



## **Innovation & Entrepreneurship Transition Committee**

FINAL Report

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### **Committee Members:**

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## **New Castle County Innovation & Entrepreneurship Transition Committee**

Government efforts to support innovation and entrepreneurship often fail to recognize different types of startup businesses<sup>1</sup> and their relative economic impact<sup>2</sup>. The New Castle County (NCC) Innovation & Entrepreneurship Transition Committee was charged with examining the role of NCC in fostering the launch and growth of scalable startups (including buyable and large company startups). Scalable startups are generally rooted in science, technology, engineering or math and characterized by a significant degree of business model novelty and potent job creation potential. Launching and growing scalable startups requires specialized knowledge and skills, infrastructure, risk capital, and connectivity to strategic partners and early adopters. It is best facilitated by vibrant entrepreneurial ecosystems providing mentorship and a broad array of support mechanisms.

To inform the development of a vision, recommended goals and performance metrics for the NCC government's involvement in fostering innovation & entrepreneurship (in the form of scalable startups), the committee completed a SWOT analysis. This analysis reviewed NCC's relevant internal strengths and weaknesses as well as its external opportunities and threats.

### **SWOT ANALYSIS**

**Strengths** (internal factors over which NCC has full control)

- NCC's incoming administration appears to understand the importance of innovation & entrepreneurship to overall economic vitality and appropriately views it as distinct from "small business" and economic development in general. The county executive's transition process is the first in Delaware to include a committee specifically focused on innovation & entrepreneurship.
- NCC possesses considerable financial reserves (almost \$100MM) and a AAA rating from all three major bond-rating agencies.
- NCC recently established a strategic fund for economic development. The fund benefits from an initial dedicated revenue source - interest on \$3MM loan to Delaware Board of Trade. Funding (\$165K) is currently available for deployment.
- NCC sets real estate tax rates, which are relatively low compared to surrounding areas.

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<sup>1</sup> Blank, Steve (2011). "Why Governments Don't Get Startups—Or, Why There's Only One Silicon Valley." URL: <http://www.xconomy.com/san-francisco/2011/09/01/why-governments-dont-get-startups-or-why-theres-only-one-silicon-valley/> [accessed February 3, 2017]

<sup>2</sup> Dwyer, Paula (2013). "The Only Startups that Matter for Job Creation." <https://www.bloomberg.com/view/articles/2013-08-16/the-only-startups-that-matter-to-job-creation> [accessed February 3, 2017]

- NCC owns and operates several facilities that could be used to host events, training programs and meet-ups, including parks (especially Rockwood) and libraries. It also offers parks, recreational programs and events that contribute to overall quality of life for county residents, and could be highlighted to attract entrepreneurs.

**Weaknesses** (internal factors that prevent NCC from achieving optimum performance)

- NCC’s primary revenue mechanisms (real estate taxes, sewer charges and fees and service charges and fees) are not directly tied to I & E activities, making it difficult to assess returns on relevant investments; however, there is every reason to believe that revenues increases will follow from improvements in overall economic health and vibrancy.
- NCC’s economic development bench is short, with just one FTE (the Director of Economic Development) responsible for innovation & entrepreneurship as well as economic development in general.
- NCC land use code may present challenges to relatively large (>100 employees), rapidly expanding entrepreneurial ventures wishing to build out new space.
- Code establishing the NCC strategic fund allows for grant awards to individual businesses and vests decision making in a panel comprised of 3 council members and 4 members of the county executive’s team. This setup raises serious questions about available expertise for vetting prospective investments and potential conflicts of interest.
- Current resources allocated to the NCC strategic fund (\$165K) are insufficient to support the accomplishment of high priority goals.
- There is little evidence to suggest that initiative elements from the NCC Economic Development Strategic Plan (especially Initiative Group #3: Entrepreneurship and Small Business Development, see page 57) have been implemented in the nearly 2.5 years since the plans completion. In addition, the plan appears to conflate small business support with entrepreneurship, focuses on working with a narrow set of partners (no private entities are mentioned) and generally does little to capitalize on NCC’s many opportunities (see “Opportunities”)
- NCC currently offers no programming to support resident entrepreneurs and their companies; NCC currently offers no incentives to attract entrepreneurs from outside the county; NCC does little to promote its relative advantages for entrepreneurs and early stage companies.

- NCC has little history of collaboration and coordination with other governmental and private sectors entities to promote innovation & entrepreneurship and economic development in general.

**Opportunities** (external situational factors that NCC can take advantage of)

- NCC is centrally located on major transportation lines between Washington, DC, Baltimore, Philadelphia and NYC and is home to the types of people, organizations and businesses that typically play a critical role in the creation of robust entrepreneurial ecosystems, including:
  - Institutions of higher education (University of Delaware, Wilmington University, Goldey Beacom College, Delaware Law School (Widener), Delaware Technical & Community College, Delaware College of Art & Design, Wesley College).
  - Chemical and materials companies: DuPont, Gore, Ashland, Chemours, Air Liquide, BASF, FMC, White Dog Labs and many others; 330 such companies reside in the greater Philadelphia region along with 30% of the global customer base for chemicals and materials.
  - Financial services companies: Bank of America, Discover, Capital One, Chase, WSFS, Barclays, Citi, BlackRock, ZenBanx, SallieMae and many others.
  - Healthcare and life sciences companies and institutes: Christiana Care Health System, Nemours, Incyte, AstraZeneca, Agilent, Delaware Biotech institute, Fraunhofer and others.
  - Corporate and legal services providers: Richards, Layton & Finger; Pepper Hamilton; Skadden; Young Conway; Corporation Services Company; and many others.
  - Co-working spaces, incubators and maker space: CoIN Loft, the Millspace, 1313 Innovation, Emerging Enterprise Center, DTP@STAR, Hatch House, NextFab (coming soon) and others.
  - Entrepreneurial support organizations: UD/Delaware SBDC, First State Innovation, Delaware Founders, DelawareBio, Start It Up Delaware, TechForum and others.
  - Technology parks & hubs: Delaware Technology Park (DTP), UD STAR Campus, DuPont Experimental Station.
  - Successful entrepreneurs who are interested in supporting the broader ecosystem (especially members of the entrepreneurs' roundtable).
  - Success stories and media interested in stories about innovation & entrepreneurship: Technical.ly Delaware, News Journal, Delaware Business Times.
- NCC is home to deep pools of innovative human capital; rapid change affecting industries with a significant footprint in NCC (chemicals and life sciences) have made much of this talent available for participation in startups and early stage companies.
- NCC is home to many high net worth individuals and potential angel investors.

- “The Delaware Way” can facilitate collaboration with and between highly accessible political leaders, resulting in fast and coordinated action.
- Delaware Business Roundtable’s “Delaware Growth Agenda” published in July 2016 suggests considerable potential for public-private goal alignment and action to “build an entrepreneurship and innovation ecosystem”. Governor Carney’s first executive order authorizing the formation of a working group to explore policy options for restructuring the Delaware Economic Development Office (DEDO) as a public-private partnership appears to represent progress toward this goal.
- The pending introduction of “pay for success” legislation in the Delaware House of Representatives promises to stimulate private investment in job creation programs that may benefit NCC.
- GlobalDelaware’s nascent efforts to promote Delaware and NCC as a place to start and grow businesses – see <http://global.delaware.gov/invest/> - can be expanded into a more robust and coordinated effort to promote innovation & entrepreneurship in NCC. Such an effort can honestly represent our strengths and weaknesses and include a “call to action” for people, companies and organizations with the right expertise and resources.
- NCC could utilize real estate tax abatement as an incentive for innovation & entrepreneurship-related activities and investments.
- NCC offers lower cost of living in comparison to the broader region and can take advantage of current real estate vacancies as well as the presence of real estate developers willing to take risks to improve occupancy.
- Delaware is the best state in a nation in which to form an LLC.

**Threats** (external situational factors that will inhibit NCC’s efforts to fostering I & E)

- Entities comprising the entrepreneurial ecosystem currently lack coordination, resulting in inefficiency (duplication of efforts) and ineffectiveness. Efforts underway to address this shortcoming are much needed.
- Key stakeholders in Delaware tend to conflate small business ownership/development/management with entrepreneurship. The latter is distinguished by higher levels of business model/technology innovation, market disruption and potential for job creation. Entrepreneurship also requires differential expertise and ecosystem-based support to flourish. Failure to begin drawing clear distinctions and utilizing a common vocabulary will inhibit ecosystem development.

- Nearly all states and municipalities have recognized the need to support innovation & entrepreneurship to avoid economic stagnation; NCC and the state of Delaware are behind regional competitors, which offer extensive programming and incentives to support entrepreneurs and early stage companies (for example, Ben Franklin Technology Partners in PA; TedCo in Maryland).
- There is no clear value proposition for locating a startup or early stage company in NCC due to the general lack of government-supported incentives, visible angel and venture capital funding and marketing/PR for attracting entrepreneurs.
- Successful local entrepreneurs received little help from the NCC/Delaware ecosystem, making it less likely that they will choose to invest large measures of their time and resources to support the broader entrepreneurial community. Such investments have proven critical to the emergence of many of the most vibrant entrepreneurial ecosystems across the country.
- NCC lacks the resources needed to broadly support innovation & entrepreneurship in all economic sectors; rather, it needs to play to its strengths by focusing on areas with the greatest potential ROI like financial and legal services, chemicals/materials, biotech and healthcare.
- NCC efforts to promote innovation and entrepreneurship are likely to be adversely affected by state budget deficits, workforce reductions by large companies and the necessity of competing with schools, sewers, and other funding priorities for county resources.
- NCC may not be competitive in attracting and retaining entrepreneurs if factors affecting perceived quality of life, especially public safety, do not improve.
- NCC must avoid adopting a Delaware-centric mindset that ignores regional economic development opportunities and remains largely unaware of what is happening in neighboring states, across the country and around the world.

## **RECOMMENDATIONS**

Based on the SWOT analysis, the committee outlined a strategic plan consisting of a vision for innovation & entrepreneurship in NCC, priority industries, goals, priority initiatives and success metrics. It also developed an implementation plan and timeline for immediate action. The recommended plan is intended to serve as a roadmap to guide the actions of NCC as it works with other parties to grow the innovation and entrepreneurial ecosystem. It is beyond the scope of NCC to unilaterally accomplish the plan, but it can wisely collaborate with and support other parties who are aligned with the plan.

## VISION

NCC, the state of Delaware and the immediate region will establish a culture of innovation & entrepreneurship, gain recognition as a preferred place to start and grow scalable businesses and emerge as a vibrant epicenter for startup activity by leveraging unique local resources and capabilities in specific industry verticals in which it has a right to win, providing a diversified base of economic activity and promoting vitality and community wellbeing.

## PRIORITY INDUSTRIES

NCC should focus its investments in innovation & entrepreneurship on four priority industries:

- **Financial tech** – including software and technology-enabled startups focused on payments, lending, investing, crowdfunding, credit scoring, digital currencies, cyber security and related financial services.
- **Legal tech** – including software and technology-enabled startups focused on practice management, document storage, billing, accounting, discovery and other electronic and automated services.
- **Chemicals & materials** – including startups focused on value chain and end use applications related to paints & coatings, building & construction, energy production, agriculture, lightweight materials, wearables, utilities and other verticals.
- **Biotech, life sciences and healthcare delivery** – including startups focused on the discovery and development of new diagnostics, therapeutics and devices; bioinformatics; personalized and data-driven treatments; and other products and services that directly impact human health.

These industries are aligned with county, state and regional right to wins and offer diversity in terms of startup and new product development cycle times.

## GOALS, INITIATIVES & SUCCESS METRICS

**Goal 1:** Maximize the leverage and impact of NCC investments in innovation & entrepreneurship.

Initiative 1-1: Establish cross-governmental channels of communication pertaining to innovation & entrepreneurship and involving representatives from NCC, Wilmington and the state. Maintain open dialog with other key stakeholders (private sector companies, investors, higher education providers, local government, foundations), as appropriate, to facilitate goal accomplishment through public-private partnership(s).

Success metrics: # of stakeholders participating in NCC-supported innovation & entrepreneurship activities, impact (# of startups, total \$ raised, revenues, long-term job creation)

Initiative 1-2: Set a specific target for public private co-investment in NCC-supported initiatives. Aiming for a minimum of \$3 of public-private co-investment for every \$1 of NCC funding is recommended.

Success metrics: public co-investment \$, nonprofit co-investment \$ and private co-investment \$

Initiative 1-3: Utilize expertise resident in the local entrepreneurship community to finalize and maintain a NCC strategic plan for innovation & entrepreneurship, provide advisory input on potential NCC strategic fund investments and assist in specifying and tracking success metrics.

Success metrics: # of local entrepreneurship community members engaged in the provision of advisory input.

**Goal 2:** Encourage startup companies to form, locate, and expand in NCC, especially those related to priority industries that have scalable business models and aspirations for rapid growth/industry disruption. (Startup companies can be defined as firms less than 5 years old).

Initiative 2-1: Establish a coordinated intake process for startup businesses to reduce friction and quickly establish connectivity to the entrepreneurial ecosystem in NCC, especially local mentors and mentoring resources

Success metrics: # of inbound contacts, # of conversions (startups starting, locating and expanding as a result of the intake process)

Initiative 2-2: Create a startup funding competition focused on priority industries that is connected to follow on mechanisms like an incubator/accelerator and incentivizes location in NCC.

Success metrics: # of submissions, # of startups participating in follow on mechanism(s), \$ raised by startups from all sources (crowdfunding, grants, angel & venture investment \$), # of participating startups residing in NCC 1/3/5 years after competition, total revenues, long-term job creation (5+ year)

Initiative 2-3: Identify and fill gaps in ecosystem infrastructure and programming needed to support existing startups and attract new ones in priority industries to NCC.

Success metrics: # of startups supported, total support provided (\$ and in-kind), \$ raised by startups from all sources (crowdfunding, grants, angel & venture

investment \$), # of startups residing in NCC, total revenues, long-term job creation (5+ year)

Initiative 2-4: Develop a comprehensive promotional campaign to highlight success stories and the value proposition for starting and growing entrepreneurial companies in NCC.

Success metrics: reach (# of site visits, unique visitors), engagement (visit duration, # of pages viewed, downloads) and lead generation (CTRs, contact/information requests)

Initiative 2-5: Encourage established companies to out-license their intellectual property to NCC/DE-based startups and locally promote open innovation opportunities.

Success metrics: # of out licenses, # of startups pursuing open innovation opportunities

Initiative 2-6: Develop sustainable funding models for ecosystem infrastructure and programming and seek to establish a sustainable funding mechanism for NCC's strategic fund.

Success metrics: \$ generated

**Goal 3:** Retain and deepen the pool of innovative human capital in NCC.

Initiative 3-1: Create an incentive program for recent University graduates and downsized R&D/technology workers to launch and grow their startups in NCC. The program should be targeted to priority industries and educational backgrounds.

Success metrics: # of startups launched by recent graduates and downsized workers (within 1 year of life event), # of such startups residing in NCC 3/5 years after launch, \$ raised by the startups from all sources (crowdfunding, grants, angel & venture investment \$), total revenues, long-term job creation (5+ year)

Initiative 3-2: Encourage schools and educational institutions located in NCC to develop and deliver leading edge curriculum/programming focused on technology, creativity, design thinking, innovation, leadership and entrepreneurship.

Success metrics: # of students participating in relevant programs

Initiative 3-3: Promote workforce development initiatives aimed at building and retaining innovative human capital needed to support innovation and entrepreneurship in priority industries.

Success metrics: # of chronic job openings (> 6 months unfilled) in priority industries

Initiative 3-4: Identify and continuously improve the county's standing on quality of life and other factors, including local points of uniqueness and differentiation that affect the attractiveness of residing in NCC for creators, innovators and entrepreneurs.

Success metrics: TBD

**Goal 4:** Encourage residents to work in partnership with NCC to solve problems within their own communities through social entrepreneurship.

Initiative 4-1: Participate in open data and related initiatives aimed at uncovering community problems and stimulating the development of sustainable solutions.

Success metrics: # of participants in initiatives involving open NCC data, # of startups utilizing open NCC data

Initiative 4-2: Create a social investment program/competition aimed at testing promising and sustainable solutions to societal, health and environmental problems with relevance to NCC.

Success metrics: # of submissions, # of social ventures supported, societal impact (# of people positively impacted \* the magnitude of impact), sustainability (# of supported ventures still operating 1/3/5 years after competition, assuming problem has not been "solved")

## **IMPLEMENTATION PLAN & TIMELINE**

Implementation of the strategic plan should begin immediately. As NCC's Strategic Fund resources are currently limited to no more than \$165K for the current fiscal year, all activities should be directed toward the accomplishment of the highest priority goals that can be pursued with small initial investments and potential for immediate impact. Goals 1 & 2 are best suited for these purposes.

To initiate pursuit of goals 1 & 2, the following activities are recommended:

1. Develop and execute a systematic program of outreach by the NCC Economic Development Director, other members of the administration and selected advisors from the entrepreneurial community to representatives of other Delaware-based governmental entities, especially members of the working group that has been charged with developing recommendations for transforming DEDO into a public-private partnership.

2. Continue and expand NCC-initiated dialog with key stakeholders, including representatives from private sector companies, investors, higher education providers, entrepreneurial support organizations, entrepreneurs, media and charitable foundations.
3. Catalyze action by developing a request for proposals (RFP) aimed at accomplishing goal #2 - encouraging startup companies to form, locate, and expand in NCC. Proposals prepared by thought leaders and organizations resident in the local entrepreneurial community and involving some combination of the recommended goal #2 initiatives should be encouraged. Evaluation criteria should include: (1) alignment with the strategic plan for NCC innovation and entrepreneurship, (2) impact on startup formation, location and growth in NCC, (3) ratio of NCC versus other public and private investments and (4) sustainability.
4. Award funding to the best proposal(s) focusing on priority industries in which NCC has a right to win. Ideally, one proposal focused on an industry with the potential for rapid job creation (e.g., financial tech) and one proposal focused on an industry with longer cycle times for innovation (e.g., chemicals and materials) should be selected.
5. Convene a meeting of advisors to review NCC's strategic plan for innovation & entrepreneurship after the DEDO working group's recommendations have been implemented; thereafter, convene at least an annual meeting to provide advisory input on potential NCC strategic fund investments and assist in specifying and tracking success metrics.
6. Produce an annual report to document NCC's current strategic plan for innovation & entrepreneurship, highlight relevant investments and report progress toward goal accomplishment and returns on NCC investments.

The approximate timeline for these activities is provided as an appendix.

## **CONCLUSION**

NCC has limited strengths, but considerable opportunity to play a catalyzing role in helping to create a culture of innovation & entrepreneurship, attract and grow scalable businesses and promote economic vitality and community wellbeing. Playing this role will require active collaboration with the city, state and other public and private stakeholders to ensure goal alignment and generate leverage on NCC's investments. Implementation of the strategic plan and activities proposed herein promise to make the best use of NCC's limited resources for supporting innovation and entrepreneurship while generating a significant, positive return on investment.

## **ACKNOWLEDGEMENT**

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**Appendix: Implementation Timeline for Proposed Activities (starting from the date of adoption)**

Activity	MONTH											
	1	2	3	4	5	6	7	8	9	10	11	12
Systematic outreach												
Ongoing dialog												
Develop RFP												
Solicit proposals												
Select proposals for funding												
Support implementation												
Review after DEDO												
Annual meeting												
Annual report												