

Regional Innovation Acceleration Network

*The network of venture development organizations driving America's economy—**SMARTER. FASTER. FORWARD.***

Venture Development Organization Profile

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UND Center for Innovation

Ina Mae Rude Entrepreneur Center

University of North Dakota

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Overview

The Center for Innovation at the University of North Dakota in Grand Forks was among the first university-based entrepreneur outreach centers in the nation when formed in 1984. The Center provides assistance to innovators, entrepreneurs, and researchers to launch new ventures, commercialize new technologies, and secure access to capital from private and public sources throughout the state of North Dakota and northwest Minnesota.

The Center for Innovation's vision and mission are to maintain national leadership in entrepreneur outreach and education, and become the leader in technology entrepreneurship in rural America. The Center's goals are to:

- Grow entrepreneur ventures
- Foster innovation
- Secure access to entrepreneur capital
- Provide superb entrepreneur infrastructure
- Provide world-class entrepreneur education with the UND Entrepreneurship Program

The 1970s were a difficult economic time for the state of North Dakota as its economy, which was heavily dependent on the agriculture and energy industries, saw significant declines in both sectors. As a result, people began to focus attention on ways to diversify the economy of the state. The Center for Innovation was conceived by



Bruce Gjovig

Bruce Gjovig, who still serves as its director today, when he was working at the UND Foundation. He was intrigued by the entrepreneurs who were part of the university's alumni base, and developed the belief that the university should be more engaged in helping to foster and support entrepreneurship and innovation. The idea was ultimately supported by a number of alumni and the President of the University at the time. The University granted the Center an initial \$20,000 to try this experiment, and 15 entrepreneurs provided additional annual contributions over the first five years. The Center for Innovation was a joint program between the College of Business and the School of Engineering, using faculty and students to help entrepreneurs.

Today, most North Dakotans recognize that the state is not one to which many companies immediately consider a place to relocate. Therefore, future job creation will most likely have to be created by the people who already live in state. The Center recognizes this conclusion and believes the state's economic future depends on strong innovation, entrepreneurship and investment.

In order to help achieve its mission, the Center's annual operating budget is approximately \$1.4 million, and its revenue comes from a variety of sources:

- 6% from the University of North Dakota to provides services to students and faculty
- 35-40% from incubator operations and services
- 10% from the State of North Dakota to operate the Innovate ND Program
- 25% from philanthropic donations, primarily successful entrepreneurs who want to help further the mission of the Center 12% from the U.S. Economic Development Administration (EDA) and the State of North Dakota to support the Red River Valley Research Corridor University Center. This designation is shared with the North Dakota State University Research & Technology Park.
- 7-12% from fees for service, contract work, and other grant programs

VDO Programs and Services

The Center provides a suite of entrepreneurial assistance and financial offerings which include: two technology incubators, SBIR outreach, and access to various risk capital funds. It also is very focused on entrepreneurial education and experiential learning, including being home to the only student managed venture fund in the nation. Since its founding, the Center has fostered over 500 startups, which employ more than 4,800 people and have attracted over \$130 million in investment. A summary of the Center's activities is provided below.

Business Advisory Services

Student Entrepreneurship: A core focus of the Center from its inception was to develop entrepreneurial education and experiential learning for the students at the University of North Dakota. A central component of that activity is the Mueller Entrepreneur Internship program. Through the internship program, students are afforded the opportunity to work on their own venture within the technology incubator. The internship is made possible by UND alum Kurt Mueller, who is the Past-President of the Kauffman Center for Entrepreneurial Leadership in Kansas City, Missouri. Since 1997, Mueller has



made significant gifts to the Center for Innovation for a student internship program to encourage and foster student ventures, and to learn entrepreneur skills by working in an entrepreneur environment. Over 120 students have taken advantage of the internship opportunity since 1997. Of those students, approximately 75 percent have ended up starting their own company and gaining invaluable experience.

In addition to the Mueller Internship that is focused specifically on creating student-led ventures, students also are encouraged to work with the companies that the Center is assisting, and at the Center itself. Many start as internships that lead to full-time employment opportunities upon graduation. Of the approximately 500 companies that have received assistance from the Center, about two-thirds have had some student involvement.



Incubation: The Center operates two technology incubators within the University of North Dakota Research Park: The Ina Mae Rude Entrepreneur Center and the Skalicky Tech Incubator, formerly called the Rural Technology Center. The services and staff of the two incubators are the same; however, one is owned by the University and the other building is owned by the Center's Foundation. The foundation actually raised the money for both buildings, but gifted one of the buildings to the University who pays for the utilities and janitorial services. The rents collected for both buildings are used for the operations of the Center.

The Center believes that a key component of its ability to build an entrepreneurial community is to provide very flexible, adaptable space that provides access to knowledgeable staff as well as other entrepreneurs. The incubators also focus heavily on what the Center perceives to be one of the greatest needs within the region, IT communications infrastructure. Most start-up companies cannot afford the complex systems during their start-up phases, therefore the incubators have developed shared server rooms in addition to other infrastructure components with a full-time technician that is available to provide assistance.

The Center also feel strongly that its model is focused on delivering services, which is actually more important than providing space – although flexible space remains valuable. The Center has a model through which it licenses the space by the work station, not by the square foot. In other words, the charge rate for occupancy is based on the number of full-time equivalent employees that the company has.



Innovate ND: In order to provide entrepreneurial assistance across the State of North Dakota, the Center established the Innovate ND program. Innovate ND is a venture competition as well as an online entrepreneurial education program that is funded by the North Dakota Department of Commerce through a contract with the Center. Innovate ND provides on-line educational content, including a business planning workbook and financial projections software, in addition to the mentoring and coaching each company receives. Because it is web-driven, entrepreneurs from across the state can participate from any location at any time of day.

An interesting aspect of Innovate ND is that the program is open to all North Dakotans, whether they are current residents or former, as long as they intend to locate the venture in North Dakota. The program in particular targets students, alumni, and faculty that may be interested in starting a company around an innovation.

The process is intended to help refine venture development and the investor pitch. At the end of about a nine-month process of online education, as well as a few in-person boot camps, the participating companies are narrowed down to 20 finalists who have the most viable ideas, who then participate in a venture competition. The companies have the opportunity to pitch their idea plan to approximately 10 angel investors who then determine the top five winners.

Even if the company does not receive risk capital as a result of the competition, they do acquire the knowledge of how to develop an idea into a venture. A number of the ideas have gone on to be successful business ventures and acquire financial capital through other means. Today, more than 800 people have gone through the program, which in turn has helped raise the level of entrepreneurship activity in the state.

Rural Outreach: In addition to its on-site assistance provided through the two incubators, the Center for Innovation also provides technical assistance to rural virtual clients in partnership with the Cooperstown-Griggs County EDC through the Rural Technical Assistance Program. The program is funded by a Rural Business Enterprise Grant (RBEG) from USDA. RBEG funding makes it possible for the Center to provide individual coaching to small and emerging rural businesses (defined as being located in a rural community with a population size of 5,000 or less) by assisting with business plans, feasibility and marketing studies, and market outreach. The USDA grant underwrites 75 percent or more of the cost of working with these companies in rural areas. To date, the Center has worked with more than 40 companies through this program.

SBIR Outreach: Since shortly after the inception of the federal SBIR Program, the Center has been providing outreach and educational services to assist in proposal writing. The Center helps a company determine whether this program is a good fit for their company's research and development goals and assists them with the proposal

process. The Center for Innovation has been the recipient of funding from the U.S. Small Business Administration's FAST and Rural Outreach programs, matched by State funds, to provide technical assistance and a Phase 0 program where companies are reimbursed up to \$1,500 for expenses incurred in writing the proposal, such as hiring a grant proposal writer, SBIR/STTR proposal review and enhancement, etc. Federal appropriations for the SBA Rural Outreach and FAST funding have been intermittent over the decade for all states. During the time that funding is not available, the Center either has charged for services or limited the amount of time the staff can spend on the activity. As a result of the SBIR assistance, North Dakota has been able to convert about one of every four applications into an SBIR Award, well above the national average.



Entrepreneur Forums: Another critical component of the Center's focus on building an entrepreneurial community is its Entrepreneur Forum events. For approximately a decade, the Center has been hosting forums during which successful entrepreneurs talk about their lessons learned, best practices, and other information relevant to the entrepreneurial community. Forum presenters have included entrepreneurs from all walks of life, as well as angel investors, and venture capitalists. While it is considered to be an education program, it is also meant to build a community by allowing successful people to come in and share with other entrepreneurs.

In addition, once or twice a year, the Angel Capital Association is invited to provide a seminar for the regional angel community, again in an attempt to create a community among the angel investors. Seminars have included topics such as term sheets, conducting evaluations, early exits, and managing portfolios. The seminars are held around the state and pull in others from across the Great Plains, again trying to build a larger community within the vast geographic region that the Center serves.

Financial Capital

The Center for Innovation manages several financial capital funds in addition to helping its companies gain access to other external sources. The funds managed internally are discussed below.

Dakota Entrepreneur Seed Fund Initiative: The Center received \$75,000 from the Dakota Foundation to establish a loan fund to seed student ventures in North Dakota. The loan fund provides college-aged individuals or recent graduates with low-interest

loans or short-term equity investments to cover start-up costs for their ventures. The Fund benefits university entrepreneurs by providing seed capital to individuals who would not otherwise qualify for conventional financing because they lack of collateral or equity. Participating students are paired with mentors, with careful attention to matching interests and talents, and they receive entrepreneurial assistance from the Center.

The program assists young entrepreneurs by providing seed capital to which they would not otherwise have access. This program also contributes to economic development through the creation of new startups launched by creative students. The Dakota Foundation has stated, “We wanted to help enterprising college students start viable companies while in college, which will help them become self-reliant as we stimulate the economy of North Dakota.”

To be eligible to apply for the program, students or recent alums must successfully complete entrepreneurial training from a source approved by the Center for Innovation. After the loan is made, entrepreneurs must meet with Center staff on a monthly basis for up to date reports of venture success.

Most loans are \$5,000 to \$15,000. It is expected the funding will not exceed 50 to 75 percent of the total funding required to launch the venture. To date, the Center has loaned \$114,000 to eight ventures. Of these, only two have failed.



Dakota Venture Group: The Dakota Venture Group (DVG) is a University of North Dakota student run venture capital investment fund. DVG is the first completely student run venture capital fund in the United States. DVG was established in September 2006 through a donation from the Dakota Foundation, and is an initiative of the Center for Innovation Foundation. DVG provides students the opportunity to complete all due diligence, make the final investment decision, and negotiate the deal’s term structure. By participating in DVG, UND students receive experiential learning in the field of venture capital and angel investing. The impetus of the fund was the desire of the benefactor to determine if it was possible to have students achieve as high a caliber of performance on the equity investment side of the equation as they had on the entrepreneurship and coaching side.

The fund invests in ventures created by students and recent UND graduates as well as in venture capital opportunities in the North Dakota-Minnesota region. All investments are made with the goal of fostering economic growth. Any returns on the investments made through the fund are put back into the fund pool to continue the venture capital fund.

The fund has a five-member managing group. The fund also has a group of 20 to 30 members that are learning about the process and hope to be one of the fund managers. The members represent a wide array of students in law, MBA, undergraduate and graduate engineers, entrepreneur majors, financial majors, and medical school students. Each managing director is responsible for bringing in and selecting their replacement.

The fund was capitalized with \$400,000 and to date has invested in approximately 11 deals with the investment size ranging from \$15,000 to \$50,000. There also has been one successful exit with a moderate return. The fund has \$90,000 left to invest, and the

fund is currently seeking to recapitalize itself. In addition, DVG is also in the process of starting a for-profit Harvest Fund which intends to produce returns for Harvest Fund investors. With the addition of the Harvest Fund, DVG members have the opportunity to receive scholarships generated by the Harvest Fund.



EB5 Regional Center for North Dakota and Northwest Minnesota: The Center for Innovation was designated in April of 2011 as the EB5 Regional Center for North Dakota and Northwest Minnesota. The EB5 Program is a federal program administered by the U.S. Citizenship and Immigration Service (USCIS). The EB5 program provides temporary and then full green cards for foreign investors who invest \$500,000 in a rural area, and up to \$1 million in an urban area that in turn result in jobs in that region. It is viewed as a program that incentivizes foreign direct investment in companies that in turn create jobs. There are between 40 to 50 active regional centers across the nation.

Although the program is just beginning, the Center has a goal of closing approximately four to five deals a year thereby receiving an infusion of equity into the economy of \$500,000 to \$5 million. They view this type of investment as basically Series B or C funding, and anticipate that it will be follow-on funding from the prior angel fund investments. In other words, the Center views this new program as a continuation of the financial continuum by providing access to later-stage pipeline funding.

In addition to the programs that the Center manages, the Center also helps its companies gain access to the other financial resources located within the region. A few of the resources are highlighted below.

Angel Funds: The Center has helped to form nine pooled, member-managed angel funds across the State of North Dakota, and continues to provide intensive services to five of them, including helping with the screening process, due diligence, and with syndication. The size of each angel fund varies from 15 to 30 members with about \$600,000 to \$1.6 million to invest, in addition to potential side-car deals. The average investment size ranges from \$50,000 to \$200,000, and almost every deal is syndicated with the other angel funds. This is critical because the Center's philosophy from the beginning regarding pooled angel funds was that the funds need to have a minimum of 10 companies in their portfolio, preferably 15, with no more than 10 percent of the fund invested into any one deal. In order to achieve these levels of balance, syndication is essential.

One of the secrets of success to North Dakota's growing angel base is the conversion from the single angel investor to the pooled fund. Before, single individuals were typically willing to invest only in companies in which they had a significant comfort level; either directly in the entrepreneur or in the market space and technology. Under the pooled fund approach, there is always somebody who is an expert in that market or technology, providing a higher level of comfort for the rest of the members. As a result, a significantly larger amount of risk capital has been invested.

North Dakota Seed Capital Tax Credit: One of the catalysts for the growth of the angel community is the State of North Dakota's Seed Capital Tax Credit, also referred to as the angel tax credit. North Dakota has had an angel tax credit for 20 years and a pooled angel tax credit since 2005. The income tax credit is equal to 45 percent of the investment. No more than \$112,500 of the credit may be used in any year. An unused credit may be carried forward up to seven years for a total of eight taxable years (increasing to seven from five this year). In April of 2011, the North Dakota Legislature passed HB 1057 further strengthening the angel tax credits by modifying its pooled angel fund legislation. The significant changes included making all pass-through entities eligible for the angel tax credits, and adding transferability for out-of-state investors or in-state investors who do not have a tax liability. The bill was passed with overwhelming bipartisan support.



Bank of North Dakota: The Bank of North Dakota is the nation's only state-owned bank, and as such is not a member of the FDIC. The Bank of North Dakota serves as a pseudo Federal Reserve for a number of banks in the state. Important for the growth of entrepreneurial endeavors, the Bank also offers innovative capital financing programs to help generate new wealth and new jobs in North Dakota. Specifically, the Bank offers the Beginning Entrepreneur Loan Program, which will provide financial institutions with an 85 percent guaranty of a loan not to exceed \$100,000. In addition, the Bank offers guarantees on loans up to \$5,000 to a beginning entrepreneur for business start-up expenses, and can guarantee a loan up to \$25,000 without requiring collateral for the loan. Since 1999, the Bank has closed over 300 loans totaling over \$14 million with a minimal default rate.

In addition, the Bank of North Dakota has also financed the New Venture Capital Program that is administered by the North Dakota Development Fund. The \$10 million program provides flexible financing through debt and equity investments up to \$300,000 for new or expanding businesses in the State of North Dakota. The intent of the program is to provide a one-to-one match for capital raised by rapidly growing companies. The company must be able to show clear proof of completed product development and market acceptance as evidenced by growing sales. This program has invested in ventures with the pooled Angel Funds several times.

Moving the Needle

The Center for Innovation has had significant impact in two distinct areas during its long history. First is the impact it has had on "growing its own" by helping to develop a robust entrepreneurial educational program and experiential learning experience in all aspects of innovative endeavors for the students at the University of North Dakota. From its internship programs to student-run venture funds, the entrepreneurial experiences that the students are receiving are creating a new culture in the State of North Dakota. As a result of this work, the entrepreneurial program at the University was ranked in the Princeton Review and Entrepreneur magazine's "Best Schools for Entrepreneurs" from 2004 through 2010.

The combination of utilizing talented students and accessing experienced entrepreneurs has proven dynamic and motivating for both groups as well as the Center. The

entrepreneur-minded students were given an opportunity to be immersed (experiential learning) in entrepreneurship while the experienced entrepreneurs were motivated to work with both students and nascent entrepreneurs. Center leadership attributes this dynamic combination as one of the most compelling reasons the founding director has been able to raise over \$30 million in operating support for the Center for Innovation over the last 26 years.

In addition, the Center has been able to significantly impact the risk capital climate of the state as it helps to develop a network of angel funds, as well as help establish sound public policy related to tax credits and creative, innovative financing programs offered through the Bank of North Dakota.

Organization

The Center has a staff of 12 individuals who are all University employees. A number of the staff are UND alumni, a few of them were involved with various aspects of the entrepreneurial programs while students and some are successful entrepreneurs.

Since the Center for Innovation is a department of the University of North Dakota, the Center for Innovation Foundation, a separate, independent, non-profit 501(c)(3) was created to support the Center's programs. The Foundation's board of trustees is comprised of seven successful entrepreneurs. The Foundation contracts for services with the department in addition to granting money for programs and activities. This arrangement has allowed for maximum flexibility as other revenue streams are sought from a variety of sources. In addition, the trustees serve as strong advocates and help ensure that the necessary resources are available to make programs, services, and investments available to the entrepreneurial community of the region.

Summary of Key Success Factors

There are a number of key success factors that have enabled the success that the Center for Innovation has achieved. First, the Center has remained focused on what entrepreneurs need to ensure a sustainable, scalable, executable business model. This has enabled the Center to garner very strong support from the entrepreneur community, which has greatly attributed to its longevity.

Second, the Center recognizes that all good companies are built on entrepreneurial talent. Ensuring that a student's academic pursuit includes entrepreneurship and innovation helps to build talent and create a pipeline of future entrepreneurs and staffing for entrepreneurial ventures.

Finally, the Center has succeeded because of the passionate leaders that had a vision for the economic diversification of the state's economy, and have dedicated significant time and resources into building an entrepreneurial community in North Dakota. As Bruce Gjovig, the Director of the Center, states "I have found my passion. There is nothing I'd rather do than work with creative entrepreneurs and innovators. I love the coaching and love that engagement with them. I like working with students. I have been extremely fortunate to find my passion."