Podcast Interview

Bob Starzynski, Director of Innovation Works
Innovation Adoption Grant Fund
Interviewed by: John Slanina, SSTI

2009 Excellence in TBED Award Winner:
Improving Competitiveness of Existing Industries

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Mr. Slanina:	Hello, this is John Slanina with SSTI. I'm speaking today with Bob Starzynski, Director of Innovation Works Innovation Adoption Grant Fund. The Innovation Adoption Grant Fund was selected as the 2009 recipient of SSTI's Excellence in TBED Award in the category Improving the Competitiveness of Existing Industries. Bob, can you describe the focus of the Innovation Adoption Grant Fund?
Mr. Starzynski:	Sure, John. The Innovation Adoption Grant Fund was established as a way to help more established manufacturing companies – small manufacturing companies, meaning by our definition less than 250 employees – help those small manufacturing companies that are already established bring new products to market and new manufacturing processes into their shop floor that help them to remain competitive, or to become more competitive in the global market place. So the way the fund works is we will help to offset the cost of outsourcing research and development that those companies have when they need to engage a research entity like a university or another non-profit – what we would call center of excellence. So it's a way again to help those companies create new products and manufacturing processes to innovate for the future so they can remain competitive in the global market place.
Mr. Slanina:	How long has the program been around?
Mr. Starzynski:	We started the program with a couple of beta projects in 2004, and then rolled it out across the region in 2005. We did it as a way to try to distribute our funding more evenly across our landscape. As southwestern Pennsylvania is comprised of a large metropolitan area – meaning Pittsburgh, surrounded by a lot of smaller communities that are more rural in nature, industrial in nature, economically distressed in nature, we wanted to find a way to invest in those communities by supporting the industries that already existed there.
Mr. Slanina:	How big are the sizes of the grants that you offer?
Mr. Starzynski:	Our grants go up to $50,000. We don't have a bottom limit on them, but the smallest grants are about $7,000 or $8,000, and our average grant size is about $32,000.

Mr. Slanina: That's interesting. How many grants have you given over the life of the program?

Mr. Starzynski: Well we've had the program in existence now for about five years. We've awarded a little over $1.5 million to 100 companies in that time. We do have a match requirement. Companies have to pay cash into these projects as well as we have to. We have matched our grants with more than $2 million of investment from the companies themselves. Those projects have already gone onto create or retain more than 800 jobs, and that number is expected to go up because a lot of these projects are still underway or have just recently been completed. The average cost per job, in terms of dollars spent on grants the jobs created, is less than $2,000 per job. So that's a pretty good return on investment by economic development standards. You can create a sustaining well-paying job for less than $2,000.

Mr. Slanina: So in your application, you talk about the move to make the fund turn into an Evergreen Fund. I was wondering if you can step through a little bit of the history of where the fund sources came from over time, and your efforts then to turn that into an Evergreen Fund.

Mr. Starzynski: When we started the program, all of the funding for the program came from our state allocation through the Pennsylvania Department of Community and Economic Development. Over time we began to realize that the program really resonated with foundations and with certain federal programs because we were working primarily again in economically distressed areas, and there was a good job creation and job retention component to the program. So we started to diversify the funding for the program about two years in by soliciting funds from local foundations, and we've also augmented that with some funding from the federal government. So that's where kind of the history of the funding for the program fits together.

In terms of making it more Evergreen, when we started working with the local foundations, especially foundations by and large want to be able to kick start a program. They don't necessarily want to sustain it for year after year after year. So in working with those foundations they wanted to see if we can fund this program for two or three years, how can we get it to a point where it's going to be more self-sustaining. The truth of the matter is, if you have a grant fund and the dollars go out in the form of a grant with no repayment provision, there is no way to recoup that investment. So there is no way to make it Evergreen. But what we did was start to introduce certain things, most notably a repayment provision. I call it a home run provision.

Basically if the company hits a certain threshold of revenue generation two or three years after they've done a project with us, it might trigger a repayment clause in the contract. So the company pays the money back into the system so that the next company can benefit from it. When we do that, we don't want to create situations where we're trying to break the bank, or where we are breaking the bank for a struggling company. We only want to see repayment on these projects if the projects are successful enough that the company is comfortable in repaying the grant amount back into the system.

Mr. Slanina: Great. In the application you discuss how grants are the critical delivery mechanism for the funds. Can you elaborate on that?

Mr. Starzynski: The average company that I work with might have $5 million to $10 million in revenue. The company might have 15 to 50 employees and it's a family owned business that's been in existence for two generations. Obviously, that's smack in the middle. There might be extremes on both ends of the spectrum. These companies by and large have banking relationships. They have lines of credit, they have no trouble or they don't have too much trouble going out to find a small business loan if they are trying to buy a piece of equipment, or if they are trying to update computer systems and those sorts of things. We don't want to get involved in providing funds that are duplicative of what companies can already access from their banks.

The reason we created this as a grant is because these companies don't want to dilute their ownership, so they don't want to give up equity. We don't want to set it up as a straight loan because the companies might find bank loans more enticing. Now they wouldn't find them more enticing, but they already have access to them. So loans will not work because the companies by and large already have lending institutions that they are already working with. But if you look at the type of projects that we're trying to fund, its projects that aren't necessarily collateralized or collaterializeable for these companies.

On a development project if the company is looking for funding, their existing banking relationship might not be able to fund those types of services. At the same time, these are risky opportunities for companies with family owned business. They are trying to think about how do we save money for retirement, not just how do we build value into the operation. So the idea of spending $50,000 or $100,000 of their own money to fund a project might be cost prohibitive or it might be just challenging enough for the company to not pull the trigger. By setting this up as a grant, we hope to help those companies make that leap of faith into the unknown with their research and development efforts.

Learn more about the Innovation Adoption Grant Fund at http://www.innovationworks.org/. For more information about the Excellence in TBED Awards, visit: http://www.sstiawards.org.