



Prepared for:
JumpStart Inc.

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April 2009

JUMPSTART INC.:

**ECONOMIC IMPACT ON
AND CONTRIBUTION TO
NORTHEAST OHIO, 2008**

**CENTER FOR
ECONOMIC
DEVELOPMENT**



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EXECUTIVE SUMMARY

This report was prepared for JumpStart, Inc. by the Center for Economic Development at Cleveland State University. The report summarizes the economic impact in 2008 resulting from JumpStart investment in start-up companies in Northeast Ohio and its services to assist other entrepreneurs through JumpStart Ventures, JumpStart TechLift Advisors, JumpStart Inclusion Advisors, and IdeaCrossing.

JUMPSTART'S TOTAL ECONOMIC IMPACT ON NORTHEAST OHIO

JumpStart's economic impact in 2008 based on its investments since 2004:

- Output Impact: \$ 75.7 million
- Income Impact: \$ 20.9 million
- Employment Impact: 502 jobs
- Tax Impact: \$8.3 million (\$5 million to the federal government and \$3.3 million to state and local governments)

JUMPSTART'S CONTRIBUTIONS TO NORTHEAST OHIO

Surveys were sent to companies that received assistance from JumpStart's lines of business including JumpStart Ventures, JumpStart TechLift Advisors, JumpStart Inclusion Advisors, and users of IdeaCrossing. A fifth survey was sent to companies that participated in more than one line of business.

JumpStart Ventures Survey

JumpStart Ventures was helpful to several companies in securing investment capital from other sources. Moreover, many respondents found JumpStart's assistance to be very or extremely valuable in helping them think through, evaluate, and improve key aspects of their business; create and deliver a more effective presentation to an investment audience; and become more confident and prepared to seek investment capital from other sources.

JumpStart TechLift Survey

More than 28% of respondents had received investment capital since they began working with JumpStart TechLift Advisors. Forty percent of these reported that TechLift's assistance was critical in their success in raising investment capital. A total of 71 new jobs were added to the Northeast Ohio region by 16 of the responding companies. The majority of respondents placed a positive market value on the assistance received from JumpStart TechLift Advisors.

JumpStart IdeaCrossing Survey

The results showed that although most of the respondents are located in Ohio, many users were from other states. More than 50% of the respondents had set up an active funding profile but only a few had talked to an investor or business mentor. Only a few respondents said the information and services received from IdeaCrossing were very valuable or extremely valuable. Several respondents thought IdeaCrossing was helpful but needed some more work.

JumpStart Combination Survey

Results from the analysis of companies that had received assistance from JumpStart through more than one line of business show that more than two thirds of those who had been able to raise capital said JumpStart's assistance was critical. More than half of all respondents said that the value of JumpStart's assistance in the various services was very valuable or extremely valuable in helping the company think through, evaluate, and improve key aspects of their business plan or helping them create and deliver a more effective presentation to an investment audience. In addition, some companies added jobs.

JumpStart Inclusion Survey

The lone respondent to the inclusion survey had not secured capital to grow their business but reported that JumpStart Inclusion Advisors were extremely valuable to their company. They added two jobs and also placed a positive monetary value on the assistance received from JumpStart.

INTRODUCTION

This report was prepared for JumpStart, Inc. by the Center for Economic Development at Cleveland State University. “JumpStart is a nationally recognized venture development organization that accelerates the progress of high potential, early-stage businesses.”¹ The report summarizes the economic impact in 2008 resulting from JumpStart investment in start-up companies in Northeast Ohio and its services to assist other entrepreneurs through JumpStart Ventures, JumpStart TechLift Advisors, JumpStart Inclusion Advisors, and IdeaCrossing.

The research is based on two sets of activities. The first set of activities was to conduct an economic impact analysis of JumpStart investments on Northeast Ohio. The second set of activities was to assess the contribution of JumpStart services through their three lines of business—JumpStart Ventures, JumpStart TechLift Advisors, and JumpStart Inclusion Advisors—as well as through IdeaCrossing, a free online community for entrepreneurs, accredited investors, business mentors, and service providers.

Economic impact was calculated using an impact model, while other contributions were assessed through surveys of participants in each of JumpStart’s lines of business. For the purposes of this work, Northeast Ohio is defined as a 21-county region consisting of six metropolitan areas (Cleveland-Elyria-Mentor, Akron, Canton-Massillon, Mansfield, Sandusky, and Youngstown-Warren-Boardman) and eight non-metro counties. The Cleveland metro area includes Cuyahoga, Geauga, Lake, Lorain, and Medina Counties; the Akron metro area includes Portage and Summit Counties; the Canton metro area includes Carroll and Stark Counties; the Mansfield metro area consists of Richland County; the Sandusky metro area consists of Erie County; and the Youngstown metro area includes Mahoning and Trumbull Counties. The eight non-metro counties include Ashland, Ashtabula, Columbiana, Crawford, Holmes, Huron, Tuscarawas, and Wayne. This 21-county region corresponds with JumpStart’s service area.

REPORT STRUCTURE

The report is divided into three major sections. Following this introduction and summary, the second section describes the economic impact of JumpStart in Northeast Ohio in 2008. It explains the concept of economic impact, the methodology used in this study, and then presents the estimated economic impacts. The third section summarizes the analysis of surveys that were sent to four different groups that use services provided by JumpStart. It analyzes responses of the companies assisted by JumpStart Ventures, JumpStart TechLift Advisors, JumpStart Inclusion Advisors, and users of IdeaCrossing. The survey instruments are included in Appendix A.

¹ <http://www.jumpstartinc.org/About/WhatWeDo/>

JUMPSTART ECONOMIC IMPACT ON NORTHEAST OHIO

JumpStart creates economic impact primarily by its investments in innovative, early-stage companies that have the potential to generate \$30 million to \$50 million in revenues in 5 to 7 years. These portfolio companies received funding from JumpStart after passing through the JumpStart Ventures' application and due-diligence process. These investments are used by the portfolio companies to complete product prototypes, conduct early marketing campaigns, and add key team members. In addition, JumpStart Ventures provide these companies strategic and operational guidance that enables the entrepreneurs to reach key growth milestones, advance through stages of the business, and attract follow-up funding. One of JumpStart's objectives is to help their companies grow through equity funding from other investors.

WHAT IS ECONOMIC IMPACT?

Economic impact is an analytical approach used to estimate economic benefits from projects, programs, or companies on affected regions. These economic benefits are measured in terms of output (value of goods and services produced in the economy), employment (number of jobs), and labor income (household earnings). Economic impact estimates measure benefits for a specific region and time period.

Economic impact analysis is based on inter-industry relationships within regions, which determine how regions respond to changes in economic activity. Multipliers are calculated from the inter-industry relationship estimating the "ripple effect" throughout the economy.²

METHODOLOGY

Total economic impacts on output, income, and employment are each a summation of three impacts: direct impact, indirect impact, and induced impact. Direct impact refers to the initial value of goods and services, including labor, purchased by an organization within a defined economic region. These purchases are sometimes referred to as the first-round effect. Indirect impact measures the value of labor, capital, and other inputs of production needed to produce the goods and services required by that organization (second-round and additional-round effects). Induced impact measures the change in

² For example, suppose that company ABC reports sales of \$1 million. From the revenues, the company pays its suppliers and workers, covers production costs, and takes a profit. Once the suppliers and employees receive their payments, they will spend a portion of their money in the local economy purchasing goods and services, while another portion of the monies will be spent outside the local economy (leakage). By evaluating the chain of local purchases that result from the initial infusion of \$1 million, it is possible to estimate a regional economic multiplier.

spending by local households due to increased earnings by employees in local industries who produce goods and services for the organization.

As stated earlier, economic impact analysis is based on inter-industry relationships within an economy—that is, the buy-sell relationships among industries. These relationships largely determine how an economy responds to changes in economic activity. Input-output (I-O) models estimate inter-industry relationships in a region by measuring the industrial distribution of inputs purchased and outputs sold by each industry. Thus, by using I-O models, it is possible to estimate how the impact of one dollar or one job ripples through the local economy, creating additional expenditures and jobs. The economic multiplier measures the ripple effect that an initial expenditure has on the local economy. This study utilizes regional I-O multipliers from IMPLAN Professional.³

To estimate the economic impact of JumpStart, we used four types of inputs. The first two were: (1) the number of jobs and operating budgets in 2008 of 34 JumpStart Ventures' portfolio companies with at least one employee and (2) the number of jobs and operating budgets of two companies funded by North Coast Angel Fund (NCAF) companies. The study assumes that these 36 companies would have not existed without JumpStart and NCAF pre-seed funding. The third type of input was JumpStart's operating budget and number of employees to account for the services they provide through their three lines of business in Northeast Ohio and IdeaCrossing. With the significant growth in JumpStart responsibilities and size, it was decided to account for only a part of JumpStart in the impact analysis. Since 52% of JumpStart revenues come from outside Northeast Ohio (through state and federal funding) this ratio was applied to measuring JumpStart's impact from its own operation, assuming that these revenues would not have otherwise come to Northeast Ohio.⁴ Finally, we included growth in the number of jobs in companies assisted by JumpStart TechLift Advisors, JumpStart Ventures (through the Assist⁵ process), JumpStart Inclusion Advisors, and IdeaCrossing **if** the company secured investment capital following its engagement with JumpStart **and** the owner indicated that the process was critical to his/her ability to attract investment. In 2008, five companies assisted by TechLift Advisors met this condition and, for the purposes of this study, were added to the impact analyses along with JumpStart portfolio companies.⁶ Each of these companies and JumpStart are assigned to one of

³ IMPLAN was originally developed by two federal agencies, the Department of Agriculture and the Department of the Interior, to assist in land and resource management planning. The model was later commercialized by the Minnesota IMPLAN Group, Inc.

⁴ This assumption is different from prior impact studies for JumpStart where all of JumpStart's employment was considered.

⁵ The JumpStart Assist process matches entrepreneurs with a JumpStart entrepreneur-in-residence who helps them to prepare a presentation of their business idea to JumpStart's investment panel.

⁶ Information on companies that participated in the three lines of business and IdeaCrossing was gathered via online surveys that were conducted in February 2009. More information about these surveys is provided in the next section of this report, JumpStart Contributions.

the 440 industries included in the IMPLAN model. The IMPLAN model and its data were changed (edited) to provide better estimates for output per employee based on the individual companies included in the analysis.

ECONOMIC IMPACT ESTIMATES

Four measures of impact are summarized: output, income, employment, and tax. This is the first year tax impact is being included.

Output Impact

Output impact provides an estimate of the total change in output produced in Northeast Ohio due to JumpStart's activities. Measured in 2008 dollars, output impact amounted to \$75.7 million (Table 1). Of that, \$49.1 million (65%) is accounted for by direct production of goods and services by JumpStart, its portfolio companies, and some TechLift companies. An additional \$16.2 million (21%) is indirect impact—goods and services produced regionally to support the activities of JumpStart and its portfolio companies. The induced impact of \$10.4 million (14%) measures the value of goods and services produced in the region to satisfy the increased demand by households throughout the economy. Of the output impact of \$75.7 million, JumpStart itself accounts for 6% of the output impact. The remainder is accounted for by JumpStart portfolio and TechLift companies.

Table 1. JumpStart Economic Impact on Northeast Ohio

	Output	Labor Income	Employment
Direct Impact	\$49,109,140	\$12,396,857	292
Indirect Impact	\$16,210,025	\$5,200,262	111
Induced Impact	\$10,423,064	\$3,297,044	98
Total Economic Impact	\$75,742,228	\$20,894,162	502

All numbers have been rounded to the nearest whole number.

Labor Income (Earnings) Impact

Every new job created by JumpStart's portfolio companies, TechLift companies, and by JumpStart itself generated new earnings for local households. Total household earnings in Northeast Ohio increased by \$20.9 million in 2008 due to JumpStart's activities (Table 1). Of this impact, \$12.4 million (59%) resulted from the direct effects of payroll of portfolio and TechLift companies and JumpStart employees; \$5.2 million dollars (25%) of the total income impact resulted from increased earnings in other industries in the region that supply JumpStart and its portfolio companies. The remaining income impact, \$3.3 million (16%), is due to increased household earnings throughout the economy. Of the total income impact of \$20.9 million, 9.1% is accounted for by JumpStart itself. The remainder is a result of the portfolio and TechLift companies.

Employment Impact

The total employment impact in Northeast Ohio because of JumpStart and its portfolio and TechLift companies in 2008 amounted to 502 jobs (Table 1). Of these, 292 (58%) are a direct impact. The direct impact includes 52% of the employees working at JumpStart and all of the employees in its portfolio companies. An additional 111 jobs (22% of total employment impact) were created in industries supporting JumpStart and its portfolio and TechLift companies, and 98 (20%) more jobs were created throughout the economy due to increased employee earnings. Of the total employment impact of 502 jobs, only 7% are a result of JumpStart itself. The remainder employment impact is due to the portfolio and TechLift companies.

Tax Impact

JumpStart investment and services to entrepreneurs also resulted in additional tax revenues to local and state governments as well as the federal government. Reports on JumpStart's economic impacts in 2006 and 2007 did not measure this impact. Beginning with 2008, however, this report will include tax impact.

In 2008, as a result of JumpStart investments and other activities in Northeast Ohio, state and local tax revenues increased by \$3.3 million and federal tax revenues rose by \$5 million.

JumpStart's Economic Impact on Northeast Ohio is Growing

JumpStart's economic impact in 2008 was higher than its impact in 2006 and 2007. Table 2 shows the increase between the last two years.

Table 2. JumpStart's Economic Impact: 2006, 2007, and 2008

Impact	2006*	2007*	2008	2007-2008 Increase
Output	\$ 42.8 million	\$ 58.5 million	\$ 75.7 million	\$17.2 million (29%)
Labor Income	\$ 15.1 million	\$ 19.0 million	\$ 20.9 million	\$1.9 million (10%)
Employment	308 jobs	346 jobs	502 jobs	156 jobs (45%)

* For comparison purposes, JumpStart's 2006 and 2007 output and income impacts were inflated to 2008 dollars.

The increase is due to three factors: (1) in 2008 JumpStart invested in 10 new portfolio companies, (2) some of the companies in which JumpStart invested in previous years raised equity funding and added employees, and (3) services offered by TechLift Advisors were instrumental to the success of five additional Northeast Ohio companies in securing outside investment.