Podcast Interview

Tom Rogers, former President & CEO, Tech 2020
Interviewed by: John Slanina, SSTI

2007 Excellence in TBED Award Winner:
Building Entrepreneurial Capacity

Mr. Slanina: Hello, this is John Slanina with SSTI. The following interview is with Tom Rogers, former President and CEO of Tech 2020. Tech 2020 was the recipient of SSTI's 2007 Excellence in TBED Award in the category: Building Entrepreneurial Capacity.

I first asked Tom to provide a brief overview of the history of the organization, and explain how their reach now covers a multi-state region.

Mr. Rogers: In many ways Tech 2020 was born in the early 90's as a result of Oak Ridge's failure to land the Mercedes Automotive Plant. I was the President of the Chamber of Commerce at the time, and on point on that project. We spent a year of our lives chasing the Mercedes Automotive Plant only to see it go to Alabama. At that point we pulled together the business leadership of Oak Ridge and said; look there's got to be a better way than to do this buffalo hunting. We are sitting on the front doorstep of the Oak Ridge National Laboratory and within 15 miles of the University of Tennessee. Maybe we ought to grow our own. That was really the genesis for 2020. We raised some money, and built our building. Opened the building in 1995, and have been pretty agile through the years.

When I first came over here Tech 2020 was almost literally 15 different things to 15 different groups of stakeholders. The internet was new, and so Tele-Medicine, distance learning, go get a higher education degree on the internet. All of those were computer based training. All of that stuff was brand new. We were awash and almost drowning in opportunities. So we had a session retreat with the board and said; look we really need to focus. The focus was on creating public/private partnerships with corporations and entrepreneurship. Ever since then have been building some building blocks, as you said John, toward a comprehensive entrepreneurial support system.

The headquarters building we have in Oak Ridge is 18,000 square feet, and the back half of it was designed as a business incubator. We got an EDA grant and built a second building to our campus, which is about 15,000 square feet that's totally dedicated to new business startups. We now manage a whole network of business incubators in our region.

Mr. Slanina: In our next clip, Tom explains the organization's successes in building sources of capital that are accessible to companies in the region.

Mr. Rogers: The next missing component obviously is access to capital. We have done a number of things in the capital arena. We started out by creating a CBFI called

Southeast Community Capital – actually it was called several other things, but now it's called Southeast Community Capital. It's been spun off into an independent entity that's headquartered in Nashville. They're very successful, and in fact have now made about $23 million in loans since their creation in 2001.

At the end of the Clinton Administration, President Clinton focused on the availability of capital in low income areas in this country. They started a program SBA, called the New Market's – you're probably familiar with New Market's tax credits. As a part of that program, it was the New Market's Venture Capital Company Opportunity and we partner with Kentucky Highlands, and we're successful in being one of six new market's venture capital companies in America. That fund is called the Southern Appalachian Fund, it's about $12.5 million and is now fully invested, or we've made all of the investments we're going to make company wise in about eight companies. That partnership was successful enough that we went on and there was a new government program called the Rural Business Investment Company, RBIC. We applied for that as well with the new fund called Meritus Ventures, and we were the only company that was selected as an RBIC. Its focus is rural areas in southern Appalachia. We've now made three or four investments out of that fund. That fund is moving up the food chain, that fund is a $36 million fund. We're in partnership with Kentucky Highlands, and through a for-profit company that we formed together; we're in the venture capital business.

We also have a small fund that we call the Accelerator; that fund totals about $750,000. That's available to the CEG Program to make investments in client companies that we think have a real chance of getting some place. One of the other accesses to capital things we do are we run a venture forum – a venture capital conference every year. Tennessee like many of your other member states is traditionally a fly over state for venture capital. We're not on the east coast; we're not on the west coast. So our clients in the early days, they just had no way of being introduced to venture capitalists, so we started running this conference. We're now organizing our 12th conference, and since we're with the southern Appalachian trying Meritus Ventures in the game that conference is gaining in stature every year.

Mr. Slanina: Tom then provided some insight on developing commercialization strategies for new companies engaged in their Center for Entrepreneurial Growth.

Mr. Rogers: To guarantee success is how the rest of the world reacts to that. We look at that as really the true measure, and what we're trying to push for, so validations there are just a few of them. Proof-of-concept is one of them. They've got to get to the point where they can prove that the technology will solve the problem in the market place. But then the next one, and probably the most important one is early sales. Researchers want to create the perfect product, right? They've got this dream of creating the perfect product, and we pound them early on by saying; okay the perfect product is a good drain, but I want you to sell the product when it's barely good enough. I want you to get into the market as soon as possible. If you're solving a problem that's a real problem, you're not the only one thinking about the solution. The earlier you can get in the market and sell, sell, sell, the better. So we push for early sales as quickly as possible.

Partnerships: these companies can't get there by themselves. They can't raise enough equity, and they can't build their companies quick enough. Partnerships like with the lab and the university for research, partnerships with distributors that are going to sell their product form them, partnerships with other value added folks that even their legal team, and their accountants, and all of that are clues that other people believe in what you're doing to the point where they are willing to enter into a contractual relationship with you. The ability to attract advisors and board of directors is another validation. Then the ultimate one is funding. Can you convince an investor to give you money? Because if you've done that, then they believe in you, they believe in your plan, they believe in your commercialization strategy.

Early sales and funding are two very strong validations that really we try to push for. Our milestones try to drive toward those. They can happen at any time. You could get early sales while you are a stage one company. Or you may be right in stage three before you get early sales, it just depends. So that's the program in a nutshell in how we manage the clients through the process.

Mr. Slanina: Tom then elaborated on how larger companies are looking for innovative solutions from the smaller companies they assist.

Mr. Rogers: As I've gone out over the last couple of years to the Fortune 200's to talk to them about why they should come and visit Oak Ridge and Knoxville and take a look at this region, the very first question they almost always ask is: do you have any startups in this arena? Big corporations are doing less and less internal research, they are willing to do research with universities and national labs, but they understand its expensive, cumbersome and long term. What their preferred path is to find one of Sean's client companies who's in that space with which they can work quickly and agilely. While we thought we were launching into perhaps a new business area, what we found is everything comes back to entrepreneurship and innovation.

Mr. Slanina: In this last clip, Tom describes the milestones companies are required to meet to receive further rounds of funding in their program.

Mr. Rogers: We've learned some interesting lessons through the accelerator that I'm happy to share. What we do is for the 1%, 2%, 5% maybe, of our client companies in whom Sean and his team really believe, and who need capital. We are using that accelerator and we have in the last few years started a convertible debt model. Company A needs $150,000, we'll structure it in three tranches based on milestones. If you get this done, this done, and this done, we'll keep the money going. At the end of those three tranches, we have a decision to make. That decision is whether to just say: all right we're going to turn this out, and you guys have $150,000 note you need to pay us back, plus interest. Or, we're going to convert this to equity and we believe in you enough that we're going to own a piece of your company.

You still have the issue of valuation. Valuation is difficult to almost impossible in early stage companies. It just is. So the best way we have found to deal with that is to put the issue to the side and say: look here's how we're going to determine valuation. The next round of outside capital you bring in will be in the value at which we invest, and we'll take a discount. We're not going to worry about valuation now, we're going to go ahead and convert to equity when the next money comes in. Since we came in early we'll do that, but we'll take some more shares. We'll take a 20-30% discount because after all we took a bigger risk because we got in early. That model seems to work pretty well.

Mr. Slanina: Then regarding intellectual property. Another component of the first one is a lot of that dictated by the host institution such as the lab or UT?

Mr. Rogers: One of the keys to success here, this isn't written anywhere, but one of the keys to long term success with these partnerships is tying yourself to the economic interest of your sponsoring organization. If as Sean's working with the Oak Ridge National Laboratory, if his researcher can develop a license, or if we can get someone to outside company to license with one of our startups who has been firm with a lab. The lab's making money and that's a good thing. We make sure that in both the instances of Oak Ridge and the University of Tennessee, our customers are the tech transfer offices.

More information about Tech 2020 is available at: http://www.tech2020.org/. For more information about the Excellence in TBED awards, please visit: http://www.sstiawards.org/.