

**National Governors' Association
2007 Mid-Year Meeting**

**Productivity and Competitiveness:
Creating Conditions in the States for Global Success**

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I have been asked to talk about “positioning states to compete globally” from two perspectives. First, how to apply the lessons of venture investing to state initiatives, and second, how to help local entrepreneurs compete for capital.

Part I -- Lessons learned by venture investors that may have application to states.

We are investors of capital, time, and relationships. We invest in order to build and grow companies that we hope will become large and profitable.

States are also investors. Among the many forms, states invest in education to build human capital, in roads to build physical capital, and in economic development to build the economy. From each is expected a return.

What have venture investors learned about building companies?

Venture investors look widely to find a few companies that meet key criteria. The best candidates need to be serving a large market, have a great team of managers, and have an elegant strategy. We like our money to leverage other resources, and to this end we view the world as our oyster.

- **The globe is the market.** Consumers source products and services from throughout the world. We want companies that can imagine selling to the world.
- **The globe is the lab.** Local Research is good to have. But business builders go all over the world to find the technology they need. We want companies that can gather complementary and competing technologies from anywhere.
- **The globe is the bank.** When we find a world-class company, we know we can attract money from many sources to help us build the company. If we do our job right, finding money becomes the easy part.

What can a state gain from this experience?

- **The globe is the market.** Whether exporting or partnering, every company that wants to grow rapidly needs to have foreign trade in the game plan. States could benefit by ensuring that local companies have ready options to acquire these skills.
- **The globe is the lab.** Any state that has substantial resources to invest in R&D should do so (e.g. The Edge Fund in Oklahoma), particularly if it can reinforce an existing or emerging industry cluster. But for those that don't, and even those that do, training entrepreneurs how to find and license technology from throughout the world can go a long way to unlocking access to this enormous resource for local development.
- **The globe is the bank.** For those who struggle raising capital there are usually two problems – the business is of inadequate quality, or the business is looking in the wrong place. There is no substitute for quality. By focusing resources on companies that aspire to be world class, a state will find multiple ways of leveraging its investment. And by ensuring that a wide variety of investors are prospecting for local projects, a state can help ensure that any entrepreneur with a good plan can get a crack at raising capital from an appropriate firm.

Part II – Helping Entrepreneurs Compete for Capital

Before we talk about capital, we have to address culture.

Investment happens in communities rich in the culture of entrepreneurship.

Where people:

- Feel good about risk
- Are not afraid to fail
- Are OK risking other peoples' money
- Are open to the world
- Want to solve big problems

Culture tends to be local. What people believe, how they aspire, how they define their role in the world, comes largely from family and the community. Sometimes, a local culture does not support entrepreneurship.

Setting out to change culture is not impossible. Examples are out there. UCSD Connect, Pittsburgh Technology Council, CED in North Carolina, I2E in Oklahoma. These are all doing great work transforming how people dream, plan and act. CED may say it best – their mantra is “to make the subculture of entrepreneurs the dominant culture in North Carolina.”

Basic Strategies for Mobilizing Investment Capital

Training: Train everybody.

- Expand the knowledge of seed and venture investing
- Expand the knowledge of business venturing
- Import the best and latest business building strategies from throughout the world.

Networking: Network everybody.

- Create visibility
- Entrepreneurs to Investors
- Investors to Entrepreneurs

Investing: Create New Capital Sources

- Implement in a way to attract seasoned business builders
- **Fund proof-of-concept** for tech commercialization. The most important gap to fill with state dollars.
- **Expand the local angel network.** This opportunity exists in every state.
- **Attract a professional seed and VC industry.** Big impacts can be had for little or no cost to the state.

If a state elects to invest capital:

- Mobilize an abundance and variety of investment capital
- Be large enough to make a difference
- Go light on subsidies
- Focus on making money
- Be patient, focused and disciplined

Questions for Consideration

- What can states do in the areas under their control, to improve their agility and attractiveness in response to a transforming competitive global economy?
 - Do a good job of identifying and communicating your cluster strengths. Kansas City has done a great job with their animal health cluster, www.kcanimalhealth.com.
 - With its economic development budget, view the state as an investor, not a spender. Focus on ROI, on profit making activities. While the state does not have to make a profit, the discipline helps focus scarce resources on the projects that can produce the biggest impact in jobs, taxes, and wealth.
- Are there lessons from successful venture capital investments that states can draw from to strengthen their own economic competitiveness?
 - Focus on people, on management, on building the skills of managers.
 - View the world as your resource. Go anywhere to get what you need.
 - Serve enormous markets.
 - Invest more where the state enjoys high barriers to entry

- Venture capitalists invest in a small fraction of the opportunities presented. What can governors do to help nurture venture/angel/investment capital interest in their states?
 - Sponsor culture bending activities by private organizations in your state. Support education on global entrepreneurship with cultural change as the goal. The amount can be small, say \$1 or \$2 MM/year. Be very picky, but spend it.
 - Focus state subsidies on proof-of-concept investments, small amounts to test whether a new technology has the potential for commercialization (Arizona State has a small fund, Arkansas just adopted a program).
 - Make sure your wealthy citizens have the chance to learn how to be angel investors. The Angel Capital Association offers good information, (www.angelcapitalassociation.org). One of the best models for catalyzing, building and sustaining angel groups is the RAIN program in Minnesota, www.rainsourcecapital.com.
 - Recruit professional venture investors to serve your emerging sectors. Oklahoma pioneered the leading model on this (www.ocib.org) that other states have replicated – AR, IA, OH, MI, UT, and SC¹. These programs invest in professionally managed venture funds that in turn invest capital in local companies. But, even more important, these firms import the knowledge of how to build and grow world-class companies in today’s economy.

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¹ Oklahoma Capital Investment Board
 Arkansas Institutional Fund
 Iowa Fund of Funds
 Ohio Venture Capital Fund
 Venture Michigan Fund
 Utah Fund of Funds
 South Carolina Venture Capital Fund