

High-Tech/Scalable Startups versus Small Business Startups

Basic Characteristics:	Scalable Startups	Small Business
Founder's aim	Rapid development of a scalable business model to be acquired or go public	To start a lifestyle business to sustain indefinitely in the community
Initial financial needs	Startup capital from self, family, or friends	Startup capital from self, family, or friends
Growth financial needs	Angel funding; Venture capital	Bank loans, line of credit
Exit plan	Acquisition or IPO	None until retirement
Typical support group	Networking events	Chamber of Commerce
Space requirements	Low-cost temporary space	Lease or own business establishment
Infrastructure Needs:		
Ease of flights to key, high-tech cities	High	Low
High-speed Internet	High	Medium to low
Ease of start-up process	High	Medium
Access to lawyers and accountants experienced in high-tech	High	N/A
Access to high-tech mentors	High	N/A
Turnkey back office support in place	High	Low
Need for exposure to high-tech investors	High	N/A
Community Resource Needs:		
Startup-ready technical wizards (coders, web designers, tech support, etc.)	High	N/A
Startup-ready marketing wizards (up on web data analytics)	High	N/A
Startup-ready financial wizards (up on term sheets, negotiating with angels, VCs, investment banks)	High	N/A
Startup-ready CEOs (serial entrepreneurs, startup-oriented MBAs)	High	N/A
Experienced high-tech mentors who want to help entrepreneurs, not exploit them	High	N/A
Networking events	High	N/A
Pitch events	High	N/A
Competitive events	High	N/A
Need for a creative culture (outdoors, music, bars, restaurants, coffee houses, etc.)	High	N/A

Clearly there are a number of characteristics that differentiate fast-growth, high-tech startups from other types of small businesses, some of which are noted in web discussions (Landau, 2015; Pope, 2015). Given these differences, what are the implications for public investment?

Just as public resources might be used to entice industry from elsewhere to locate in the community in order to bring jobs and tax revenue to the community, so might public resources be used to encourage small business startups that will remain in the community and also provide local employment and tax revenue. What is not so clear is why public resources should be secured to assist scalable startups, some of which aim to get acquired, even before generating much if any revenue and most likely by companies located elsewhere.

Several reasons come to mind that may justify public investment in startups, especially in an increasingly competitive environment:

1. Based on anecdotal evidence from Huntsville, the intellectual capital most likely to start and join such ventures, often young people who have grown up in the community, are likely to leave to start their ventures in other cities that do provide a vibrant, startup culture (study in progress).

2. The infrastructure conducive to startups may result in some startups being acquired and relocating elsewhere, but many stay in place and the net effect is nevertheless likely to promote yet more local startups through synergistic effects, resulting over time in a growing community of startups and firms that support such startups, as is evident in other startup cities. That's why some universities invest in an entrepreneurial ecosystem (Fetters, Rice, Greene, & Butler, 2010) and some cities and regions do likewise (Feld, 2012; Henton, Kaiser, & Held, 2015; Saxenian, 1994).

3. Startups do provide local employment not only for the founders, but also for the teams they build. As stated in an economic report from Washington State, "The economic value of the ICT [Information and Communication Technology] sector extends to the entire state through two stages of economic multipliers. The archetypical anecdote is: 'two developers in a garage code a new app, launch a company, and then hire many other people to build that company – which hopes to become the next IPO'" (Mefford, 2015, p. v). Even in times of declining entrepreneurial activity overall, high-tech startups are creating jobs (Hathaway, 2013).

4. A community that builds the reputation of being startup-friendly is also more likely to attract entrepreneurs from elsewhere, resulting in a net growth of creative people (Florida, 2012/2011; Katz & Wagner, 2014). This can furthermore have positive implications for the educational institutions seeking the "best and brightest" of both students and faculty who are seeking to live and learn in a highly creative environment (Roberts & Eesley, 2009).

In short, the strategic decision to invest public resources in the local, startup community is, of course, a local one, and should be made following deliberative thought and discussion, preferably with widely inclusive perspectives and opinions. A good place to start is to make sure that those engaged in the discussion appreciate the differences, as well as similarities, between startups and small businesses, and to recognize those investments most likely to pay off (Motoyama & Wiens, 2015).

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