VICTOR & COMPANY

The Western New York Entrepreneurship Ecosystem:

Rapid Discovery Assessment and Recommendations for the Future

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CONTENTS

EXECUTIVE SUMMARY

The Western New York region has seen meaningful entrepreneurial success in recent years. Work over the last decade to foster a more robust entrepreneurial ecosystem is yielding new startups that are bringing jobs and wealth to the community—and increasing confidence in the ecosystem's ability to produce thriving companies. The region needs more successful startups, however, to reach critical mass and drive entrepreneurial activity in the region sustainably into the future.

In an effort to learn more about the ecosystem's current state and to inform future strategy, the Ralph C. Wilson, Jr. Foundation engaged Victor & Company to conduct a three-month rapid discovery process. As part of this process, I (along with my colleague Alyse Freilich) conducted 20 interviews with regional stakeholders and reviewed existing reports and articles about the entrepreneurial ecosystem. This report presents my observations regarding the challenges facing the ecosystem and my recommendations for the next phase of work, as stakeholders seek to foster small business growth, place-based community, and economic development.

Key regional strengths include:

- The region has a tradition of innovative companies and leading research universities that attract and develop talent in valuable sectors.
- There is significant legacy wealth in Buffalo and the broader ecosystem that can potentially be tapped as risk capital.
- Key leaders in the region's core entrepreneurial support organizations are highly capable and collaborative, and stakeholders have a strong cultural desire to work together for the benefit of the region.
- Investors are increasingly willing to invest throughout the region when opportunities arise.
- Recent high-growth "unicorn" companies—including a successful IPO—provide validation that great businesses can launch and grow in the region.

Key challenges include:

- The ecosystem's culture has been historically risk-averse and even anti-entrepreneurial.
- The ecosystem is highly disconnected outside of its core startup community, with silos between industries, institutions, and geographies. Large corporations are absent.
- The ecosystem is too quiet.
- There are gaps in training for entrepreneurs at multiple stages. The worlds of high-growth tech businesses are disconnected from those of "Main Street" businesses.
- There is a critical need for greater inclusion and diversity.
- The region does not have enough experienced entrepreneurial talent.
- There are gaps in early stages of capital.
- There is an overdependence on a handful of programmatic funding sources, as well as structural disincentives to regional collaboration between willing partners.
- The ecosystem has low levels of information sharing.

In order to address these challenges and enhance entrepreneurial success in the region, we recommend the following strategies for the Foundation and partners:

- Provide vision and leadership.
- Support the establishment of a single, agenda-setting intermediary organization for the ecosystem, inspired by the success of the New Economy Initiative in Detroit. This intermediary organization should not operate direct assistance programs to entrepreneurs.
- Draw in other funders.
- Offer more small, innovative catalytic grants.
- Expand financial support for entrepreneurial activities that connect and leverage the strengths of the broader WNY region across geographical silos, in order to catalyze the full ecosystem.
- Leverage media more effectively.
- Expand capital access.

INTRODUCTION

Western New York (WNY) has a rich history of entrepreneurship in advanced manufacturing and other sectors, starting from the late 1800s and continuing through the first half of the 20th century. Entrepreneurs built preeminent companies—including household names like Kodak and Xerox—that changed the world. However, entrepreneurial activity in the area has not achieved its full potential over the last several decades, and the region has sought, in recent years, to reignite that entrepreneurial spark and rebuild the ecosystem.

There are now various incubators, accelerators, mentorship and student programs, academic courses related to entrepreneurship, business plan competitions, and seed capital sources. As a result of this ecosystem development, the region has witnessed some significant successes in the last few years, including the initial public offerings (IPOs) of ACV Auctions and Digital Ocean, and the growth of Squire, a company with operations in Buffalo that raised nearly $100 million in venture capital in 2020. As John Gavigan wrote in a recent op-ed in The Buffalo News, WNY has "become a Top 40 global destination for startups…We're already ranked in the Top 100 emerging ecosystems globally, according to Startup Genome and Crunchbase."[1]

The Ralph C. Wilson, Jr. Foundation (RCWJRF) has been an active participant in this regional effort, seeking to grow the WNY entrepreneurial ecosystem and to drive small business growth, place-based community, and economic development. In 2021, RCWJRF requested that Victor & Company conduct a three-month rapid discovery process to take a "snapshot" of the current ecosystem and inform its future strategy. We agreed that this discovery process would comprise:

- Outreach to and completion of 1:1 interviews with up to 20 regional stakeholders;
- A review and assessment of existing reports, including those that offer strategies for and evaluations of the WNY ecosystem;
- The creation of a report synthesizing and analyzing information and data collected; and
- Provision of recommendations for the next phase of work.

In this report, I am pleased to share my observations regarding the strengths and weaknesses of the ecosystem, as well as my recommendations to foster the continued growth of entrepreneurial activity in the region. These conclusions are based on my rapid discovery work over the last few months in WNY, including interviews with 20 people who have been gracious and helpful with their time. The interviews covered a range of backgrounds and perspectives

[1] John T. Gavigan, "Viewpoints: ACV Proves Buffalo Has the Talent, Resources to Flourish," The Buffalo News, March 27, 2021.

across nonprofit ESOs, government, entrepreneurs, corporations, capital, and universities. A complete list of interviewees is presented below:

- **Nasir Ali**, Managing Partner, StartFast Ventures, Co-Founder and CEO of Upstate Venture Connect
- **Quincy Allen**, Board member at Launch NY, ABM Industries, Office Depot, and Lumen Technologies, formerly at IBM and Xerox
- **Martin Babinec,** Founder/Chairman, Upstate Venture Connect
- **George Chamoun**, CEO, ACV Auctions
- **John Gavigan**, Managing Director, Endeavor
- **Bill Grieshober**, Chief Legal Officer, Rich Entertainment Group, and Vice President and Deputy General Counsel, Rich Products Corporation
- **Colleen Heidinger**, President, 43North
- **Rene Jones**, CEO, M&T Bank
- **Marnie Lavigne**, President and CEO, Launch NY
- **Theresa Mazzullo**, CEO, Excell Partners
- **Ebony Miller**, Director, Center for Urban Entrepreneurship (CUE), Rochester Institute of Technology
- **Elisa Miller-Out,** Managing Partner, Chloe Capital
- **Dan Miner**, Reporter, Buffalo Business First
- **Khadesha Bryant Okwudili**, CEO and Founder, Agapé
- **Nick Querques**, Director of New Ventures, The Research Foundation for SUNY, formerly at NYSERDA
- **Matthew Revere**, Deputy Director, Beverly Gray Center
- **Jim Senall,** President, NextCorps
- **Noa Simons**, President & CEO, Upstate Capital Association of New York
- **Jennifer Tegan**, Managing Director, New York Ventures, Empire State Development
- **Christine Whitman**, Chairman and CEO, Complemar Partners Inc., former chair of Board of Trustees of Rochester Institute of Technology

In addition to these interviews, I have reviewed numerous reports, articles, and other documents. Through this process, I developed a high-level understanding of the ecosystem, having found similar themes repeating across multiple sources.

KEY OBSERVATIONS

People in WNY are rightfully proud of how far the entrepreneurial ecosystems of Buffalo and Rochester have come. I visited the cities almost a decade ago, and the progress since that time has been significant and palpable. There are several growing, respected organizations generating momentum and results. There is greater activity and accessibility than ever before. And there have been multiple high-profile, successful startups.

Many interviewees proudly mentioned the growth of Squire and the fact that the company raised 10 percent of all U.S. venture capital that went to Black-owned startups in 2020. And nearly all interviewees acclaimed the recent IPO of the startup ACV Auctions at more than a billion-dollar market valuation.

These companies represent both validation and inspiration. Their success affirms that the ecosystem work over the last decade has made a significant difference for the region, and it proves that companies born in the area can achieve tremendous growth.

Interviewees noted that ACV's and Squire's successes are, in part, the result of the combined efforts of groups like Launch NY, 43North, and Z80 Labs. One interviewee alluded to the importance of this collaboration and the powerful example ACV sets for the region:

> ACV would have never happened without Launch NY, 43North, and Z80 Labs. It was a combination of all three that let this company disrupt a multibillion-dollar industry...We can leverage this moment moving forward and have more confidence that big companies can be developed here.

"There is much work still to be done, but the world is now on notice that we're poised for more great things."

-John Gavigan, "Viewpoints: ACV Proves Buffalo Has the Talent, Resources to Flourish," The Buffalo News, March 27, 2021.

Another interviewee concurred, emphasizing the community's response to ACV's success and its potential impact on investment in future startups:

> ACV takes the theory of wealth creation and is giving everyone in Buffalo a real-time seminar...We've been waiting for a symbolic moment like this, and it just happened...I think it's captured the hearts and minds of the people of Buffalo.

Indeed, ACV's achievement proves that all the parts of this ecosystem can work together.

In order to get the entrepreneurial flywheel turning, the region needs an even stronger ecosystem that nurtures more successful startups. In areas of the country with more robust entrepreneurial activity, a critical mass of thriving startup companies generates its own momentum, and the success of each company drives other future successes. One interviewee shared the same idea:

> We're missing more success stories—people who have exited and are doing their next venture. We don't have that self-fulfilling cycle that you see in bigger ecosystems...We're not there yet. It needs to keep happening so people see it as an option.

Another interviewee emphasized that the ecosystem needs more entrepreneurial activity in order to weather future challenges: "It's still tenuous. When you're small, you're subject to bigger headwinds. There's concern. Buffalo is subject to dynamics that wouldn't shake a larger, more regional ecosystem."

Further progress in the WNY ecosystem is inhibited by systemic challenges that the region has historically faced—and continues to confront. The ecosystem is held back by a culture that is not conducive to entrepreneurship. There are substantial disconnects in the region, as is evident in significant geographical divisions between communities. Moreover, large corporations lack of interest in local startups.

> "It's not Silicon Valley culture. It's more conservative. They're egotistical. They credit themselves with knowing more than they do."
>
> -Interviewee

There are gaps in training for entrepreneurs across multiple stages. While several organizations offer basic Business 101 classes, many people feel that entrepreneurs in early stages are generally unprepared. There is even wider recognition that training is insufficient for entrepreneurs in later stages. The disconnect between high-tech businesses and Main Street businesses, and the lack of clarity and uncertain definitions and distinctions between the two, hinder opportunity and exacerbates the lack of inclusion and diversity, representing a threat to future progress. There is not enough experienced entrepreneurial talent in the region. Moreover, there are large gaps in capital for early-stage businesses.

An overdependence on a handful of programmatic funding sources results in a top-heavy ecosystem and further inhibits the growth of innovative, nimble projects and organizations. And finally, low levels of information-sharing contribute to greater silos, more inefficiencies, and less effectiveness within the ecosystem.

Each of these challenges is explored in greater detail below.

The ecosystem's culture has been historically risk-averse and even anti-entrepreneurial. Interviewees remarked on the "old boy network" still in place and described many of the traditional leaders as "egotistical"—thinking for themselves first, rather than for the community. Since many of the region's largest companies were built decades ago, much of the "old money" is owned by the children or grandchildren of entrepreneurs. These individuals often don't know how to start businesses—although they frequently think they do.

One interviewee explained:

> As people are aging, they are getting more risk-averse. And some of the companies that are leaders in each of the communities...are big companies that have second- or third-generation leaders, so they don't know what it's like to be an entrepreneur. Their goal has been to preserve wealth. That's a problem if you're so concerned about preserving wealth that you're not prepared to take risk.

Another noted the need to return to the entrepreneurial spirit that motivated these companies in their early days:

> It's a maturity thing that we lose a little context—we move from an entrepreneurial spirit and risk-taking to different norms. If we need communities to thrive, we have to tap into the...spirit that existed.

This risk aversion among larger companies holds the ecosystem back, as it results in little corporate engagement with innovative startups, which inhibits corporate investment, supplier relationships, mergers and acquisitions, and other possible partnerships.

Several interviewees also described a top-down culture, in which individuals look to community leaders to solve problems. Most people, they said, feel that they do not have the authority to start new programs on their own.

This feature of the culture also limits the entrepreneurial activity in the ecosystem and the interaction between individuals.

> "They are more risk-averse. They want to see projections, a business plan, more things to give them certainty... but it's just the illusion of certainty."
>
> -Interviewee

As one interviewee explained,

> Here, people ask who they should ask permission of, and if they can talk to someone about it. It is as if there is a patriarchy somewhere where all the decisions are made and sanctioned. If you buck the system, you won't succeed.

Finally, the closed nature of the ecosystem culture is detrimental, particularly for would-be entrepreneurs from underserved communities who cannot access opportunities in it.

The ecosystem is highly disconnected outside of its core startup community, with silos between industries, institutions, and geographies. There are significant assets in WNY, but progress is hampered by low levels of cross-ecosystem communication, trust, and alignment. As one interviewee noted, "We have pieces and components of what you need to make the ecosystem, but it doesn't work together. Everyone has their own goal, and they only want to do it inwardly."

Another made the same point: "It's lacking cohesiveness, alignment, adult supervision…" The Techstars Assessment & Roadmap Report includes a similar finding:

> There is clearly a silo-oriented approach to activities and attitudes, and although not intended to be outright competitive, the efforts are clearly not collaborative. This is holding the Buffalo startup community back from growing and achieving its optimal state.[2]

This lack of connectivity and trust is perhaps most obvious in the substantial geographical silos in the region. There is very little communication, for example, between people in Rochester and those in Buffalo, despite interviewees' stated intentions to collaborate more often. One interviewee described the other city as "a separate universe." Another interviewee noted, "People are too rigid about geographical boundaries." The issue is longstanding—a decade ago, Launch NY's "Rainforest Canvas Project" noted the "'protectionistic,' 'competitive' behaviors among stakeholders."[3]

> "The levels of entrepreneurial connectivity among current founders in the Buffalo and Rochester areas is incredibly low. In fact, the level of connectivity is lower than in any other entrepreneurship community studied by Endeavor Insight across the world."
>
> -Endeavor Insight, "Assessment of Entrepreneurship in Western New York," August 2017, p. 8.

[2] Techstars, "Assessment & Roadmap Report: Buffalo, New York," January, 2019, p. 28.
[3] Launch NY, "Rainforest Canvas Project: Final Report," p. 13.

This dynamic is, in part, a result of Empire State Development's practice of asking regions to compete against each other, which exacerbates silos and hinders cross-regional collaboration. In fact, several interviewees characterized this competition as similar to The Hunger Games. One interviewee described the impact of this practice: "Each of these cities has felt self-contained...The division was already there culturally, and then the regional councils competition made it worse." Another explained:

> This kind of parochialism goes deep. Empire State Development programs have exacerbated that because they take a region that is indistinguishable, and they carve it up into these fiefdoms that are all supported by the Governor.

> "You cannot force people to collaborate. It's got to be organic. And there is too much history at this point for that to happen. It's because there is no money that there is no collaboration."
>
> -Interviewee

Yet another interviewee discussed the negative implications of these silos for entrepreneurs in the region: "Companies often need specialized resources—and they are often not available locally... Silos prevent entrepreneurs who need a resource from connecting. They make it more difficult." These divides limit entrepreneurs' access to talent, capital, customers, and resources that may be only a few hours away.

The structure of financial support for entrepreneurial activities in the region is contributing to geographic silos. A programmatic and financial focus on Buffalo—and, to a lesser extent, Rochester—reinforces these silos and also neglects value in nearby cities like Syracuse, Ithaca, and Binghamton.

One interviewee respectfully suggested, "My biggest concern is that [funders don't] see that by limiting what they do to a small geography, they're missing out on resources that could even help Buffalo-Niagara grow."

Interviewees also pointed out that in addition to making it more difficult for entrepreneurs to meet their needs, these geographical silos between Buffalo and Rochester and even beyond to Syracuse, Ithaca, and Binghamton, make it harder for investors who want to invest in businesses across the region, as the programmatic activities do not reflect that interest.

Large corporations are absent. The near total absence of large corporations engaged with the startup ecosystem further hinders the ability of startups to access major customers, investors, suppliers, technologies, and acquirers, among others. An interviewee explained: "We have no corporate participation…Corporations don't see the benefit in looking in their backyards. They feel that the community has nothing to offer." Another elaborated on the problem:

> I see more of the corporates just sponsoring programs that get them good visibility… Corporates want to work with Series B. They want warranties, things that these entrepreneurs are years away from. When you get down to brass tacks with them, it's not as attractive to them as it was when you first sat down.

Regional corporations, generally, do not see the benefits of investing in local startups and do not appear to be interested in innovation from those startups. As one interviewee explained, many corporations have lost the entrepreneurial spirit that led to their own companies' successes generations ago. These corporations' failure to engage with the entrepreneurial ecosystem represents a lost opportunity and is a serious—and potentially fatal— deficit for the ecosystem overall.

The ecosystem is too quiet. Given its population size, the ecosystem should have far more activity. There should be a wider range of events and meetups, both formal and informal, that bring people together and cause "collisions" to happen. However, these efforts must be sustained over time, with multi-year commitments. They should ideally be built organically from within the WNY community, rather than relying on extra-regional activities or organizations.

One interviewee noted this problem: "To get people off the sidelines and into the game, we have to be developing programs and activities that get the right people in the room." Another agreed:

> The bigger thing has to be to promote more activity in the ecosystem. There aren't enough events happening, not enough connectivity...People are passing each other… There are too few for the population, and it's too siloed.

Interviewees suggested that this low level of activity is the result, in part, of the top-down culture described above. It seems that people are relying on a handful of leaders (top-down), rather than taking initiative to try new things themselves (bottom-up).

There is insufficient basic Business 101 training. Many interviewees commented on the lack of widespread entrepreneurial training at the earliest stages (such as pre-seed ideation and proof-of-concept) across the region.

> "There is no corporation that embraces innovation."
>
> -Interviewee

According to one interviewee, "101 is missing." Another interviewee went into greater detail about the lack of entrepreneurial learning opportunities in the community:

> There's no place to go if you don't know how to write a business plan, or if you want to learn to pitch. We need to send them to a place to get encouragement and training. The front end of the funnel is missing... We need a combination of both [informal and formal training]...We need a quarterly boot camp for 101. No one is doing that.

This lack of training results in significant weakness at the "top of the funnel." Because many would-be entrepreneurs do not have the knowledge they need to start companies, there are many business ideas that never get started. This deficit in education limits access to entrepreneurship, particularly for disadvantaged populations. Moreover, it harms the broader ecosystem because it weakens the startup pipeline downstream at later stages of growth, where much of the formal programming is supported. This lack of widespread business training inhibits the ecosystem's ability to build a wider, more inclusive funnel that reaches all of those with entrepreneurial ambitions and to sustain longer-term growth.

It is important to note that the Open4 initiative was recently formed to help address aspects of the "Business 101 Gap." Its effectiveness will be measured over time. The program presents a potentially replicable model and opportunity to leverage resources across the full WNY ecosystem.

The worlds of high-growth tech businesses are disconnected from those of "Main Street" businesses. While other ecosystems nationally are seeing increasing crossover between these two worlds, Main Street businesses in WNY are generally treated as less important than high-growth tech businesses. One interviewee explained that this divide results from a false assumption about the growth potential of non-tech businesses:

> "Money is not always the answer.... It's the soft skills that a lot of these businesses are lacking. Until those are addressed, they wouldn't understand how to spend the capital they're seeking."
>
> -Interviewee

> They treat growth companies and Main Street companies separately. They think Main Street companies are never going to be bigger than X. But it is as big as the idea. It's self-defeating...You don't only have to invest in high-tech areas to help the community. These things are interrelated.

Describing the growth of Austin, Texas, the same interviewee noted that Dell Computers' success was symbiotically interrelated with that of the local restaurants, law firms, accounting firms, hair salons, and other companies that grew alongside it. Those local firms also helped attract and retain creative, entrepreneurial talent for the city. Another interviewee made the same point, describing the impact of Tesla's factory in Reno, Nevada. The interviewee emphasized the social benefits that these companies can have for the larger community, as entrepreneurship in both high-growth tech businesses and Main Street businesses brings job opportunities and greater wealth to a region.

The divide in WNY between Main Street and tech businesses limits opportunities and perpetuates gaps in the ecosystem. For one, many startups today are succeeding through the application of new technologies to old industries (e.g., the recent transformation of taxi, hotel, biking, and restaurant industries, and the recent wave of venture-backed consumer product companies). Additionally, supporting underserved entrepreneurs and addressing racial inequities require that communities bridge conventional definitions of "tech" and "non-tech" to be more inclusive.

> "A lot of investors say there is a pipeline problem, and I agree. But the gap is much earlier than they think…. That's where the pipeline is broken, much earlier in the cycle…. If they want those startups to be diverse, they're forced to support earlier in the process, because there just won't be enough people who are able to get through that earliest stage."
>
> -Interviewee

As one interviewee noted, many low-income entrepreneurs start survival businesses that enable them to provide for basic necessities. Many lack the time, technology, or intellectual property understanding required to develop a stereotypical tech startup at the beginning, but their businesses can become very successful—and often tech-enabled—if they have the support they need to evolve. While high-growth tech companies can raise venture capital, Main Street businesses do not get similar support. As one interviewee explained, "The mom-and-pops…these are the entrepreneurs that are left out when you make large investments in high-tech, high-growth."

The programmatic dividing line between high-growth and Main Street businesses is increasingly artificial and unconstructive.

There is a critical need for greater inclusion and diversity. It is remarkable that the populations of the cities of both Buffalo and Rochester (not including their suburbs) are about 40% African-American and 12-20% Latino/Latina, but there is extremely little engagement by these populations in entrepreneurial ecosystem activities.

An informal group of WNY leaders wrote in a recent report, "We continue to see limited gender, ethnic, and racial diversity in this arena at a time when there is so much attention on expanding economic equity across communities." [4]

The pandemic has likely only exacerbated this disparity. As one interviewee said,

> Numbers are moving in the wrong direction, and we anticipate that the impact of the pandemic was disproportionate and will continue to affect diverse entrepreneurship in many ways. It will continue to move in the wrong direction.

When asked about the causes of this problem, interviewees noted: the lack of mentors and role models from these communities who could inspire more individuals to pursue entrepreneurship, the "trust factor" that inhibits people of color from accessing the support that would benefit them, and the disconnect between older, white men who dominate the investor population and those who are pitching new business ideas.

> "The fact is that Buffalo bears the scars of its own historic racial divide…. People have to work twice as hard to get half as much."
>
> -Interviewee

> "What I saw is that minorities don't get access to talent and funding. You can have a company or an idea, but it's harder. Minority companies may need different nurturing to get them to the point."
>
> -Interviewee

They also mentioned the need for more education and exposure to technology and entrepreneurship for young children, the importance of considering that entrepreneurs from low-income communities may have different support needs, the need for access to more basic entrepreneurship education programming, and the barriers that the ecosystem culture may present to would-be entrepreneurs. As one interviewee explained, "If you have a closed culture, it's very hard for people from outside to feel like this is a place they can be…especially for people of color."

[4] "Entrepreneurship Vision Council (EVC2040)," January 19, 2021.

This is a serious deficit and requires a concerted effort to combat it. The lack of inclusion should be considered an economic emergency. It endangers the long-term economic health of the region and addressing this problem should be elevated as a high priority. Beyond the threats to social and economic justice, this deficit limits the long-term growth of the region. Many new business ideas fail to launch and grow, and so the region loses potential jobs and wealth. One interviewee articulated the importance of addressing this problem:

> If we can optimize the potential of more people in our community, I just think that all of us will really benefit economically and from a quality-of-life perspective. Advancing opportunities for all people will help everyone.

The region does not have enough experienced entrepreneurial talent. The region suffers from a lack of operating talent with experience in starting and growing businesses. As a result, the region has not only fewer people to grow businesses, but also fewer mentors available to train the next generation. The "Rainforest Canvas Project" a decade ago noted this "shortage of role models that are experienced and accessible (lack of any mass of serial entrepreneurs)."[5] One interviewee explained that this problem has causes rooted in both demand and supply. On the demand side, the interviewee reported that employers are not prioritizing innovative talent in recruiting efforts and are not investing sufficient resources in building innovation skills. And on the supply side, the interviewee described a demographic gap:

> You have a gap in the demographic of college-educated people in their 20s, 30s, 40s. It's a huge gap because all of those people left to go to the coastal cities. They are the middle management, the people you need to scale your business, and those don't exist for the most part. All of the businesses around haven't grown rapidly for the last 40 years. There is a culture of low turnover and low growth.

Another interviewee concurred:

> We don't have a feeder system to grow the companies. I have some terrific companies, but I am struggling to help them find other people to grow the businesses (management level and operating talent)...My board says talent is a bigger issue than financial...My companies need people who can support them day to day...We don't have younger talent with any exposure to startups.

"We produce a lot of students and graduates, but they all leave the region.... The talent goes to where the opportunity is... It's a vicious cycle. You need a couple of companies that are growing and have lots of opportunities. Talent begets talent."

-Interviewee

[5] Launch NY, "Rainforest Canvas Project: Final Report," p. 12.

In recent years, the Buffalo Billion II and Empire State Development have made multi-million dollar investments focusing on entrepreneurship, community-based training, and local workforce development. These investments, if successfully designed to address the needs of entrepreneurial businesses, might begin to help close these identified skills and entrepreneurship gaps, and could be leveraged across the WNY region.

> "One of the things we all struggle with is finding the talent to wrap around the technology. We have a lot of smart people, but they're scientists.... They do not know business."
>
> -Interviewee

Interviewees also reported that recent graduates from the region's universities appear unaware of the opportunities available in the ecosystem and are drawn to startups in other cities following their graduations. The UVC CEO Survey points out that firms in the area are missing opportunities to recruit on college campuses: "Half a million college students are enrolled at 100+ higher education institutions across Upstate NY, but we need to do a much better job of connecting our graduating seniors to opportunities that are just around the corner."

Outside the region, few people are familiar with WNY startups, the employment options in the region more generally, and the quality of life the region offers. As young people continue to leave because they fail to see local startup successes, and as the region's startups continue to lack the talent they need to achieve growth, a negative feedback loop is created that perpetuates the problem.

While many universities across the country have engaged their entrepreneurial alumni diaspora to get involved in local startups by asking them to assist university-affiliated entrepreneurs, WNY's universities are reluctant to do the same as they are concerned it may jeopardize alumni giving. This reluctance represents a lost opportunity, given that there are many alumni from WNY universities at leading startup and innovative companies nationwide.

Greater engagement between these alumni and local startups could, in fact, bolster alumni connections and support for the universities. One interviewee described failed efforts to reach out to local alumni offices:

> We have not had any luck because the universities won't let us talk to them. Advancement offices won't open up their rolodex. I tell them that alumni who are more engaged in the community are more likely to give, but they aren't open to it...I stopped trying."

There are gaps in early stages of capital. There is broad consensus on WNY's lack of sufficient capital in the early stages: seed funding through Series A funding (i.e., first round of institutional capital). One interviewee explained, "Despite all the work that is still being done, we still don't have enough early-stage investment in local companies...There is no true seed source of capital in Western New York." It is very difficult, interviewees said, for a company to get its first million dollars. While there has been significant progress in building angel investor groups over the past decade, angel investors in WNY, as one interviewee explained, "won't give money just based on an idea." There are more financial resources available for companies at later stages, but the gap remains large. Early-stage companies in WNY face a more daunting "valley of death" than in many other ecosystems. An interviewee emphasized the consequences of these gaps: "Lots of companies are going bust because of it."

There is an overdependence on a handful of programmatic funding sources as well as structural disincentives between willing partners who seek to collaborate. Three major funders disproportionately dominate the ecosystem: RCWJRF, Empire State Development, and NYSERDA. This situation distorts local activities based on the preferences or signals of a few funders, with often unintended consequences. It makes the WNY ecosystem top-heavy, as these three major funders support only a handful of organizations. The result is a lack of smaller, innovative, distributed, nimble projects and organizations that can experiment and fill gaps in the ecosystem. Additionally, certain funding streams subdivide the region, which can have the unintended effect of incentivizing potential collaborators to compete against each other.

"There is a view that one entity needs to be doing the investing, when in fact having multiple active investors/funds in the same community will actually create a more vibrant startup ecosystem."

-Upstate Venture Connect and Madden School of Business, "2018-2019 Upstate Venture CEO Survey," p. 20.

"The weakest leg on the stool is always investment dollars.... That's the area that could use the most support.... We need more capital at every stage."

-Interviewee

Moreover, this dynamic creates a dependency mindset in the ecosystem in which people and programs downstream feel unable to act without permission from the powers-that-be, which stifles initiative and innovation. One interviewee focused on the role that the New York state government plays in making people see government as the answer to all problems: "It's not just fewer private dollars available as a result. It's the relationship—getting people off the sidelines who have relationships and capital and things to contribute and getting them into the game." The problem is deep, as the "Rainforest Canvas Project" in 2014 noted the ecosystem's "dependence on government to drive startups" as a theme that has a significant impact on the ecosystem.[6] Fundamentally, there is a lack of broader-based, longer-term, more diversified, and more decentralized funding to support the sector.

The ecosystem has low levels of information sharing. Entrepreneurial ecosystems depend on the ability of people to share information about planned activities, new opportunities, success stories, and role models, among other topics. WNY has low levels of information sharing, which contributes to greater silos, more inefficiencies, and less effectiveness of the ecosystem. It also inhibits the ecosystem's ability to attract outside talent and capital. The "Rainforest Canvas Project" cited this "lack of visibility of successes and highlights of the ecosystem" as a limiting factor in the ecosystem's growth.[7] Similarly, one interviewee noted that people are not aware of the success of ACV and other local companies: "They don't get the attention in the media outlets. They are so much under the radar compared to other markets." As mentioned above, it is particularly problematic that local undergraduates are unaware of the opportunities in the region. An interviewee reported, "Most of the information about what is happening in the community is never crossing over the campus walls." And the UVC CEO survey affirms, "Current challenges are as much a function of entrepreneurs having no connection or visibility into the campus and college students not being aware of nearby opportunities."[8] Indeed, online searches yield few stories regarding the day-to-day entrepreneurial activities in the WNY ecosystem—which is not true in many other regions.

RECOMMENDATIONS FOR FUTURE STEPS

This rapid discovery process has helped identify early recommendations to address weaknesses in the WNY ecosystem and build a more robust ecosystem for future entrepreneurial growth.

Diversity and inclusion should be a high priority for the ecosystem and is thus embedded throughout the recommendations below. We suggest that diversity and inclusion efforts permeate activity throughout the ecosystem, rather than be relegated to a single, siloed strategy among many others.

Provide vision and leadership. There is overwhelming desire among interviewees for key funders to take a stronger role alongside regional stakeholders in setting vision, articulating priorities and values, aligning agendas, convening players, breaking silos, and driving collaboration. However, at the same time, there is aversion to any semblance of top-down

[6] Launch NY, "Rainforest Canvas Project: Final Report," p. 13.
[7] Launch NY, "Rainforest Canvas Project: Final Report," p. 13.
[8] Upstate Venture Connect and Madden School of Business, "2018-2019 Upstate Venture CEO Survey," p. 18.

control, which means a delicate balance must be struck. One interviewee suggested that philanthropies such as RCWJRF could be in a good position to bring different elements of the ecosystem together. This "convening" function would provide a starting point for the WNY ecosystem to gather and ideate. It would also allow for the organizations and leaders within the community to take on the long-term development and execution of a common vision for the region. As an example of the importance of the "convening" function, one interviewee presented the following observation and suggestion:

> Without the same vision, how can we be effective?...We need a neutral party to do it. Wilson is neutral...everyone loves them, so there is no real drama there.

Another interviewee also expressed enthusiasm at the idea of RCWJRF, in particular, connecting partners across the ecosystem and bringing stakeholders together around shared goals:

> The Wilson Foundation...could get everyone to work together...For me, it's the promise of what that could do at a systems level that is really powerful...It doesn't have to all be philanthropy. We need help thinking big like that.

Key funders could help the community achieve a common vision, pull parties together based on that vision, and drive diversity and inclusion throughout. This process could allow leadership from within the ecosystem to emerge organically and strengthen the likelihood of future success.

> "Wilson is...actually becoming a measurement stick for the types of behaviors they are willing to invest in, therefore promoting those behaviors."
>
> -Interviewee

One major recommendation is for regional stakeholders and funders to work collaboratively in WNY to craft a common 2030 vision and implementation strategy. This strategy could enable the WNY ecosystem to address a broad array of identified needs, connect activities and people across silos, and benefit entrepreneurs throughout the entire region.

For instance, initiatives could include a large, multi-year challenge for the region, laying out high-level, long-term objectives, priorities, and values that the entire ecosystem can rally around. Such a challenge could drive excitement, inspire parties, unify collaborators, and catalyze activity around common objectives—all while supporting local actors with implementation. What if ecosystem partners declared a challenge to transform the region's entrepreneurial ecosystem by building X number of businesses over Y years? This challenge could specifically set goals for diversity, inclusion, connectivity, and engagement measures. It could also provide local actors with valuable leverage to engage corporations, universities, governments, and other funders to match; set visionary targets on diversity and inclusion; drive change across economic development, educational systems, and policymaking; accelerate capital formation to address market gaps; and encourage players across silos to work together. An interviewee alluded to the need for a common, unifying vision for the ecosystem: "There is no unifying force to bring these pieces together. We need an incentive for people to work together."

Establish an ecosystem-level, agenda-catalyzing intermediary organization that supports other organizations in the ecosystem, and does not compete through its own direct assistance programs. There is general desire, and need, for a single entity to unify and guide the ecosystem by bridging silos, aligning parties, catalyzing collaboration, developing a cohesive strategy, making grants, driving execution, ensuring attention to diversity and inclusion, and tracking outcomes. One interviewee described the need for "an organization or a person with heft and financial backing that wants to do something and can herd all the cats." Another interviewee had a similar suggestion:

> I would want to see one organization that was responsible for the ecosystem across Western New York that engaged industry, the university, the community, but was responsible for the growth of the area.

Ideally, this organization would not be an operating entity that runs programs, in order to avoid conflict and competition with other organizations. Instead, this entity should "rise above the fray" to command respect, collaboration, and support—similar to the role of the New Economy Initiative in Detroit. This entity could, for example, create a major annual conference for the entire WNY ecosystem to co-design and co-execute a regional agenda together. In addition, this entity could unify and lead the region's response to the potential passage of the Endless Frontier Act by the U.S. Congress, a multi-billion dollar effort sponsored by New York's Senator Schumer to support regional technology hubs, among other priorities.

Draw in other funders. There is consensus demand for existing funders to leverage their credibility and clout to attract new players to the WNY ecosystem so that the region can diversify beyond the current dominant funders. Prospective funders to "pull off the sidelines" are many and could include: philanthropies from New York City (e.g., the Ford Foundation was suggested by more than one interviewee), large corporations, city and county governments, and other state agencies beyond Empire State Development and NYSERDA. This work can also include efforts to educate other funders regarding the entrepreneurship challenges faced by underserved communities in the region and the importance of breaking down these barriers.

One interviewee called attention to the value of this effort:

> Wilson Foundation has an opportunity to bring more funders to the table, like the Ford Foundation. That's the help they need...If they do not help us get more funders to the table, our chance is gone.

Some interviewees noted that if the region were to achieve greater entrepreneurial success, that success would potentially lead to more philanthropic funding for the ecosystem. An interviewee recommended: "They should be trying to create more Wilson Foundations so that we have ten foundations. The only way to get there is entrepreneurship."

Engaging new funders could address the top-heavy dynamic in the ecosystem by decreasing dependency and increasing ways for more organizations to raise funds. Many interviewees expressed belief that this shift will not happen on its own; it will require current funders to work actively to attract new funders to the sector.

There is also a general consensus that stakeholders should engage Empire State Development to evolve its funding model to bring regions together in collaborative programming, rather than competing against each other. One interviewee suggested:

> ESD is Empire State Development Corporation—they have the ability to push people together, collaborate. I'd like to see more programs like that...Instead of pitting them against each other, let's push them together and give them money for collaborating.

Additionally, creating an aligned 2030 vision and implementation strategy shared by all stakeholders (as described above) could provide additional leverage in fundraising efforts.

Offer more small, innovative grants. Such small grants may not seem significant individually, but they can have a powerful aggregate impact in building an entrepreneurial ecosystem. Grants as small as $5,000 to $50,000, with risks distributed across a portfolio, can help address the top-heavy nature of the ecosystem by diversifying the breadth and number of organizations funded and ensuring that smaller, more innovative projects and organizations can experiment and fill gaps they identify. By its nature, entrepreneurship is a micro-scale activity, and nimble programming that can "move at the speed of entrepreneurship" is vital. This approach could also support historically underserved entrepreneurs by driving "top-of-the-funnel" entrepreneurial programming that increases diversity and inclusion.

Some areas to target could include: planning casual meetups and informal activities to bridge silos; serving underserved communities or filling market gaps; teaching basic business skills;

providing STEM and coding skills for those who lack access; helping new capital funds and investor networks get launched; creating newsletters or supporting media to elevate entrepreneurial stories; offering incentives for schools, universities, and community colleges to innovate curricula; engaging large corporations with startups; and engaging civic leaders and policymakers to address gaps in workforce, economic development, procurement, and other policies. The intermediary agenda-setting organization described above could potentially serve as the manager for a portfolio of small innovation grants. One model for this type of work is SchoolSmart KC, an independent nonprofit created by the Kauffman Foundation to catalyze innovation in K-12 educational systems in Kansas City.

Expand the geographical boundary. Much of the current funding focus on Buffalo and Rochester appears to be self-limiting. It exacerbates geographical silos and excludes major players that are within 1.5 hours driving distance and are natural partners, including Corning, Cornell University, Syracuse University, and others. Synergies with these organizations are already happening to some extent, but there is a sense that boundaries are making that work harder. Many interviewees felt that slightly expanded geography would yield greater return-on-investment compared to current systems. One said:

> I think [funders are] missing opportunities by focusing on just Buffalo and Rochester. [They] could be accelerating that and Buffalo/Niagara would benefit tremendously. There are things they could do to encourage the boundary crossing.

Several interviewees pointed to the need for a regional approach that brings the broader community together. An interviewee said: "There is better access to talent and capital if you spread out because the talent and capital is spread out. You will attract more capital overall." One path would be to define a new geographical boundary based on the State of New York that lies along Interstate Highway 81 and west of that highway, which would augment Buffalo and Rochester with the newly encompassed areas of Syracuse, Ithaca, and Binghamton. The Kauffman Foundation made a similar shift in 2020 to support interrelated ecosystem effects in a larger geographic area.

> "I'm a big believer in taking a more regional approach because there are incredible pockets of talent, but no one city is big enough to completely stand on its own.... Realistically, most of these cities really need each other."
>
> -Interviewee

> “Whatever you do on one side, you do on the other. Let’s start with that, as a simple thing to do.”
>
> -Interviewee

It expanded its local entrepreneurship grantmaking from a focus on Kansas City to a broader effort that comprised the four-state region of Missouri, Kansas, Nebraska, and Iowa.

Funding should be more evenly distributed geographically to organizations throughout the region. Interviewees in Rochester expressed concern that their organizations consistently receive less support from both the state and private funders: “All roads lead to Buffalo.” Interviewees noted that this imbalance makes it even more difficult for the two cities to work together—and that the availability of more funding for everyone would ease collaboration. One interviewee explained:

> If there were more money, we could collaborate more easily…. We struggle for resources —human and financial—across the board, and it makes everyone hang on to what they have because that’s the problem.

Leverage media more effectively. Elevating the importance of media in the WNY ecosystem would help shift culture, counteract brain drain, recruit new talent to the region, attract investors, and inspire entrepreneurs by lifting up role models. Moreover, elevating stories about entrepreneurs in underserved communities could inspire people and expand the local narrative on who entrepreneurs can be. Dave Salvant of Squire has noted this power of representation: “We understand the magnitude of our success and how it reverberates in communities…The more successful we are, the more opportunities for others to follow in our footsteps.” [9]

Interviewees emphasized the importance of making people who live in the area, and those who live outside it, aware of the entrepreneurial activity in the region to encourage participation. Better branding, an interviewee pointed out “can attract people and capital.” The final report for the “Rainforest Canvas Project” made a similar recommendation seven years ago:

> Provide a constant and consistent flow of stories of the successes, pivots, and leveraged lessons from entrepreneurs and companies at all stages of the startup and fast growth life cycle in the upstate New York area. This would be delivered through the widest possible array of traditional and new media platforms. [10]

[9] Dan Miner, “The Magnitude of Squire’s Success,” BuffaloInno, April 9, 2021.
[10] Launch NY, “Rainforest Canvas Project: Final Report,” p. 30.

RCWJRF, interviewees explained, has an especially important role to play in this effort to convene a broad group of stakeholders in a way that empowers local ecosystem leaders, given that the Foundation has a high level of credibility and is seen as a neutral party. One interviewee said:

> It's not just money—it's also the ability to pull others in…. Ralph Wilson has a seat at the table. They need to tell the story to the Foundation's network and others who could bring attention to this…It's different when someone on the outside at a high level is talking to them rather than someone on the inside.

> "People who come to the region are constantly pleasantly surprised when they get here. The quality of life in this area is quite good. We just need eyes on us in a positive way."
>
> -Interviewee

Expand capital access. Philanthropy can catalyze capital formation to fill gaps in the marketplace. Such efforts could, among various options, build capacity and catalyze innovation by overcoming early friction in fund formation. Some ideas include: seeding operating grants for emerging fund managers (especially diverse managers) who are launching and building new funds; training and building capacity for fund managers (e.g., scholarships to the Kauffman Fellows network for venture capital professional development); providing seed or anchor investments in new funds targeting market gaps (either as mission-related or program-related investing); supporting alternative funding models beyond venture capital that better serve businesses in underserved communities (such as revenue-based investing, profit-sharing, crowdsourcing, evergreen, proof-of-concept funds, and fintech); and better integrating the high-tech, high-growth startup capital ecosystem with CDFIs operating in the region.

In addition, the new federal State Small Business Credit Initiative (SSBCI) is providing an estimated more than $500 million to expand capital access for New York's small businesses, which could potentially be leveraged by philanthropy. The Kauffman Capital Access Lab is one example of a collaborative funding model where philanthropy can catalyze private sector capital. Given the highly technical nature of capital formation, this effort would require a dedicated strategic focus. We can expand on this topic further if there is interest in pursuing it.

CONCLUSION

There was a great deal of consensus around these recommendations in my interviews. The success of these approaches, however, will depend upon the details of implementation—the specific vision we articulate, the implementation strategy we put in place, the evaluation metrics we establish, the community leaders we engage, and the grantmaking decisions we make. None of these implementation details will be easy.

To get a sense of interviewees' dreams and priorities, I asked each interviewee what he or she would want to see if they "could wave a magic wand for the WNY ecosystem." Their answers were telling. There were many responses that focused on capital availability and access. At least half of the responses, though, centered on the strength and cohesiveness of the community they would like to see created. I've copied each of these responses below, starting with those focused on community, and then those related to capital and other needs:

- "It's all about having more people embrace the philosophy of people wanting to embrace the community and keep the next generation of talent here."

- "That this generation builds a sustainable ecosystem. That we become an example in the country of how to leverage high-growth entrepreneurism as a means to reduce poverty, create economic equity for more people, and create a better quality of life for all people in our region. If we can achieve that, I don't know that there is any better legacy for a generation."

- "More collectivity. I would like to see organizations talk to one another more."

- "I would want a master plan—your rainforest concept completely mapped out and funded for the whole region."

- "I would want to see one organization that was responsible for the ecosystem across western New York that engaged industry, the university, the community, but was responsible for the growth of the area."

- “I’d want to see the way in which we convene include more diversity.”

- “Just an acceleration of what we’re trying to do…. All these things we hear about just need acceleration. We have a lot of the right ideas. It would have been unbelievable to walk into all this in the 90s. We’re onto the right things, how can we accelerate? The acceleration would give new businesses a shot at winning…. How much of it is not going fast because of funding or talent? 9 out of 10 times, we’re not going fast enough because we don’t have enough resources.”

- “I would want to see more numbers of events, activities, people, and capital. There are too few for the population, too siloed. 99 percent of the community doesn’t hear about things that happen.”

- “Increased venture opportunity and support from the local community. Success with people taking a chance, taking a risk. Getting them comfortable to running with a startup. Underlying layer: talent. Getting everyone into the tower, making everyone feel like they belong here.”

- “I would say more programs that are early-stage, exposing children to technology…. More programming and exposure for young children. And larger check sizes for organizations like Launch NY so that they can take people even further.”

- “I think we understand now that there is a capital element, but more importantly is the mentorship and technical assistance element. I want any entrepreneur who needs help to get assisted.”

- “I would want to see an endowment so we don’t have to chase funding for things that are working well when the funding runs out. Grants have reporting requirements. It’s exhausting. If there were a way to smooth that out, that would be my magic wand.”

- “A name fund in Western New York. It would put us on the map. Or Bessemer opening an office in Buffalo. Or a significant partner from Sequoia who splinters off and raises an independent fund in Buffalo.”

- "More micro-capital deployed to smaller tech projects. It seems like with tech, you work on it for free for a long time. There's a lot of capital needed for a lot of these tech startups."

- "I think having some kind of fund that helps after the angel investment and before the larger round. With people who have expertise (not local yokels) who bring expertise to the table from Silicon Valley, New York, or Boston. They could do a couple deals, then entrepreneurs see that deals are getting done. It would encourage more folks to go into the entrepreneurial space."

- "It would really be around some pool of capital that's available for folks, small pools of capital that are available to organizations that can put it to work, get more shots on goal. More dilutive and nondilutive capital for early-stage development."

> "We're going in the right direction. We have a long ways to go, but it feels exciting. You can almost taste it!"
>
> -Interviewee

While we will not have a magic wand to create instant change in the ecosystem, I was encouraged by the openness, thoughtfulness, and vision of the people I spoke to over the last few months. As I conducted these interviews, I was struck by how receptive and enthusiastic the interviewees were about the work they were doing, their own visions for the community's future, their confidence that the community still had many potential entrepreneurs with great ideas, and the powerful role they saw for funders to play in creating change. Not only were they invested in building a more robust ecosystem and contributing to its growth, but they sought greater collaboration and a stronger community. Many spoke of the momentum and opportunity at this particular moment in WNY. They recognized the current excitement around entrepreneurship in the area and the possibilities ahead.

I look forward to continuing to collaborate with RCWJF, these community members, and others to seize this opportunity as this important work evolves.

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