OPINION

By Casey Cowell

A capital idea!

Casey Cowell is a tech entrepreneur, philanthropist and startup investor. He is a principal of local investment group Boomerang Catapult LLC.

John Aiken moved his company, Web Canopy Studio, to Traverse City from Indiana 12 months ago.

Seven high-paid, year-round workers entered our local economy. John sought to borrow $150,000 to expand his business — but lacking hard assets as collateral, he struggled. After 12 months he was able to secure financing of $50,000 from a local bank. He quickly created two more high paying jobs.

We can create more high paying jobs like these but it takes funding.

The U.S. Small Business Administration (SBA) and other researchers estimate that 60 percent of new jobs are created by newer, small businesses. Consolidated net job change for large, older companies is negative. If we want an economic engine that creates great jobs in our region, we need to support and nurture startups and early-stage companies. So how can we get these companies financing to start and grow?

If you want to purchase a pizza oven, coffee machinery or brewing equipment, there are many banks and commercial lenders that will provide financing. There is tangible collateral in case of default.

Most New Economy companies have relatively little in the way of hard, physical, financial assets. In many cases the assets are virtual and intellectual. They are ideas or computer code, not buildings, vehicles and wine presses. The main asset often is human capital — meaning bright, creative employees.

Lending with physical assets as collateral has gone on for thousands of years, but the concept of human capital first was explored by Professor Gary Becker at the University of Chicago in the 1950's — fairly recently. Traditional lending institutions typically don't accept virtual assets and human capital as balance-sheet collateral.

The SBA will guarantee 75 percent to 85 percent of the amount of a loan in many cases, making traditional lenders willing to step into transactions they might otherwise avoid. However, SBA loans typically require that you have operated your business successfully for three or more years. Bad news for startups.

Friends and family are a good source of startup financing. But most people with good ideas for business startups don't have friends and family with significant spare cash around to risk, no matter how loyal and confident they are in you.

Angel investors are another source of startup and growth funding. Angels are people deemed to be "qualified" investors because they have the means and acumen to evaluate investments not available to the general public. If interested, you can join the Northern Michigan Angels. They typically look for high-growth, high-return investments that will be harvested in only a few years. They generally do not invest in companies targeting profitable long-term growth. But these "longer term" companies are major creators of high paying jobs and are important businesses for us to attract and retain.

Joint public-private, non-traditional financing is available as created by the Federal Community Reinvestment Act, first rolled out in 1977. The CRA was designed to encourage commercial banks and savings associations to help meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods. This has been a powerful tool that has helped start and guide many civic public-private commercial lending organizations, such as Venture North in Traverse City.

With its $7 million fund, Venture North has played an important role in funding improvements and expansions for some of our local companies. However, given the intent and constraints of the CRA, the net effect of this activity is often to create low- to moderate-paying jobs.

So if you want to start and grow an intellectually intensive business that creates high-paying jobs but has pretty much no hard assets to use as collateral, how do you finance it?

Especially if your long term vision is to just keep running it well and growing it right here in Traverse City for the next thirty years.

Right now, here's your answer: You Don't. This is a big miss for our area.

This gap in financing is also a huge opportunity. Why don't we have a public/private fund focused on launching startups and nurturing early stage companies? It could be structured to spread risk across a consortium of traditional lenders, philanthropic interests and perhaps with government support. It could be guided by experienced investors and managers and could be highly effective in launching and growing these important businesses.

Right now, Traverse City is competing with hundreds of other areas to attract the most productive, creative individuals and enterprises. We offer them a terrific place to live and raise their families.

But these people need infrastructure and financing.

It isn't often that a smaller city like ours has the chance to differentiate itself from its competitors. When such opportunities arise we need to jump on them.

We missed a rare opportunity for advantage when we did not roll out early door-to-door gigabit fiber internet connectivity. We have another opportunity now in developing creative early stage financing resources. Let's not miss this.

We're going to dig in and try to take a shot at this. If you are interested in learning more and participating, please connect. This is an exciting opportunity! GTB