
Commentary

Startup America: What it includes and opportunities for innovators

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INTRODUCTION

During his State of the Union address, President Obama set out his strategy to improve the economy and create jobs by ‘out-innovating, out-educating and out-building the rest of the world’. The strategy focuses on creating and encouraging high-growth startup companies (that is, sustained double digit growth), and is embodied by the Startup America campaign. Rather than working with individual companies, Startup America is looking to reshape regions across the country to achieve Silicon Valley-like growth and innovation.

Startup America has two coordinated parts, a White House initiative consisting of a series of government reforms and the Startup America Partnership, a non-profit organization that marshals efforts across the private sector.

THE WHITE HOUSE INITIATIVE

The most notable aspects of the White House initiative are: three financial reforms, a collection of business accelerators and regulatory reform.

The first financial reform comes from the Small Business Administration (SBA), which is creating two funds to match capital raised by private sector funds (but not companies directly). Each of the SBA funds has US\$1 billion of previously allocated funds, with one SBA fund targeting both economically distressed areas or emerging sectors, such as clean energy, and the other SBA fund targeting early stage seed funds.

Second, the administration is proposing to eliminate capital gains for certain small business stock that has been held for at least five years.

Third, the Treasury Department is relaxing the New Market Tax Credit rules to make it easier for community development organizations to invest in operating businesses.

The White House is also launching business accelerators in conjunction with a variety of government agencies. The Department of Energy and the newly created Advanced Research Projects Agency-Energy will be providing mentorship to companies that they have previously funded. The Department of Veteran’s Affairs is launching a website and an incubator in Waukesha, Wisconsin to help early stage veteran owned businesses. The Economic Development Administration’s i6 Green Challenge will reward regional proof of concept centers that accelerate environmentally sustainable technology.

The Administration is undertaking regulatory reform by first soliciting feedback via a national tour and by website feedback. The most notable reform so far is giving patent applicants three

examination speeds: expedited, in 12 months or less; the current normal priority; or delayed, up to 30 months. This will allow the Patent Office to make further progress against the backlog, because the expedited applications will require a significant additional fee (currently US\$4000), whereas delaying selected applications will free resources for the remaining applications.

THE STARTUP AMERICA PARTNERSHIP

In parallel with the White House initiative, the Partnership is looking to encourage Fortune 500 companies, universities and state and local governments to do more to support innovation and entrepreneurship through the sort of soft persuasion that Obama is known for. The Partnership is working very closely with the Kauffman Foundation, and is benefiting from the Kauffman Foundation's role as a leader in thinking and research on entrepreneurship. Based in Kansas City, MO, Kauffman's US\$2.1 billion endowment makes it the world's largest foundation devoted to entrepreneurship. The Partnership has announced a number of commitments from private sector partners. The commitments come from many big names, including the Blackstone Foundation, Facebook and the American Association of Community Colleges. Although the commitments are generally in line with what these organizations are already doing (a significant number of these commitments were previously made, most notably Intel's US\$200 million pledge¹), the Partnership is providing valuable publicity, synchronization and best practices. One of Silicon Valley's secrets to success is how easy it is to meet the people who can make startups successful (the investors, lawyers, deal makers, customers and so on), and the Partnership's focus on publicity is thus a powerful asset.

Whereas the White House initiative is providing specific items that the entrepreneurial community has requested, the Startup America Partnership appears more oriented towards the continuous change that it is encouraging of startup companies. The Partnership is thus more difficult to evaluate from a policy perspective because it is not aiming to accomplish a specific policy platform. The Partnership is perhaps best measured by the same means as a high growth startup: is this the right team in an important market (and we assume that the product will change)?

The Startup America Partnership is off to a good start with its early team. The Kauffman Foundation's focus on entrepreneurship is complemented by the other founding partner, the Case Foundation, which focuses on encouraging civic engagement and broadening use of new technologies. I was able to speak with the Partnership's new CEO, Scott Case (no relation to AOL Founder Steve Case, who is also involved in the Partnership) and was impressed with his energy, spirit and understanding of the issues. As a lifelong innovator and entrepreneur, he brings a lot to the table.

The central premise that successful, high growth startups create a rising tide that lifts all boats is solid. Startup America builds on the Obama Administration's inclination towards 'nudges' and is capitalizing on the proverbial low hanging fruit. The serendipity surrounding Silicon Valley's success has made its recreation a rather elusive grand objective for many governments. It is good to see that this Administration is bringing fresh thinking and world-class talents to bear on the problem.

FURTHER READING

1. <http://www.startupamericapartnership.org/>
2. <http://www.whitehouse.gov/issues/startup-america/>
3. <http://www.kauffman.org/>

NOTE

1. See, for example, <http://www.inc.com/news/articles/2010/02/intel-announces-funds-for-startups.html>.

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