



**Testimony by James O'Connor, Jr.
Co-Chairman, Chicagoland Entrepreneurial Center**

**Illinois Senate Commerce Committee
February 04th, 2010**

Thanks for having me here today. I'm Jim O'Connor, Jr., Co-Chairman of the Chicagoland Entrepreneurial Center. The Chicagoland Entrepreneurial Center or CEC is an affiliate of the Chicagoland Chamber of Commerce, and assists high-growth companies in Illinois. We have at our core a focus on helping firms raise growth capital, and that often times takes the form of venture capital.

Access to venture capital is one of the most critical components for a region to create new jobs. Research continues to show how increasing the availability of early stage capital for entrepreneurs results in job creation. The Kauffman Foundation Jobs study found that from 1980 – 2005, nearly all net new job creation came from firms that were less than 5 years old. While it is not surprising that entrepreneurs are responsible for most new jobs, it is important to get specific about what types of firms actually are the job creators. An additional Kauffman Foundation study on the New Economy found that only the top 5% of new firms are truly high-growth from a jobs perspective. These firms account for 80% of new jobs created by entrepreneurs. For a state or region to prosper economically, they have to focus specifically on the needs of the 5% of new firms that are high-growth. A major challenge faced by these companies is they grow so fast that their capital requirements are too high to be reasonably achieved through friends and family investment or home equity loans, the typical financing paths for entrepreneurs. These high-growth job creators depend on professional money through venture capital or angel investors to succeed.

The CEC and the Chicagoland Chamber of Commerce have focused on these firms for some time now. The CEC identifies the Chicago region's most promising entrepreneurs and helps them build high-growth, sustainable businesses. The CEC is an Illinois Entrepreneurship Center as identified by the Illinois Department of Commerce and Economic Opportunity. The CEC's mission developed out of an AT Kearney study commissioned by the Chicagoland Chamber called a *Call to Action* which found that Chicago lacked centralized entrepreneurial resources and venture capital for high-growth companies. While Chicago benefited from a large economy, a significant footprint of Fortune 500 companies, and sophisticated financial institutions, there was an underdeveloped market for venture investment. The Chicagoland Chamber of Commerce launched the CEC to assist high-growth companies in securing venture funding.

Since 2003, the CEC has helped our client entrepreneurs secure \$180 million in revenue, raise \$120 million in financing, and create or retain nearly 5,300 jobs. The CEC is supported through a

public/private partnership. A portion of the funding comes from the Illinois Department of Commerce and Economic Opportunity. The DCEO sponsors critical programs designed to increase the availability of capital to Illinois' high-growth companies. DCEO's Matching Grant Program pays for up to half of a strategic consulting engagement for high-growth companies to increase sales or assist them in attaining financing. Companies have used these funds to cover the costs associated with closing on angel rounds of financing. The Innovate Illinois program is a statewide entrepreneurial and innovation competition recognizing high-growth entrepreneurs. We work with the DCEO's Illinois Entrepreneurship Network to identify innovative companies and support them with exposure opportunities and a cash prize. The winners of this program have raised over \$20 million in financing. Finally, a program designed to foster technology commercialization and mentorship of high-growth firms, called the Entrepreneur in Residence Program, selects experienced entrepreneurs and facilitates partnerships with young entrepreneurs to develop new business ideas and commercialize promising new technologies from research labs and universities. The experienced entrepreneurs mentor first time entrepreneurs in raising private capital and developing a high-growth model. The Illinois Department of Commerce and Economic Opportunity has been a leader in developing these programs with the CEC, and this is helping increase access to capital for Chicago's high-growth entrepreneurs.

The private sector has also seen the value of the CEC, and the CEC has successfully raised private dollars to pay for our operations and other programs. Last year corporate sponsorship, Board support, and our annual Momentum Dinner fundraiser accounted for 60% of our operating budget. This year we diversified our revenue even greater by competing for and winning a U.S. Recovery Act - Department of Commerce Grant. We are using the Federal support to launch a statewide mentorship program focusing on several high-growth industries in Illinois including: Information Technology, Consumer Products and Services, and Alternative Energy. In difficult economic environments like today, it's critical for entrepreneurs to have strong advisors and mentors to help them reach their full potential. In this program, which we are calling the Cluster Acceleration Program, we will be assisting 20 Illinois companies get to \$10 million in revenue in five year through fostering connections with experienced entrepreneurial mentors. We believe these mentors will assist these companies with access to both the angel and venture investing communities, accelerating their job creating potential.

Another initiative of the CEC directly related to increasing the availability of early-stage capital is the Illinois Innovation Accelerator Fund, or I2A Fund. The I2A Fund is a \$10 million seed stage venture fund launched by the CEC in 2007. The purpose of the fund is to address the early-stage capital gap in Illinois by investing in the next generation of innovate companies. The I2A fund was launched through initial investments from the Illinois Department of Commerce and Economic Opportunity, private investors as well as the Illinois Treasurers Office Technology Development Fund. These early commitments were leveraged into a \$10 million fund which has currently invested in 5 Illinois companies. Additionally, the fund provides a vehicle for some of Chicago's successful investors and entrepreneurs to efficiently look at seed-stage investment opportunities. Fund members include J.B. Pritzker, John Calamos, and Larry Levy, all of whom are champions of Illinois' entrepreneurial ecosystem. Again, we want to commend the Illinois Department of Commerce and Economic Opportunity and the Illinois Treasurers Office Technology Development Fund for catalyzing the creation of I2A.

Along with the CEC, the Chicagoland Chamber has also lead by inspiring business leaders, universities, and government officials to support innovative companies in our region through the InnovateNow initiative. InnovateNow aims to enable and promote the knowledge and relationships that will form the foundation for ongoing business innovation and regional economic growth and to transform Chicagoland into a global center of innovation, entrepreneurship and creativity.

Through these initiatives and those of our partners across Illinois, we have seen real results. For example, The SAVO Group, headquartered in Chicago, is a sales enablement firm that assists the communications of marketing and sales departments in large companies such as IBM, GE, and Careerbuilder. After growing organically for six years, SAVO hit an inflection point and needed capital to keep up with its growth. After raising \$10 million in 2005, SAVO was able to hire 40+ additional employees and is still growing. Another success story is a Skokie based company called Ifbyphone. Ifbyphone has developed phone automation services to cut costs, generate sales, track results, and improve customer service for small and mid-sized businesses. Venture capital investment has allowed this company, founded in 2005, to grow to 40 employees. We have also just heard from Nicole Loftus, founder of Zorch, and she is a tremendous success story for the region. The best part of these three companies is that each one was able to raise funds locally and stay in Illinois. These are exactly the types of high-growth companies that grow when there is access to capital within a region.

While it is clear that Illinois companies have accessed venture capital in their growth, we cannot be complacent with the status quo. Illinois is the largest economy in the Midwest, but other neighboring states are actually ahead of us in terms of venture investment. Last year, Minnesota companies raised more venture dollars than Illinois companies by over \$50 million, and the state has half the population of Illinois. Other states are also aggressively developing their early stage capital base. Ohio's statewide economic development program called Third Frontier began in 2003 and has since invested \$681 million in economic development focused programs. The goals are to increase venture capital investment, create new companies, train students in 21st century careers, and foster new technologies and industries. The initiative has created \$6.6 billion in economic activity, generated over 41,000 jobs, and created \$2.4 billion in employee wages and benefits. Also, from 2004 to 2008, Ohio's venture investment doubled. Wisconsin created a tax credit for angel investors in 2005. The credit is limited to investment in state-qualified high-growth businesses worth up to 25% of their angel's investments. After enacting the tax credit program Wisconsin saw 43% increase in angel investments across the state. Just this year Missouri Governor Jay Nixon proposed a state sponsored fund to invest in bio-tech start-ups in his State of the State address. Illinois' challenge is to build a long-term strategy for increasing the availability of early stage capital. We are challenged because statewide economic development initiatives start and stop with each new governor making it difficult to execute on long-term growth strategies. We also need to set standard development metrics in which delegate agencies are held accountable, and we need agreed upon goals. Many states have identified specific industries in which they focus development dollars to grow new business sectors. They will match entrepreneurial support specific to those industries with university research dollars in the same fields. This accelerates industry growth and diversifies a state's economy. But again, Illinois has not set such industry targets.

Our recommendation to this committee is to develop a cohesive, long-term strategy for Illinois to foster capital formation and entrepreneurial growth. We should pull from successful initiatives already in place such as InnovateNow and the CEC. It has to be built from the perspective of looking 30 years ahead. Increasing our long term job prospects requires us to invest dollars now in industries which will be nascent for some time, but eventually will be important sectors of employment in Illinois' future. We want to commend you on hosting this Senate Commerce Committee hearing on venture capital, and encourage you to hold another hearing specific to innovation and entrepreneurship. If we do the work now to develop a long-term strategic plan for Illinois to increase access to early stage capital, the talented people of this state will create the new jobs to secure our economic prosperity for tomorrow.