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City's Entrepreneurs Seek Like-Minded Talent

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When Jamie Bailey was living in Lexington, Ky., and beginning to start a technology company, he and his wife, a doctor, brainstormed on which city to move their family to. He wrote down Austin, Boston and Silicon Valley. She wrote down Bowling Green, Ky., and Knoxville.

Ultimately, the couple chose Nashville.

"There was startup momentum here," said Bailey, who is launching Initial State Technologies and finished Nashville's Entrepreneur Center incubator program in December.

"I was really impressed with having this central place where people were starting to migrate," he said of the center.

For Entrepreneur Center CEO Michael Burcham, stories like Bailey's are an indication of Nashville's growing prominence in the startup community. That Nashville is attracting programmers and coders from the Silicon Valley area, established entrepreneurs and those seeking to create businesses, signals the city is making its name as an entrepreneurial destination, he said.

Nashville ranked among six up-and-coming startup-friendly cities by CNNMoney, including cities like Boulder, Colo., and Cincinnati that were adding to the industry long led by Austin, Boston and Silicon Valley.

According to the National Venture Capital Association, 44 Nashville companies garnered \$164 million in the past two years through September. In Austin, 128 companies attracted more than \$1.1 billion in investments, and in Raleigh-Durham-Chapel Hill, 51 companies attracted \$367 million in the same time period. The number was lower in Charlotte, with 10 firms attracting \$13 million.

While Austin often ranks higher in the tech startup sphere, Nashville leads the way for health care startups, Burcham said. Raleigh has an edge developing ways to bring new technology to commercial markets, particularly in the life sciences area, and with the startup culture developing in the 1990s, North Carolina's Research Triangle has a longer history than Nashville, said Emily Mendell, vice president of communications at Arlington, Va.-based National Venture Capital Association.

Bailey said he was concerned Nashville investors, known for their affinity for health care startups, would not be as interested as those in Austin in a high-tech company such as Initial State, which uses embedded technology to diagnose problems with electronics and software. But discussions at the Entrepreneur Center changed his mind.

The cost of living, quality of life and entrepreneurial community have been benefits of choosing Nashville, he said.

"Being able to meet all the great entrepreneurs, mentors and successful individuals that are willing to dedicate their time to help, I was floored by it," Bailey said. "It's a competitive advantage Nashville has over other cities."

The Entrepreneur Center opened two years ago, as well as Jumpstart Foundry, an annual 14-week program that operates from the center. Sixty-six companies have gone through the program, with 57 generating revenue by the time they graduated. The companies have attracted \$14 million in investment dollars since the accelerator programs began.

TNInvestco, a venture capital fund, was created by the state legislature in 2009 through \$200 million in state tax credits to invest in Tennessee small business development. Investment in companies in 2010 and 2011 totaled about \$158 million, according to state data.

The Entrepreneur Center has created a "front door" for the startup community, allowing entrepreneurs to form teams faster, collaborate and find support systems more easily, Burcham said. Having a more defined investment community, greater involvement from accounting and law firms, support from both Gov. Bill Haslam and Mayor Karl Dean and national media attention about the startup momentum also has fueled entrepreneurial growth, he said.

But more investment money is needed in Nashville companies' early stages for the city to further develop the startup engine, Burcham said.

"We are a long way away from where we were five years ago," said Marcus Whitney, founder of social media firm Moontoast. The existing venture funds "will need to continue to grow funds for more and more startup activity to happen. Investment capital is a critical part of any ecosystem. You can't have startups without investment capital."

A strong accounting and legal support system helps retain startups that launch in a city, but more important is accessibility to investors, Mendell said.

“You don’t necessarily need to have a lot of venture capital firms indigenous to the city, but you do need a critical mass of companies to get venture capitalists to come from out of state into Nashville,” she said, pointing to Boulder as an example of a city that successfully attracts outside investors. “There are only a small number of venture capital firms in Boulder, but they’ve built such a strong community of entrepreneurs and companies there that it’s worth it for venture capitalists in Silicon Valley and other places to fly into Boulder because they can spend a day there or two days there” and see several companies.

Quality of life and further developing the city’s progressive culture is essential to building the startup culture, Burcham said.

“All of it matters. Startups and entrepreneurs and programmers and coders want to come to a place that is hip, cool, accepts diversity, is fun,” Burcham said. The more welcoming and inclusive Nashville is, “the more vibrant we are going to become and the more entrepreneurs we are going to attract.”

Filling Tech Jobs

Developing Nashville’s technology talent is a priority for the city’s entrepreneurs.

According to a 2012 Forbes ranking of which metropolitan areas were adding the most tech-related jobs, Seattle ranked No. 1, followed by Washington, D.C., at No. 2, Raleigh at No. 9 and Nashville at No. 10.

But Austin, with its proximity to Dell, has long been a leader in the technology rankings.

“We are always compared to Austin,” said Liza Massey, CEO of the Nashville Technology Council.

Nashville is getting recognized for not just being a tech leader in health care, but also for its growth in music technology, Massey said, pointing to LMG Studios expanding to Nashville in 2011. Companies such as Moontoast, a social marketing firm with offices in Nashville and Boston, and Emma Inc., an email marketing company, also are making a name for Nashville in tech circles, she said.

“We need a large tech company to relocate a significant part of (its) operations here or make a big investment here,” she said. “Or, we need one of our companies to go giant like Facebook.”

With an abundance of universities in the area, the tech council has focused on building technology programs at the college level to add to the pool of skilled workers needed for

tech-related jobs. The efforts have expanded to Metro Nashville high schools and middle schools in the past year.

“We are just not there,” Massey said. “If you look at efforts the universities are putting into it, we are getting there. There is a recognition that we need more tech graduates, and we need one or two schools seen as a destination.”

There were 827 technology-related jobs advertised in Middle Tennessee in the third quarter, up 14 percent from the second quarter of 2012, according to the Nashville Technology Council.

Marcus Whitney, founder of Moontoast, said bridging universities with the startup community in Nashville is critical to building tech talent and entrepreneurship — an area where cities like Raleigh and Austin have done a better job.

“The biggest thing that is consistent when you look at any successful startup ecosystem is that relationship between higher education institutions and investors and entrepreneurs,” he said. “We have the capability here. We don’t have the rails and the network that is putting it together. Until we do that, we will continue to have a deficit compared to other (cities).”