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Portland Seed Fund pledges 'tough love' for entrepreneurs



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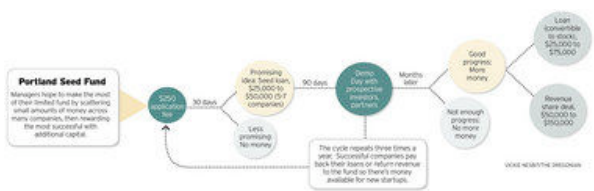
By **Mike Rogoway, The Oregonian**
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Vickie Nesbitt/The Oregonian.
 The investment model for the new Portland Seed Fund. [Click here for a full-sized pdf.](#)

Managers of the nascent Portland Seed Fund have crafted an unconventional model for backing startups, asking companies to prove their mettle within 90 days -- or be cut off.

It's a kind of "tough love," said Angela Jackson, a longtime Portland startup consultant and one of two partners in Bridge City Ventures, which will manage the fund.

"You throw a little bit out, and you see

who can show that they can make traction," she said.

The seed fund is a centerpiece of a concerted city effort to nurture software companies and other small businesses in promising economic sectors. Portland put \$500,000 of public money into the fund, with hopes of landing at least \$1.5 million more from outside investors.

Although the amount is small by private investment standards, it holds great symbolic significance to Portland's software community, **which lobbied aggressively for more public support for entrepreneurs.**

Portland is home to **a vibrant startup culture**, but those entrepreneurs have rarely produced substantive financial success. Frustrated tech boosters say a poor funding environment for early-stage companies is one reason, and they hope the city's startup fund can be part of the solution.

Though similar municipal efforts are under way elsewhere in the nation, the viability of Portland's efforts remains an open question.

There are a host of uncertainties: Can the fund's managers raise additional money to augment the city's investment? Can the fund sustain itself?

The biggest question is whether the city's money can make a meaningful difference to entrepreneurs.

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"We really had to come at this by throwing the traditional model of engaging with capital on its head," Jackson said.

Traditional investment funds put capital in a company in exchange for an ownership stake. The funds have tens of millions, or hundreds of millions, of dollars at their disposal and focus a lot of attention on a small number of companies.

Operating with much less, Bridge City (a new fund that had been known, briefly, as JH Ventures) envisions a shotgun approach, scattering small loans across as many as a dozen businesses each year. It will mentor them, monitor them and provide additional funds to the best prospects.

Bridge City loosely based its format on a well-known Silicon Valley startup fund, **Y Combinator**, which has spawned a string of tech seedlings by putting small amounts into a broad swath of companies.

In the Y Combinator model, Jackson said, successful businesses adapt quickly and demonstrate that their ideas -- and management -- can deliver results under pressure.

"They aren't in the business of cultivating orchids. Neither are we," Jackson said. Instead, she said, the Portland Seed Fund will look for "wildflowers."

Here's how it will work (pdf):

- Every four months the seed fund will take applications from startups, which pay a fee, tentatively set at \$250, to be considered. Funding decisions will be made within 30 days, with a half-dozen recipients receiving loans of between \$25,000 and \$50,000.
- Funding recipients will have 90 days to reach pre-established benchmarks. Companies will showcase their technology at a Demo Day for prospective customers and other potential investors.
- The best prospects will be eligible for additional backing, between \$25,000 and \$150,000, over the next several months. Some will take another loan, convertible to company stock. Others will promise to return some of their revenue to the fund, up to a predetermined ceiling, in exchange for seed funds.

A capital concept

The managers of Portland's new seed fund drew inspiration from **Y Combinator**, a Silicon Valley seed fund that makes small investments to help tech entrepreneurs cement their ideas and produce a prototype.

It mentors and advises its companies during an intensive, three-month process that includes weekly dinners with venture capitalists, bankers, tech execs and successful entrepreneurs.

After 10 weeks, its portfolio companies present their ideas at an investor day. Y Combinator alumni include Reddit, Loopt, Dropbox, Posterous and Scribd, among others.



Motoya Nakamura/The Oregonian

Will Price hopes to launch his tax preparation business in Northeast Portland with the help of the Portland Seed Fund. "There's really a scarcity of investment capital for something this small," he says. "I would probably do whatever it took to be considered."

"There's a lot more steps involved than I'd considered," said Will Price, a Northeast Portland tax preparer who hopes seed fund money could help him launch a small tech services business, Tax Office Software.

But Price, who was already familiar with the Y Combinator model, said he likes the idea of debt or revenue sharing as a way to buy investors out of the business in short order. And he's not put off by the \$250 application fee.

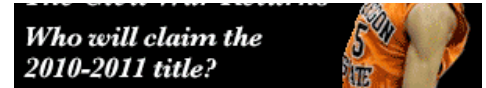
"There's really a scarcity of investment capital for something this small," Price said. "I would probably do whatever it took to be considered."

(It may seem odd that an entrepreneur would pay for a chance to get funded, but it's not unusual.

Both the Angel Oregon conference and the Oregon Angel Fund charge early-stage entrepreneurs a fee to apply.)

Early returns

Bridge City's model reaches more companies, faster, than traditional startup investment, according to Jim Huston, a veteran venture capitalist and Bridge City's other manager.



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Also key: It doesn't require a big sale or public stock offering, years in the making, for the fund to return money to its backers and replenish the investment pool.

A board appointed by the Portland Development Commission **chose Jackson and Huston**, whose application already had been screened by the nonprofit Oregon Entrepreneurs Network. The money comes from a PDC grant.

Compensation for Jackson and Huston hasn't been set. They say details are still being negotiated but that direct payments will be minimal. The partners will put in their own money, they say, and expect any financial upside will come down the road as they invest additional sums into the Portland Seed Fund's most promising startups.

The fund's \$500,000 leaves little margin for error. A handful of bad performers could deplete the fund and start a vicious cycle that would leave successively less to invest.

So the Portland Seed Fund is courting other prospective investors, and Huston said an unnamed regional economic development agency will probably supply \$250,000 to help launch the fund.

'A bit of an experiment'

But additional backing that the seed fund had counted on may not be available, and the seed fund's already encountered a strong degree of skepticism from within the entrepreneurial community.

Managers of the Oregon Growth Account, which supports other investment funds with state lottery dollars, **looked dubiously at Portland's efforts in a meeting in early September**, asking whether the new seed fund merited \$500,000 in state backing.

With lottery revenue dwindling, OGA board members questioned the seed fund's business model and wondered whether they should put money into an investment fund focused on one region of the state.

They put off a decision until December, pending more research into the seed fund and its managers.

Others, notably managers of the Oregon Angel Fund, **have expressed doubts** about whether Portland really needs the small investments and whether they can be effectively managed.

But to the Oregon Entrepreneurs Network, early-stage funding is a key missing piece in Oregon's startup economy. The not-for-profit group has worked for more than a year to identify a funding source and seized on the Portland Seed Fund as a springboard for that effort.

"We're all trying to get to the same place. We're all trying to get seed money to small companies," said Jim Noonan, managing director of Pivot Point Capital, who has coordinated OEN's seed efforts.

Though the funding environment is difficult, and the seed fund's structure is unusual, Noonan said he is confident it will line up additional backing this fall and be ready to invest early next year.

"Everybody is trying to find a way to kick-start the Oregon economy and find a way to create jobs," Noonan said. "Yeah, there's a bit of experiment to this."

-- **Mike Rogoway**; twitter: [@rogoway](#); phone: 503-294-7699; [Silicon Forest Blog](#)

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Portland Seed Fund

Details: A seed fund for entrepreneurs backed by a \$500,000 grant from the Portland Development Commission, supplemented by an undetermined amount from other investors.

Investments: Between \$25,000 and \$100,000 apiece, directed at high-tech, clean tech, biotech and consumer technologies in Portland and surrounding areas. Investments due to begin by next summer.

Applications: The seed fund won't take applications until it's secured additional funds. Follow updates on [the seed fund's website](#)



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Lana2

October 02, 2010 at 9:01AM

"Portland is home to a vibrant startup culture, but those entrepreneurs have rarely produced substantive financial success. Frustrated tech boosters say a poor funding environment for early-stage companies is one reason,...."

Maybe those 'entrepreneurs' rarely produce 'substantive financial success' because those startups simply don't have the talent or quality to survive, you think? Like any other business, you either have what is needed to succeed or you die out. Saying Portland is home to a vibrant startup culture is really nice to say, but's that would be the same as making a claim that Portland is family friendly, which it increasingly is not, and wonder why families with children that can afford to live in more family friendly suburbs and other areas move. You can claim Portland to be many things but it's the performance that counts and if Portland's startups don't have the muster, then it's their own fault. That's how capitalism works.

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Mike Rogoway, The Oregonian

October 02, 2010 at 9:12AM

You raise a valid question. I urge you to read the article that passage links to, which explores that issue.

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Mike Rogoway, The Oregonian

October 02, 2010 at 9:22AM

You raise a valid question. I urge you to take the time to read the article that passage links to, which explores that topic.

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Mike Rogoway, The Oregonian

October 02, 2010 at 11:17AM

You raise a valid question. I encourage you to read the article that passage links to, which contemplates that issue.

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Erick October 02, 2010 at 10:39AM

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You should note that "JH Ventures" actually stood for "Jim Huston Ventures" I am glad they changed this to "Bridge City". If you are taking \$500K of public money for something like this it would raise a lot of questions if you put it into someone's name, I am a little surprised it was considered at all.

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Mike Rogoway, The Oregonian October 02, 2010 at 11:20AM

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Hi Erick,

That's not actually correct. 'J' was for Jackson, 'H' for Huston. Both Angela and Jim said from the start that 'JH' would be a placeholder 'til they came up with something permanent.

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Erick October 02, 2010 at 4:08PM

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Thank you for clarifying Mike, I was hoping it was something like that.

I am curious if you know what it will cost to run and manage the fund, are the managers etc paid a salary to work on the fund or is it volunteer, it really seems like a lot of work to manage and as you get more and more companies it may require more effort. Also what if the additional \$1.5M is not put in by private investors?

It is nice to see Portland doing something to help startups, I am not sure how helpful this will be, but it is nice to see regardless, hopefully this will spark some additional measures to help foster entrepreneurship in Portland.

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Mike Rogoway, The Oregonian October 02, 2010 at 5:15PM

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Erick --

1) The PDC did set aside some additional money (\$20,000, I believe) to cover some administrative and legal costs. It's easy to imagine that total administrative costs will exceed that. I believe they are working to create some standardized documents that could be used for multiple investments and hold down those costs.

2) The managers aren't getting a salary, but their compensation is still TBD. This isn't volunteer work, as such. There will be compensation for the managers, which will rise if the fund's companies are successful and generate returns for the fund. But no floor for their compensation has been set, nor have the specifics of the upside been determined.

3) Jim and Angela say there will be a fund, regardless of whether they're able to secure more than they have already. But their effectiveness, they say, will be limited with less money. (As a point of interest -- at the OGA meeting last month, Jim Huston was pessimistic that they'd meet their funding targets without help from the OGA. But OEN's Jim Noonan told me this week the picture has improved since then, and he's confident they'll close the fund with additional investment by year's end.)

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Metalartisan October 02, 2010 at 10:46AM

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Most small business owners still alive in Oregon today knows that its luck that keeping them going. The real answer to success is a ton of that same luck and working harder than anybody you've ever met in your life. Being the best at something or nailing the "location, location, location" wont net you anything, but it might help keep you going for a while before you fizzle. During the bad times you've got to be willing to sacrifice your entire savings, family life, hobbies and free time activity's, physical and mental health just to keep it gong long enough to get to the good times, and the good times may never come. Sorry to such a bummer, but if you are considering becoming self employed you've got many lessons coming that they never explained to you in school. The seed fund money would be better spent by educating, qualifying and directing individuals in conventional directions. Sure its harder to acquire funding these days... it should be. Nothings changed for individuals with the creativity, dedication and willingness to do the hard work.

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ormom2

October 02, 2010 at 11:13AM



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I think this is really about hoping to get lucky and get in on the ground floor of the next Facebook or some such, rather than building the economy and creating jobs. A better model for doing that is helping successful small businesses add jobs.

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tombdragon

October 02, 2010 at 11:49AM



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Until the City, and pundits understand that ALL business sectors contribute to a diverse business culture Portland, and Oregon we will continue to flounder. For instance a Janitorial, Real Property, High Tech, Manufacturing, and Construction all provide goods, services, and employment that generate revenue, for employees, and tax revenue for municipalities are just as important as any other type of business. Business principals are the same, and can be applied to any venture. This goal of preferring one type of business venture is one on the reasons we are in trouble, because most individuals skills are not focused upon the needs of those ventures. This bigotry favoring one set of skills, and interests is no different than the racism, perpetuated but the city under the guise of Urban Renewal. The type of business doesn't matter as long as it is legal, and profitable - political social goals are of little consequence if individuals continue to be unemployed, and have to put up with this blatant disregard for their interests, skills, and abilities that are being purposely ignored, and in fact snubs by those hired to manage their tax dollars.

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rwilliamz.myopenid.com

October 02, 2010 at 12:14PM



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What happens to those companies that don't get additional "funding" after the first 90 days? The pdf says pay back the loan or use revenue, but what if you used the initial "funding" to actually fund the business and don't have revenue after 90 days? Are the businesses really on the hook for that initial \$25-\$50k?

This fund is really nothing like Y Combinator, and they should not be claiming to be as such. Y combinator does not charge to apply, and they make a true investment in the businesses they choose and are much more entrepreneur friendly. This fund just appears to be a glorified bank giving loans.

Obviously, I'm disappointed in what I've seen so far.

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steavis

October 02, 2010 at 12:53PM



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"Portland put \$500,000 of public money into the fund"

Investing tax money in private enterprises? Doesn't this trouble anyone? This is not building a road or stadium that Portland continues to own, this is being a stockholder in a company.

What are the competitors of companies Portland invests in supposed to think? THat if Portland

has to choose a company they'll favor the one they invested in.

Besides, how would any govt official have any idea of what makes a business succeed? They've never had real jobs ever.

I mean we've seen the bad ideas PDC invests in (take a drive up MLK), this fund is doomed.

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Mike Rogoway, The Oregonian October 02, 2010 at 2:01PM

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Steavis -- Just to be clear...The money comes from the taxpayers, but it's a grant, not an equity investment. The city won't be picking winners or losers, the investment managers will. Likewise, the city won't get any financial return from its grant. If the fund produces a return, it will go to replenish the fund -- and compensate the investment managers.

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steavis October 02, 2010 at 5:20PM

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"but it's a grant, not an equity investment."

It may go in as a grant, but the fund needs to get a return from their investments.

"The city won't be picking winners or losers, the investment managers will."

PDC has a big pot of money. I can't really believe they won't lean on the fund managers to make certain types of investments independent of the likelihood of the start-ups ability to succeed.

I offer up HannahBea's pound cakes which sucked something like \$300K out of PDC and the owner had no clue of how to run a business

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