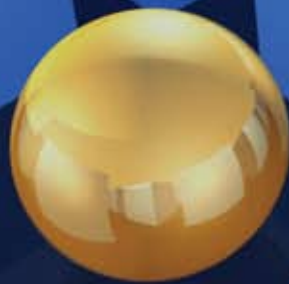




# CPPPI

Center for Public Policy Innovation

## **Restoring U.S. Competitiveness: Creating Jobs and Unleashing the Potential of Small Businesses through Technology and Innovation**



**SPECIAL REPORT  
February 2012**

# Introduction

**S**mall businesses are the backbone of our economy and they are responsible for two-thirds of the 40 million jobs created in the United States over the past 30 years. Small businesses are also our nation's greatest source of innovation; and they are vital to maintaining our economic competitiveness, especially as nations worldwide have developed their own economic might by emulating America's entrepreneurial culture.

While the United States does not lack great ideas, the innovative spirit that enabled us to become a well-respected case study for economic success in the twentieth century now faces an uncertain future. The environment for the American entrepreneurial ethos is increasingly stifled and the consequences of simply adhering to the status quo are far reaching.

On December 8th, 2011, at the United States Capitol Building, the Center for Public Policy Innovation (CPPI) and the Digital Dialogue Forum (DDF) held the second event in its multi-part series, *Restoring U.S. Competitiveness*. The forum, entitled *Creating Jobs and Unleashing the Potential of Small Businesses through Technology and Innovation*, brought to light many issues that impact the ability of American entrepreneurs to bring their ideas to life both here and abroad.

**Steve Felice**, President of Global Consumer, Small and Medium Business at Dell, facilitated the discussion with: **Scott Case**, Chief Executive Officer of the Startup America Partnership, **Sean**

**Greene**, Associate Administrator for Investment and Special Advisor for Innovation at the United States Small Business Administration (SBA); and **Jonathan Ortman**, President of Global Entrepreneurship Week and Senior Fellow at the Ewing Marion Kauffman Foundation.

In addition, United States Senator and Chair of the Senate Small Business Committee **Mary Landrieu** of Louisiana and Washington Congresswoman and Vice-Chair of the House Republican Caucus **Cathy McMorris Rodgers** delivered keynote remarks on the critical role small businesses play in job creation and economic growth.

Felice framed the discussion as one about "access" – access to capital, access to global markets and access to modern technology. According to Felice, focusing on these three elements will help small businesses thrive in a way that will reinvigorate the United States economy as a whole. "This is something we have to keep evangelizing so everyone understands. We tend to focus on the large companies, but it's the small businesses that create jobs," said Felice.

Though the overall discussion revolved primarily around the impact and importance of access, the panel also shed light on other compelling issues. For instance, the panelists were in agreement that there is a clear distinction between small businesses and startup companies. Another fascinating exchange explored the acceptance of failure as a fundamental step in the nature of firm development.

## Event Highlights

### Access to Capital

- Gaining access to capital is an obstacle for small businesses, and many small firms are not ready for traditional forms of lending. Better connecting startups with venture capitalists in their region will help boost local investment.
- Consider making the capital gains tax exemption permanent for investors in qualified small businesses (QSB) to help finance growth.
- Studies show that 90 percent of job growth typically occurs after companies go public. Unfortunately, there are thousands of companies that could go public with \$250 million in total gross revenue, but the cost of being compliant and maintaining that compliance to be a publicly traded company is so high relative to the earnings, they can't afford to go public.
- By launching initiatives like "quick pay," which requires payment to small business contractors within fifteen days, and tying student loan repayment to earnings, the federal government is working to minimize financial hurdles faced by potential entrepreneurs.
- SBA aims to simplify the process of accessing resources for small businesses across the federal government by creating a single user interface.

### Access to Technology

- Cloud computing and mobile technologies have lowered the cost of entry for smaller firms, allowing them to invest more in their innovative ideas.
- Global supply chains used to be controlled by larger firms, but now, smaller firms have the ability to build virtual supply chains to expand their presence around the world.
- Access to technology has also allowed some of the brightest minds to collaborate on a global scale, creating a community of innovators unrestrained by distance and geographical boundaries.

### Access to Global Markets

- A number of government agencies are providing small businesses with information, programs, and assistance to help them bring their products to overseas markets. Making these programs easier to navigate is a top priority for government.

### Success is Born of Failure

- Startup owners learn valuable lessons when their firms fail, and they often develop an expanded professional network that will benefit them over the long term. Innovations aren't born of pure success; they're born of lessons learned from the mistakes that have been made along the way.

## Access to Capital

**G**aining access to capital is an obstacle for small businesses across the board, and Felice is acutely aware of this fact. "I've been on a soapbox about this over the last few years. We've talked a lot about the larger companies and bailing out the banks recently, but it seems we haven't done enough to help small businesses, and they're still struggling today. The businesses that already have cash are the ones that can get more," noted Felice.

As the founder of Away.com, an online travel company that he sold to Orbitz, Greene is uniquely familiar with the difficulties small business owners face. Recalling his 20 years of entrepreneurial experience, Greene said that the issue wasn't just about capital. "As we are looking at early stage startups, we see they aren't

ready for traditional lending. There are some potential new models that can help entrepreneurs access the big money," remarked Greene.

Ortmans, who also runs the Policy Dialogue on Entrepreneurship, a public policy initiative that has focused the attention of policymakers and opinion leaders on the importance of entrepreneurship to the economy and American society, echoed this sentiment saying, "Small companies aren't qualified. Nobody should lend, from a bank's perspective, to a company that started six weeks ago. So they need to access different kinds of capital."

Non-traditional forms of lending, such as angel investments, often focus on high-potential areas like the Internet and social media. Like venture capitalists, angel investors make

high-risk investments in a company's early stages, but they tend to provide much less money than venture capitalists. That is changing, according to Paul Kedrosky, a senior fellow at the Kauffman Foundation, who says angel investors have become emboldened over the last 18 months, and in some cases have banded together to strengthen their investment capabilities. <sup>ii</sup>

**T**he trouble is, Case pointed out, many investors aren't aware of startups in their region. "My organization is trying to strengthen startup regions. We've launched in seven states so far. Each of the state governments involved in this project – Colorado, Connecticut, Florida, Illinois, Massachusetts, Tennessee, and Texas – is currently getting their heads around what is actually happening in their communities," Case said. The ultimate goal of this project, according to Case, is to help marry startups with investors in their geographical area. Bringing visibility to investment opportunities can help smaller firms gain access to capital, but Case believes that there is also room for legislative action to encourage investment in small firms.

The Startup America Partnership is dedicated to helping small businesses succeed. Just hours after CPPI's panel discussion, Case joined two United States Senators – Senator Mark Warner of Virginia and Senator Jerry Moran of Kansas – for a press conference to introduce the Startup Act. The bipartisan bill, which also has



Jonathan Ortmans of the Kauffman foundation shares his experiences of working with small businesses around the globe

the support of the Kauffman Foundation, is aimed at jump-starting the economy through the creation and growth of small businesses around the United States.

The Startup Act would make permanent the capital gains tax exemption for investments held five years in qualified small businesses (QSB); provide a corporate tax credit of up to \$5 million for QSBs in the first taxable year of profit, followed by a 50 percent corporate income tax exclusion in the two succeeding taxable years; and require a cost-benefit analysis of proposed regulations with an economic impact of \$100 million or more to determine the efficacy of the rule and its potential effects on the formation and growth of new businesses. <sup>iii</sup>

**W**hile facilitating early stage-financing is vital to firm formation, facilitating access to public capital markets is another key element to firm growth. Ortmans stated that 90 percent of job growth occurs after companies go public. Unfortunately, there are thousands of companies that could go public with \$250 million in total gross revenue, but the cost of being compliant and maintaining that compliance to be a publicly traded company is so high relative to the earnings, they can't afford to go public. Consequently, smaller firms sell out much earlier than they would have with the proper access to capital. Ortmans suggests that opening up the initial public offering (IPO) market would ultimately be more valuable by creating independent companies that are going to exist over longer periods

of time.

Meanwhile, Senator Landrieu stressed the need for capital to flow to Main Street, and she is monitoring several initiatives that will help small businesses receive the financial support they need. As an example, she cited *10,000 Small Businesses*, Goldman Sachs' partnership with the mayors of twenty cities around the country,

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which is working to identify entrepreneurs with the potential to elevate their business to the next level. Goldman Sachs is investing \$500 million in 10,000 Small Businesses to help small businesses create jobs and economic opportunity by providing them with greater access to business education, financial capital, and business support services. <sup>iv</sup>

As Chairman of the Senate Committee on Small Business and Entrepreneurship, Senator Landrieu is dedicated to promoting and expanding American entrepreneurship by leveraging partnerships and ensuring that federal programs and initiatives are effective. As such, the senator applauded SBA's efforts to equip small firms with the resources they need to develop successfully.

SBA is focused on helping small companies achieve high growth rates, according to Greene, who commented that entrepreneurs nation-

wide have made it clear that access to capital is a huge concern. One way that SBA has tried to address this issue is to launch the so-called "quick pay" initiative, which requires the federal government to pay small business contractors within fifteen days. "The federal government doesn't normally think in cash-flow terms, but guess what – every small business does,"

reported Greene. The government awards nearly \$100 billion annually in federal contracts to small firms. <sup>v</sup>

**G**overnment could also make starting a small business more attractive by factoring student loan debt into the capital equation, suggested Greene. Entrepreneurs nationwide have told SBA that student loan debt is a major disincentive to new firm formation, as many entrepreneurs are hesitant to start their own firm when they risk defaulting on student loans. Together with the United States Department of Education, SBA runs a program that allows graduates to tie their student loan repayment to their actual income. With the help of this program, entrepreneurial graduates could focus on launching their own business rather than taking a job elsewhere to begin paying off their loans.

## Access to Technology

Innovative technologies such as cloud computing and mobile telecommunications have allowed small businesses to grow in ways that were unimaginable only a decade ago. While Case spent \$3 million on equipment when founding the travel website Priceline.com in 1997, he estimates that entrepreneurs can now harness the same level of processing power and technology platforms for approximately \$1,000 courtesy of low-cost cloud computing providers such as Dell, Intuit, and Amazon.

“The game has absolutely changed in our ability to leverage technology and the ability to access terabytes at almost zero cost by lowering the cost of entry. Everything has information wrapped around it. There are bits around everything, even the chair you’re sitting on. The movement around startups is about leveraging that platform and being able to invest

more in their ideas,” remarked Case.

Access to technology has also helped level the playing field for established small businesses. Felice was struck by the way smaller firms are able to compete with large companies. “Traditionally, large companies had a big advantage in the supply chain and they’ve also had much better access to customers through marketing. But with technology like cloud applications, even the smallest business can get off the ground,” he said.

Felice used Current Motor as an example of one small business that has used these sorts of technology solutions to build a virtualized global supply chain. Current Motor is now expanding its presence in Brazil, a feat that has been made possible by access to technology, commented the Dell executive.



Steve Felice, the President of Consumer, Small and Medium Business at Dell, with Senator Mary Landrieu and Congresswoman Cathy McMorris Rodgers



### CPPI tweets from the Dec. 8th event on Restoring U.S. Competitiveness

We want to recognize additional sponsors of #CPPIsmb @Intuit @Qualcomm @Neustar @VERISIGN -Thanks for your commitment to advance technology!

Thank you to our great sponsors @Dell and @DellSmbUS! We had a great discussion on how technology can help #smallbiz #CPPIsmb

Participants of #CPPIsmb will receive info that captured today’s discussion. Check out our website for details: [ow.ly/7SIWM](http://ow.ly/7SIWM)

We want to ensure #smallbiz is spending to hire more employees, rather than spending to comply with regulations @cathymcmorris #cppismb

@cathymcmorris tells CPPI audience that small businesses create 70 percent of U.S. jobs #cppismb

Our job in Congress is to build an economic model that is fair and based on merit for all Americans via @SenLandrieu #cppismb

Getting more capital to small businesses involves aggressive policy efforts via @SenLandrieu #cppismb

## Access to Global Markets

**W**hile a globalized economy presents great opportunities, it's not without its own set of challenges," noted Greene.

Greene went on to cite President Barack Obama's commitment to doubling the amount of exports over the next five years to help American businesses access the global market. The Export-Import Bank is a key player in the Administration's plan to identify 5,000 small businesses and turn them into exporters. The agency gives loan guarantees to American companies selling their products overseas and plans on doubling its support of small businesses to \$9 billion by 2015.

Although there are a number of programs in place across the federal government to help small businesses access global markets, these resources are often hard to track down. The key, according to Greene, is making it easier to navigate through these programs so that they will be more accessible to entrepreneurs. For example, many entrepreneurs don't realize that every United States embassy employs someone whose job it is to help American companies interface with that nation. Most companies, he argued, think only large firms have access to these State Department resources, but that's simply not the case.

Ortmans has visited 123 countries through the Kauffman Foundation's Global Entrepreneurship Week campaign, and he made the observation that startups are a global move-

ment. "I could take all of these young entrepreneurs and put them anywhere and they would fit in. There is a cacophony of informal networks, and they don't view themselves as being from a particular nation," Ortmans commented.

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"I remember my first trip to China in 2005. You needed a translator for everything," added Felice. "A few months ago I had a roundtable discussion in Beijing with some entrepreneurs about manufacturing, and you would have thought you were in Silicon Valley. It only took a few years, and they were talking about all kinds of e-commerce ideas, and they were all speaking fluent English."

To be sure, the global marketplace has made for some fascinating stories of entrepreneurship. A frequent world traveler, Ortmans said he is often struck by the power of technology to decentralize business col-

laboration. To illustrate this point, he shared an anecdote from a recent trip to New Zealand.

**E**arly one morning, Ortmans walked into a coffee shop and was greeted by the shop owner. Ortmans asked the man if his shop was open. "Not only am I open," the shop owner responded, "But you're my first customer, ever!"

Ortmans was impressed and inquired about the business. It turned out that the Israeli-born shop owner had just moved to New Zealand three weeks prior, after he was inspired by a World Bank study that said New Zealand was the easiest place to start a business. Through online research and communications, he was able to secure funding from investors in California, though he had never visited the U.S. "He didn't think anything of the fact that he wasn't a citizen of New Zealand and that his first customer was going to be from a country he himself had never visited," said Ortmans.

Felice also shared a great example of a small business harnessing the power of connectivity. He told the story of Eved, a web-based marketplace that connects buyers to suppliers in the meeting and event industry through an easy-to-use platform. With access to technology and the global marketplace, a \$260 billion dollar industry that was traditionally managed by very large entities is now open to smaller firms.

# Distinguishing Startups from Small Businesses

Case was the first among the panelists to distinguish small businesses from startups. “If you stood in a room of 200 startups and asked them which one was a small business, none would raise their hands. They’ll tell you they’re giant businesses that have yet to scale,” he said.

“Startups are run by founders while small businesses are run by owners. If a small business fails, the owner will go and get another job in their industry. The same isn’t true for a founder. A founder will fall down, shut down their business if they have to, then they start again. And what do they do? They have to go hire people and build their companies around them, and that’s why you see com-

panies like a Groupon, LivingSocial or Facebook go through incredible growth spurts. That’s the fuel driving the market and what makes startups so important, they’re on the forefront

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**Startups don’t consider themselves small businesses, but large businesses yet to scale.**

of innovation,” mused Case.

According to Case, innovations aren’t born of pure success;

they’re born of lessons learned from the mistakes that have been made along the way. When asked if there was a way for the government to mitigate risks, Case replied, “First off, you should just expect that you’re going to fall down. Risk is inherent in the startup environment. Culturally, we have embraced the notion that it’s okay to fail and pick yourself up. If you look at a successful entrepreneur, that’s their alma mater,” explained Case.

Ortmans agreed with Case’s assessment, suggesting that we need to focus on our comparative advantages. He told the audience that he’s yet to see another country that can absorb failure like the United States. “My brother in the United Kingdom failed in his business and people stopped inviting him over for dinner,” Ortmans said in amazement.



Chair of the Senate Small Business Committee Senator Mary Landrieu wants to ensure small businesses have a chance to succeed

The Kauffman Foundation is putting millions of dollars into studying the science of startups and one thing is evident: more and more nations (e.g. Japan and China) are beginning to adopt this culture that accepts failure. Startups are about recycling ideas, reforming teams and businesses. It isn’t necessarily a bad thing to fail a few times before formalizing a company, so it’s successful when it counts. “I look at the people [that have stumbled] and think how much better and stronger they are having gone through it,” added Ortmans.



# Nurturing the Entrepreneurial Spirit

**C**ongresswoman McMorris Rodgers championed entrepreneurs in her remarks, saying, "Since the founding of our country, America has been the world capital of innovation. From the telephone to the television, from the space shuttle to the Internet, America has been on the forefront of these innovative breakthroughs."

She credited both these innovations and the entrepreneurs who turned their brilliant ideas into reality for America's high standard of living. "All of these advances were made possible through a free market economy. However, there are growing concerns about the future of our free market system and the impact of government policies on that system, potentially harming the ability to innovate,

adapt and create jobs for tomorrow," continued the congresswoman, who grew up working in her family's small business, a fruit farm turned successful produce business.

**H**he went on to cite the 2011 Index of Economic Freedom, an annual report published by the Heritage Foundation, which ranks every country in the world by their level of economic freedom, from property rights to entrepreneurship. According to the report, the United States has slipped in recent years. "We're now behind Canada, and dropping from what they term an 'economically free society' to a 'mostly free society,'" lamented the congresswoman.



Congresswoman Cathy McMorris Rodgers champions American entrepreneurs in her remarks



Reauthorizing and improving @SBAGov programs is priority for @SenLandrieu and the Small Business Committee #cppismb

@SenLandrieu talks about new models and partnership efforts throughout the country to grow #smallbiz and support #entrepreneurs.#cppismb

CPPI audience will hear remarks from @SenLandrieu about small business growth.#cppismb

The ability access terabytes of data at such a low cost has really been a game-changer for #startups via @tscottcase #cppismb

@KauffmanFDN has invested millions of dollars to research #startups to better understand both successes and failures. #cppismb

The U.S. Government has made great strides in recent years to support entrepreneurial growth via @Jortmans #cppismb

Panelist @sverde from @SBAGov discusses their efforts to learn about barriers for #entrepreneurs #cppismb

Startups are special because of their unique mentality and driven attitude via @tscottcase #cppismb

## Conclusion

**G**overnments around the world are racing to provide the greatest and most effective top down policy support for small business development. For the sake of our nation's economic vigor, it is imperative that American entrepreneurs not be left behind.

"People talk about America as a grand experiment. We were started by entrepreneurs: America is the ultimate startup. That founder mentality is critical to our national success and to the success of new firms," stressed Case.

Case knows there is work to be done to ensure new firms have a chance to succeed. Immediately following the conclusion of the December 8th event, both Case and Felice raced to the White House to attend a high profile meeting of the Startup America Partnership. During the meeting the Partnership announced that their member companies includ-

ing Dell, Intuit, Google and HP have agreed to donate approximately \$1.2 billion worth of in-kind resources to help startups grow.

**T**hanks to the leadership of Case, Ortman, Greene, and Felice, not to mention policymakers on Capitol Hill like Landrieu and McMorris Rodgers, the importance of small businesses has garnered much needed attention in recent weeks. The status quo is no longer viable if the United States is to remain competitive; small businesses have the power to revive the nation's economy; they just need the opportunity, tools and the right government policies to help them succeed. The innovative spirit that made America great in the first place, once unleashed, will spur sustainable economic growth and job creation well into the future.

### About the Center for Public Policy Innovation

The Center for Public Policy Innovation (CPPI) is a 501(c)(3) not for profit educational think tank. Its mission is to: assist government officials in addressing the many challenging policy issues brought on by the rapid advancement of IT; provide policymakers with thought leadership, informed analysis, and innovative strategies to help ensure

American competitiveness in the global economy, and bring together diverse stakeholders from government, industry, academia and the civic sector in productive, collaborative, result oriented platforms to narrow gaps in understanding and advance innovative public policy. For more information, visit CPPI at [www.cppionline.org](http://www.cppionline.org).



Don't forget to tweet your questions for our panelists using #CPPIsmb

#Startups are different than #smallbiz because of their relentless efforts to grow via @tscottcase from @startupamerica #cppismb

Remaining innovative will help the U.S. get out of the recession via @Jortmans #cppismb

Panelist @Jortmans from @KauffmanFDN says their research shows all net new jobs come from small business firms. #cppismb

Reauthorizing and improving @SBAgov programs is priority for @SenLandrieu and the Small Business Committee #cppismb

@SenLandrieu talks about new models and partnership efforts throughout the country to grow #smallbiz and support #entrepreneurs. #cppismb

### Digital Dialogue Forum

Founded in 1998, the Digital Dialogue Forum (DDF) is a non-partisan public policy coalition comprised of world-leading technology companies. Its mission is to enhance U.S. innovation and global competitiveness through high level dialogue between business and government leaders.

For more information, visit DDF at [www.digitaldialogueforum.com](http://www.digitaldialogueforum.com).

## End Notes

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