

TNInvestco: ‘Innovative Economic Development Policy’

By Ken Woody

President and Partner

Innova Memphis a subsidiary of Memphis BioWorks

(A version of Woody’s piece appeared in the Memphis Business Journal of February 25, 2011.)

In today’s economy, innovation is vital to the success of every organization. Innovation generates new ideas, drives quality and enhances performance.

Engineered by the State of Tennessee in 2009 and expanded in 2010, the TNInvestco program set a new standard for innovative economic development policy to boost private capital investment in promising, high-growth startup companies. It is a smart strategy born from the economic reality that private-sector job growth is led almost entirely by early-stage companies, and that lack of access to capital is one of the leading reasons for startup company failure – even those with the best ideas.

TNInvestco has formed a partnership between the state and 10 of Tennessee’s premier venture capital funds. Each fund has been chosen not just for its investment ability, but also for its willingness and ability to mentor founding entrepreneurs and provide the framework for success.

The premise is simple: small companies run by strong entrepreneurs who have great ideas can become large companies, employing more people as they grow. This has a triple bottom line economic impact. Tennesseans gain good jobs, the state gains tax revenue, and investment funds gain a return. Part of that return is then shared with the state and reinvested, starting the cycle of success over again.

Since the first group of funds started investing 13 months ago, the TNInvestco funds have put millions of dollars to work in Tennessee businesses.

By the end of 2010, 35 investments had been made in companies with high-growth potential, all located in Tennessee or moving here post-investment. The nearly \$21 million in TNInvestco dollars invested in those businesses was leveraged to attract an additional \$37 million in private financing.

Those dollars are being used for hiring essential staff, taking innovative ideas from the drawing board to the marketplace, scaling operations to meet customer demands, and establishing solid foundations for future expansion.

The initial results for TNInvestco’s performance are strong. These early wins include developing “clusters” of business innovation, as multiple investments have been made in areas including healthcare IT and services, medical devices and high-technology.

In addition, just as originally envisioned, TNInvestco has attracted entrepreneurs from outside the state to relocate their companies to Tennessee, motivated by the desire to capture capital to fund their ideas.

An example is Shareable Ink. In November 2010, Tennessee Angel Fund made a TNInvestco investment in this startup healthcare IT company that is the leading developer and provider of electronic pen and paper technology – an idea transforming the medical records industry. As part of the transaction, the company and its executives moved from Boston to Tennessee and immediately began hiring software designers and other professionals.

Our Memphis-based fund, Innova Fund II, has executed six TNInvestco program investments in companies developed by local entrepreneurs. They have already achieved major milestones, including FDA clearance for their products, creating national distribution networks, generating millions in revenues, and hiring dozens of local employees.

As Tennessee is proving, innovation is imperative not just for individual business success, but to the health and vitality of our overall business and entrepreneurial community. ♦