A JOB CREATION ROADMAP: HOW AMERICA'S ENTREPRENEURS CAN LEAD OUR ECONOMIC RECOVERY

HEARING

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A JOB CREATION ROADMAP: HOW AMERICA'S ENTREPRENEURS CAN LEAD OUR ECONOMIC RECOVERY

WEDNESDAY, MARCH 21, 2012

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 1:00 p.m., in Room 2360, Rayburn House Office Building. Hon. Sam Graves [chairman of the Committee] presiding.

Present: Representatives Graves, Chabot, Tipton, West, Hanna, Velázquez, Schrader, Chu, Hahn.

Chairman GRAVES. Good afternoon. We call this hearing to order. I apologize for being tardy. I was having a hard time getting across town, and sometimes in D.C., that is the way it works. But I want to thank our witnesses for coming. Some of you came a long ways and I appreciate you taking the time away from your families and your businesses to be here and be a part of this testimony.

Today, we turn our attention to entrepreneurs, one of the most critical links to our economy. Entrepreneurs who are the thinkers who can take an idea from concept to fruition. They are the risk-takers, they are the boot-strappers and innovators we depend on to create jobs and spur economic growth. Entrepreneurs represent what is great about America, it is about opportunity, innovation, and hard work. It is never easy to start a company, and in today's economy, it is an even greater challenge. The trend in entrepreneurship is up, but an entrepreneur's ability to hire is down. The recession's high unemployment rates may have encouraged people to start sole proprietorships, but there are many obstacles in the way of growing a company to create jobs.

One of our witnesses today, Heath Hall, and his business partner started their company in the middle of a recession. Friends and family members thought they were crazy, but they wanted to prove that a small business could succeed if it was founded by entrepreneurs with a good work ethic, a great product, and people that believed in them. They wanted to prove that the free market is still the best path for success for entrepreneurs.

This afternoon, we are going to hear from witnesses who will discuss the current state of the entrepreneurship and risks and rewards and challenges of building a company and we look forward to hearing your testimony. Again, keeping mine short since I am tardy, but I will now yield to Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Chairman Graves.

Our Nation's 29 million small firms are the cornerstone of our economy. They employ half of all private sector employees. Over the past 15 years, they generated two-thirds of new jobs. Clearly, given this fact, entrepreneurs will be essential to our economic recovery. All small businesses help the economy grow, but it is the opportunity entrepreneurs that hold the most potential for job creation. These new, fast-growing firms develop cutting-edge products, often revolutionizing entire industries. Encouraging these innovators to turn their dreams into reality benefits the entire economy. By creating brand-new markets and sparking competition, these firms often have a multiplier effect on job creation. As other businesses seek to compete in newly created markets, they, too, add workers to the payroll.

This spirit of entrepreneurship has always been part of our national identity and remains so today. In fact, close to 565,000 new businesses per month were created in 2010, the highest level over the last decade. During today's hearing, we will examine how these innovators are contributing to our recovery and the hurdles they face in creating new jobs. Before the recession, starting a business simply required a good idea, hard work, and Internet access, but in today's turbulent times, forming a business is more challenging. The financial crisis presented a unique set of challenges for small firms seeking capital. As lending standards tightened, entrepreneurs found it more difficult to secure loans and lines of credit.

While this situation has improved, there is still a long way to go. SBA loan programs have played a critical role in bridging these gaps, providing startup with access to capital they need to launch and expand.

Another critical area to businesses' success is technical assistance. SBA's program assists entrepreneurs by providing tailored education on topics ranging from marketing to procuring to international trade. For the startup, this expertise can often make the difference between failure and long-term growth. Initiatives like the Small Business Development Centers have proven effective in channeling, counseling, and assisting to millions of entrepreneurs around the country.

While the SBDC network is the SBA's largest such program, it faces challenges in the form of reduced budgets and pricing demand for its services. Today, we will hear how the SBDC network is adjusting to these fiscal realities and what can be done to help it carry out this mission of assisting small firms.

Startups and small businesses are critical to our Nation's long-term prosperity. Currently, this sector's growth is largely fueled by immigrants, entrepreneurs, and other professionals launching new ventures. As the face of entrepreneurship is changing, strategies for supporting these ventures must also evolve. Today's hearing will provide the committee's insights into how to tackle this challenge, identify areas where entrepreneurs face the greatest obstacle and the help the committee craft practical solutions to these problems.

In advance of their testimony, I also want to thank all the witnesses for participating. Your testimony provides valuable insight into critical topics and we appreciate your being here.

With that, I thank the chairman and yield back.

STATEMENTS OF ANDREW J. RAZEGHI, ADJUNCT ASSISTANT PROFESSOR, KELLOGG SCHOOL OF MANAGEMENT, NORTHWESTERN UNIVERSITY, EVANSTON, IL; SETH GOLDMAN, PRESIDENT AND TEAEO, HONEST TEA, BETHESDA, MD; HEATH HALL, PRESIDENT, PORK BARREL BBQ, WASHINGTON, DC; CLINTON TYMES, STATE DIRECTOR, DELAWARE SMALL BUSINESS TECHNOLOGY DEVELOPMENT CENTER, NEWARK, DE

Chairman GRAVES. Our first witness is going to be Andrew, you are going to have to pronounce it. Razeghi? Huh?

Mr. RAZEGHI. Razeghi.

Chairman GRAVES. Razeghi. Okay, well, I appreciate you pronouncing it for me. I am terrible with names. Razeghi. He is an adjunct professor at the Kellogg School of Management at Northwestern University. Professor Razeghi teaches courses on innovation and is founder of the Andrew Razeghi Companies. He works with organizations seeking growth through the creation and introduction of new ideas. He is a best-selling author and an expert on creativity and innovation and he earned his MBA from Loyola University in Chicago, has an undergraduate degree in international business affairs from Bradley University. Welcome. And to kind of explain, too, you all have five minutes and try to keep it within that, if possible.

Mr. RAZEGHI. Great.

Chairman GRAVES. Mr. Razeghi.

STATEMENT OF ANDREW RAZEGHI

Mr. RAZEGHI. Thank you. Chairman Graves, Ranking Member Velázquez, members of the committee, good afternoon. My name is Andrew Razeghi and I am a lecturer of the Kellogg School of Management, Northwestern University. I am also an advisor to organizations on innovation and growth and an active angel investor in startups, and I am pleased to be here today to provide testimony for today's hearing.

As you know, small businesses are instrumental to our economy. As we heard, they employ 50 percent of private sector workers and responsible for 60 percent of new jobs. I have outlined several factors in my written testimony, however, for now, I would like to focus really on two principles. The first is that not all entrepreneurs become entrepreneurs for the same reasons. For some, entrepreneurship is a choice, they want to work for themselves or they have got a problem that they are looking to solve. For others, entrepreneurship is necessity. They are typically the victims of job loss and start businesses to create income for themselves. And for others still, entrepreneurship is their destiny. These are members of multi-generation family businesses, and as their paths differ, so too do their motivations and their motivations are instrumental to keep in mind as we create good policy.

Second, beyond their origins, it is important also to distinguish between small business owners and high-potential entrepreneurs. These two groups differ significantly in their skills, their funding needs, their challenges, and the social networks that they need to succeed.

So, what are the differences and what are the implications? Well, let me just share a quick story with you. Ray Kroc, who we all know as the legendary founder of McDonald's or the one that grew that business, was a high-potential entrepreneur; creates today 1.5 million employees and several million employees that work for that company for many, many decades. The McDonald brothers, on the other hand, who invented the concept in San Bernardino, California, in 1940, were small business owners. Their goal was to sell hamburgers and shakes and to do it really, really fast. While the McDonald brothers saw the potential of their idea, they wanted it to remain a small business. Ray, on the other hand, also saw the potential, but he had aspired to grow the business. Ultimately, Ray became frustrated with that, and so he acquired the brothers and built what we know today as McDonald's. The difference between the McDonald brothers and Ray Kroc go well beyond their aspirations, however. Small business owners and high-potential entrepreneurs also differ in their skills, their challenges, their funding needs, and their social networks.

First, in terms of skills, typically, the small business is concerned with creating income for themselves, as I mentioned earlier, and, therefore, leveraging their own skills. High-potential entrepreneurs are really in the business of creating businesses.

So, in the United States, 10 percent of entrepreneurs, for example, create 30 percent of our new businesses; 20 percent of our entrepreneurs create over half of our new businesses. These are a different group and these are what I call our high-potential entrepreneurs.

Second, they have very different challenges. Small businesses primarily are concerned generally with cash flow and, therefore, are typically interested in lowering their tax burdens. High-potential entrepreneurs, on the other hand, are interested in really scaling their businesses. So, their biggest challenges are, A, attracting capital, and, B, attracting and hanging onto talent. So, high-potential entrepreneurs can only hope someday to pay taxes.

Third, they really differ in the sources of capital. Small businesses typically seek, as we know, capital from banks and micro loans, majority of their funding from there, while high-potential entrepreneurs rarely set foot in banks, primarily because they have no collateral other than their dream and their vision that we know. So, while small businesses really trade on their collateral and interest, high-potential entrepreneurs trade on capital gains and equity with their investors.

And finally, they really maintain different social networks, whereas small businesses typically network locally as members of the chambers of commerce and other organizations, high-potential entrepreneurs typically are networking globally through venture accelerators and incubators and the like.

So, while both are vital to our recovery, certainly small business owners and high-potential entrepreneurs, because of these differences, my recommendation is that we really think about these entities and manage them differently.

Why is that the case? As you look at high-potential entrepreneurs, for example, they are generally backed by venture capital and venture-backed businesses are more resilient in economic downturns and more prosperous typically over the long-term. Moreover, they have exponential economic impact.

For example, if you look at the investments made in high-potential businesses, although it is only .2 percent of GDP, the revenue they generate is equivalent to 21 percent of U.S. GDP. So, very, very high-performing companies.

So, generally, for these reasons—the differences in their skills, their needs, their funding requirements, their social networks that make them succeed—my recommendation is that we need to focus just as much on these high-potential entrepreneurs as we do on the typical small business challenges. Thank you.

Chairman GRAVES. Thank you, Professor Razeghi.

Our next witness is Seth Goldman, who is the president of Honest Tea in Bethesda, Maryland. As a youngster, Mr. Goldman had newspaper routes and lemonade stands. He nearly pursued a prize-winning biotechnology idea before he co-founded the Honest Tea brand in his kitchen in 1998. Is that correct?

Mr. GOLDMAN. That is correct.

Chairman GRAVES. He is a graduate of Harvard College and the Yale School of Management, and he is testifying on behalf of the American Beverage Association.

Welcome, Mr. Goldman.

STATEMENT OF SETH GOLDMAN

Mr. GOLDMAN. Thank you. Good afternoon. Usually when there is a discussion about high-growth businesses, the focus is on the Internet or biotech, so I am happy to be here to represent a part of the economy everyone understands. We make low-sugar, organic beverages, and over the 14 years, our continuous double-digit growth has created 122 jobs in 22 states. These are jobs that create and support manufacturing across the United States and jobs that cannot be shipped overseas.

In 1998, I launched Honest Tea out of my kitchen. My co-founder and I brewed five thermoses of tea and got an empty Snapple bottle and stuck on a label and brought it to the local Whole Foods buying office. And to our great delight, surprise, and horror, the buyer said he was going to buy 15,000 bottles, so we had to go home and figure out how to make that much tea.

We launched in the 17 Whole Food stores in the Mid-Atlantic and gave away more samples than we sold, but by the end of that summer, we were the best-selling tea in those stores. And then we expanded from there to the rest of the Whole Foods chain and then became the best-selling tea in the natural foods industry. And just last year, Coca-Cola purchased our company, which is still run out of Bethesda, Maryland.

When we started, my co-founder and I raised money from basically the people who could not say no: ourselves, our parents, my sister, his roommates from college. And over the next 10 years, we raised $10 million in angel capital from equity.

And so how did we manage to stay in business over that time while a lot of other beverage companies started and went under?

Well, first, we offered something that was clearly different. While everyone else was selling a tea with a lot of sugar, we were offering something with just one to two teaspoons. And then, in 1999, we became the first company to create organic bottled tea. So, once again, we had a point of difference in the marketplace.

The other way we stayed in business is we were careful with our cash. Instead of paying for radio and TV ads, we developed alternative ways to generate attention. We did an experiment called Honest Cities. We set up in 12 cities a freestanding booth with bottles and it said it is an honor system, $1 a bottle, and we will see how honest people are. And to our great delight, most of the country was in the high 90 percent honest, but it was also a great way to get media coverage and we were on the Today Show and certainly raised a lot of awareness.

The other benefit of operating on a tight budget is you make less expensive mistakes. We certainly made some doozies over our 14 years, but if we had had more money, we just would have spent more money trying to correct those mistakes rather than to just recognizing when something was not working.

Unlike most acquisitions which involve relocations and layoffs, when Coca-Cola invested in Honest Tea, we created a structure where we continued to base it in Bethesda, and our headcount has actually doubled since Coke invested three years ago.

And we have been expanding jobs around the country. Last October, I cut the ribbon on a Coca-Cola-owned bottling facility that created 100 manufacturing jobs in Massachusetts. Next month, we are launching a new bottling line in California.

When we took in Coke's initial investment, we were in 15,000 stores. Today, Honest Tea can be found in over 80,000 stores and we just signed on a new chain this morning. So, we are still growing.

Unlike so many industries, the beverage business is one where outsourcing is not an issue. There is no way to ship bottles through those Internet cables and the math does not favor manufacturing the product overseas and then shipping into this market, and there is still no substitute for the role that skilled professionals, maybe a little aggressive, can play in protecting a beverage shelf.

So, how did the Federal Government help Honest Tea? The best thing I can say is that the government did not get in the way of us launching our business. Of course, we had to make sure all of our bottling plants and suppliers were licensed with the FDA and USDA and we filed our stock offerings to accredited investors through the relevant entities and paid our taxes through ADP, but other than that, we were left to build our business.

One way the government did support our growth is through the creation of the USDA Organic Standards. Having a differentiated product was key to Honest Tea's survival and the USDA Organic Seal, which appears on all of our products, helps consumers seek out products grown without chemicals, pesticides, or fertilizers. It is a great example of a government program that helps establish a quality standard without any mandates or large bureaucracy.

My experience building Honest Tea represents all that is great about the American economic system. A group of passionate entrepreneurs and patient investors combining their dreams, their investment capital, and their energy to create something out of nothing, delivering jobs, strong investment returns, and healthier beverages along the way. In terms of supporting the development of more companies like ours, I would say the best policy is to let entrepreneurs and investors continue to take well-informed risks.

By definition, the work we do is challenging. If it were easy or obvious, the big companies would have already done it. But in Honest Tea, we take two proverbs to heart. They are Chinese proverbs. The first is if we do not change the direction we are headed, we will end up where we are going. And I believe entrepreneurs are our Nation's best chance to change and make an impact on the issues that confront our society, and that is not easy work. And that is why we pay attention to the second proverb, which is on the wall of our office in Bethesda: Those who say it cannot be done should not interrupt the people doing it.

Thank you very much.

Chairman GRAVES. Thank you, Mr. Goldman.

Our next witness is Heath Hall, who is the president of Pork Barrel BBQ here in Washington. Mr. Hall co-founded the company in 2009. His barbeque sauce is available in over 3,000 stores in 40 states. In November, the company opened a restaurant in Alexandria, Virginia. Widely recognized as a winning entrepreneur on the television show Shark Tank, Mr. Hall is known for his innovative approach into starting and growing successful businesses. He received his bachelor's degree from Truman State University and his JD from the University of Missouri, Kansas City.

So, welcome.

STATEMENT OF HEATH HALL

Mr. HALL. Thank you, Chairman, Ranking Member, and members of the committee. It is great to be here. Small businesses and the entrepreneurs who create them fuel the engine that drives the American economy and determines the overall health of our Nation.

It is an honor to return to Capitol Hill, where I once served as senior legislative assistant to a guy who I see is looking at me as I am testifying, Senator Jim Tallon, former chairman of this distinguished committee. But more importantly, it is an honor to be back because this is really where the genesis of Pork Barrel BBQ was formed.

In 2006, during a Senate budget debate, my business partner, Brett Thompson, and I were debating what we would be having for dinner. And as I am sure many of you have struggled to find some good options late at night here on Capitol Hill, we were wishing and hoping and thinking about the great barbeque joints back in Missouri that we often frequented when back home and there just were not any here. So, at the moment, the Senate was debating pork barrel spending projects on the floor, a vigorous debate, and as we were vigorously debating dinner, the two ideas merged and Pork Barrel BBQ was formed. So, we like to say that at least one thing came out of Congress that night that was good. No offense. [Laughter.]

In the few minutes I have today, I would like to talk about three key issues that every entrepreneur faces on their journey to creating a successful and small business. Those include risk assessment, access to capital, and increasing their visibility and identity.

The first, risk assessment, there is a critical point where every small businessman and entrepreneur founding those businesses have to make the decision to move forward and invest their own time and money with zero guarantee of getting anything back. For most, like us, those include questions of where are we going to get the funding? How are we going to be known? Where are we going to secure retail outlets and customers?

The second is access to capital. For many, if not most, getting through this challenge means spending a lot of precious capital on understanding the system and it did not take us too long to realize that we needed every ounce of capital that we had, and most of that coming from own our pockets, in order to do this process and do it right. And because we had such limited funds in addition to limited access to additional capital, we decided that we would take nothing out of our company from the beginning until a point when we could and we are still at that point today where we have realized no profits ourselves. Everything we have made, we have reinvested into the company. And I think it is important right here to note that every extra regulation, requirement, and delay that the government imposes is a burden that new small businesses have to overcome. These burdens cost time and money and often lead to many small businesses prematurely calling it quits, opting to create fewer jobs, or slowing down their innovations. I am not saying that none of the regulations are necessary or justified. They often are, but I do want the committee to understand that they come at a cost and time and money, which small businesses must pay and which could not be used for them generating jobs and growing their company.

The third is the need to increase that brand identity. The challenges for most entrepreneurs in doing this is it is on a shoestring budget. For us, we accomplished it through social media, and in a stroke of luck, we were contacted by the producers of the hit reality show Shark Tank on ABC and that really changed the future of our company. We were given the opportunity to present our product in front of sharks and we got a deal from Barbara Corcoran, the New York real estate giant, and she is currently still a valued member of our company and business partner. And so it gave us some capital and also gave us instant national exposure that we could have never afforded. I sit before you today 100 percent certain that we would not be in the position we are were it not for Shark Tank, which kind of sounds strange that a TV show could do that for you, but it really has.

Our second break came when we met a guy called Hunt Burke of Burke & Herbert Bank over in Alexandria, Virginia, a bank that believes in entrepreneurs and believed in us. He gave us the initial seed money after the show to really address all of the new retail accounts we were quickly gaining. It is also important to note, I think, right here that large businesses play an important role in the success of small businesses. Harris Teeter, a local grocery store on the East Coast, picked us up before we were known. Costco, a real contributor to cultivating small businesses in this country, picked us up. Safeway has been a huge supporter with unsubsidized promotions and ads that we could have never afforded.

Although I do not have any specific recommendations to the committee, I would say that in my opinion, the average entrepreneur does not expect or want to be unregulated. We take quality and safety very seriously, we take pride in offering an affordable, gourmet product that is high-quality, good-tasting, and safe for people to consume and that is produced by manufacturers that are current and have scored high on all required inspections.

The problem, in my view, is that there is no effective safeguard in the system to make sure the regulations are written and enforced in a way that minimizes the burden of honest, well-intentioned entrepreneurs. One approach I would encourage the committee to look into would be for the government to adopt a partnership approach to regulation whenever possible. In these cases, it seems far more productive and less costly to all parties to partner with these businesses rather than adopting an adversarial attitude that leads to costly fines and mistakes that were made in good faith and that had no impact on public health or safety.

I would like to reiterate that America is still the land of opportunity and, when given the chance, an entrepreneur's idea combined with the power of the free market can lead to amazing things. If America is to emerge from its economic woes, it will be on the back of entrepreneurs. Elected officials like yourselves should keep in mind the sacrifices and risks entrepreneurs take when considering ways to increase the number of successful small businesses in America. It is the entrepreneur who has taken all the risk and invest his or her time and money into that endeavor with no guarantee of return, yet, if small businesses are not allowed to enjoy the benefit of success when it happens, they will never take the risk of failure.

Thank you and I look forward to your questions.

Ms. VELÁZQUEZ. It is my pleasure to introduce Mr. Clinton Tymes, the state director of the Delaware Small Business Development Center Network, headquartered at the University of Delaware. In this role, Mr. Tymes is responsible for long-range planning and program development for the statewide network. Prior to joining the Small Business Development Center, he owned and operated his own office equipment business. He received his bachelor's and MBA degrees from Wilmington College. Welcome.

STATEMENT OF CLINTON TYMES

Mr. TYMES. Thank you. I was instructed early and got all ready. Chairman Graves, Ranking Member Velázquez, and members of the committee, thank you for inviting me to testify here today.

For over 30 years, the SBDC Network has been providing frontline services to entrepreneurs and small business owners while developing an infrastructure dedicated to assisting all business owners across this country.

How can we help small business growth and innovation and help those entrepreneurs lead the economic recovery? At SBDCs, we focus on that every day. It is a basic tenant of our accreditation process, where we are focused, where we have to develop a strategic plan focused on constantly improving services that we provide to the small business community that is of high value and provide contemporary business solutions.

Technology has changed the way most businesses do business, so, the SBDCs, we partner with firms like Google, Intuit, Microsoft, and others to bring innovation to small businesses. Guiding innovation and new technologies is an important part of our work. It may be high-tech, like Facebook or some of the other technologies I will talk about a little bit later, or just a different way of looking at things.

Maui Jim was a simple idea—sunglasses that cut glare, but did not distort colors—but making that concept a worldwide success took years of working with the Illinois SBDC Program. Likewise, at the Delaware SBDC, we are proud of our work with Sam Calagione of Dogfish Head Breweries. Sam came to us with little more than an idea. He is now one of the leading microbrewers in the country and it is not high-tech, but we just made sure that Sam got the basics right and got the financing and funding that he needed to launch his business.

SBDCs do not necessarily know about optical coatings or jalapeno ales, but we do know marketing, we do know finance, product development, government contracting, and business planning. Our clients come to us with ideas, a lot of energies, and a lot of issues and problems, and they need knowledge to succeed. It is all about basics.

All small businesses, high-tech gazelles, local mom-and-pop organizations or companies or third-generation manufacturers are all focused on one thing, and that is the bottom line. Growth in sales, investment, and hiring are just key indicators. We see several significant areas where entrepreneurs need help: finance, technology development, and education, and let me give you a few examples of those.

Many SBDCs work specifically to assist the firms in the high-tech arena. The Delaware SBIR Program is a program that we developed, is designed to help knowledge-based firms and entrepreneurs compete and win Federal SBIR and STTR funding. For almost a quarter century in Delaware, we led the Nation in patents and PhDs per capita, but one of the things that we were lacking in Delaware, and we lagged behind, was the number of startups and technology-based businesses, as well as lagging behind in the number of SBIR application and awards, and, hence, we responded and developed this program. It was designed to be a one-stop shop to assist entrepreneurs and every aspect of the SBIR Program. We helped them with the application strategies; we provided proposal-writing workshops; we critiqued, reviewed the proposal editorially as well as technically before it is submitted; we provided a mentoring program for applicants, as well. All of these are designed to help businesses achieve their goals.

The Delaware SBTDC, like many SBDCs, are hosted by research institutions that work closely with their technology transfer offices, science, and engineering departments. At the University of Delaware, we formed a special group called the Office of Economic Innovation and Partnerships where we merge the Technology Transfer Office as well as the SBTDC Program together, so that we have the technical side in terms of research and commercial application. Our business expertise helps to expedite those technologies from lab to the marketplace. So, it is a unique model.

I have also attached a letter from Mr. Jianrong Lin of Spectrum Magnetics, and in his letter, he outlines the knowledge gaps that he and his companies had and many entrepreneurs and how our team helped them. This is just one example of how SBDCs help businesses develop and conventionalize technologies. Similar programs are being conducted in North Carolina, Texas, Missouri, Michigan, just to name a few.

The second aspect is financing. We often work with entrepreneurs who have little idea about financing. Many high-tech clients do not know how to approach an angel investor. We have heard that here, and do not even know what an angel investor is, and there is a huge gap there and we help those business owners to speak finance, if you will.

At SBDCs, we bring relationships from all walks of life in terms of financing, whether be a microloan, a 504 loan, or angel investors in trying to match them.

In San Antonio, the SBDC helped a third-generation company, Kiolbassa, with a 504 loan that expand their firm and triple the number of employees.

SBDC identifies an entrepreneur's strength and their weaknesses and we teach them how to relate to the financial community and find the right tools and the right financing program that best meets their needs.

Education is the third component and it is a common theme that we have and entrepreneurs need. We have heard just a few moments ago about skills and enhancing those skills and building those skills. Well, that is what SBDCs do through our one-on-one counseling programs and through our training programs. We teach them techniques to show them the tools they need. Ideas, dreams, and innovations can all fail without knowledge.

How can we work to overcome these knowledge gaps? You maximize the tools at hand. Currently, our association and network work with HUD's Office of Community Development, SBA's Office of Surety Bond Guarantees and Surety Bond Association. Our goal, to educate small contractors on obtaining surety bonds and getting contracts on HUD-funded contracts. Not a new program, just teaching financial skills.

In conclusion, the ASBDC believes the most common concern of small businesses are the lack of capital, lack of sales, and difficulties in dealing with day-to-day complexities of their business. Some surveys say that the capital is bound for the qualified. We help get them qualified, the small business owners. As a result, nearly $4 billion in financing was assisted in terms of SBDC assistance nationwide. Small businesses say that sales are weak. We help them develop markets and new products. In 2009, 2010, our clients in our network, their sales are four times that of the national average. If you do not know how to do it, we will, get resources to do it. We understand the resources are available and we understand how to leverage those resources that help business owners become successful.

Thank you for letting me share my views about our network and look forward to your questions.

Chairman GRAVES. Thank you, Mr. Tymes. I am very familiar with the role of the SBDCs. In Missouri, and, in fact, Max Summers is here, who is the state director of the Missouri SBDCs, which I worked with for a long time.

Mr. TYMES. Okay.

Chairman GRAVES. And I appreciate the work you all do.

Mr. TYMES. Thank you.

Chairman GRAVES. Mr. West, we will open with you.

Mr. WEST. Thank you, Mr. Chairman, and thanks to the distinguished panel for being here. And, Mr. Goldman, thanks for not giving us any of your Honest Tea, because I am sure it will be an ethics violation. [Laughter.]

Mr. GOLDMAN. Well, I have some bottles here.

Mr. WEST. No.

Mr. GOLDMAN. I am happy to——

Mr. WEST. We will have to get rid of the cameras if you do.

Chairman GRAVES. Just $1.50 per bottle. [Laughter.]

Mr. WEST. Okay, I think I got it.

You know, when I travel the district down in South Florida, up U.S. Highway 1, you see many closed storefronts, and, of course, that represents 8, 10, however many Americans that once worked there. There is a budget resolution proposal up here about taking those 6 tax brackets and combine them down in 2 and that top tax bracket being at 25 percent.

What I would like to know is if we adopted that budget resolution proposal, having that top tax bracket at 25 percent, as we know, small businesses, entrepreneurs start off at Subchapter S LLCs, what would that do for the growth of small businesses in the United States of America? And I understand we close some of those tax breaks, loopholes, but what would that 25 percent top bracket do?

Mr. RAZEGHI. So, a couple thoughts. I think, first off, as you know, 75 percent of the small businesses have no payroll, so, I think, as I mentioned earlier, and then the 25 percent are really generated in sales receipts and even a smaller percentage of that. So, I think it gets back to who that would appeal to, right? Back to this notion of at least my opinion on high-potential entrepreneurs, tax policies nowhere near the top of their list in terms of their concerns. It is back to capital, it is about getting the right talent, and hopefully, someday, as I mentioned, they want to pay their taxes and if the taxes go up, they will work harder, which is typically what you will hear from most entrepreneurs, at least what I hear.

So, I think it will help those, again, back that are traditionally let us say small business centers that are focused on cash flow, and in a way, they want to stay small, but could use relief in that area. The high-potential folks, on the other hand, again, it will not speak to their needs.

Mr. GOLDMAN. And just to follow up on that, I think that is right. The year-to-year income is not as much of a concern as the long-term. If you were to change the capital gains rate in a significant way, that would probably make some investors less interested, but as long there is——

Mr. WEST. You mean if you were to increase?

Mr. GOLDMAN. That is right, especially on the long-term side.

Mr. HALL. One thing that I might say to that is that as an entrepreneur, any dollars that remain in my pocket are dollars that I have to invest in my company, and I think although what the two gentlemen before me have said I agree with, I think that all entrepreneurs would be happy to have the opportunity to have a lower burden on themselves personally because in many instances, we would turn that money right back into investing in our business.

Mr. TYMES. The clients that we see, they usually come to us other than tax issues to be honest with you there, and I think that any lower tax would be beneficial, but the concerns that most of our clients are expanding, again, expanding markets, issues with getting a loan at this particular point in time, but I can just say that any lower tax I am sure would be beneficial.

Mr. WEST. Well, and I guess then that is the next question is: I mean, when you come in and you are at level A, what keeps you from getting to level B and C, what are the primary factors or obstacles that keep you from taking it to that next level that you see out here in this current economic environment?

Mr. GOLDMAN. Well, often it is capital, being able to hire more people, it takes capital or being able to invest in new initiatives, new equipment. So, that is capital-intensive, and then it is where there are sales. So, for our brand, which is a consumer product, consumers having money in their pocket to spend, having consumer confidence is important, too.

Mr. WEST. Do you feel there is a lack of predictability or certainty out there?

Mr. GOLDMAN. It certainly seems to have gotten better. We have seen it in our business pretty significantly, but, sir, two years ago, it was a lot of people were keeping their cash in their pockets.

Mr. HALL. I think one of the interesting things that we have found is that the more successful we have gotten, the more challenges we face. When you have one grocery store chain picking up your sauces, you are producing a few thousand dollars' worth of product at a time. When you are at $3,000, $4,000, or $5,000, you are producing potentially several hundred thousand dollars' worth of product at a time. So, the need for capital really grows when you grow and I think that has been one of our challenges, although, we have had more capital access as we have become more successful. It is kind of a beast that needs to continue to be fed and it gets more and more difficult.

Mr. TYMES. I would just like to echo that access to capital is one of the major ones, but there are a couple of other ones that we see. One is skills. Skills of not only the entrepreneur, but a skilled workforce and trying to attract those types of talent that they need to grow and I think this is increasingly important with technology-based firms in terms of attracting those individuals that have a technical background. I think that especially at the university, we see in terms of some of the companies that we are working where the immigration issue is also a problem in terms of trying to retail those skills that are needed to help those companies grow.

Mr. WEST. Thank you, and I yield to Ranking Member Velázquez.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. For the record, this is less than $75, right? [Laughter.] Yes, okay.

So, Mr. Tymes, Mr. Razeghi in his written testimony explained why we must learn to better identify and support the companies that have the greatest potential to succeed. So, Mr. Tymes, as an SBDC director, when an innovator comes to you with an idea, how do you assess their needs and determine how you can help them become successful?

Mr. TYMES. Well, it is a couple of ways. One is when someone comes in with an idea, just by purely the conversation, we have a number of assessment tools, and some things that we are trying to identify. First and foremost, we are trying to identify commitment, is that entrepreneur, is that individual committed to being an entrepreneur? One of our core values at our program and make sure it is the same with other SBDCs across the country, we will never squash the dream of an entrepreneur. Anybody who walks through that door, we have tools to assess what stage of development their idea is, we will help them self-select out of the process by helping them with some research, if you will. But our process and most SBDCs, we have training programs once we have identified in the assessment what those skill gaps are, we have training programs to fill those gaps, if you will. So, it is a process and most SBDCs have a process that where a committed entrepreneur with a good idea has a customer, will percolate to the top.

Ms. VELÁZQUEZ. And you will look at a business plan?

Mr. TYMES. Oh, absolutely. We help them with the business plan, as well, because that is critically important. We always say that the plan itself is not the most important document, although it is important, but it is the process that you go through, it is the questions that you have to be able to answer as an entrepreneur, whether it be with financing, whether it be with your competition, whether it be with your industry, these are some important things that need to be done, and as I talked before, it is about knowledge, it is about more information that you have.

And I will just add one other thing because I just wrote it down because I think it was Mr. Goldman that said that taking in a "well-informed" risk, and I think that that is what we try to do is provide information to minimize those risks.

Ms. VELÁZQUEZ. Thank you, Mr. Tymes.

Mr. Goldman, your company undoubtedly competes against large firms in your industry. What are some of the challenges you face in competing against your larger companies or counterparts?

Mr. GOLDMAN. Yes. Well, for us, distribution was critical. In the beginning, I was trying to distribute the product myself, and it did not get us very far, and we went to the large distributors and they were not interested in our product because it was not sweet enough and probably they did not think organic tasted good. So, we had to go to other distributors, cheese distributors, corned beef distributors, anybody who was putting something on a truck. And so, for us, distribution was a key barrier and we did not have a way to get around it. The way we were able to succeed is we had a product that was different so that a store would take us on a shelf, even if we sort of had to go through a different door, and when there are such big barriers, entrepreneurs have to have a unique selling proposition that gets them someone's audience.

Ms. VELÁZQUEZ. Are there any benefits that you offer your employees that——

Mr. GOLDMAN. Oh, yes.

Ms. VELÁZQUEZ [continuing]. Your large counterparts will not?

Mr. GOLDMAN. Yes. Yes, we certainly have a very different approach to how we interact with our employees. Because we are a health and wellness-focused company, we gave all of our employees bikes to ride a few years ago, they get healthy snack pack benefits, and then, of course, the most, I think, important one to them is that they all got equity stock options as we grew. So, as our company succeeded, they succeeded, as well.

Ms. VELÁZQUEZ. Thank you.

Mr. Razeghi, in your written testimony, you talk about crowd source funding offered as an alternative to credit card debt for entrepreneurs. You do not see any risk for fraud abuse?

Mr. RAZEGHI. Oh, no, there are certainly risks there, yes, and I think capital is one avenue. What is in the Jobs Act and the issues around crowdsourcing, certainly risks that people have to be mindful of that. I think the bigger risk for the entrepreneur is most traditional venture capitalists frown upon having too many early stage angel investors. They do not want to deal with that many small investors early. So, when you are talking about 300, 400, 500 possible, that is not going to bode well when you go to, Mr. West, your question about A to B, when you move to that next level of capital, that is really the bigger risk, I think. So, no, certainly, we have to be mindful about it.

Ms. VELÁZQUEZ. How do we ensure that investors are protected?

Mr. RAZEGHI. So, to some degree, the market works pretty well, so, if you look at some of the crowdsourcing, businesses, Angie's List, for example, it sort of keeps itself honest, it runs a little like Wikipedia. People review those investors, they are rated, people can comment on what is it like to work with this investor. So, the market really, if you let it work, it kind of works itself out. So, that is my opinion on it.

Ms. VELÁZQUEZ. Okay, thank you, Razeghi.

Mr. RAZEGHI. Sure.

Ms. VELÁZQUEZ. Mr. Hall, you started your company out of your home's basement and now your product is carried in over 3,000 stores, you mentioned, in 40 states. At what stage were capital infusions critical to your success?

Mr. HALL. Really from the beginning, maybe the very first run in 2008, if you knew any of our friends or our families, you probably received a bottle of our spice rub and it cost us about $3,000 or $4,000 to do that initial run of about 2,000 units. Once we decided we really wanted to make a go of it, it became critical to have capital for everything from production to trademark, getting the trademarks and licensing, getting all of the legal documents in place. Shipping, it is something that you do not think about when you are in your home kitchen, but when you are going bigger scale, it costs a lot to send across country a glass bottle with 12 ounces of barbeque sauce in it.

Once we were on Shark Tank really was when we went from a regional D.C., Maryland, Virginia company to more of a national company, and that is really when our first big infusion needed to occur. We went from 100 stores in the area to what seemed like 250 and then 500 and then 1,000 within a few months. And that is really when the big capital infusion needed to occur because, like I mentioned earlier, the smaller you are, it seems like there is more pressure, but I am of the opinion now the bigger you are, when you have not really made it to that top level yet, you are getting bigger and bigger and more people want your product. So, there is the pressure to produce more product, there is the pressure to increase the number of products that you offer in your product line. So, if you have one product, you only have one product sitting in the warehouse. If you have six products, you have six products sitting in the warehouse that are not making money for you until you actually get them sold. So, I think really that big step for us when we went from more of a D.C. area company and into that larger regional and eventually national.

Ms. VELÁZQUEZ. Sure.

I yield back, Mr. Chairman.

Mr. WEST. Thank you, Ranking Member of Alaska.

Mr. Hanna.

Mr. HANNA. I am curious, anyone can answer this or maybe all of us, it is widely accepted or at least touted that one of the mistakes we make in our educational system is we take in people from abroad, we educate them well and we do not stamp their graduation diploma with a green card, something I personally think we should do, especially in STEM.

Would anybody like to speak to that? I know it is a little off the subject, but——

Mr. RAZEGHI. Yes. So, this is my backyard, of course, as an educator and I can tell you at least anecdotally that it is certainly a trend. More folks are returning home versus staying here. Part of it is they want to go home, so, I think we cannot necessarily affect that. They have opportunity now in places like China and India where they can build their own dreams and stay by their families. That said, certainly if you look at engineering, for example, 75 percent of PhDs are foreign-born, as you know. We need them here and we could use them here. But I think beyond that, we could also perhaps take a page from what Israel has done. In Israel, of course, they train their military to code and, as a result, Israel now is one of the technology powerhouses of the world and——

Mr. HANNA. Dan Seymour's book.

Mr. RAZEGHI. Precisely. Precisely, yes. So, I think it is a combination both of immigration reform on the one hand and then developing our own talent here, as well, but it is certainly something I am in favor of is developing the talent.

Mr. HANNA. Mr. Goldman, you mentioned the market kind of has a way of resolving its own issues. Do you think that the popular term moral of consequences is thrown a lot? I am not exactly tight on what—everybody means something different by it, but I think you know what I am talking about in terms of business.

What are the dangers of government getting involved and how do you balance that?

Mr. GOLDMAN. Well, I do think inevitably, when the government gets involved, it is somehow going to be picking winners and losers and winners and losers that the market will not necessarily agree with. And so what happens is you may see the government propping up something that is not sustainable, I mean, from a business perspective. And so, one of the things that has been nice about our business, 14 years, although sometimes it feels like I have been counting in dog years, it is a relatively long time to build something. So, we have been growing, but each year, we have been able to digest the growth, and, as a result, we have had a lot of things that have failed, but the market has sort of proven it out.

And whether you look at our housing markets, I mean, there are a lot of markets where the government was supporting them or directing them in a way that was not long-term sustainable. So, from my perspective, the markets in general are the best judge of what is going to work.

Mr. HANNA. There must be some benefits to people having to fight through that, slog through that process.

Mr. GOLDMAN. Yes.

Mr. HANNA. I mean, it is a filter in and of itself.

Mr. GOLDMAN. It is. It is a proving ground. There is no entrepreneur who—all of us, you get lucky breaks, but for every luck break, there are a lot of ones that—someone told me I was in the right place at the right time. I said, well, it took 14 years to get here. So, there are not enough lucky breaks to keep a budding entrepreneur in business over 14 years.

Mr. HANNA. Thank you, I yield back.

Mr. WEST. Thank you, Mr. Hanna.

Ms. Chu.

Ms. CHU. Thank you, Mr. Chair.

Mr. Tymes, I was so glad to see that you are such an enthusiastic supporter of SBDCs. I am, too. And, in fact, even though we had one in the general area, I am working to get one in my area, the San Gabriel Valley in California, and I am aware that these programs have to have a certain amount of matching funds from the private sector, also, that overall SBDCs are facing about a 10 percent cut in the budget. This has resulted in numerous centers receiving fewer funds, even though there is more client demand now for assistance in starting businesses, and client demand, I would have to think, is especially high as more unemployed people try to start their own businesses.

So, what are you doing in response to this? What can be done in our staff being trained to respond more effectively in this current economic downturn?

Mr. TYMES. Thank you for the question. I first would like to say that over the past few years, it has been difficult in terms of our program nationally. You mentioned we did Federal funding, but the matching component of that.

Ms. CHU. Yes.

Mr. TYMES. And that matching portion not only comes from the private sector, but from states, and we all know the difficulty states have had over the past couple of years with their budgets. So, it is compounded, if you will, as it moves down.

But to answer your question, the way that we have been doing it, again, just like other SBDCs across the country, as collaborations. I mean, that is leveraging. That is what we have to do and let me just give you a good example of that. We assist technology-based businesses. We do not have in Delaware the resources to hire someone that is technical, if you will, to assist these types of businesses. So, again, what we have done is with the new unit at the university, we have leveraged resources with the individuals that have the technical background with our expertise, again, on the business side of it.

But this is the important thing here in this unique model is that not only do we assist those individuals in terms of internal to the university faculty and researchers, but we also have an arrangement that the university licensing associates and those technical individuals also assist us with entrepreneurs outside of the university, as well. So, you have to be really creative, but at times, you can only be so creative. At some point in time, it catches up with you and you are not able to meet the demand that is out there. Collaborations, collaborations, and leveraging resources as best you can, but, again, it gets to a point where you work with organizations that have the same problems that you have, and it becomes really, really difficult at times to keep up with the demand with the economy the way that it has been. We are just flooded with business owners that come in.

And I will just add this, that what happens is when you have a situation where there is an economic downturn and things get pretty tough, the time that you spend with a business increases because what you are doing is you are going through every aspect of that business to try to determine, number one, how can you wring out as much excess as you can there because of cash flow. At the end of the day, that is what it is going to be all about in there. So, it has been difficult, but collaborations and leveraging resources as best you can is the only way you can do it.

Ms. VELÁZQUEZ. Would the gentle lady yield for a second?

Mr. Tymes, how do you feel about the fact that when your program, the SBDC, is getting a cut of reduced budget of $13 million, yet, the administration is creating a pilot project, a pilot program like regional clusters, for $13 million at a time when we are facing budgetary constraints and the network SBDC has a proven record throughout the Nation. It does not make sense that we are going to fund a program that is a pilot, is untested, and unauthorized. We are on record, both the chairman and myself, telling the administration that it is not the right way to go. So, we understand the incredible resource that you represent in our Nation by providing tools and information to small businesses and I want you to know that I support reinstating the $13 million.

Mr. TYMES. Thank you. Thank you very much.

Ms. VELÁZQUEZ. Thank you for yielding.

Ms. CHU. Thank you. I yield back.

Mr. WEST. Thank you, Ms. Chu.

Ms. Hahn.

Ms. HAHN. Thank you, Mr. Chairman. I enjoyed this hearing today and the two entrepreneurs, glad you are here and you really sort of confirmed what I found when I have been touring small businesses and meeting with them, they really talk about their biggest issue is access to capital and the other thing, I was like well, what can I do for you, and then say customers, we need more customers. So, get the economy back on track, get the people back to work, that is what we need is more customers.

My question, I kind of feel like one of our colleagues recently in another committee who said where are the women? And, Mr. Razeghi, in the 2010 Kellogg Foundation Report, it found that overall men are substantially more likely to start businesses each month than are women, and in your research, I am wondering if you found a similar phenomenon. And if so, are there resources that women entrepreneurs need that are not available or to what do you attribute the lack of women entrepreneurs that we are seeing?

Mr. RAZEGHI. Yes. So, it is a great question. So, I do not research the specific, but I can tell you that other research that I have seen, but typically, it is more so the types of businesses. So, they are typically called lifestyle businesses, but work from home types of businesses and so on. They are because of family reasons and so on, there is a tendency to move there.

In our experience that we are seeing, for example, I am involved with an accelerator in Chicago, where we have actually a predominant number of women, majority of women that are starting technology businesses.

So, what are the hurdles there? Frankly, I do not study that subject closely enough, but I think there is certainly a trend, at least I have seen a trend moving more in that direction, but the big issue really are these categories of these lifestyle businesses versus these high potential types of businesses.

Mr. TYMES. But the thing is, though, at the end of the day, whether you are a woman, whether you are a male, marketing is marketing, finance is finance, and product development is product development. At the end of the day. It is these are the basics of the business basics, if you will. There are some things there in terms of what you just mentioned, but, again, at the end of the day, to be successful, it is going to take some of the same skills that anyone will need to be successful.

Mr. RAZEGHI. An idea I would add to that, sort of to follow on it, but what I see is an educator, and I guess I am concerned with the pipeline of entrepreneurs, is that our best and brightest, I am fortunate to teach at a high-ranking school, if I can be so humble, in Chicago. What I see typically is that there are opportunity costs of walking away from their student loans is why typically either one or the other in a relationship, somebody has to have the full-time job while the other goes, whether it is male or female, to go keep the lights on while they pursue their dream. So, a thought I had is why do we not offer credits towards people against their student loans for every new job they create to really change the metric? Some have been extreme and say do not even go to school, just drop out and start a business. There are only so many Bill Gates that we can to that have done that and succeeded, so, stay in school, but let us put incentives in place. So, I think it is probably if we look deeper, more of an economic issue than a gender issue.

Ms. HAHN. Of course, I always love hearing men comment on what the issues are with women, but, anyway.

Hey, I was going to talk to the two entrepreneurs here. One of the other things I was reading in the Kellogg Report is that interestingly enough, of the 15 largest cities in the country, Los Angeles actually created the most entrepreneurial businesses in 2011, which is interesting because Los Angeles usually gets pegged as not business-friendly and it is very difficult to do business.

I am wondering from the two of you what geography or location actually played in where you chose to start up your businesses.

Mr. HALL. Well, I will start with that. Geography has a lot to do with barbeque. [Laughter.] I am from Texas, I love Texas barbeque; I am from Kansas City, that is not barbeque in North Carolina; oh, Memphis is the only place to get barbeque. Pork is barbeque, beef is not; beef is barbeque, pork is not.

So, I think that definitely there are some strategy with us in the type of product we have and the type of product people in certain geographies are used to. So, we kind of started out with what I would kind of consider a basic barbeque sauce that we thought would appeal to the vast majority of Americans and then since then, we have started to create more of the regional variances. We will probably in the next four to six weeks be launching our newest sauce, which is a Carolina vinegar sauce. We have launched a mustard sauce, which is very regional. However, one of the interesting things, and you mentioned Los Angeles, is we introduced the mustard sauce last year and we found that it is selling the best in California. And the reason, I think, is because it is an unusual product for California. There is no competition really. You do not go to the grocery store and see seven or eight mustard sauces on the shelf, you see ours.

Ms. HAHN. We put it on our tofu. [Laughter.]

Mr. HALL. Hey, that is fine, as long as you are buying it, you can put it on whatever you want. [Laughter.] Whereas in South Carolina, where you go to the grocery store and there may be a dozen mustard sauces on the shelf, we are now competing with 11 other products. So, I think that maybe for our product geography is definitely a kind of really important factor to figure in.

And one of the things also that has helped us, we have been able to partner with certain companies and groups like Reser's Fine Foods out of Portland, Oregon, a major potato salad, coleslaw, side dish company that is very predominant at barbeques, and being able to have our product mentioned with theirs has helped integrate us into their customer base because they trust Reser's, they know it is a good product. They see we are associated with it and they are willing to take a chance.

But it is really tough in the food industry. I am sure it is the same way with teas. When you have companies like Sweet Baby Ray's and Tennessee Masterpiece and Kraft that are spending billions it seems like—it is probably not that, but that is what it seems like—and running 10 for $10, for 76 cents you really have to find ways to distinguish yourself, and we do that through what we think is a higher-quality product. We like to call ourselves affordable gourmet.

Mr. GOLDMAN. For me, I was working at a company called Calvert Group, which does environmentally responsible mutual funds and I started out out of my house, so I just stayed at the same place. And it is very often you will see one business sort of be the nucleus where others sort of come off maybe not directly related, and, obviously, that is what Silicon Valley is.

I will say just as a parenthetical that a lot of startup entrepreneurs in the beverage industry are very afraid of California because of the consumer, the friendly laws, and we have seen that that is a state that is very intimidating to startup businesses, at least in the food space.

Ms. HAHN. Okay. Thank you.

Mr. WEST. If there are any other members who have any other questions, we are about to have a vote call.

Mr. HANNA. Just a quick one.

Mr. WEST. Mr. Hanna.

Mr. HANNA. Mr. Tymes, what is your failure rate?

Mr. TYMES. Failure rate?

Mr. HANNA. Go broke rate, whatever you want to—does not work out?

Mr. TYMES. That do not work out, to be honest with you, in Delaware, we have not tracked that, to be honest with you. I can say this, that anecdotally, that is all I can say, those that have worked with our programs have done fairly well, I would say.

That is a difficult one to measure. And let me give you a good example. Over the past couple of years, we will get a referral from a bank where an entrepreneur business is in trouble and we have got to work to try to turn that business around as best we can and sometimes it works and sometimes it does not, and so, is it a failure? No.

Another thing that is hard to measure is especially in the startup situation, a person comes through, we go through a training program, starting out in business, we work with them, and through our process, they self-select out and find out that maybe I better not start this business. Maybe I better not do it. Maybe I better save some more money and maybe I better get some experience, and they do not start it up. So, you ask yourself the question: Is that a success or is that a failure? In my eyes, I think it is a success, but that individual never started a company, they will never hire any employees at this particular point in time, all right. So, a lot of times, that is kind of hard for us to measure to be honest with you.

Mr. HANNA. Thank you.

Mr. TYMES. Yes.

Mr. WEST. Thank you, and on behalf of Chairman Graves and Ranking Member of Alaska, I just want to thank you all for being here and participating today. And the committee will continue to follow closely and research the Nation and the needs of our entrepreneurs who are definitely our country's best job creators.

I ask unanimous consent that members have legislative days to submit statements and supporting materials for the record. Without objection, that is so ordered and this hearing is now adjourned.

[Whereupon, at 2:18 p.m., the Subcommittee was adjourned.]

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Written Testimony of Andrew J. Razeghi

Before the Committee on Small Business of the United States House of Representatives

A Job Creation Roadmap: How America's Entrepreneurs Can Lead Our Economic Recovery

March 21, 2012

A Job Creation Roadmap

How America's Entrepreneurs Can Lead Our Economic Recovery

Good afternoon, Chairman Graves, Ranking Member Velazquez, and Members of the Committee. My name is Andrew J. Razeghi, and I am a Lecturer at the Kellogg School of Management at Northwestern University. I am pleased to provide testimony for today's hearing. The opinions provided in this testimony are my own and not necessarily those of the Kellogg School of Management.

As you know, small businesses are instrumental to the U.S. economy. They employ 50% of all private-sector workers and are responsible for creating over 60% of new jobs.[1] In order to determine how best to support entrepreneurs in leading economic recovery, it is important to do so within the context of the following three principles:

1. First, **not all entrepreneurs become entrepreneurs for the same reasons.** These reasons differ significantly and have implications for how best to support entrepreneurs in leading economic recovery and growth.

2. Second, **self-employed small business owners have different goals than those of high-potential entrepreneurs.** Whereas self-employed business owners create businesses to employ themselves and provide income for their families, high-potential entrepreneurs create businesses for themselves and others (investors, employees, suppliers, and customers). Ray Kroc, the visionary entrepreneur who grew McDonald's Restaurants and its global supplier and franchise system, was a high-potential entrepreneur. The McDonald brothers, on the other hand, who started the business that Ray discovered and grew, were self-employed small business owners. While they share many traits, these two groups differ most significantly in their ***aspirations and challenges***.

3. Third, these differences must be taken into account as they have implications for the types of **skills, funding, and social infrastructure** required to succeed.

There is no better time to support entrepreneurs in leading our economic recovery than now, not only because we need them but also because they want to start. Like the 1990s, we are witnessing a similar draw to entrepreneurship. Never before had we experienced as much enthusiasm for entrepreneurship as we did in the 1990s with a record 885,000 businesses started each year since 1997 (or more than 2,400/day). This was 4 times the number of new firms created in the 1960s and more than 16 times as many created in the 1950s.[2] This growth was evidenced across all industries, including manufacturing, retail, real estate, and technology. We have a similar opportunity now.

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[1] The Kauffman Firm Survey data collected in 2005 on businesses that started in 2004.

[2] Rogers, Steven. Entrepreneurial Finance: Finance and Business Strategies for the Serious Entrepreneur. Second Edition. McGraw Hill. p. 1

Motivation: Not All Entrepreneurs Become Entrepreneurs for the Same Reasons

Ask people from other countries to describe the typical American businessperson and they will portray the entrepreneur: a creative visionary who deems nothing impossible. As my colleague Lloyd Shefsky has observed: "entrepreneurs are the Sinatras of business."[3] They do it *their* way. They are rebels, misfits, and mavericks.[4]

This is the romantic vision of the entrepreneur however it does not necessarily apply to all small business owners. Simply, there is no single path to entrepreneurship nor is there a single type of entrepreneur. Understanding how people become entrepreneurs is vital in creating the most-effective environment, policies and programs for them to succeed. Why? Their motives differ. There are "in it" for different reasons. And to make decisions in the absence of understanding these underlying motivations will be sub-optimal in helping entrepreneurs lead our recovery and growth.

In this testimony, I describe three types of entrepreneurs:

- **Dreamers**: those who choose entrepreneurship
- **Accidental Entrepreneurs**: those for whom entrepreneurship is a necessity
- **Stewards**: those for whom entrepreneurship is destiny

While these groups and the paths they travel are not necessarily mutually exclusive (the roads do intersect at times), the distinctions between them are significant enough to warrant careful examination.

These three types of entrepreneurs ultimately become either **self-employed small business owners** or **high-potential entrepreneurs**. Just as their motivations differ so too do their aspirations. I also explore differences between these groups and their implications for **skills, funding,** and **social infrastructure**.

[3] Shefsky, Lloyd. Entrepreneurs Are Made Not Born: secrets from 200 successful entrepreneurs. McGraw-Hill. p. 2.
[4] An homage to Apple's famous television advertisement, "The Crazy Ones."

1) The Dreamers: Those Who Choose Entrepreneurship

First, there are those for whom entrepreneurship is a ***choice***. I refer to them as Dreamers.

Dreamers are drawn to entrepreneurship by one of two factors: either a desire to work for themselves or by inspiration to solve a problem they feel ideally suited to tackle. These entrepreneurs often start their businesses *despite* their skills (or lack thereof) and despite having the necessary resources available to them at the start. In other words, they don't wait to create. Most notable among this group of entrepreneurs are so-called 'user entrepreneurs' (those who create businesses to solve their own problems).

Anecdotally, this group of entrepreneurs includes people such as Jessica Kim, the founder of baby and children's products company BabbaCo (http://www.babbaco.com/)[5]. As a working parent, Jessica saw a need that required a better solution than what was available at the time. She didn't have enough time to create entertaining, engaging, and educational activities for her young children as they passed through critical developmental stages. Her response? She invented a solution to solve her own problem. Notably, Jessica created a monthly subscription service for new parents whereby she delivers developmental and learning activities "in a box", aptly named BabbaBox, by mail to her customers' homes. She solved her own problem and then offered the solution to others in her same situation. Jessica is a user entrepreneur.

Likewise, Brad Flora, the founder of advertising technology start-up NowSpots (http://www.nowspots.com)[6] is the publisher of the Chicago-focused online newspaper The Windy Citizen. His problem was the ineffectiveness of existing advertising technology (notably, banner advertising) as a viable economic engine to pay for the overhead associated with his journalistic activities. And thus, Brad invented his way out of his problem. With the increasing popularity of social media (Twitter, Facebook, etc.), Brad created unique social media advertising units (called NowSpots) to effectively replace ineffective banner advertising. Rather than offering marketers "impressions and click-throughs" as is typically the case with online banner advertising, Brad created ad units that allowed marketers to package and promote their content in order to acquire "Facebook Likes and Twitter Followers" via other publishers' websites. Having succeeded, Brad then began selling the technology as a platform to other online publishers and NowSpots.com was born.

While user entrepreneurs such as Jessica and Brad represent only 10.7% of start-ups, they account for 46% of businesses that last longer than 5 years.[7] This can be explained,

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[5] The author is an investor in BabbaCo through a seed fund called Excelerate Labs II (www.exceleratelabs.com).
[6] The author is a direct angel investor in NowSpots (www.nowspots.com).
[7] Kauffman Foundation Study, March 7, 2012. These findings draw on data from the Kauffman Firm Survey longitudinal study tracking nearly 5,000 firms started in 2004. http://www.kauffman.org/newsroom/nearly-half-of-innovative-startups-are-founded-by-user-entrepreneurs.aspx

in part, by their depth of knowledge of the problem for which they are solving and their personal motivation to solve it. Particular attention should be given to this group as they over-index in terms of success versus others. Given these types of entrepreneurs exhibit very high levels of intrinsic motivation, they are best-supported by having access to risk capital and mentors that can help them bridge the gap between their aspirations, skills, capital, and customers.

2) Accidental Entrepreneurs: Entrepreneurship Chooses Them

Second, unlike those for whom entrepreneurship is a choice are those for whom entrepreneurship is a ***necessity***. These are often the victims of job loss and those whose skills are no longer relevant in the marketplace as well as those whose former employers' products are no longer in demand. I refer to these business founders as **Accidental Entrepreneurs**. While they had no intention to start their businesses, they also had no choice. Entrepreneurship is a decision made for them, not by them. Their underlying motivation is to survive.

Such was the case of Tom Hodge, a toolmaker for General Motors who was laid-off two days before Christmas on December 23, 2008. With his buyout as seed capital, a 39-page business plan, and a 1,500 square foot shop in Germantown, Ohio, Tom started Absolute CNC Machining to supply energy, medical, and aerospace companies in the region.[8] Entrepreneurship chose Tom. Since losing his job, Tom has not only started his business, he now employs 3 full-time additional employees, is earning a profit and reinvesting in his business, and he has the ambition to grow to 15-20 employees within the next 10 years.[9]

Like Tom, entrepreneurship also chose Sara Clemence, a magazine publishing executive laid-off on New Year's Eve 2008 from Conde Nast's *Portfolio* publication. Two months after losing her job, she created *Recessionwire* (www.recessionwire.com), a website chronicling "the upside of the downturn".[10] As she puts it, "All of the sudden, my opportunity cost was really low." Just as Tom and Sara, many accidental entrepreneurs are part of the swelling group of companies responsible for new business creation during economic downturns.[11]

In terms of entrepreneurial traits, this feeling of having "nothing to lose" is common to successful entrepreneurs. They think not only in terms of the *financial costs* associated with their ideas, but also in terms of the *opportunity costs* of not pursuing their ideas. Thus, it is not uncommon for many successful entrepreneurs to credit "being fired" or

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[8] Bloomberg BusinessWeek. The Rebounders. http://images.businessweek.com/ss/09/03/0313_rebounders/3.htm
[9] From email communication with Tom Hodge on March 14, 12. tomhodge@absolutecnc.us.
[10] Bloomberg BusinessWeek. The Rebounders. http://images.businessweek.com/ss/09/03/0313_rebounders/2.htm
[11] Razeghi, Andrew. "Innovating through Recession: When the Going Gets Tough, the Tough Get Creative." http://www.scribd.com/doc/7439356/Innovating-Through-Recession-by-Andrew-Razeghi-of-Kellog-School-of-Management

"losing their jobs" as motivation for striking out on their own. Creativity loves constraints. Humans have an innate ability to figure things out when we have no other choice. As Matt McCall, Partner at Chicago-based New World Ventures observes, "Darwin plays a role in innovation."[12] And it is important that Darwin be allowed to continue to play that role. The three-year survival rate for new firms is 78.5%[13] with only 45%[14] surviving longer than five years. Not all ideas and entrepreneurs should succeed. Survival of the fittest is healthy for the economy. At the same time, we must work diligently to identify, support, and make it easier for companies to grow that have the greatest potential to succeed.

3) The Stewards: Entrepreneurship As Destiny

Third, beyond Dreamers and Accidental Entrepreneurs are those for whom entrepreneurship is their ***destiny***. These types of entrepreneurs, **Stewards**, are the ***beneficiaries of chance***. Stewards include those who inherit businesses and/or have assets transferred to them (including sole proprietorships, partnerships, farms, and the descendants of multi-generation family businesses).

Stewards are motivated not only by legacy but also by the family's values and their role as ensuring continuity of the enterprise for the next generation. Beyond legacy, they are also motivated by their own opportunity to make a positive contribution to the family business and to their communities.

The empirical research on the contributions of family businesses to our economy varies largely based on the definition of "family business" (i.e., whether only multi-generation family businesses, or also sole proprietorships, partnerships, and farms). Conservatively, if one only considers multi-generation, family businesses with multiple family members working in the business and with the intention to pass the business along to succeeding generations, these businesses account for 27% of the workforce or 36 million people and contribute 29% of U.S. GDP.[15]

Unlike first generation entrepreneurs who focus on creating new wealth from the introduction of new ventures, Stewards generally focus on preserving and protecting wealth generated by legacy assets. Their goal is to ensure the sustainability of the family firm. Certainly there are family business leaders who also share the ambitions of first-generation founders and are "entrepreneurial" in their talents. However, generally speaking, their focus is preservation.

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[12] Matt McCall, Partner, New World Ventures (Chicago). www.newworldvc.com.
[13] The Kauffman Firm Survey data.
[14] Shane, S. (2008). The illusions of entrepreneurship: The costly myths that entrepreneurs, investors, and policy makers live by. New Haven, Conn.: Yale University Press.
[15] Astrachan, Joe. Shanker, Melissa. "Family Businesses' Contribution to the U.S. Economy: A Closer Look." Family Business Review, vol. XVI, No. 3, September 2003. Family Firm Institute, Inc., p. 217.

Understanding these differences in **motivation** and how people become entrepreneurs - by choice, chance, or destiny - is vital to creating good policy to support economic recovery and growth. While Dreamers are motivated to create and grow companies based on a desire to work for themselves and/or solve a unique problem, Accidental Entrepreneurs are motivated by a lack of opportunity while Stewards are motivated by a sense of duty, pride, and responsibility. Certainly the traits of these three groups overlap; however it is important to be mindful of these differences as they pose significant implications for skills/talent development, funding and capital needs, and the social infrastructures required to help entrepreneurs succeed. I will discuss each of these shortly.

Independent of their motives and origins, it is equally important to distinguish between **the self-employed small business owner** and **high-potential entrepreneurs.**

This distinction will help to inform the appropriate programs and infrastructure required to support these groups and is perhaps the greatest area of opportunity for the United States to improve its efforts in encouraging recovery and growth.

Let's consider these distinctions now and their implications.

All High-Potential Entrepreneurs Are Self-Employed, But Not All Self-Employed Are High-Potential Entrepreneurs

Although they comprise a large majority of small businesses, the self-employed are not the same as high-potential entrepreneurs. While people may become entrepreneurs under any one of the three scenarios described above, self-employed small business owners and high-potential entrepreneurs differ in their ***aspirations***. Notably, they have different ***visions***.

According to the U.S. Census, 75% of U.S. businesses have no payroll (sole proprietorships and partnerships). In Kauffman's research, nearly 60% have no employees and 82% have two or fewer employees.[16] These typically represent self-employed small business owners who, by definition, are not "employers" (other than employers of themselves).[17] They generally work in services occupations, retail, and trades whereby they apply their own skills, knowledge, and assets in order to generate cash to pay for their respective lifestyles.

High-potential entrepreneurs, on the other hand, tend to work in high-growth categories such as science and technology and are focused on enrolling others in their visions. While they may not have the requisite skills or knowledge of a particular industry or category, high-potential entrepreneurs are adept at connecting ideas, capital, and people in the pursuit of their dream. Unlike many small business owners focused on leveraging their unique capabilities, high-potential entrepreneurs are not hindered by their own capabilities rather they are driven by opportunity and will find people who can execute and provide subject-matter expertise as needed.

While both types of businesses – self-employed small businesses and high-potential entrepreneurs - share many traits in common, these differences in aspiration and control, require different policies, programs, and infrastructure to help them succeed and ultimately to help the U.S. on the road to recovery and growth.

[16] The Kauffman Foundation firm survey data.

[17] Astrachan, Joe. Shanker, Melissa. "Family Businesses' Contribution to the U.S. Economy: A Closer Look." Family Business Review, vol. XVI, No. 3, September 2003. Family Firm Institute, Inc., p. 215.

Small Is Beautiful (For Some, but Not for Others)

Daniel Isenberg of Babson College notes, "In the 1970s, the economist E.F. Schumacher set the scene for environmental sustainability with Small is Beautiful. But small is not beautiful for entrepreneurs: small is a stigma. Small connotes self-employment and stagnation which is not only different from entrepreneurship, it is fundamentally opposite." [18] Not all entrepreneurs share the same growth ambitions.

High-potential entrepreneurs aspire to grow. As Troy Henikoff, serial entrepreneur and Chief Executive Officer of the Chicago-based new venture accelerator Excelerate Labs focused on high-potential entrepreneurship puts it: "We look for entrepreneurs who have a penchant for problem-solving and a bias towards action. We are interested in high-impact, high-growth, and highly-scalable businesses."[19] High-potential entrepreneurs are drawn to large and growing problems where existing solutions are ineffective and/or unacceptable given what they deem possible. This practice results in ideas (typically new ventures) that are at least 10x beyond what most consider feasible and/or even required to satisfy their customers. While everyone has the capacity to think big, driven by higher aspirations high-potential entrepreneurs simply choose to think big all the time. They are not satisfied to remain a small business. Quite the contrary, their vision is to grow.

Beyond their choice to "think big" however, high-potential entrepreneurs are also endlessly curious, observant, unsatisfied with the status quo, and opportunistic in the pursuit of profits. For them, entrepreneurship is as much a capability in and of itself as it is a job. In fact, 10% of entrepreneurial leaders are responsible for starting nearly 30% of all new businesses, while 20% start almost half of all new businesses. In other words a minority of entrepreneurs create the majority of businesses.[20] Creating and building companies is their strength. *These* are the high-potential entrepreneurs.

Self-employed small business owners, on the other hand, are certainly creative, action-oriented, and solve problems daily, but most often they have different aspirations. Anecdotally, many small businesses live by the mantra "stay small, keep it all." Their intent is to provide products and services that generate enough income for themselves and their families whereas high-potential entrepreneurs have the intention to create products and services with massive scale and global reach thereby creating value not only for themselves, but for their investors, employees, suppliers, and customers. And thus, high-potential entrepreneurs focus on growth and new wealth creation (to the extent that they will often cannibalize their own businesses as technologies change in order to remain competitive). Small business owners, on the other hand, generally focus

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[18] Isenberg, Daniel. Babson College. Babson College Entrepreneurial Ecosystem Project. "Entrepreneurship (does not equal) Self-Employment. April 1, 2011. http://ideas.economist.com/blog/entrepreneurship-≠-self-employment
[19] Troy Henikoff. Co-founder and CEO of Excelerate Labs (Chicago). www.exceleratelabs.com.
[20] Ernst & Young: Nature or Nurture. Decoding the DNA of the Entrepreneur. The survey studied 685 entrepreneurs. p. 3

on defending their positions in market and seek regulation that will promote self-preservation. Both groups are instrumental to our economy however both have different **challenges,** and **require different skills, financing, and social networks.** Let's consider each of these now.

1) Different Challenges

Self-employed small business owners and high-potential entrepreneurs have distinct business **challenges**. Self-employed small business owner typically struggle most with cash flow, scaling to meeting customers' changing needs, fending off lower-cost competition (typically larger competitors), gaining distribution, marketing, and financial constraints such as health insurance, workman's compensation and employee head taxes. As a result, they are most interested in protecting their markets, increasing awareness among their customers of the uniqueness of their products and services, lowering costs, and decreasing their tax burden.

High-potential entrepreneurs, on the other hand, share many of these challenges, however they are often willing to trade profits for top line growth. And as growth is their primary goal, their greatest challenge – in addition to these – is attracting and retaining the best talent (thus the discussion of and interest in immigration reform) and acquiring enough capital to fund growth. So, whereas the self-employed seek to protect, high-potential entrepreneurs seek to grow (even if that means cannibalizing their own products and services in order to do so).

That said: a similar challenge they have is that a small business of 500 employees is nothing like a small business of 5 employees. They have completely different needs. Companies don't start with 500 employees just as humans are not born teenagers.

2) Different Skills

From a **skills** perspective, self-employed small business owners are often focused on exploiting their own skills and knowledge, whereas high-potential entrepreneurs focus on making connections between disparate talents of many people to build an entity whose skills and assets are well-beyond the scope of any single individual. While skills training programs are instrumental to helping self-employed small business owners learn how best to manage their businesses, identifying and attracting highly-skilled workers is the most-important need of high-potential entrepreneurs.

3) Different Financing Needs

The average cost to start a new business varies widely depending upon the type business. Average start-up expenses can range between \$20k-\$30k. In addition, these forms of financing differ dramatically between self-employed small business owners and high-potential entrepreneurs.

Self-employed small business owners rely on retail and commercial banking products, lines of credit, and micro-loans (less than $100,000) in order to procure equipment and other assets and to fund working capital. Most notably, 92% of small business loans in the United States are micro-loans, most of which came in the form of business credit cards.[21]

Why do small business founders use high-interest credit cards?

First, they are easier to get than bank loans and government grants (e.g., they do not require business plans to get approved). Second, they are accepted ubiquitously. Third, credit cards are anonymous funding sources. Unlike friends and family, you need never have Thanksgiving dinner with your credit card company. The problem with credit cards, of course, is that they are very expensive forms of financing (between 15-30%). Small businesses carry between $3,500-$11,000 balances. This poses a problem. Credit card debt reduces the likelihood that a new business will survive more than 3 years. Every $1,000 increase in credit card debt increases the probability a firm will close by 2.2%. That said: due to the ease of acquisition and anonymity, credit cards are the most popular form of small business financing. This is an area of opportunity for improvement.

Crowdsourced funding such as the programs promoted by the JOBS (Jumpstart Our Business Startups) Act and facilitated by private companies such as AngelList, Indie Go Go, Kickstarter, Peerbackers, Quirky, and other crowdfunding vehicles is movement in the right direction. The role of companies such as SecondMarket also provides alternative liquidity options for start-ups unable or unwilling to go public and/or be acquired. While crowdfunding will help provide a more cost-effective alternative to credit card financing, start-ups will need to be mindful of the number and types of investors they accept as venture capitalists (those who will likely fund subsequent rounds) generally frown upon too many angel investors.

Unlike self-employed small business owners, high-potential entrepreneurs, on the other hand, are implicitly focused on growth and thus require financing in the form of risk capital at varying stages of development (e.g., angel/seed capital, bridge financing, venture capital, and private equity). The fundamental difference between these financing vehicles is in the underlying collateral required. Whereas the self-employed trade on their assets by personally guaranteeing loans, high-potential entrepreneurs trade on the growth potential of their idea (i.e., a capital gain for investors). High-potential entrepreneurs therefore are unlikely to find value in bank loans (much less to qualify) given the structure and requirements of those financing vehicles. Also, high-potential entrepreneurs often seek "smart money" (i.e., investors who also provide

[21] The Kauffman Foundation firm survey data. The Use of Credit Card Debt by New Firms. Pop culture is filled with examples of entrepreneurs using credit cards to fund their dreams. Most notable perhaps was the blockbuster hit movied The Blair Witch Project, funded almost exclusively with credit card debt totally $35,000. The film went on to gross $250 million.

industry connections and category expertise in a given area along with the capital infusion). This combination results in a healthy return for venture funds.

Most high-potential entrepreneurs are venture-backed (i.e. funded by venture capital). And venture-backed companies outperform the total U.S. Economy. Notably, for every $1 of venture capital invested (1970 to 2010) $6.27 of revenue was generated in 2010. And while annual venture investment equals less than 0.2% of U.S. GDP, VC-backed companies have generated revenue equal to 21% of U.S. GDP. Venture-backed revenue in 2010 was 10% of U.S. sales (or $3.1 trillion in venture-backed revenue).[22]

Venture-backed companies are also more resilient in bad times. While U.S. sales dropped 1.5% between 2008-2010, VC-backed revenue increased 1.6%.

Venture-backed high-potential entrepreneurs also outperform in employment growth. In 2010, 11% of the U.S. private sector jobs were in venture-backed companies and (even during the downturn between 2008-2010, while U.S. private employment dropped 3.1%, VC-backed companies dropped by 2.1%).

So, while VC-backed companies only equate to 0.2% of U.S. GDP each year, these companies employed 11% of the total U.S. private sector workforce and generated revenue equal to 21% of U.S. GDP.

Furthermore, once they go public, 92% of job growth for young companies starts. Thus underscoring the need for a robust and effective IPO market to ensure high-potential entrepreneurs the access to capital they need to grow.

So, the question is: why do high-potential venture-backed entrepreneurs outperform the overall economy – during both good times and bad?

For one, venture capitalists make high-potential entrepreneurship their focus. They screen for, develop, promote, and fund those entrepreneurs and their businesses. This deliberate focus on high-potential entrepreneurs and on emerging, high-growth categories ultimately create the best conditions to yield the highest financial returns. In essence, venture capitalists control for success through patient and consistent capital infusions (multiple series), hands-on coaching and guidance, and the willingness to take calculated risks (and even fail).

Most importantly, venture capitalists maintain a portfolio approach to investing. Rather than placing few big bets, they place many small bets. Start small and scale. That said: as Paul Lee, Partner at Chicago-based venture capital firm Lightbank, has observed: "A good venture capitalist fails 80% of the time. A great one fails 70% of the time."[23] As

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[22] "Venture Impact: The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy. National Venture Capital Association. HIS Global Insight, Edition 6.0.
[23] Observation made by Paul Lee. Paul is Managing Partner at Lightbank (Chicago). www.lightbank.com

much as one can control for success, life often has other plans. Regulations change, new, more cost-effective competition emerges, technologies are disrupted, founders leave, and so on. Venture capitalists win by placing many small bets across a wide-array of businesses and continue to fund them as they hit key milestones.

Beyond supporting individual high-potential entrepreneurs, perhaps the venture capital industry's most-notable contributions to the U.S. economy is the role they play in creating new industries: biotechnology, medical devices, computer software, semiconductors, clean technology, alternative energy, pollution control, communications, and the internet. These industries would not exist were it not for venture capitalists' willingness to invest in, mentor, and support high-potential entrepreneurs.

4) Different Social Networks

From a **social perspective**, whereas small businesses and the self-employed often network locally with other small business owners, high-potential entrepreneurs network globally with other high-potential entrepreneurs.

Global social capital is as valuable to high-potential entrepreneurs as collateral is to small business owners.

Small business owners and high-potential entrepreneurs also differ in the nature of their social circles. Whereas the self-employed may be active with their local chambers of commerce, high potential entrepreneurs are actively involved on a global basis and by virtue of involvement in incubator and accelerator programs.

For example, whereas small businesses benefit from working with organizations such as SCORE (Service Corps of Retired Executives), high potential entrepreneurs prefer to work with mentors and coaches from high-growth-focused organizations such as YCombinator in San Francisco, TechStars with offices in several U.S. cities, and Excelerate Labs in Chicago (the top 3 ranking venture accelerators in the U.S.).[24]

These entrepreneurial ecosystems are instrumental in helping support high-potential entrepreneurs. They are modeled after the organic economic ecosystems responsible for regional growth throughout the country. What happens is this: a venture-backed anchor company is successful, has a liquidity event in the form of an IPO or acquisition. This, in turn, generates a lot of cash for the company and its founders. The anchor company and its founders and employees, in turn, spin out other high-growth businesses that create more jobs and new wealth thereby repeating the cycle. Such was the case of Fairchild Semiconductor (the company that gave birth to the Silicon Valley), as well as Dell (Austin, Texas), Medtronic (Minneapolis), and Groupon (Chicago).

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[24] The author is a Limited Partner and mentor in Excelerate Labs II. The ranking was done by FORBES.

Given these vast differences in challenges, skills, financing requirements, and social networks, **it would behoove the United States to create distinct programs: one focused on self-employed small business owners and the other focused on high-potential entrepreneurs.** Many countries have programs to support high-potential entrepreneurs, including Canada, Chile, Ireland, Israel, and others. In the U.S., one program of note in the private sector is The Start-up America Partnership (founded by The Case Foundation and The Kauffman Foundation). While their underlying mechanics differ, these programs generally provide the following services:

- **Know-How**: enabling start-ups with tools, knowledge, and mentors (typically other successful high-potential entrepreneurs, academics, and experts)
- **Reduced Cost Services & Facilities**: business accounting, legal services, office space, infrastructure, and other assets offered at reduced rates
- **Talent Scouting & Recruiting**: connecting the right people (both founders and start-up employees) with the right opportunities (co-founders and talent)
- **Proof of Concept Opportunities (i.e., in vitro testing environments)**: helping start-ups get access to customers willing to test hypotheses, prove/disprove their assumptions, and improve their products and services
- **Distribution/Customers**: helping introduce start-ups to potential customers and assist start-ups in reducing their overall customer acquisition costs
- **Capital**: promoting and connecting start-ups to appropriate capital sources (namely, angel investors, angel networks, and venture capitalists).

These programs work because that they address the underlying motivation and aspirations of high-potential entrepreneurs. They allow start-ups to iterate quickly, fail cheaply, and scale fast once their business models are proven. As a result, these programs accelerate the speed at which start-ups ultimately create jobs. For example, Excelerate Labs (Chicago) has funded and developed 20 companies since its inaugural class of start-ups (2010). These 20 companies have raised over $15 million in VC and created over 100 jobs in less than 18 months. As of the writing of this testimony, only one company has discontinued operations while two have had successful exits. The question is: why do accelerators work? They work because they provide high-potential entrepreneurs the most-effective ecosystem for quickly and cheaply testing their ideas, getting access to capital, and "discounted" infrastructure needed to support product development. They also work because they are competitive programs. Acceptance rates into accelerators (less than 3%) rival most Ivy League universities. Those who manage the programs maintain very high standards to control for entrepreneurial talent, the ideas themselves, and the capacity of the given accelerator to make a difference given its unique network and skills.

Nature or Nurture: Are the Qualities of High-Potential Entrepreneurs Innate (Can they Be Learned?)

So, the question is how can we identify and develop these high-potential entrepreneurs? Ask any successful entrepreneur where he or she learned to be an entrepreneur and you will likely hear stories of paper routes, babysitting jobs, and science fairs turned into sidewalk sales. [25]According to Ernst & Young, 55% of successful entrepreneurs started their first company before age 30. Entrepreneurship is learned, but it is also mimicked. Children of entrepreneurs have the advantage of learning about esoteric concepts such as revenue and costs and income very early in their development. To them, entrepreneurship is not a mystery rather it is almost an expectation. In addition, 58% of successful entrepreneurs describe themselves as "transitioned" (meaning they had experience outside of the world of entrepreneurship before launching their ventures).[26] When asked which forms of education or sources of learning provided them with the skills needed to be successful businesses, experience as an employee ranked #1, followed by higher education, mentors, family, co-founders.

Similar to athletic ability and musical aptitude, while these skills are innate to some, they can be learned by all those who have the motivation to learn. Entrepreneurial skills fall into three categories: cognitive, behavioral, and social skills.

1) COGNITIVE SKILLS: Thinking Differently

First, they think differently. Notably, high-potential entrepreneurs are what we refer to as lateral thinkers. This is the ability to make connections across disparate industries, categories, and markets. They are able to find solutions elsewhere and apply those to the problems they are trying to solve. Such was the case of Henry Ford who borrowed ideas from the fire arms, meatpacking, and tobacco industries in "inventing" modern automobile manufacturing (aka "the assembly line"). Other cognitive skills include the ability to identify and challenge conventions and industry norms (e.g., how Steve Jobs reinvented the music industry, retail industry, telecommunications, and consumer electronics' industries); the ability to create demand for products and services where customers don't know they have needs (e.g., how Howard Schultz created Starbucks and Charles Schwab created discount brokerage); and the ability to distill complex problems into practical solutions (e.g., how Herb Kelleher created Southwest Airlines). High-potential entrepreneurs are also able to identify gaps between existing products and market discontinuities. By exploiting emerging and disruptive trends, they are able to create the future instead of responding to it. These cognitive skills, while they come natural to some, are certainly "teach-able" and can be learned.

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[25] Ernst & Young: Nature or Nurture, Decoding the DNA of the Entrepreneur. The survey studied 685 entrepreneurs. p. 1
[26] Ernst & Young: Nature or Nurture, Decoding the DNA of the Entrepreneur. The survey studied 685 entrepreneurs. p. 1

2) BEHAVIORAL SKILLS: Acting Differently

Beyond these cognitive skills, high-potential entrepreneurs also exhibit unique behavioral differences. They are self-motivated, driven, disciplined, risk arbitrageurs whom manage time and resources as precious commodities. They are persuaders, salespeople, sellers of their own dreams and ambitions. Mostly, they are motivated by more than money and have a bias towards trial and error versus research and development. They act on their instincts even when the data may suggest otherwise. Their mantra is "fire, ready, aim." They are able to act this way due to a high tolerance for failure and the ability to try, try again even when their initial efforts fail. Research has shown, in fact, that while first-time entrepreneurs have only an 18% chance of success, those who have previously failed have a 20% chance of success in their next venture.[27] They learn from mistakes and thus are able to avoid them the next time around. It is worth noting that entrepreneurs who are successful with their first ventures are more successful with subsequent ventures than those who fail. Simply, while failure may lead to success, success begets greater success.

3) SOCIAL SKILLS: Connecting Ideas + Capital + Talent + Customers

Beyond thinking and acting differently, they also interact differently. Whereas inventors create, innovators connect. Thomas Edison was more than an inventor. He connected talent, ideas, and capital. He was socially masterful. If you simply think differently, but are unable to persuade others to join you, you end up with nothing more than frustration. Likewise, if you are good salesperson but your ideas are not unique, you're nothing more than a good salesperson. So, the question is: must you be socially-connected to be successful? The answer is yes but you do not necessarily have to be the one who has the connections, rather you have to be able to take advantage of the connections once they are made for you. This is one of the significant benefits of venture accelerators: they make introductions.

All of these skills – cognitive, behavioral, and social - can be taught and all can be learned.

[27] Paul Gompers, Anna Kovner, Josh Lerner, and David Scharfstein. Harvard University. Skill vs. Luck in Enterprepreneurship and Venture Capital: Evidence from Serial Entrepreneurs. July 2006.

Are Entrepreneurs Job Creators?

The short answer is yes and no. According to Kauffman Foundation research, new firms (those less than 5 years old) create a majority of net new jobs (approximately 3 million new jobs each year). If all others keep their jobs, that's the number we need to remain at full employment.[28] Another way of saying it is that new jobs created in the United States each year are created by and in firms less than 5 years old. This has been the trend for the past 30+ years. Thus more entrepreneurs equates to healthy recovery.

While entrepreneurs certainly contribute to job creation, they only do so in the context of the economy. The logic is simple: as companies create products and services that consumers and businesses demand, revenues and profits increase, new businesses hire new employees who, in turn, earn income to consume products and services and hopefully save for retirement. Without a healthy economy, people do not have the means to consume (assuming they don't use credit for consumption). Thus, beyond entrepreneurs themselves, the system and environment must be conducive to entrepreneur*ship*. This includes having the right talent, regulation, tax policy, and so on to support high-potential entrepreneurship.

It's Not Size Alone, but Also Age of Firm that Matters

What is important to note here however is not necessarily the size of these firms, rather it is their age. Researchers at the University of Maryland in partnership with the U.S. Census Bureau have found that young firms, most of which happen to be small, account for much of America's job growth. However, mature small firms often destroy jobs, as do small start-ups that do not survive.[29] *Youth* trumps size.

This is perhaps most evident by studying other economies, notably Greece, an outlier among European Union countries for its number of small firms. Approximately one-third of Greek manufacturers are "micro firms" (fewer than 10 employees) compared with, for example, Europe's strongest economy, Germany, where only 4.3% are considered micro firms. Other troubled economies in Europe including Spain, Portugal, and Italy suffer the same fate.

The downside of small businesses (not including high-potential entrepreneurial growth businesses) is their relative inability to compete. They aren't as productive as larger firms. For example, the productivity of European firms with fewer than 20 workers is on average little more than half that of firms with 250 or more workers. So, it's important to note that size alone is an insufficient measure. Age matters. Like small

[28] The Kauffman Foundation, "The Case for the Start-up Act." http://www.kauffman.org/research-and-policy/startup-act.aspx
[29] "Who Creates Jobs? Small vs. Large vs. Young", by John C. Haltiwanger, Ron S. Jarmin, and Javier Miranda, NBER working paper No. 16300, August 2010.

firms, of course, larger firms have drawbacks including the inability to respond to disruptive technologies, customers' changing needs, and new business models. What is the implication? Government should focus not only on supporting small (and new) firms, it should also focus on reducing friction as those companies grow. We should encourage companies to have higher aspirations. We should encourage and make it easy for companies to grow and remove incentives for companies to stay small.

Beyond the differences in size and age, the strongest predictor of a country's growth rate is the number of new businesses started in each country each year. While most job loss in recession is attributed to large companies downsizing and to self-employed small businesses (who in recent years account for 79% of all jobs losses), high-potential entrepreneurs continue to hire in good times and bad.

Why does this happen? In part, it can be explained by the nature of the categories in which high-potential entrepreneurs compete. By definition, they are focused and active in growing industries whereas many large companies compete in mature and declining industries. Thus, job creation is as much a function of the categories in which entrepreneurs compete as it is the size and age of their companies.

Innovation Cuts Both Ways: Start-ups Create New Wealth, but Are Also Becoming Less Job-Intensive

While the number of new businesses started remains at 500,000-600,000/year, starting in 2009, these businesses have been creating *fewer* jobs. Whereas new businesses would historically create 7 jobs per firm/year, they now create less than 5 jobs per firm/year. As a result, given the current trajectory, between 2009-2019, we will witness 7.5 million fewer jobs. Without those jobs, the United States risks a lack of growth and chronic unemployment rate of 9-10%.

So why is this happening? In brief, innovation cuts both ways. While innovation has reduced barriers to entry for entrepreneurs, it has also reduced the need for employees. For example, if you can rent space on Amazon.com's servers, why build and maintain your own? If you can contract out design services, why hire and train your own? And if you can distribute your products virtually (digitally) why maintain a sales staff to do it for you? In effect, start-ups have embraced the same efficiencies that large companies have mastered.

In short, while entrepreneurs are net new job creators, much can be done to ease friction and promote the creation of more high-potential entrepreneurs. And, as they grow more and more efficient at operating their companies, we will need more high-potential entrepreneurs starting more companies now and in the future.

Closing & Recommendation

In closing, I recommend that the Committee consider the following principles as you determine the best ways in which to help entrepreneurs lead our recovery and growth:

1. **Not all entrepreneurs become entrepreneurs for the same reasons.** They differ by motivation and aspiration. While some seek to preserve and protect, others are focused on growth and will even cannibalize their own businesses in order to grow. These differences must be taken into account to create good policy, incentives, and programs to support entrepreneurship and job creation.

2. **Self-employed small business owners have different needs and challenges than those of high-potential entrepreneurs.** The skills, funding, and social networks required to help both self-employed small business owners and high-potential entrepreneurs are different. We need more focus on high-potential entrepreneurship in the United States, including a focus on the skills, funding sources, and social networks to facilitate coaching, mentoring, rapid experimentation, and customer development.

3. **High-potential entrepreneurial skills can be taught and can be learned and must be done so holistically** by focusing on cognitive, behavioral, and social skills. These skills must not only be taught, but also developed as early as possible in Americans' educational and professional lives.

4. **Entrepreneurs do create jobs**, but only in the context of an environment that can connect know-how, capital, and talent and make it easy for small business owners and high-potential entrepreneurs to do business.

There are many tools we can use to create the appropriate environment for high-potential entrepreneurs to succeed. In order to understand how best to use these tools, I highly-encourage the Committee to consider exploring efforts, activities, and programs that promote high-potential entrepreneurship independent, but related to, our programs to support small business owners. This deliberate and focused effort on high-potential entrepreneurs would help the United States remain competitive, economically-stable, and growth-oriented in a world where success if measured not by speed, but by velocity. We must not only move quickly, but in the right direction. Thank you.[30]

- Andrew Razeghi

[30] Special thanks to Lloyd Shefsky (Kellogg School of Management), Matt McCall, Rishi Roongta, and Jeff Maters (all of New World Ventures), Tom Hodge (Absolute CNC Machining), Troy Henikoff (Excelerate Labs), Paul Lee (Lightbank), Keith Bandolik (Switchcraft), Dr. Arlyn Rubash (Bradley University), Marge Rubash (Eureka College), Cindy Razeghi, Tom Warden, Chudi Amu, Tom Stat, and Andrew Stein.

Testimony of Seth Goldman

President and TeaEO

Honest Tea

Before the House Committee on Small Business

On

A Job Creation Roadmap: How America's Entrepreneurs Can Lead Our Economic Recovery

March 21, 2012

Good Afternoon. Whenever there's a discussion of fast-growth businesses, the focus is usually on the internet, computer and biotech businesses. So I'm happy to represent a fast-growing part of our economy that is a little more traditional, by which I mean everyone can understand what we do. My company, Honest Tea, makes and markets lower-sugar, organic beverages. Our fourteen years of continuous double-digit growth have helped create 112 jobs in 22 states – jobs that create and support manufacturing jobs across the United States, and just as important, jobs that cannot be outsourced overseas.

I'm honored to be here today to share the story of how we built Honest Tea into a national brand in the hope that our experience might contribute to creating a more fertile ground for American entrepreneurs.

In 1998 I launched Honest Tea with five thermoses of tea that my co-founder and I brewed in my kitchen in Bethesda, Maryland. We pasted a label on a recycled Snapple bottle and I brought them to the local Whole Foods purchasing office just up the road in Rockville, Maryland.

We launched in the mid-Atlantic Whole Foods stores a few weeks later and spent most of that first summer pouring out samples of tea. In fact, we gave out more bottles of tea than we sold. But by the end of that first summer we had become the best-selling tea in those 17 stores. From there we expanded to other Whole Foods regions, then to the natural aisles of mainstream grocery stores. By 2006 we had become the top-selling brand in the natural foods industry. Then we started to expand to gourmet shops and delis on the Coasts, and in 2008 we took on an investment from The Coca-Cola Company, which purchased Honest Tea in 2011.

When I was launching the company out of my house, we needed to raise money to fund our first production run. My co-founder Barry and I each put our own money in and then asked for investments from the only people who couldn't say no – our parents, my sister, Barry's roommates from college. They all wrote us checks as angel investors.

Over the next ten years we raised approximately $10 million in equity capital from angel investors. Once we had tapped out our family and friends, we took in investments from people who liked the product and wanted to see us stay in business. So how did Honest Tea manage to stay in business while dozens of other beverage companies launched and closed up shop during those 14 years?

First, we offered something that was clearly different from everything else on the market. When I made that first sales call to Whole Foods, we were offering the buyer something he didn't have – a bottled tea with only a teaspoon or two of sugar, 17-30 calories per serving, instead of 4-5 teaspoons per serving (90-100 calories per serving). Then in 1999 we became the first company to make a certified organic bottled tea, and in 2003 the first to offer Fair Trade certified tea. And we've kept innovating. In 2007 we launched Honest Kids – the first lower sugar, organic pouch drink that kids can bring to school. Today Honest Kids represents almost 1/3rd of our business.

Another reason we were able to survive is that we were careful with our cash. We shared hotel rooms, drove instead of flew (no small feat when your office is in Bethesda and your bottling plant is in Buffalo) and our office is still filled with used desks. We'd go to trade shows, occupy a 10x10 booth and share rooms at the Best Western while our competitors bought 20x20 booths and were living it up at the Bellagio. There were more than a few occasions when I had to choose between payroll or begging our vendors for extended payment terms, and we were fortunate to have some patient vendors, many of whom we continue to work with today.

Running lean also had its advantages – it forced us to be creative with our marketing. Instead of paying for radio and TV ads, we developed creative ways to generate attention, such as our Honest City social experiment, where we set up free-standing booths in 12 major cities, and put out a sign saying $1 per bottle on the honor system. You will be pleased to know that most of the country scored in the mid-90%'s for honesty.

Another benefit of operating on a tight budget is that we made less expensive mistakes. Every start-up enterprise makes mistakes but when you start small and spend small, you make smaller mistakes. We still made some doozies—for 6 years we owned a bottling plant that was a drain on cash, time and energy, and we tried to launch a tea bag line that never really caught on, but I'm convinced that if we had raised more money, we would have lost more money trying to make those mistakes work.

Because we were careful, in Honest Tea's first ten years we 1) managed to stay in business, and equally important, 2) we managed to keep control of the business. As a result by the time we grew to a scale where we were of interest to large food and beverage corporations, we could negotiate from a position of strength. We weren't desperate to sell, but we did need to expand our distribution, and we also felt obliged to deliver a return to our investors, whose money we had held for ten years.

Our arrangement with Coca-Cola is unusual because unlike most acquisitions, which involve relocations and layoffs, Honest Tea continues to be based up the road in Bethesda, Maryland. Our headcount has doubled since Coke invested, and our expansion has also spurred additional job growth around the country. Last October I was delighted to cut the ribbon on a new Coca-Cola owned bottling line that created 100 new manufacturing jobs in Massachusetts, and this month we are launching a new production line that is creating jobs in California.

We've been working with Coke to expand our distribution and our mission of offering healthy, lower-sugar organic drinks to people across the country. When we took in Coke's initial investment, we were in 15,000 stores across the country, which is certainly more than the 17 we started with back in 1998. But today Honest Tea can be found in over 80,000 stores across the country, and we expect to surpass the 100,000 mark this summer.

Unlike so many industries, the beverage business is one where outsourcing is not an issue. There's still no way to ship bottles through the internet cables, and the math doesn't favor manufacturing a product that's mostly water, from overseas. And then as I learned so vividly in our first year when I was doing the distribution out of a van, there's no substitute for the role that skilled professionals play in the beverage distribution chain. We were able to make a great product and deliver it to a warehouse, but until we had someone who could make sure the product got from a warehouse to the right shelf in the right store, Honest Tea was more of a conceptual business than a real one -- those last few yards from stockroom to shelf were the most important. There's just no substitute for capable and competitively-minded sales representatives who build our brand every day in cafeterias, restaurants, grocery, drug and convenience stores across the country.

So how did the Federal government help Honest Tea? The best thing I can say about the government is that it didn't get in the way of our business. Of course, we had to make sure that all of our bottling plants and suppliers were licensed to produce our product and followed FDA and USDA regulations. We filed the stock offerings we presented to accredited investors with the relevant state entities, and complied with all the relevant payroll taxes through ADP. But other than that, we were left to build our business.

One way that the government did support our growth is through the creation of the USDA Organic standards. As I mentioned earlier, having a differentiated product was a key to Honest Tea's survival, and the USDA Organic seal, which appears on all of our products, helps consumers seek out products grown without chemical pesticides or fertilizers. It is a great example of a government program that helps establish a quality standard without any mandates or large bureaucracy.

At the same time that we've been growing Honest Tea in Bethesda, we helped set up a green business incubator at Bethesda Green, a local non-profit we helped launch five years ago. The incubator is now home to 14 entrepreneurs who are launching their own businesses, each with its own environmental point of difference. The incubator allows these entrepreneurs to confer, collaborate and occasionally commiserate as they seek to build their own enterprises. It's worth noting that Bethesda Green's incubator is a private institution, located over a branch office of Capital One, which rents the space to us for $1 per year. Eight percent of Bethesda Green's budget comes from Montgomery County, the rest is privately funded.

My experience building Honest Tea represents all that is great about the American economic system – a group of passionate entrepreneurs and patient investors combining their dreams, their investment capital and their energy to create something out of nothing, delivering jobs, strong investment returns and healthier beverages along the way. In terms of supporting the development of more companies like ours, I would say the best policy is to let entrepreneurs and investors continue to take well-informed risks.

By definition the work we do is challenging – if it were easy or obvious, the big companies would have already done it. But at Honest Tea, we take two Chinese proverbs to heart. The first is, "If we don't change the direction we are headed, we will end up where we are going." I believe entrepreneurs are our nation's best hope for bringing innovations to life that can affect the social, health and environmental problems our society faces. Is that easy work? Of course not, and that's why the second Chinese proverb appears on the front wall of our office, "Those who say it cannot be done should not interrupt the people doing it." Thank you very much.

"A Job Creation Roadmap: How America's Entrepreneurs Can Lead Our Economic Recovery"

Testimony of:

Heath Hall
President and Co-Founder
Pork Barrel BBQ
Alexandria, VA

Before the

Committee on Small Business
United States House of Representatives

March 21, 2012

The Honorable Sam Graves (R-MO), Chairman
The Honorable Nydia Velazquez, (D-NY), Ranking Member

Good afternoon Chairman Graves, Ranking Member Velazquez and members of the Committee. Thank you for hosting this important hearing on entrepreneurship and for your invitation to provide testimony. My name is Heath Hall, and I am the President and co-founder of Pork Barrel BBQ, a BBQ sauce and spice rub company, with a newly opened restaurant in Alexandria, Virginia.

Small businesses and the entrepreneurs who create them fuel the engine that drives the American economy and as a result the success or failure of small businesses determines the overall health of our nation. It is an honor to return to Capital Hill where I once served as Senior Legislative Assistant to Senator Jim Talent, a former Chairman of this distinguished Committee, and perhaps more importantly the site where two entrepreneurs converged and the Pork Barrel BBQ journey began.

In early 2006 during a heated Senate budget debate my business partner and Pork Barrel BBQ co-founder, Brett Thompson, and I were two fatigued Senate staffers working late into the evening discussing the limited late night dining options on Capitol Hill. I'm sure you've found yourselves in this position more than once. While we discussed the lack of a good barbecue joint in Washington, D.C. and our desire for barbecue that night the Senate began to engage in a debate over the merits of pork barrel spending. At that very moment the idea for Pork Barrel BBQ was born.

Like so many entrepreneurs it took us several years to transform our idea into a blueprint for what we hoped would become a successful business. In June of 2008 we dusted off the idea to create Pork Barrel BBQ and began to take the necessary steps to move forward. After several weeks in the kitchen we were ready to convene the first meeting of the Pork Barrel BBQ Kitchen Cabinet, a team of friends and family who would be our tasters, and ask them to critique several variations of what would eventually become our first product, Pork Barrel BBQ All-American Spice Rub. After a second meeting we had the recipe for our first product and figured it would be smooth sailing from there. We couldn't have been more wrong, for the challenges of entrepreneurship were just preparing to raise their ugly heads.

There is a critical point where every small business start-up and the entrepreneurs founding it have to make the decision to move forward and invest their own time and money with zero guarantee of getting anything back. For most entrepreneurs, including us, that question presented itself in the early stages when we were confronted with many forks in the road where one direction led to locking the door and heading for the safety and comfort of going no further and the other led down a path filled with challenges including interpreting government regulations, seeking adequate capital, and securing retail outlets and customers.

These challenges can make the heartiest entrepreneurs weak in the knees. There were more times than I can count in the first year of our company when we asked ourselves if attempting to reach our end goal was worth the risk, given the time away from our families and uncertainty associated with moving forward. I say this with the belief that we had it easier than most entrepreneurs as a result of our education as lawyers and familiarity with the regulatory process as former Congressional staffers. For many, if not most, getting through these challenges means spending precious capital, which is needed for product development or production (essential to elevating an idea to the point it can be considered a viable company) and on advisors who can instruct them on how to make their way through these early and frequent minefields.

After months of combing through state, local and federal regulations to ensure we were in compliance, Pork Barrel BBQ was formally founded in December 2008. Many friends and family members thought we were crazy founding Pork Barrel BBQ at the peak of the economic crisis, but we wanted to prove that a small business could succeed if it was founded by entrepreneurs with a tireless work ethic, who had a great product and a few people who believed in them enough to provide them critical advice and give them a chance. It was our goal to prove that the free market was still the best path to success for entrepreneurs and small business to take on their journey to grab their slice of the "American Dream."

We sold our first tin of Pork Barrel BBQ All-American Spice Rub on December 4, 2008, and over the next three weeks sold nearly $2,000 in rub – if you knew any of our friends or family that holiday season you probably received a tin of our rub as a gift. We were flying high and felt like nothing could stand between us and success. That feeling lasted for only a few weeks before the cold reality of the challenges associated with breaking into the retail world hit us square in the face. We were an unknown, undercapitalized business in the land of giants. We needed everyone, while no one needed us. We were once again at a fork in the road where we had to decide whether to expand our risk or pack it up and go home.

We reassessed where we were and where we wanted to be and what it was going to take to get there. The first realization was that we needed every ounce of capital we could find, which at the time meant every ounce of capital we could personally contribute. Out of necessity we were forced to be good stewards of our limited funds and do the overwhelming majority of the work ourselves.

Because we had limited funds in addition to limited access to additional capital we decided that we would take nothing out of the company, every cent of profit would be reinvested and allow for greater growth. To this day, even as our company has been much more successful than the vast majority of small businesses, we have reinvested every dollar of profit back into the company. In order to do this we have both maintained full time employment outside of Pork Barrel BBQ, and still do, but this has allowed us and our company to survive. The disadvantage of this arrangement is that we are often forced to miss opportunities because duty calls at our day jobs. We believe this has led to a slower pace of growth than we would have realized by now if we had been able to dedicate our full time and energy to growing the business.

It is important to note here that every extra regulation, requirement, or delay that government imposes is a burden that new small businesses have to overcome. These burdens cost entrepreneurs time and money and often lead to many small businesses prematurely calling it quits, opting to create fewer jobs and slowing innovation. I'm not saying that none of the regulations were necessary or justified. They often wee, but I do want the Committee to understand that they come at a cost in time and money which small businesses must pay and which can not be used to grow a company and create jobs.

Our second realization was that we would need to increase our brand identity if we had any hopes of playing on the same field as the larger and more developed businesses. The challenge was doing this on a shoe string budget. We accomplished this by targeting social media, a rapidly growing and virtually free avenue of marketing that many of barbecues' well known brands had failed to take advantage of at the time. Within a few months we became the most followed barbecue company, which we still hold the honor of today, and one of the 100 most followed food companies on Twitter. This may seem insignificant to a Fortune 500 company, but it was the key that was about to unlock a great deal of opportunity for Pork Barrel BBQ.

In May 2009 we received an unforeseen bit of luck in the form of an inquiry from a producer at Mark Burnett Productions informing us of their interest in having Pork Barrel BBQ appear on Burnett's new ABC reality show, *Shark Tank*. Burnett's team had discovered us through Twitter and thought we were an ideal candidate to pitch our business to the Sharks on national television.

Shark Tank was an opportunity for us that most entrepreneurs will never enjoy. It allowed us to address two of our core concerns at both an accelerated pace and at one time. We were being given the opportunity to acquire much needed capital through an investment from the Sharks. In our case we secured an investment from Shark and New York real estate mogul Barbara Corcoran who remains a valuable business partner to this day. We also gained an unimaginable amount of national exposure that would take most entrepreneurs' years or longer to attain. I sit before you today and can say with no hesitation that Pork Barrel BBQ would not be the national company we have grown into today, with our sauces and rub for sale in over 3,000 stores in more than 40 states, had it not been for our opportunity and determination to take full advantage of our appearance on *Shark Tank*.

I believe *Shark Tank* is one of the greatest things to happen to entrepreneurship in America in recent years. Not only does it provide a few dozen entrepreneurs, like Brett and I, the chance to go from an unknown to a national brand overnight, it is also inspiring thousands of entrepreneurs across America to shake their fears and decide the risk of entrepreneurship is worth taking. I know this because we receive emails and phone calls from entrepreneurs every week telling us how our success and *Shark Tank* has given them the confidence to take their shot at reaching for their piece of the American Dream. This renewed passion for entrepreneurship can only be a good thing for America.

The exposure we received on *Shark Tank* moved us from the 10 yard line to the 50 yard line almost overnight. Access to capital, although not gushing in, became more readily available, retail accounts who once slammed their doors in our face were now reaching out to us and consumers who had been loyal to a particular barbecue sauce for years were giving us a try. Success was ours and the troubles had passed us, right? Not quite.

Yes we were attaining levels of success that we never quite thought possible only months earlier, but new challenges were revealing themselves and they almost always ended back at the need for additional capital. With our new found notoriety we had gone from 10 stores to 100 stores to 500 stores to 1,000 stores and beyond in just weeks. New stores were demanding our product and old stores were asking for new products. As we began to expand our reach and the number of products we were offering we needed more and more capital to pay for product development, production, marketing, and food demos.

We were fortunate to meet Hunt Burke of Burke and Herbert Bank, an Alexandria, Virginia bank that believes in the entrepreneurial spirit and was as excited about Pork Barrel BBQ as Brett and I. To this day, as we grow, we continue to expand our relationship with Burke and Herbert and know that our growth is in large part to their partnership. I urge the Committee to encourage banks to support the endeavors of small business and entrepreneurs and complement them when they do. But again, banks must deal with their own regulations. After the financial crisis, the government became very concerned about banks assuming risk and passed new laws and regulations designed to minimize risky loans. That was understandable, but again, it came at a cost: fewer banks are willing to take a chance on companies like ours.

To support our rapid growth and continue to increase our available capital we have taken on additional investors over the past two years, an often necessary move that is difficult for entrepreneurs. It is hard to give up part of the company you have fought so hard to build with your bare hands. That being said, had we not made this decision there would have been times where difficult decisions would have potentially led to the end of our company.

I would be remiss if I failed to let the Committee know that there are many large businesses in America who support the entrepreneurial spirit of small and local business. In our case Harris Teeter grocery store took a chance on an unknown barbecue sauce, well before Men's Health magazine named it the best barbecue sauce in America and one of "The 125 Best Foods for Men" and put us on their shelves. Costco began selling our product less than a month after they first tasted it and is truly one of the great American cultivators of small business taking brands such as Visio and Stacy's Pita Chips to million dollar companies. Safeway has been among our biggest supporters since we first met in 2010 supporting us with unsubsidized promotions and ads. I believe it is important to note that America's big businesses often play a vital role in the success of America's small businesses.

In the three years since we founded Pork Barrel BBQ we have been forced to confront many challenges. Challenges that presented different paths that could have led to the dissolution of our company, but armed with the entrepreneurial spirit we fought to stay above water and inch towards our goal of proving that the free market is alive and well and the best way for an entrepreneur to grab their piece of the American Dream. Today you can find Pork Barrel BBQ products in 3,000 stores in over 40 states, a number we believe will reach 5,000 and all 50 states and several foreign countries this year. We have also opened our first Pork Barrel BBQ Restaurant in Alexandria, Virginia, and invite all of you to come dine with us in the near future. The accomplishment that I am most proud of is that we have created more than 40 jobs with the opening of our new restaurant and will likely see this number rise in the coming months as we open two additional restaurants in Del Ray, a sushi bar and Asian fusion restaurant.

We have attained much success, but know that challenges still await us as we continue on our journey, for the entrepreneur can never rest on their past laurels, they must always focus on the future.

Although I do not have specific policy recommendations for the Committee I would say that in my opinion, the average small business entrepreneur doesn't expect or want to be unregulated. Pork Barrel BBQ takes quality and safety very seriously. We take pride in offering an affordable gourmet product that is high quality, good tasting, and safe for people to consume that is produced by manufactures that are current and have scored high on all required inspections. We all want safe workplaces, clean environments, and food safety to name a few areas where regulations impact small businesses.

The problem in my view is that there is no effective safeguard in the system to make sure that regulations are written and enforced in a way that minimizes the burden on honest, well-intentioned small business entrepreneur. One approach I would encourage the Committee to look into would be for the government to adopt a partnership approach to regulation whenever possible. Allow entrepreneurs and their businesses to show that they want, in good faith, to comply and cooperate. In these cases it seems far more productive and less costly to all parties to partner with these business rather than adopting an adversarial attitude that leads to costly fines for mistakes that were made in good faith and that had no impact on public health and safety. Small businesses like ours do often feel like the government has a "gotcha" attitude towards our efforts, lying in wait to penalize us for paperwork violations or other errors that really have no relationship to the important goals regulations are meant to advance.

I would like to reiterate that America is still the land of opportunity and when given the chance an entrepreneur's idea combined with the power of the free market can lead to amazing things. If America is to emerge from its economic woes it will be on the back of the entrepreneur and the entrepreneurial spirit that has defined America for generations. It takes courage to be an entrepreneur, in addition to a solid work ethic, a great idea, determination to see that idea become reality, and the encouragement and support of a few people.

Elected officials should keep in mind the sacrifices and risks entrepreneurs take when considering ways to increase the number of successful small businesses in America. Entrepreneurs hope to make a lot of money by providing something of value and provide a lot of people with jobs that allow them to take care of their families in the years to come. But, it is the entrepreneur who has taken all the risk and invests his or her time and money into their endeavors with no guarantee of return. If small businesses are not allowed to enjoy the benefit of success when it happens, they will never take the risk of failure.

Thank you and I look forward to your questions.

Association of Small Business Development Centers®

Testimony of Clinton Tymes

Director, Delaware Small Business Technology Development Center network

Committee on Small Business

US House of Representatives

March 21, 2012

Chairman Graves, Ranking Member Velazquez, members of the committee, thank you for inviting me to testify today. My name is Clinton Tymes and I am the State Director of the Delaware SBTDC network and past Chairman of the Board of the Association of Small Business Development Centers.

As you know, for over 30 years the SBDC network has been providing front line services to entrepreneurs and small business owners while growing and developing an infrastructure dedicated to assisting all small business owners and providing them free one on one consulting and advice on how to improve, finance, market and manage their businesses. The result of our efforts and the support of our host institutions has been establishment of a nationwide network of nearly 1,000 locations with over 4,500 dedicated professional counselors and business advisors that annually assist hundreds of thousands of small businesses and entrepreneurs in every state and territory as well as every conceivable type of business.

Today's hearing focuses on how we, as a Nation, can best help foster small business growth and innovation and how those entrepreneurs can help lead the economic recovery. At SBDCs we focus on that concept every day. It is a basic tenet of our accreditation process as authorized in the Small Business Act. Accreditation standard 2 requires that each SBDC develop and implement a strategic plan focused on continuously improving our services and skills to provide our clients – the small business community - with high value, up to date services. Accreditation standard 3(?) requires that each SBDC network have systems in place to assess the needs of the small business community and adapt our services to meet those needs. Finally, accreditation standard 5.2 also requires continuing professional development for SBDC advisors to maintain and enhance their skills and knowledge base.

As a result, SBDCs provide assistance to small business of all types, in all demographics, industries and regions and those services can't be stagnant. We are always trying to expand and improve our services in an effort to support the growing needs of the small business sector and to adapt to a changing business environment. Advances in technology have changed the way most small businesses have to do business to survive and thrive. Through our Association, and individually, SBDCs partner with firms like Google, Intuit, Dell, Microsoft and literally hundreds of others to bring innovative and efficient ways of improving and managing small business operations.

Guiding innovation and fostering new technologies is a large part of this effort by SBDCs. Innovation can take many forms. It may be high-tech, like Facebook or just a new way of looking at something. For example, sunglasses aren't new and neither is beer but those are two great examples of how SBDCs help entrepreneurs - Maui Jim Sunglasses and Dogfish Head Brewing.

Maui Jim was a simple idea, sunglasses that cut glare but don't distort colors. But working to make that concept a world-wide success took years of work with the Illinois SBDC. Building a brand, developing the product, and marketing it helped Maui Jim grow to a company with 700 employees and offices in 13 countries. All in a market crowded with competition like Oakley, Ray-Ban and Revo.

Likewise, at the Delaware SBTDC we are proud of the work we have done with Sam Calagione of Dogfish Head breweries. Beer isn't high tech, and when Sam came to us it was little more than an idea, but we have worked with him from the start. Now he's one of the lead microbrewers in the US. His innovation - build a restaurant around a brewery. It's not gee whiz technology but the Delaware SBTDC made sure that Sam got the business basics right, got the funding he needed and he took off.

We see it every day, entrepreneurs who come from all walks of life, with different visions, desires and products. In the SBDC network we assist them all, existing businesses and startup businesses. Roughly half of our clients are nascent businesses, those in business less than a year, and half are existing businesses. The key to all these entrepreneurs is learning to succeed. SBDCs don't necessarily know about optical coatings or jalapeno ales but we do know marketing, finance, product development, government contracting and business planning. Our clients come in with ideas and energy and problems. SBDCs provide them the knowledge and skills they need to succeed.

It's not a particular idea or industry rather we see it as the business basics. All small businesses, high tech gazelles, local mom and pops, or third generation manufacturers are focused on the bottom line. Yes, small business owners have a variety of motivations but, at the end of the day, nobody goes into business to lose money. Growth in sales, investment and hiring are key indicators for every business owner. They may not be focused on an IPO exit strategy but they still want to thrive.

So how does the SBDC network think we can help small business lead the economic recovery? By focusing on the basics. We see several significant areas where entrepreneurs need help – Finance (as always), Technology development, and Education. To the SBDCs these are the three legs to the stool. Capital is the lifeblood of small business, Technology is its toolkit/product basket and Education is what binds it all together for success.

How can we strengthen these legs? Let me give an example of how we are doing it in Delaware

TECHNOLOGY DEVELOPMENT

Delaware SBIR Gateway Program

Many SBDCs work specifically to assist firms in reaching the marketplace in the high tech arena. In Delaware we accomplish this in part through our SBIR Gateway program. The Delaware SBIR Gateway is designed to help knowledge-based firms and entrepreneurs compete for and win federal SBIR/STTR awards.

The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Programs are highly competitive economic development programs. The programs operates in three-phases to fund start-ups and small businesses to grow from technology concepts that meet the specific research and development needs of 11 participating federal agencies.

For almost a quarter century, Delaware led the nation in the number of patents issued and the number of PhD's per capita. R&D expenditures by large multi-national corporations residing in Delaware like DuPont, Hercules and AstraZeneca catapulted Delaware to the top in these areas. However, statistics have also shown that Delaware has perennially lagged in a number of areas that are important to the start-up and development of small technology-based businesses. Delaware has always finished near the bottom in the number of SBIR/STTR proposal submissions and awards.

In response we developed the Delaware SBIR Gateway to be the one stop-shop for SBIR/STTR assistance. SBIR Gateway is an in-depth program covering all aspects necessary for writing successful SBIR proposals to the federal agencies in SBIR. The program is designed to provide qualified entrepreneurs and early-stage research and development companies with:

- Grant application strategy advice,
- Proposal writing workshops,
- One-on-one consultation and access to SBIR experts,
- Scientific and editorial review of grant application, and
- Access to state post-award resources,

Additional Gateway services and programs include:

- A single point of contact for SBIR/STTR assistance and proposal coordinating activities
- Identification of appropriate research topics for SBIR/STTR grant opportunities
- Post award assistance to manage the grant
- Publication of a quarterly Delaware SBIR Gateway electronic newsletter
- Presentation of general SBIR/STTR and agency specific programs throughout the year
- Networking events specific to SBIR/STTR
- Establish liaisons with researchers and technology transfer personnel at research institutions
- Partner with a Prime Contractor
- Partner with a Professor

To help achieve the goal of the Delaware SBIR Gateway of increasing the number of winning SBIR grants, an application process has been developed to select candidates that offer the best chance of success. The application will be reviewed by the Gateway Team comprised of SBTDC staff and independent SBIR consultants. Selection criteria will be based upon eligibility criteria to participate in the SBIR program and assessment of the applicant's technology. The SBIR Gateway Team will make final recommendations for acceptance into the program.

The SBTDC provides technical consulting expertise and workshops for the SBIR Gateway Program. The proposal writing workshops will be offered three times a year and will coincide with NIH's SBIR/STTR solicitation due dates of April 5th, August 5th, and December 5th. A qualified Principal Investigator (PI) must attend the mandatory SBIR workshop and be the primary author of the grant application. The PI of an SBIR project must have his or her primary employment with the small business during the conduct of the project and at the time the award is granted. Class size for the workshops is limited to 20 participants.

Upon submission of the application an initial assessment in-person or via phone with the Gateway Team will be scheduled to evaluate the applicant's access to facilities and resources, the stage of development of the technology, the strength of the applicant's team and other eligibility criteria to participate in the SBIR program. The assessment is to assist both the applicant and the Gateway Team to familiarize themselves with the company, the technology and the SBIR process. Appropriate grant strategies based on the current stage of the company and its technology will also be discussed.

All of this is designed to assist small businesses with innovative products and technologies achieve their goals. But SBIR Gateway is just a first step. While the participant is working through Gateway to get an SBIR award we also have them working on the next steps to their success. Also, while SBIR Gateway is specific to the SBIR program it is an example of the type of assistance an SBDC provides to any growing tech business.

The Delaware SBTDC like a number of SBDCs that are hosted by research institutions are working more closely with their institutions for technology transfer, science and engineering departments. The University of Delaware formed the Office of Economic Innovation and Partnerships, (OEIP) to help commercialize the University's technologies and to have the University play a major role in economic development in the state and region. In October 2009 the SBTDC was asked to be a part of this new and exciting group. Simply, what the university did was to put under one roof the technology transfer office, which deals with research and its commercial application and the SBTDC with its business expertise, to leverage resources to expedite the commercialization of knowledge-based assets that are both internal and external to the University.

I have attached a copy of a letter from Mr. Jianrong Lin of Spectrum Magnetics. In his letter Mr. Lin outlines the knowledge gaps that he, like many other entrepreneurs, had and how our SBTDC team helped fill those gaps.

> "After the first meeting when we introduced our project, the team was able to catch on and understand our project and technology very quickly. Their eager to learn and proactive attitude allowed them to interact with our principle investigator extremely well. In early June, the team presented us with a complete report that included market analyses, market players, our entry point, and potential customers along with numerals reference materials. The report also outlined our next step in order to execute our product development. "

That is just one example of how SBDCs help small businesses develop and commercialize new technologies. Similar programs are conducted in North Carolina, Texas, Missouri and Nebraska to name a few.

FINANCING

Obtaining capital is usually a key leading measure of every business success. ASBDC believes that access to capital is vital but, if that financing isn't leading to an improved bottom line, it's just an output not an outcome.

Often at an SBDC we work with brilliant entrepreneurs with little idea of how to deal with the financial world. We can't always get them the financing they want right away but we can make their search and approach so much easier. Many of our high tech clients surprisingly don't know how to approach an angel investor or even what or who is an angel investor. Likewise, there is a huge gap in the ability of small business owners, at any level, to speak "finance". For us it's a process of helping them understand the presentation, something the average entrepreneur has no experience with. We are proud of our efforts to help clients attract financing, nearly 4 billion dollars last year alone. Some SBDCs carry their efforts to an extreme, my colleagues in Michigan actually take photos of their clients at their successful loan closings. How can we assist small business attract and find more capital? At SBDCs we try and bring in relationships with as many alternatives as possible. Whether it is seeking SBIR funding for a technology driven business; a microloan for a startup or long term funding for a longstanding business, SBDCs work to make the best avenue available.

In San Antonio, the SBDC helped a third generation firm, Kiolbassa Provision obtain a 504 loan for plant expansion. The result was to triple their number of employees and triple their annual revenues. They now supply Wal-Mart, Costco, and numerous grocery chains and restaurants.

In Illinois, the SBDC assisted Gaspardo & Associates, a full service 3D metrology laboratory launch it's newly patented product, ComScan, which allows metrology (quality control) services to be delivered with significantly reduced time and increased accuracy. The Illinois SBDC helped take this business to the next level by helping procure a private "angel" investor, as well as some bank financing and assistance in improving back office operations to allow better focus on growing the business.

Of course, it might also be a microloan for a local gourmet food truck. The point is, what can we do to make sure small businesses at any level get the capital they need? From the SBDC perspective, we identify the entrepreneur's strengths and weaknesses. Teach them how to relate to the financial community and find the right finance tools and financing for them.

EDUCATION

Everything I have talked about to this point has one common theme. Education. The best way to foster entrepreneurship, to help small businesses lead the way in the recovery is to educate them. Teach them the techniques and show them the tools they need. Ideas, dreams, innovations can all still fail without knowledge. Right now there are hundreds of programs, resources, tools and technologies available. The biggest problem small businesses face is making sense out of them and finding the ones they need. For SBDCs it is a daily effort to find and synthesize the information that small businesses need. In Delaware our branded tag line is "Navigate. Connect. SUCCEED. "

How can we work to overcome those knowledge gaps? To do that SBDCs advise and train small business on procurement, rural tourism, energy conservation, and international trade assistance to name just a few areas. SBDCs concentrate on maximizing the tools at hand. Currently, we are working with HUD's Office of Community Development, SBA's Office of Surety Bond Guarantees, and the Surety Bond industry Association. Our goal – to educate small contractors on how to obtain surety bonds and then get contracts with housing authorities on HUD funded projects. Not a new program, just teaching contractors the financial skills they need to get a bond so they can get to the next level.

This evening ASBDC's 501(c) (3) foundation, in conjunction with the Citi Development Foundation, Safeguard Corporation, the Women's Business Enterprise National Council and the Minority Business Supplier Diversity Council will be celebrating a new partnership. Our goal - train and certify small women and minority owned businesses to make them more successful, high performing businesses. Again, this is an effort to use the tools at hand to solve the problems small businesses face.

CONCLUSION

In summation, the ASBDC believes strongly in supporting small business by focusing on their needs and the most common concerns we hear from small business are – lack of capital, lack of sales, and difficulties managing the day to day complexities of business. Some surveys say that capital abounds. It does, for the qualified. Our goal is to help these small businesses get qualified and our results, nearly $ 4 billion in financing. Small businesses say their sales are weak - Our goal is to help them develop their markets and products. Our results – In 2009-2010 average sales for a SBDC client were nearly four times the national average, totaling over $5 billion.

Every day SBDCs help small businesses with marketing, financing, contracting, exports, etc. If we don't do it we'll find the help. We believe strongly in maximizing the unique abilities of our network and focus our strengths – high value research and education based counseling and training.

The economy has been in rough shape, small business owners and entrepreneurs need help and talented people to respond. However, we need to understand the resources we already have and leverage them to the best effect for our small business community. We need to recognize the skills that exist and encourage their adaptation.

In closing, thank you for letting me share the views of the SBDC network. I look forward to your questions.

Spectrum Magnetics LLC

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August 5, 2011

Dr. David Weir
Office of Economic Innovation and Partnership
University of Delaware
Newark, DE 19716

Dear Dr. Weir,

I would like to express our sincere appreciation for Wendy Wen, Gary C. Simon, and Satha Palani, who have provided us with valuable market information and business development ideas during the past several months.

In the spring, Wendy offered us a market research opportunity since you have a MBA intern working in the office. After the first meeting when we introduced our project, the team was able to catch on and understand our project and technology very quickly. Their eager to learn and proactive attitude allowed them to interact with our principle investigator extremely well. In early June, the team presented us with a complete report that included market analyses, market players, our entry point, and potential customers along with numerals reference materials. The report also outlined our next step in order to execute our product development.

Recently, because we have been preparing a Phase II proposal to NSF to continue developing the product, we turned to the team again and to seek help for our financial model and business strategic planning. With team's help, we were able to put together the proposal in a timely manner, and we are more than satisfied on their exceptional contributions!

While we excel in technical development, Spectrum Magnetics lacks experience in business development. The team from your office is indispensable. Their knowledge and advices are invaluable to us. We sincerely thank your team and hope that we will work with them again in the near future.

Sincerely yours,

Jianrong Lin
President
Spectrum Magnetics, LLC
302-379-9808
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Question for the Record- Mr. Owens (NY)

1. Mr. Goldman, you mentioned that you raised approximately $10 million in equity capital from angel investors. What was the process you followed to solicit these investors (i.e. were they friends, did you write solicitations or did you hire someone)? What were some of the regulatory requirements you faced as you solicited investors?

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Over our first ten years Honest Tea raised its angel equity funding through an informal process. As a result, we ended up with investors who came to us from all kinds of different directions. From time to time we were approached by consumers who liked our product. On other occasions, someone would read an article about the company and send us an unsolicited email. People would ask if we were raising growth capital, and whether they could invest. If we weren't in a fundraising mode, we kept the names and contact information, and reached out to them at a later date. We received at least half of our inquiries from friends of existing investors. I presented at a few angel investing clubs, but raised less than $100,000 as a result of those presentations.

We chose not to hire a broker or investment banker for our stock offerings. It took a great deal of my time, but speaking with each prospective investor was the best way for me to know who we were dealing with and to make it clear that the offering was properly represented to them.

In compliance with SEC regulations, we sent all of our prospective stockholders a stock purchase agreement in which the investor stipulated that he/she was an accredited investor. We also filed the offerings with each state under the blue sky laws – the process and requirements for each state were different. Our lawyers completed this paperwork but these registrations created an additional cost and process for us. If each state insists on maintaining separate rules, it would certainly be preferable for the states to maintain consistent standards and registration materials.

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RATIONALE (WHY?): As articulated in my testimony, traditional small business owners have divergent challenges and needs from those of high-potential entrepreneurs. As a result, they differ in skills, funding sources, and social networks required to succeed. Moreover, because of these differences, these two audiences respond differently to policy, taxes, and regulation. For example, high-potential entrepreneurs do not consider reducing their tax burdens as a priority, rather they are focused on capital at multiple stages of growth and acquiring and retaining talent. Furthermore, high-potential entrepreneurs generally focus on advanced skills categories (e.g., science, technology, etc.) and thus they respond differently to legislative issues. For example, immigration reform is more pertinent to high-potential entrepreneurs than it would be to small business owners (75% of whom have no payroll and thus have different "talent" challenges).

STRUCTURE: As ideas/solutions are many, I recommend that a separate, but related, entity be created to focus exclusively on high-potential entrepreneurship. The benefit of chartering a separate group is the ability and opportunity to create a comprehensive and cohesive strategy to support high-potential entrepreneurs (versus one-off programs). This entity could manifest itself as either a Sub-Committee of the House Small Business Committee or a New Committee with the express charter to foster, promote, and support high-potential entrepreneurship in the United States. For the purposes of this document, I'll refer to this Committee (or Sub-

Committee) as the House High-Growth Entrepreneurship Committee (the "HGEC").

STRATEGIC INTENT (its reason for being): The purpose of the HGEC is to focus on creating and promoting programs and policies focused exclusively on the minority of businesses that create the majority of jobs.

ATTRIBUTES OF THIS AUDIENCE: The businesses that fall within this category typically have the following attributes:

1. **CATEGORIES:** High-potential entrepreneurial businesses typically compete in high-growth categories such as those below (this is not an exhaustive list but representative):

    a. *Heath Care* (including biotechnology, health services/technology, medical devices, diagnostics)
    b. *Information Technology* (computer software, cloud computing, big data, ecommerce)
    c. *Clean Technology* (energy storage, energy efficiency, pollution controls, alternative energy, natural gas)
    d. *Telecommunications* (wireless, mobile, etc.)
    e. *Others (*Others categories can best be identified by studying the categories that attract venture capital. This group is fluid due to the law of exponentials, but the private equity markets track these categories closely)

2. **FOUNDER CHARACTERISTICS:** High-potential entrepreneurial companies typically exhibit distinct characteristics among the founders:

    a. *Compensation*: willing to participate in deferred compensation programs (equity) versus current compensation (cash)

b. *Founder Teams*: typically started by co-founder teams (not sole owners) and thus you can also screen for multiple employees who are participating in deferred compensation as way of targeting this audience
c. *Venture-Backed*: Have venture funding from strategic angel investors, angel syndicates, and venture capitalists
d. *Enterprise Value Focus*: They generally are most focused on Enterprise Value (EV) versus Taxes (i.e., among their primary focus is the underlying value of the company and thus their focus is more on capital gains)
e. *Core Capability*: 10% of our entrepreneurs create 30% of our businesses (while 20% create over half). These are often referred to as "serial entrepreneurs". Their core capability is not in selling a product or service per se; rather their core capability is in creating businesses, creating value, and employing people.
f. *Others*: There are several other factors that can be taken into account in identifying companies (e.g., specific skills, geographies, involvement in venture incubators/accelerators versus SBA programs, backgrounds of advisors and board members, etc.)

FEDERAL ROLE: Yes, there is absolutely a role for the Federal government to play in fostering these types of innovators. Below are several opportunities:

1. **CAPITAL ACCESS/CAPITAL GAINS:** creating incentives for angel investors and early-stage venture capitalists to increase investment in high-potential entrepreneurial businesses. They will respond more favorably to changes in capital gains treatment.

2. **MENTOR NETWORK:** In the 1960s, when our country was faced with a different challenge, we created the Peace Corps. We have an equal challenge now, yet an economic challenge. We have the opportunity to do the same for entrepreneurship. One opportunity for the Federal government would be to create the Start-Up Corps for America (the SCA). This group could compliment the efforts of the SBA, but have as its focus high-growth entrepreneurship. Just as the Committee vs. Sub-Committee decision, this entity could be launched separately and/or as part of the SBA's charter. There is a good case to be made for autonomy of this group given its charter.

3. **IMMIGRATION (focused on STEM):** 75% of engineering Ph.D.'s are foreign-born. We need to reform our immigration laws in order to attract and retain these students. Why? Not only do we need their technical talent, research has shown that immigrant founders to America create jobs. Moreover, as economies (e.g., Brazil, Russia, India, and China) emerge, many graduates are finding it increasingly attractive to return home to start their businesses (and be closer to their families). Thus, we now have the dual challenge of needing their skills and, for perhaps the first time in our history, we must campaign for them to stay in the United States as they have similar opportunities in their home countries.

4. **EDUCATION**: Whereas Science, Technology, Engineering, and Math (STEM) are typically the focus when the conversation turns to innovation STEM alone is insufficient. We need more people who have the "General Management" skills of high-potential entrepreneurial founders in order to employ those who graduate with STEM degrees. These skills are not being taught in our schools today, but can be.

5. **INCENTIVES**: Offer credits against student loans for every new business created by a college graduate who starts a high-potential entrepreneurial business. One of the biggest hurdles for them today is not their creativity or know-how or even access to capital, rather it is the burden of their student loans. By creating incentives for them to start their businesses IN ORDER to pay down their loans, we can remove that barrier. Again, keep in mind, most high-potential entrepreneurs are working for deferred compensation (equity) and thus do not have the cash flow to pay down debt while building their businesses.

6. **PROMOTION**: The Federal Government has the very unique ability to promote/campaign for high-potential entrepreneurship. Much like we do for our Armed Services ("Be All You Can Be"), it would behoove the United States to do the same for high-potential entrepreneurship. We need an integrated marketing campaign to promote entrepreneurship and de-mystify how to start businesses.

7. **OTHERS**: There are many other areas where the Federal Government could play a significant role (e.g., training military personnel in advanced skills, increasing R&D spending in high-growth categories, etc.).

The Story of OpenTable.com

by
chuck templeton

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@OhSoWe

I have the pleasure of being the founder of OpenTable, but it is a success story that is only possible with the efforts of many, including its dedicated employees, restaurant partners and committed investors. Even with the best employees, restaurants and investors, a big part of OpenTable's success can be attributed to the startup eco-system that America has enabled. There is not another country in the world that compares to opportunities that an entrepreneur has here, in the country I love, America. However, I believe that system is in jeopardy.

If America wants to keep its edge and have the bright future we all know is possible, we need to make sure that we keep the right building blocks in place, remove a few that keep us rooted in the past and add new ones necessary for our long-term American economic prosperity our founding fathers envisioned. We know that entrepreneurship and small businesses are responsible for the vast amount of new innovations and job creation. If given a fair opportunity, it will be small businesses that disrupt entire industries like bringing in new industries and new innovations in scalable clean energy to replace our dependence on fossil fuels. As an entrepreneur, I am confused about the discussions that I see prioritized by our national leadership. As a nation, we are not moving fast enough to take advantage of the huge opportunities in front of us to solve real problems and lead the world into a better future. I believe entrepreneurs will be a big part of the solution and we are not who you think we are. Like me, most grew up getting a great public school education, found a way to get through college and eventually saw an idea they felt worth dedicating themselves becoming entrepreneurs. Their success has come from a combination of their ideas, skills, drive and the start up eco-system we have here in America, with some luck sprinkled on top. And, here is my story.

Prior to starting OpenTable, I grew up in the San Francisco Bay Area as the son of a mailman and a glass blower, spent 3 years proudly serving my country in the US Army as an 11B, completing Airborne, Ranger and Sniper schools among others. Upon leaving the military, I used the Army College Fund, Montgomery GI Bill and waited on a lot of tables to get a degree in Economics from California State Polytechnic at San Luis Obispo. I moved back to the Bay Area in the mid 90's and found myself in the middle of the .com boom. So, I bounced around a few technology companies, learning about this thing invented by the government, called the Internet.

From the first time I logged on, I was convinced the Internet would change the world in ways we had yet (and have yet) to understand. During the same time, I met people whom were starting fascinating Internet businesses such as Evite (online invitations), Northpoint Communications (broad band connectivity) as wells as early employees at Internet pioneers like Yahoo, so I tried to get a job working in the World Wide Web. As it turns out, in 1997 I didn't have enough Internet experience to be considered for any of the dozen or so jobs I applied for. Go figure.

Then, one Saturday morning, my fiancée (now wife) was trying to make restaurant reservations for her parents who were coming into town the following weekend. Wanting to impress her father (Robert Wattel) who is an entrepreneur in the restaurant industry, she spent from ~ 9:00 am to ~ 12:30 pm (arguably not the best time to try to make restaurant reservations as many restaurants are not open on Saturday mornings) looking through several different restaurant guides. She called restaurant after restaurant asking questions, leaving messages and finally making a reservation or two. Then only to find that one restaurant wasn't open on Sunday night, so she had to call one back, change it from Saturday night to Sunday night and then call the other one back and book a Saturday night reservation. It was a mess. Watching this I thought, "there has to be a better way."

I did some research and found there were no online restaurant reservation companies out there, so two months after I married Julie, I quit my job (the new in-laws were happy about that ;-) and started what would be OpenTable. My original thought was to "hook the Internet up" to the reservation management systems sitting around in all of these restaurants out there. What I didn't realize was that after spending 9 years working in restaurants, I had never actually seen a reservation system for restaurants. Hotels had them, airlines had them, but restaurants? It took me about 4 days to discover that restaurants didn't.

Since restaurants have very dynamic inventory challenges, there needed to be a single inventory system for both reservations taken over the phone and those made online. So the Electronic Reservation Book (ERB) was born. Primarily the ERB was a hardware/ software solution we provided that replaced the paper based reservation book that most reservation centric restaurants used. They had all of this rich customer data that was in pencil and paper form, but was virtually unusable to the restaurants. The ERB was designed as an operations tool that ended up bringing value to the restaurant long before an online reservation showed up. It did three main things, reservation management (making, changing, confirming, canceling reservations), guest management (recognizing VIP's, capturing preferences, email marketing) and table management (seating rotation, table turn tracking, waitlist management). Then we connected the Internet to the ERB enabling diners for the first time to make online, real-time reservations, solving many of the challenges my wife experienced that Saturday morning.

As a first time entrepreneur I had no idea how to start a company, how to raise capital, how to grow a business or even how to write code. But what I did have was ideas, drive, (other) skills and luck, but most importantly I had a great (American made) startup eco-system around me. Many of the building blocks needed to build my business were already part of the eco-system so I didn't need to invent the wheel with things like incorporating, raising capital, building a board of directors, creating a well functioning transit system for my employees to get to work, designing hiring practices, available clean air and water for healthy employees, attracting risk seeking talented team members, determining appropriate corporate governance, leasing real estate, tapping experienced mentors, predictable taxing policies, finding educated workers, technology standards, a corruption free regulatory environment,... the eco-system around me provided the norms to make it a much easier process. I believe the full possibilities of this startup eco-system is under attack by the deliberate muting innovative efforts, allowing other countries to leap frog us in massive future industries, but more on this later

But to thrive in this startup eco-system, you have to get above the noise. Any organization can have a few wins in sales, but what OpenTable needed in those early days, if we wanted long term success was maniacal focus (a discipline instilled by our marketing guru Jaleh Bisharat). We knew the restaurants needs, we got to know the dinner, but to motivate the company in a time of crazy market valuations, irrational competitors and winner take all land grabs it became ever so important to be maniacally focused on one thing. Our single focus as an organization was about getting an ERB in a Restaurant. Before OpenTable started installing ERBs at host stands, many didn't have power sources and virtually none had Internet connections back in 1999. One very influential restaurant signed a contract agreeing to pay full price, but had a single metal poll with a flat surface on top, sticking out of a polished concrete floor as their host stand. It was a beautiful entry that welcomed guests, setting the mood for an elegant evening.

The restaurant didn't want extension cords hanging down from the ceiling or running across the floor, but this was an important customer for us to get. So we paid to have the floor jack-hammered up, run conduit under it, reinstall the host stand (with power and an internet connection) and re-pour and polish new concrete to match the existing floor. Everything about OpenTable became orientated towards making the sale easier, the product work better for restaurants, world class customer support for restaurants, over the top customer installation and amazing sales professionals that were compensated well. About 85% of every marketing dollar that was spent was focused on restaurant acquisition. Everyone at OpenTable understood that if a restaurant signed a contract, we'd get the system in.

As OpenTable started to grow by the heavy lifting of some great early employees (Michael Xenakis, Randall Reeves were among those worth mentioning), we experienced our share of barriers that were not resolved by the startup eco-system. When we had a network of about 1,000 restaurants online and using our system, we were dependent on a high-speed bandwidth solution called DSL to support and enable online reservations to happen online. Since DSL was a new technology, we found ourselves working with over 20 different DSL providers, with at least as many different configurations fighting it out to be the winner in their space. Our largest provider had about 500 of our restaurants when one day, they went bankrupt and shut their doors. Over 50% of our restaurants, in multiple states went "dark" on a single afternoon. Luckily we had a great Director of Operations (Glenn Allen) who through shear will power, charisma and the dedicated team he built, spent the next month plus finding new solutions to bring nearly all of the restaurants back online. There were several other early stage challenges this team, as well as many others at OpenTable solved along the way. The company has truly had and has to this day, some amazing people.

Early on I didn't have a good understanding of the value that great, educated people bring, nor did I have a good understanding of how to attract them. A few of the early people were not at the level that we needed to successfully grow the company. This is a challenge though that is tough for small businesses to overcome. Often times the talent, skills and experiences that you need to get a functional area staffed, built and going is very different from the skills you need to scale it to a much larger organization. That is also a challenge for many entrepreneurs. They simply don't have the skills and experience, but most of all the social capital to attract the best people, customers or funding to start, grow and scale a business as fast as venture backed businesses grow. I was fortunate enough to have a few key mentors (Michael Dellar, Thomas Layton, and Danny Meyer were all invaluable to me) that helped me take time and think about how to give OpenTable the best chance of success. And they helped me really understand the huge difference between "being right" and "getting it right."

We also learned a lot about how to sell the service to restaurants. We learned that if we could get the influencers in a market that others would follow. We happen to have a product with the ERB that provided value to a restaurant long before there were any diners booking reservation's online. Trying to build a two-sided local network (restaurants and diners) at the same time is tough. We found that the best restaurants in a city were less concerned about new business, but wanted to find a way to take better care of their current customers. Often times the front door staff of the restaurant was also their "database" and might be one of the only people on staff who knew most of the VIP's and their preferences. So restaurateurs' were concerned that their databases might "fall in love and move to Barcelona," or worse quit and join their competitor down the street. Restaurateurs loved that the ERB now helped them better run their business.

It was great to build a business that partnered with other entrepreneurs. Most of the restaurateurs that subscribed to OpenTable's reservation system were independent or small restaurant groups that now had access to advanced management tools, helping them compete with the big guys. It was a thrill to work with them, over come their obstacles and both grow their businesses and ours. A more profitable, better-run business increases the chance of a lasting, tax paying, people employing business.

Raising capital can be a tough challenge for entrepreneurs with hard work and luck contributing, in equal parts. Many first time entrepreneurs (including me at the time) don't have a good sense for where to go for capital, what the right type of capital is for their business (and risk tolerance) and what to expect from their banks or investors. When I started OpenTable, I had never heard of a venture capitalist, and I remember hearing the term for the first time, nodding my head like I knew what they were talking about. One of the things that I did early on which helped a ton, was see who was being profiled in the Industry Standard (today's Wired Magazine) and email them or call them trying to get 15 or 20 minutes of their time. I'd ask them random questions I'd be addressing about leasing space, when to hire an HR person, what type of insurance to get, how to do the latest marketing tactic, ect.

Raising capital is about two things, creating scarcity and getting the first check. In our first round at OpenTable, we wanted to raise ~$1,000,000, so we opened up a $500,000 round (with the goal of creating scarcity). We had about 40 or 50 people that we had talked to, prior to opening up the round. So, when we officially opened the round, we had enough interest from people who understood investing in Internet startups. In the process we identified a "lead investor" who set the terms and wrote a check (get the first check). We had over $1,200,000 committed by these investors. We cut everyone back pro-rata and closed a $750,000 round, immediately opened up a $2,000,000 (with the other ~$500,000 committed) and closed that a few weeks later at a much higher valuation. All in all, I probably did about 50 or 60 investor presentations. In the process I became less price sensitive and more focused on who the investors would be. It was an important balancing act of getting the round done, finding the right investors and building the business.

Once our truly pioneering sales people (Jaime Surenkamp, Joy Tagert, Samantha Cleaves, Adam Thompson, John Martin) got a handful of the top 20 "influencers" in a geographic market, the next 50 or so restaurants (who aspired to be in the top 20) started doing what the top 20 were. When we had a good distribution of restaurants on one side of the network in a geographical market, we could now start to attract diners on the other side. As they searched for restaurants, their chances of converting (finding and booking an online reservation) started to increase. Now with the two-sided network model starting to kick in, it was only a matter of time (enabled by our patient investors) for the next 200 or 300 restaurants in a market who were primarily looking for new business to join the network. Now OpenTable has become one of the most powerful marketing tools a reservation centric restaurant has. It can now, 24 hours a day, get a reservation from someone coming from just about any country in the world or even in their own backyard. It substantially changed how an industry ran and marketed their businesses. Exactly what needs to happen in our energy sector with distributed renewable solutions.

At this point, I'd like to make a side note on the current climate from my observations as an entrepreneur. I have probably met north of 1,000 would-be (and actual) entrepreneurs (job creators), none of whom has complained that they would have started or expanded or invested more into their business, but decided not to because their taxes were too high. None. Frankly, most subscribe to the spirit of feeling that it their duty as part of being an American to pay their share. They have benefited from the American made startup eco-system and want it to stay strong and innovative. Some have even said that they would probably work harder if their taxes were higher, not give up as has been suggested by some in the media. The frustrations I hear from the entrepreneurial community are mostly about having a system that creates a level playing for companies that want to address the series problems of climate change instead of favoring the status quo, a (better) educated work force, immigration policies that allow them to hire skills that might not be available locally, and affordable world class health care for their employees. For me, personally believe passionately that there would be tremendous innovation (not only new jobs, but new industries) if we stopped favoring the carbon based energy industries (oil, coal, gas) and leveled the playing field to new energy innovation. Big energy companies, have had decades of government incentives from the government. We need to find ways to support the job creating clean tech/ clean energy sectors that get those benefits. Especially since we know the continued use of carbon based fuels are bad for our economy (exporting 100's of billions of dollars out of the American Economy) and will be catastrophic to the very foundation of our civilization. By unleashing innovation in these sectors it will be the equivalent of moving them from slow, clunky, phone based reservations to instant, efficient, online and real-time restaurant reservations.

As the .com bubble burst and this strange thing to the "new economy" called profits became important, OpenTable made the tough decision to retrench the company (laying off 110 of its roughly 174 employees) and focus getting the business to a financially sustainable place. By this time the company had raised 4 rounds of venture capital totaling about $49 Million ($750,000, $2,000,000, $10,500,000 and $36,400,000) putting the company in a good position to build the business as its competitors found it difficult to raise capital, eventually all going basically bankrupt. The .com downturn gave OpenTable about 3 years with little competition while it continued to build its product, cultivate a diner base and expand its foot print across the country and eventually internationally. Even then there was no guarantee of success given the expense of selling, configuring, installing, training and properly supporting 1000's of small businesses profitably. It's a case of super human efforts by the highly dedicated employees (and continued support of the investors) putting in tremendous work and long hours. Now, the company directly employees over 550 people, while enabling over 25,000 restaurants to operate more profitability, creating new jobs.

As I reflect back on our early venture capital partners and think about the investing climate today, OpenTable was a business designed to go public from the beginning. There was a long sustained period of time in which the company lost money. It had to build a two-sided network, geographic market by geographic market, while selling hardware and software to small businesses. In the beginning of selling ERB's to restaurants, our fully loaded cost of sale was about $4,700 (sales salary, sales commission, field installations, hardware costs,...). Our business model was to charge an up front fee of ~$1,000, monthly fees ~$200 and a $1 for every person who made a reservation through the Internet, so a party of 4 was $4. As you can imagine, it took a lot of months ($1,000 +$200 (for month 1) + $200 (for month 2) + $200 (for month 3) +...,) to equal the $4,700 cost of sales and that didn't eve cover any overhead. So, we needed a way to finance that model until the reservation part of the model kicked in. Now if a restaurant opens up in a market like San Francisco, OpenTable's network of diners will send over 1,000 diners there the first month. Quicker pay back and decreasing cost of sales has led the company's growth.

We could not have done so without great investment partners (Bill Gurley of Benchmark Capital, Adam Dell of Impact Venture Partners, in particular) who saw the long-term potential of OpenTable. We were not as capital efficient (getting the most traction out of the dollars raised) as we should have been and today as I work with other entrepreneurs, I really try to help them identify the most appropriate way to capitalize their business. Most businesses, frankly, shouldn't raise venture capital, but should focus on building great smaller businesses, using debt from local banks or friends and family. However, the current lending environment is making that a hard thing for them to do. Banks, due to their size and beneficial Fed lending practices, are not incented to make loans to small businesses. Their (small) upside is the potential interest and their (relatively larger) downside is loss of principle. And with the inequalities happening across the nation, it is harder and harder for entrepreneurs to be able to reach out to friends and family to raise funds.

OpenTable is not the only party in this model that benefits from the two-sided network model, as restaurants experience great economics from the OpenTable diner network as well. Restaurants are a high fix cost, low variable cost business. In servicing an incremental customer, the only extra cost is really the cost of food. The restaurant already has the real estate paid for the day, they have staff there, the lights are on..., so the only incremental cost for a restaurant is the cost of the food, which is roughly 30 to 35% in a fine dining restaurant. A restaurant that does 400 diners in a night, might have doubled their profit if they had done 420. If a fine dining restaurant has a $50 per person check average, and it's an incremental diner, they profit about $35. That would mean that they need to do ~12 incremental dinners to pay for the system on a monthly basis (12 X $35 = $420). The OpenTable network delivers about 300 diners on average per restaurant. Early estimates were that ~25% (or 75 of those) were incremental. That is a pretty good return on investment for the restaurant and that doesn't even include the value of the ERB.

After almost 11 years in operation, OpenTable went public in May of 2009, only the 3rd company to go public that year because of the terrible financial market from too much de-regulation and gambling bankers. OpenTable chose to list on the NASDAQ exchange under the OPEN symbol. Many have asked why it would choose to go out in May of '09 given the market conditions. They were able to go public because the company was selling very little stock on the open market, so any dilution was limited. There were a number of other benefits that made it a good choice (even in hind sight) to go public at that time, including favorable terms with the NASDAQ. OpenTable has continued to perform favorably given the challenges in their market. Today OpenTable has over 25,000 restaurants in over 18 countries, have seated over 280,000,000 diners online and over 550 high paying jobs.

I left OpenTable, because like most entrepreneurs I enjoy creating than operating. I have started, funded, advised, spoken at, mentored and sat on the board of dozens of companies. I now focus on conservation and efficiency of energy, collaborative consumption and the food systems enabled by technology, because as a father, husband, entrepreneur, investor, advisor, but most importantly an American, I believe that this is the greatest risks to our future. I am now in the beginning stages of another company called OhSoWe.com I co-founded with an entrepreneur named Arun Sivashankaran, focused on the collaborative consumption economy. Think Netflix or Zipcar but for everything else. Why own a few things we hardly ever use, when we can have access to just about anything we want if we share items with our neighbors and friends. We have become really efficient at building a wasteful buy-and-throw-away economy. As an example, there are ~60 Million power drills in the US that on average get used for 10 or 15 minutes a year. We don't need to just make more drills, we need efficient access to them. We need to reimagine our economy so that we don't build things (assets), using precious resources, which sit around unused most of the time. We need to create an economy that brings dignity, value, meaning and a high standard of living to all. We need to build an economy that doesn't export vast amounts of wealth overseas, but puts American's back to work building a better future. Our current system limits innovation, instead of fostering it.

We have huge challenges in front of us as a nation and as a species, but even bigger opportunities if we stop protecting the status quo. I meet entrepreneurs all of the time and I strongly advise to them about focusing on building businesses that "Stand for Something," besides just making money, to solve real problems, to change the world. That is what most entrepreneurs dream about and ultimately what moves our country forward. But with the concentration of wealth, the rules being written for the privileged few and stranglehold money has on our political system causes us to take short-term gains for the few and putting the greatness of our country at risk in the long term. I am lucky, I am one of the privileged. I am given tax breaks and incentives that don't encourage me to invest more, they just help me collect more money. We need a system that encourages, fosters, and enables innovation by helping those entrepreneurs that Stand for Something, because together we Stand for a Better Future for America.

As a father, husband, entrepreneur, investor, advisor, but most importantly an American, I believe we need the following to realize the future we are capable of:

- **Money out of Politics:** If there is one thing that would improve the chances of success for entrepreneurs, it would be to get the influence of money out of politics and dramatically limit the role of PAC's and lobbyists in Politics.
- **Off Carbon Based Energy:** to mitigate the catastrophic consequences to climate change. Plus this will open up huge innovation opportunities for future industries.
- **Smart Environmental Regulations:** I am not sure why it isn't obvious that natural resources are foundation of our economy and we need smart regulations to manage them for the long-term.
- **Upgraded Education:** We need to have the most educated population in the world to work at and start tomorrow's best new companies.
- **Intelligent Immigration:** We need immigration guidelines that allow our companies to attract the best talent from all over the world.
- **National Health Care:** A big risk for many entrepreneurs is that when the "quit their day jobs" to start a company that they generally don't have enough money to get health insurance and can't offer the best talent affordable health insurance.
- **Better Wealth Equalities:** At the current rate, there will only be more unrest (think Occupy Wall Street) that will cause continued drain of our government resources to monitor and police.
- **A Buffet Rule Tax System:** The rich need to pay the same rate as everyone else.
- **Level Playing Field Regulation:** Consistent regulations that don't protect the status quo of big banks, big oil and the rich, but protect our citizens and spur innovation.
- **Change from taxing labor to taxing resources:** If we had a tax system that taxed the use of resources, but didn't tax labor, there would be a tremendous shift from employing machines to do a job to employing people to do jobs.

My Entrepreneurial Experience:

- **OpenTable.com (@OpenTabl)** – Founder – Provider of free, real-time online restaurant reservations for diners and reservation and guest management solutions for restaurants.
- **OhSoWe.com (@OhSoWe)** – Co-Founder – Share More. Consume Less. Help Each Other. Peer to peer collaborative consumption for local things and skills.
- **GrubHub.com (@GrubHub)** – Chairman, Advisor – With over 25,000 delivery and pickup restaurants, GrubHub helps you find and order food wherever you are.
- **Getable.com (@Getable)** – Director – Bringing the "rentals industry" online, offering free, real-time reservations for consumers and cloud-based business management and product listing solutions for local rental shops.
- **PVPower.com (@PVPower)** – Director, Investor – The technology backbone of America's independent solar installers, helping them design, price, quote, sell, finance and manage system installations.
- **Braintree Payment Solutions (@Braintree)** – Advisor – A next generation payments company that provides elegant tools for developers and white-glove support for customers.
- **Cleversafe (@Cleversafe)** – Investor – Limitless Data Storage.
- **I-Go Cars (@igocarsharing)** – Director - The lowest priced, greenest and only local non-profit car sharing service in Chicago.
- **Collaborative Fund (@Collabfund)** – Limited Partner – A leading source of capital and strategic support for entrepreneurs who want to change the world by shifting from an economy based on hyper-consumption to one based on collaborative consumption.
- **Impact Engine (@TheImpactEngine)** – Limited Partner - Impact Engine is a 12-week social venture accelerator that provides an injection of funding, resources and support to a community of social entrepreneurs
- **Menuism.com (@Menuism)** – Advisor – Menuism is an online dining community and the web's largest aggregator of restaurant menus.
- **SignMeUp.com (@SignMeUpdates)** – Advisor, Investor - Provides software and services for online event registration, membership management, subscriptions, ticket sales, donations and fundraising campaigns.
- **SlowDwelling.com (@SlowDwelling)** – Reimaging urban living to increase our standard of living and reduce our impact on the planet.
- **Directly involved in over a dozen others…**