture:** In exchange for an equity position, MedVenture, headed by David Phelps, develops prototypes of medical devices, conducts testing, and obtains government approvals.
- **i-Nterprise Zone:** Headed by Steve Zarick, this incubator plans to assist early stage ecommerce companies with a full range of services, including office space, hardware and software, business advice, and seed capital.
- **I. F. Technologies:** This for-profit incubator uses a multi-disciplinary approach to help inventors and entrepreneurs launch new products. For example, I.F. recently provided one company with seed capital, product design and market research assistance, as well as help in negotiating a technology license agreement.
- **Tupos Ventures:** This incubator's founders (Jeff Amrein, Bill Pearse, and John Reinhart) specialize in providing mentoring and business-savvy to high-tech business start-ups.
- **Nia Center:** The Nia Center offers small-business owners on-site one-on-one counseling, a business start-up library, access to software resources, business plan development, and financing consultation.

Support agencies

As was the case in 1996, Louisville has an impressive collection of not-for-profit supporters of entrepreneurship. Here is a partial list of significant entities not covered in the “Educational institutions” or “Business Incubator” sections of this report:

The Enterprise Corporation

Louisville’s hub for fast-growth entrepreneurship is The Enterprise Corporation—an autonomous arm of Greater Louisville Inc., The Metro Chamber of Commerce. As mentioned in the executive summary of this report, The Enterprise Corporation was called into existence by the *Growing Success* report published by a special committee of Greater Louisville Inc.’s predecessor, The Louisville Area Chamber of Commerce. Members of the committee included such well-known civic leaders as Mayor David Armstrong, Doug Cobb (Chrysalis Ventures), Dean Bob Taylor and Paul Coomes (U of L), Ed Glasscock (Brown, Todd, & Heyburn), and Nolan Allen (Cotton & Allen).

The Enterprise Corporation focuses on two critical goals:

- 1) To create a “new culture” of entrepreneurship in Greater Louisville.
- 2) To dramatically increase the number and quality of fast-growth, entrepreneurial companies headquartered in our region.

The Enterprise Corporation (The EC) identifies holes in our community’s infrastructure, and mobilizes people and resources to fill those holes. The EC actively promotes successes in Louisville’s entrepreneurial community and aims to continue raising national awareness of (and eventually national rankings for) Louisville as a “hot spot” for fast-growth entrepreneurship.

The EC manages a wide variety of programs (including the flagship program Venture Exchange) to educate the community and provide important networking opportunities. The EC also provides capital assistance to entrepreneurs, and recruits more sources of seed capital and venture capital into Greater Louisville .

Greater Louisville Small Business Development Center (GLSBDC)

The GLSBDC, headed by Michael Ashcraft, is not-for-profit, one-stop shop for entrepreneurs who need assistance with the first critical steps of starting a business—namely, building a business plan and preparing for the fundraising process. The GLSBDC provides a nice mix of training seminars, direct consultation, and referrals.

Greater Louisville Inc. Center for Small Business

Greater Louisville Inc. offers a mix of special programs and services geared toward small businesses. At present, the CSB committee is reengineering its offerings to meet the needs of today’s small businesses.

Venture Club of Louisville

The Venture Club of Louisville, founded by Henry Hensley in 1996, meets the first Wednesday of each month, providing a networking opportunity for entrepreneurs, investors and service providers. The format of these monthly meetings is particularly favorable to growth businesses that want to make a pitch for seed capital. Attendance at the meetings has swelled in recent months, comparing favorably to the Venture Club meetings in Cincinnati.

Louisville Medical Center Development Corporation (LMCDC)

LMCDC: The Louisville Medical Center Development Corporation, headed by Steven Spalding, is the lead economic development agency for the member institutions within the Louisville Medical Center. LMCDC's purpose is to capitalize on the economic development potential that exists within the Center by developing an incubator and business park that would house small-to-medium sized health-related companies.

eMainUSA

Early this year, Mayor Dave Armstrong announced an innovative development called eMainUSA. The eMainUSA initiative is an attempt by the City of Louisville and Greater Louisville Inc. to breathe new life into a largely deserted, former warehouse district along East Main Street. If successful, the targeted corridor of East Main (primarily the blocks between Second Street and I-65) will be completely transformed into a neighborhood buzzing with new economy businesses, colleges, and firms that support them. In other words, it will become – a *physical* place for businesses in the *virtual* market.

The anchor tenants in eMainUSA are Bellarmine College (which will locate its new School for e-commerce and e-Business there), BellSouth, and Win.net. As this report was going to press, bCatalyst, Louisville's new for-profit business accelerator was closing in on a space commitment in the eMain corridor as well. One needs to look only a few blocks down at the redevelopment of Louisville West Main Street to envision the future excitement that we'll see along East Main once a cluster of e-businesses moves in to complement Slugger Field and Waterfront Park.

KMSDC, The Minority Business Development Division of GLI

The minority business development arm of Greater Louisville Inc. is the Kentuckiana Minority Supplier Development Council (KMSDC). Among other things, this group certifies minority-owned businesses and assists those businesses in securing contracts.

Conclusion

The 1996 report characterized Louisville's efforts to support entrepreneurship as fragmented, underfunded, and not well coordinated. This finding played a large role in persuading Greater Louisville Inc.'s members to form The Enterprise Corporation as a way to improve Louisville's body of knowledge and make it more accessible to entrepreneurs in the community.

In the four years since that report, we've seen the emergence of new business incubators that should increase the quantity and quality of fast-growth businesses starting out in our region. In addition, Louisville's educational institutions and professional services firms have focused more attention on entrepreneurship, giving the community sufficient professional expertise to support a growing entrepreneurial movement.

In short, we must continue the good work that's been started if we want to keep up with other hot spots that currently have a larger body of know-how (more incubators, larger universities, and so forth).

Success Factor #4: Technology

As one of the five entrepreneurial success factors “technology” does not refer to computers or the Internet, but to its traditional meaning--the idea for a new or improved product or service. The idea might take the form of an invention (a new, patent-protected device or method) or an innovation (a new way of doing something that achieves advantages over existing methods).

Traditionally, sources of technology have included institutions like universities, private and public research institutions, and labs and large corporations. In addition, a great source of technology has always been the kitchen table of an aspiring entrepreneur. In fact, according to Professor Bill Norton at IUS, a recent study concluded that the only single characteristic common to every successful entrepreneur is alertness. Being alert to a new opportunity and then moving quickly to exploit it is quintessential entrepreneurship.

The 1996 report pointed out that Louisville is not blessed with a large number of high-quality institutional sources of technology. The University of Louisville is the community’s only significant research institution, and in 1994 U of L’s \$22 million of R & D expenditures placed it #167 on the list of the U.S. Universities and Colleges (see Table 13).

Table 13: 1994 R & D Expenditures

School	R&D Expenditures	Rank
MIT	\$364	4
Stanford University	\$319	8
University of Texas	\$261	17
Duke University	\$220	25
University of North Carolina	\$202	27
North Carolina State University	\$173	35
Purdue University	\$173	37
Indiana University	\$137	50
Vanderbilt University	\$110	66
University of Kentucky	\$106	67
University of Cincinnati	\$94	76
University of Dayton	\$48	121
University of Louisville	\$22	167
University of Memphis	\$13	201

Source: National Science Foundation, Division of Science Resource Studies, Survey of Scientific and Engineering Expenditures at Universities and Colleges, Fiscal Year 1994

The updated numbers through 1998 for R & D expenditures appear in Table 14, and send a mixed message. On the one hand, U of L nearly doubled its 1994 R & D expenditures in 1998, spending just over \$39 million. However, this level of research still bumped U of L up only to #142 among all U.S. universities and colleges.

Table 14: 1998 R & D Expenditures

School	R&D	
	Expenditures	Rank
MIT	\$364	4
Stanford University	\$319	8
University of Texas	\$261	17
Duke University	\$220	25
University of North Carolina	\$202	27
North Carolina State University	\$173	35
Purdue University	\$173	37
Indiana University	\$137	50
Vanderbilt University	\$110	66
University of Kentucky	\$106	67
University of Cincinnati	\$94	76
University of Dayton	\$48	121
University of Louisville	\$22	167
University of Memphis	\$13	201

Source: National Science Foundation, Division of Science Resource Studies, *Survey of Scientific and Engineering Expenditures at Universities and Colleges, Fiscal Year 1998*

As for our competitor cities, notice that the Vanderbilt University in Nashville spent \$135 million, placing it at #69, and the University of Cincinnati spent \$160 million, placing it at #50. The University of Kentucky also fared quite well on this list, spending over \$161 million and earning the #49 ranking.

Of course, the level of R & D spending is but one indicator of a university's ability to produce a steady stream of high-potential ideas. All indications are that U of L, under John Shumaker's leadership, is attracting and retaining strong intellectual capital in the Medical School (headed by Dean Joel Kaplan) and in the Speed Scientific School (headed by Dean Tom Hanley). Recently, the University hired an experienced technology professional in Helen Lee to run its Technology Transfer department—a group that leverages intellectual property and spins off businesses around those ideas.

Governor Paul Patton recognized the need to increase R&D funding at Kentucky universities, and in 1998, he launched the "Bucks for Brains" initiative -- a \$100 million program to boost research and attract endowed chairs to state schools (including \$33 Million for the University of Louisville). The program helped the University of Louisville lure a research team led by Dr. Suzanne Ildstad, a Nobel-level immunology expert, from Philadelphia, whose research efforts have spawned several start-up companies.

As for other institutional sources of technology, Louisville successfully landed the UPS Hub 2000 project in 1998, and that project has the potential to become a powerful "technology engine" for the community. Hub 2000 is attracting a significant number of talented technology professionals both to UPS and to UPS' suppliers, partners, and large customers located here in Louisville. Ideally, over time, many of these professionals will be alert to new opportunities in the logistics & distribution arena and will start new ventures.

Despite U of L's improved efforts and UPS, Hub 2000, Louisville is still at a disadvantage to its competitors with regard to institutional sources of entrepreneurial technology. However, as the 1996 report indicated, this problem is not an insurmountable hurdle, and the Internet revolution seems to be placing less importance on institutional sources and more importance on savvy

entrepreneurial people—particularly individuals who can find ways to exploit weaknesses in existing industries.

For example, three companies headquartered in the region - Construction Zone, Ironmax, and ABCpoint-- focus on inefficiencies in the lucrative construction industry. Another local company, Unistar, is using the Internet to bring buyers and suppliers together in common vertical industries, creating efficient modern-day purchasing coops. Companies founded on ideas like these have been the darling of Wall Street over the past two years.

If a fair percentage of Louisvillians remain alert to new opportunities in their industry and follow their entrepreneurial spirit, Louisville's reputation for "not enough good ideas," as stated in the '96 report, will quickly disappear.

Conclusion

A key factor that makes a city hot for entrepreneurship is the quality of its sources of technology--raw ideas for improving a product or service. Historically, institutional sources of technology like universities and big corporations have been extremely important, and Louisville—though it has made some progress—still trails its competitors.

However, anecdotal evidence suggests that in the area of non-institutional sources of technology, we're doing a much better job today in cultivating a whole new class of companies built on ideas of savvy entrepreneurs who've left old economy businesses to pursue new methods for their industries.

Success Factor #5: Culture

Culture is the attitude and atmosphere of a place, and includes such things as the social acceptability of entrepreneurship (including recognition of success and acceptance of failure) and the active involvement of community leaders in the support of entrepreneurship. Culture also includes the absence of entrepreneurial obstacles like high taxes and heavy government regulations. Finally, culture includes the support system a community creates for growing companies.

Culture is by far the most subjective of the five key entrepreneurial success factors. How does one measure the attitudes of people or gauge the entrepreneurial atmosphere? The 1996 report put forth the 10-question test in Table 15 as a baseline for considering Louisville's entrepreneurial culture. Seven yes answers supposedly gave a city a passing grade, while six or fewer deemed a city closed to entrepreneurs and entrepreneurial success.

Table 15: Entrepreneurial Climate Test

1. When the mayor of the city meets with business leaders, are there as many chief executives officers of mid-sized growth companies as bankers and corporate executives?
2. Are entrepreneurs invited to join the best athletic, social, and country clubs? Have they joined?
3. Does the local newspaper follow the fortunes of start-ups and mid-size growth companies with the same intensity and sophistication as it does large corporations?
4. Are innovative companies able to recruit nearly all of their professional work force from the local area?
5. Is there a sizable, visible venture capital community?
6. Does the local university encourage its faculty and students to participate in entrepreneurial spin-offs, and do they?
7. Do growth company CEOs and venture capitalists hold at least a quarter of the seats on the boards of the three largest banks?
8. Does the city's economic development department spend more time helping local companies grow than it does chasing after branch facilities of out-of-state corporations?
9. Is there decent, affordable office and industrial space available for new businesses in the central business district?
10. Can you think of 10 recent spin-offs—growth companies started by entrepreneurs who have left large companies?

Source: Entrepreneurial Hot Spots, David Birch, Anne Haggerty, and William Parsons, © Cognetics, Inc., 1994, p. 17

The 1996 sample of entrepreneurs gave Louisville only an average score of 2, and only one score (a 6) was above 4. By comparison, a sample of entrepreneurs in April, 2000 gave Louisville an average score of 4. While this is double the average from 1996, it still falls well below the passing grade of 7.

Four of the questions in Table 15 merit special comment.

Question #3. This question addresses one area that has changed considerably across the last four years. While most entrepreneurs in 1996 felt that *Business First* did a good job of promoting entrepreneurial businesses in the community, most felt that the *Courier-Journal* was a leader of the community's anti-business sentiment, and especially non-supportive of entrepreneurship.

While the attitudes are still very positive toward *Business First*, those toward the *C-J* have turned from very negative to slightly positive. Perhaps this is due to the *C-J*'s recent high-profile stories for entrepreneurial ventures like TechRepublic, Ironmax, Construction Zone, ABCpoint, Win.Net, High Speed Access, and Darwin Networks. Although the *C-J* was perceived to have been too harsh on entrepreneurial companies that have struggled in recent years (Vencor and The Military Channel came to mind), the *C-J* has devoted considerable space toward covering events that focus on entrepreneurship (such as Venture Exchange and Inventors Utopia).

Question #6. As discussed in the "Technology" and "Know-How" sections of this report, question #6 is definitely a yes. U of L can point to the iTRC business incubator as a tangible display of its commitment to helping students spin ideas into entrepreneurial companies. Additionally, U of L has assembled a full-time technology transfer department, headed by Helen Lee, to inspire and facilitate the commercialization of its intellectual property. Across town, Bellarmine College is establishing a new campus for its school of ecommerce and e-Business in eMainUSA—Louisville's new development for clustering new-economy businesses. One can easily conceive a scenario in which many of Bellarmine's students and faculty start up ventures along eMainUSA, especially if business incubators in that corridor provide the necessary mentoring and capital assistance.

Question #8. The more positive response in 2000 to Question #8 reflects a number of initiatives that the community has undertaken since 1996, including GLI's investment in The Enterprise Corporation, Workforce Services, and Business Outreach. Furthermore, GLI's business attraction strategy has been refined to pursue growth companies bringing jobs that pay well above the current average. One GLI project this year involved an attraction effort for a pure start-up that was on a course to establish a headquarters in Atlanta. Through the coordinated efforts of GLI's Business Attraction team, The Enterprise Corporation., and many constituents in the community, the company chose to apply for Kentucky tax and real estate incentives and locate in Louisville.

Question #10. This question brings to mind a significant list of people and their new ventures. Entrepreneurs who have left large companies to start new ventures include:

- Kent Oyler (left Vogt Machine to start several companies, including High Speed Access)
- Greg Fischer (left SerVend to start IceBerg Ventures)
- Keith Williams (left SerVend to join IceBerg and later started bCatalyst)
- Dave Ferguson (left Providian to start ARM Financial, then left ARM to start Web Wide Insurance Group)
- Steve Paradis (left Brandeis to start Ironmax)
- Pam Atherton (left Humana to start Aperature)
- Joe Pierce (left IDG to start eMazing.com)
- Tom Cottingham (left Ziff-Davis to start TechRepublic)

- David Szetela (left Ziff-Davis to start Paperless Technologies)

Tax policy

Tax policy can be a revealing indicator of a community or state's attitude toward entrepreneurship. For example, Kentucky's tax incentive program was designed years ago with an emphasis on creating a large volume of jobs regardless of pay. This structure favored large manufacturing or warehouse operations rather than small, entrepreneurial start-ups.

However, in the spring of 1998, the State of Kentucky, at the behest of Greater Louisville Inc., granted \$1.6 million in tax incentives for a start-up company to hire 37 high-paid technical employees. Two years later in March 2000, the company, TechRepublic, employed over 100 people at a very high average salary, was sold for \$80 million and has plans for continued job growth in the years ahead. This case study is a good example of both how entrepreneurship can improve the local economy and how the State of Kentucky is adopting a positive attitude toward new entrepreneurial businesses.

'Buzz'

Finally, it's worth noting that two programs aimed at start-up, high-growth businesses—Venture Club of Louisville and Venture Exchange—are drawing very large audiences in recent months. The Venture Club has seen its monthly attendance rise steadily to an average of 120 attendees and often nearing 200. Similarly, a new program called Venture Exchange, which hosts on a public exchange of ideas between VCs and entrepreneurs, drew over 400 to its first installment and is on track to draw over 500 in May.

Conclusion

The 1996 report said that culture may be the most important factor contributing to the entrepreneurial success of a city. Unfortunately, the report characterized Louisville's entrepreneurial culture as "not healthy" and lacking "the excitement and activity of hot spots like Austin and Silicon Valley." The report added that entrepreneurs do not feel that Louisville's community respects, understands, or values their contributions, and that state and local government policy is not particularly favorable to entrepreneurship.

Based on anecdotal observations and feedback from entrepreneurs, it appears that Louisville's culture has become much more favorable to entrepreneurship across the last four years. Attendance at events like Venture Exchange and Venture Club is strong, and local universities are encouraging students to focus on entrepreneurial careers. Local and State governments have shown leadership in projects such as eMainUSA (discussed on page ??) and Bucks for Brains (page ??). Finally, local newspapers are viewed much more favorably by entrepreneurs now versus 1996, mostly due to their recent focus on companies in the fast-growth, entrepreneurial space.

Despite the improvement in attitudes toward entrepreneurship across the last four years, the culture here remains less favorable than that in Austin, Nashville, and several cities. We must inspire our citizens not to adopt an attitude of complacency and insularity, but instead to remain alert to opportunities created by the new economy. If we want to, we can continue nurturing the positive trends detailed in this report, and help Louisville become recognized as one of the nation's true entrepreneurial hot spots.