Overview

TechColumbus is a venture development organization (VDO) serving the 15-county region of Central Ohio including Columbus. The vision for TechColumbus is to be the catalyst for technology-driven economic growth in Central Ohio by finding, mentoring and funding the best technology startups in the region.

The organization works to create new companies, strengthen existing businesses, open doors to technology resources, help promote and attract the next generation of high-wage/high-growth industry sectors, support the attraction and retention of talented people, and promote opportunities for all citizens. In addition to its VDO programming and activities, TechColumbus also serves as a technology advocacy and membership organization for large and small technology firms. Since its creation, TechColumbus’ membership has grown to nearly 700 members representing more than 175,000 employees.

The programmatic elements of TechColumbus arose from a broad regional desire. Business, civic and university leaders of Central Ohio had long recognized the economic growth potential the region’s research assets presented, but for years struggled to determine the most effective initiatives to leverage these resources. In October 2005, area leaders came together with a plan to create an organization, TechColumbus, in an effort to leverage the region’s strong research base and increase its entrepreneurial success through attracting capital, creating high-paying jobs and increasing the number of successful technology startups.
TechColumbus was formed through the merger of the Columbus Technology Council, the largest membership organization for tech-based and tech-enabled businesses in Central Ohio, and the Business Technology Center, regarded at the time as one of the country’s leading technology business incubators. In addition, SciTech, The Ohio State University’s (OSU) research park where TechColumbus is located, also transferred to the new organization a number of its commercialization initiatives, including its pre-seed fund portfolio. This merger was a direct result of the recognition of civic leaders that there had to be greater deal flow in the region than was being recognized and serviced. The conventional wisdom at the time was that there were probably potential entrepreneurs that were not choosing to create new companies because they did not see a cohesive system to support their endeavors. Furthermore, the initiatives that did exist were viewed as under resourced and often in competition with one another for funding.

At the same time, the State of Ohio began implementing initiatives through the Ohio Third Frontier aimed at catalyzing the commercialization of advanced technologies in an effort to transform Ohio’s economy from an industrial base to an innovation-based economy. The Ohio Third Frontier awarded TechColumbus a $15 million grant that was matched by $7.5 million in local cash. The funding flowed through the Ohio Third Frontier’s Entrepreneurial Signature Program, which created six regional entities across the State of Ohio to provide a combination of coaching, mentoring, funding, incubation and community partnerships focused on the single goal of increasing the technology-based entrepreneurial capacity of the region. TechColumbus’ grant was focused on developing that entrepreneurial capacity in Central Ohio.

Since the original $22.5 million public-private investment, funding for TechColumbus’ venture development initiatives has been provided by a wide variety of sources:

- $7.3 million additional funding from the State of Ohio Third Frontier Success & Pre-Seed Fund Initiative;
- $4.4 million from community partners of TechColumbus, including the cities of Columbus, Dublin, Upper Arlington, Gahanna, Westerville, and New Albany, Franklin County, and corporate and institutional partners including The Ohio State University, OhioHealth, and Huntington Bank; and
- $2.45 million from private investors in the Ohio TechAngel Fund III.

To date, TechColumbus has assisted approximately 1,224 companies, and invested $17 million into 100 technology startups. These companies, in return, have generated product sales of $309 million, raised an additional $377 million of capital, and created 1,230 jobs with an average salary of about $69,900 per year. A recent study indicated that the City of Columbus, based solely on those jobs created inside the city limits, generated an additional $1 million a year in revenue from payroll taxes.
VDO Programs and Services

Business Support/Assistance Programs

TechColumbus’ entrepreneurial support activities include a wide range of programs and services including outreach to attract deal flow, coaching and mentoring, physical incubation, and a series of funding opportunities. Specifically, TechColumbus focuses on the following services areas:

Engaging with Startup Companies and Entrepreneurs throughout the Central Ohio Region: Central Ohio encompasses a 15-county service area that represents a diverse socio-economic climate ranging from very rural to mid-sized towns to Columbus, which is the largest metropolitan region in Ohio. Engaging this diverse population within the region in order to attract all possible technology-based deal flow has been a critical component of the TechColumbus model. Each year, TechColumbus is approached by approximately 1,600 entrepreneurs or potential entrepreneurs. The vast majority of these companies are not technology-based startups, so TechColumbus has a close working relationship with the regional Small Business Development Center (SBDC) to which these companies are referred.

Coaching/Mentoring and Commercialization Resources: Of the roughly 1,600 companies that make initial contact with TechColumbus each year, there are approximately 325 companies that are actively engaged annually; 100 to 150 at any given time. TechColumbus will review the business plan in order to understand the company’s value proposition, analyze market entry strategies and risk capital strategies. The coaching/mentoring services are staffed with a broad spectrum of entrepreneurial and business development expertise spanning the entire continuum of entrepreneurial deal flow:

- Domain Specific Expertise: TechColumbus offers domain specific expertise in three identified areas: life sciences, information technology software, and advanced materials, which includes a growing interest in clean tech/green tech. TechColumbus Directors of Commercialization, with industry-specific expertise in each given area, engage with startups within these domains. They offer entrepreneurs insights, connections, resources and guidance.

- Universal Business Development Expertise with Geographic Focus: TechColumbus has a team of Business Development and Startup Specialists whose efforts extend into the 15-county service area. These specialists connect with entrepreneurs and are responsible for capturing and analyzing all deals within the region, discerning in what phase of commercialization they reside, and providing phase-appropriate services as required.

- Entrepreneurs-in-Residence: Companies receiving funding from the TechColumbus Pre-Seed Fund are assigned the services of an Entrepreneur-in-Residence (EIR). The EIR team consists of highly experienced entrepreneurs who have been involved in the successful creation of technology-based startup companies and early-stage venture deals. Each Pre-Seed portfolio company
receives approximately 1,000 hours of commercialization expertise from their assigned EIR, who plays an operating role in the company. Many EIRs will eventually transition to full-time employee status with one of his/her portfolio companies. This strategy of recruiting and tapping the expertise of EIRs is one of TechColumbus’ tactics for bolstering the executive talent pool within the region.

All three types of staff, at one level or another, provide what TechColumbus refers to as “acceleration consulting” utilizing a stage gate process focused on defining the market, identifying the key customers in that sector, developing and refining the product, identifying the appropriate sales channel, and implementing a capital access plan, and developing a staffing plan.

**Incubation:** TechColumbus operates a 62,000-square-foot technology business incubator. The physical incubator provides business services, laboratory facilities and office space to approximately 30 startups involved in pursuits ranging from IT to medical device development to advanced materials and nanotechnology. In addition to the business services and affordable rents, tenant companies receive business mentoring assistance and connectivity to resources as represented by the TechColumbus Venture Development team.

**Financial Capital Assistance**

TechColumbus and its partners strive to provide a complete continuum of funding spanning the full spectrum of deal flow from the imagining phase, through proof of concept, to the pre-seed stage, Angel funding and the attraction of follow-on venture capital as illustrated in the figure below.

Three specific funds are part of the TechColumbus balance sheet:

**Grant Assistance:** At the beginning of the continuum is access to federal grants. TechColumbus provides funding for grant writing assistance to qualified companies who are applying for grant monies from various federal innovation programs. The funds help
to hire proposal writers for companies that are applying primarily for SBIRs or STTRs to create a potentially venturable business. It is not used for companies that are “SBIR-mills.” TechColumbus focuses the funding on companies that can create jobs. Grants are up to $4,000 for Phase I proposals and $10,000 for Phase II proposals. There are currently ten active grant assistance projects underway (eight are Phase 1 and two are Phase 2).

TechGenesis Fund: TechColumbus considers its TechGenesis fund to be its most impactful financing program, and the greatest differentiator from past practice. Early in its history, TechColumbus recognized that its biggest challenge was identifying quality deal flow. While it was evident that significant research was undertaken in the Central Ohio region, a program needed to be developed that would quickly draw a potential entrepreneur into the TechColumbus process and validate whether or not the idea or business model was feasible. TechGenesis was created as a $2 million fund providing grants of up to $50,000 for researchers and entrepreneurs to transition the most promising early ideas and technologies from concept to commercialization activities. Uses of funds include market identification and validation, intellectual property analysis and protection, prototyping and regulatory research. Another term for the fund is the “fail fast fund”. In other words, if TechColumbus determines that the intellectual property is flawed or that the market size for the proposed product is insufficient, TechColumbus will discontinue the funding. “Failing fast” saves the entrepreneur, TechColumbus, and the community the time, energy, and money to pursue an idea that will likely fail. The successful endeavors in turn create validated deal flow, which is ultimately the goal of the fund.

Of the 46 companies that have been approved for TechGenesis investments to date, 43 have entered contracts for use of the funds and started or will start drawing reimbursement funds for validation tasks. Of those 43, five projects were ended by TechColumbus due to lack of satisfactory results, after having drawn down only a portion of the awarded aggregate grant amount. Another 12 have successfully completed their TechGenesis phase and are working to prove their merit in the marketplace and attract follow-on funding. The remaining 26 projects are still underway and are being monitored closely.
**TechColumbus Pre-Seed Fund:** TechColumbus manages $8.6 million across four pre-seed funds that provide convertible debt financing for Central Ohio companies to complete the steps necessary to attract financing from venture capital and other sources. The convertible debt investments, with milestone-based cash draws, are made in up to six rounds of investments per year. There are also ten-year warrants for common stock associated with the investment. The maximum initial amount that can be invested in a company is $250,000, with the possibility for follow-on investments that include co-investors in future rounds. Nine rounds of pre-seed investments have been committed to 12 companies, with the most recent completed in December 2010. Ten of the 11 funded pre-seed companies have received additional funding from angels, angel groups and/or venture capital firms. Additionally, eight of the 11 are generating revenues, a key metric of success along with follow-on funding.

TechColumbus manages two additional for-profit limited partner funds that are not part of the TechColumbus balance sheet. They are:

**Ohio TechAngel Funds:** the Ohio TechAngel Fund (OTAF), today the nation’s largest organized angel investment group with 282 investors, supports emerging technology companies in Ohio by providing seed investment and mentoring. The three funds that have been raised primarily focus on physical sciences, information technology, and life science companies, and to date the vast majority of the funding has gone to companies located in Central Ohio, although OTAF will invest in any Ohio company or any company willing to locate in Ohio.

There are 98 limited partners in each of the three funds who each invested $25,000. Each fund then also received an Ohio Third Frontier grant that matches the private investment. The investment decisions are made entirely by the membership of the fund. Therefore, there is a very robust process by which the company presents to the membership, followed by due diligence if it is determined to be the appropriate course of action based on the presentation. The due diligence is presented back to the members, and the members vote whether to invest $200,000 of the fund’s money into the company. It is structured as a full participating preferred type equity investment. This is critical because follow-on venture investors have more faith in a prior investor if they can see that they’re following the basic terms that are used in the market today. There is also the opportunity for up to $100,000 in follow-on investment.

To date, OTAF has successfully raised three funds totaling $11.35 million, and has invested $7.9 million in 25 Ohio companies. OTAF is also a “sidecar” angel fund, meaning that individual members will make investments in particular companies alongside the OTAF investments. One hundred and six members have invested an additional $9.5 million in the Funds’ 25 portfolio companies. It is recognized within the investor community that the unique nature of the OTAF structure has brought more people to the table that would not necessarily invest on their own. This has strengthened the risk capital market in Central Ohio.
Co-Investment Fund: A $2.5 million for-profit venture fund with two limited partners: Nationwide Insurance which invested $1 million, and the Ohio State University which invested $0.5 million. The Ohio Third Frontier matched the private investment with an additional $1 million. The fund invests alongside deals of the Ohio TechAngels Funds and TechColumbus Pre-Seed Fund in order to amplify the value of the financing round. The investment committee is made up of the limited partners and a TechColumbus team member. The goal of the fund is to provide more capital to the most promising pre-seed or OTAF portfolio companies.

Education and Member Services

TechColumbus seeks to create connections between people—particularly technology-based business people from large or small companies. These connections focus on developing mutually advantageous synergies as well as ensuring that the business community understands the resources that are available to them within the region. As a result, membership in TechColumbus has grown to nearly 700 companies since its founding.

Through the organization’s programming, Central Ohio entrepreneurs have access to over 220 educational, professional development and networking events each year. In addition, all funded and incubator portfolio companies receive TechColumbus membership.

Finally, an important part of TechColumbus’ activities is celebrating the successes of the technology/business community. As a result, TechColumbus works to communicate regional successes and to stage celebratory events such as the TechColumbus Innovation Awards which draws 1,100 attendees annually.

Moving the Needle

TechColumbus views itself as having significant impact in two specific areas. First, the organization recognized the gap in the early stage funding and provides support helping to fill it. As a result, in 2010 funding for entrepreneurial activity set new regional records with 117 startups receiving $307.56 million in innovation capital to fuel the growth of their businesses. This is a 73 percent increase over 2009, and is the largest increase in
innovation capital on record in the region. More companies, distributed across all stages of growth, received funding in 2010 than ever before. Since 2005, when TechColumbus was created, innovation capital has almost quadrupled in the region.

Second, the generation of more quality deal flow in the region has doubled over the time period. It is believed that the quality level of business assistance and financing that is now available in Central Ohio has dramatically improved the entrepreneurial culture. TechColumbus recognizes it is not solely its services and funding, but the entire innovation system of the region that has produced this significant increase. This innovation system includes three venture funds, a business plan competition at The Ohio State University, and the activities of regional research institutions that are engaged in commercialization support. There is today a significant amount of entrepreneurial activity within the region, and TechColumbus believes that it has been an integral partner and catalyst – if not the leader – behind the economic results in the region.

Organization

TechColumbus employs 30 FTEs; twenty are dedicated to venture development duties. The organization scaled up very quickly in 2007, and had to quickly understand the skill sets that the organization required to be successful. TechColumbus has focused on developing specialists related to their specific programmatic functionality, and has minimized the number of generalists on its staff.

TechColumbus believes that for a Venture Development Organization to truly succeed it needs to hire people-oriented team members who can focus on helping entrepreneurs succeed. Team members need to be empathetic with the entrepreneur and, at the same time, very business-focused. Individuals, who can nurture the right coach-counselor balance in the relationship, as with all successful mentoring activities, build critical trust for the entrepreneur to engage fully in the partnership with the VDO.

In addition to the staff, TechColumbus also has an active 17-member Board of Directors that provides active assistance in the area of venture development. TechColumbus looks for board members who have an understanding of the community and bring skill sets that guide the organization’s strategy and performance.

TechColumbus, like other Venture Development Organizations with membership/technology council components, views its nearly 700 company members as its greatest advocacy base and resource for entrepreneurial assistance. Participation in networking, programming and other membership-based activities increases the members’ commitments to the VDO’s and community’s goals for regional growth through each company’s success.

Summary of Key Success Factors

Four key success factors have enabled TechColumbus to achieve its goals. The first is its strong focus. From the beginning, TechColumbus had a clear understanding of the results it needed to achieve – the development of companies that could scale and grow in the region. As a result, it has focused the majority of its activities on the companies
it feels can meet that goal. While TechColumbus has actively supported the entire entrepreneurial community, its core mission has been to focus its energy and resources on the goal of creating scalable companies.

The second success factor has been its determination to partner with a wide variety of regional entities, including Angels and venture funds, municipalities and county government, other economic development organizations, the region’s vast research institutions, and grassroots entrepreneurs. These partnerships have helped to generate successful companies and to sustain TechColumbus in the long-term.

The third success factor is the rigor with which TechColumbus makes its investment decisions. Ideas for new companies are initially reviewed by TechColumbus experts who determine which seem the most promising. TechColumbus brings these opportunities to its Deal Flow Assessment Committee, made up of venture capitalists, industry experts and other commercialization experts, to determine whether a TechGenesis grant is needed. A separate Investment Committee, also made up of outside experts, decides whether a company warrants a pre-seed investment. EIR’s coach invested companies to meet pre-determined milestones. In these ways, TechColumbus attempts to simulate the private marketplace as much as possible. In TechColumbus’ opinion, that is one of the key ingredients to a successful Venture Development Organization, especially one with significant risk capital to invest.

The final success factor has been TechColumbus’ ability to collaborate with all venture and entrepreneurial support organizations from around the region. TechColumbus hosts meetings of these organizations several times a month as part of the Deal Flow Assessment Committee process, and it freely shares information and investment opportunities with all interested investors. As a result of bringing all of the partners “into the tent,” these meetings have led to a marked increase in the number of promising young investable companies that have launched in the region.