HUNTSVILLE

# 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 |
| **Sense of competitive urgency** | High | Low |
| **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 |

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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). This brain drain loses public value.

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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