

The State of the Tampa Bay MSA Entrepreneurial Ecosystem

A 2018-2019 Review and Analysis

A Report from the John P. Lowth
Entrepreneurship Center

About the John P Lowth Entrepreneurship Center

The John P. Lowth Entrepreneurship Center in the Sykes College of Business teaches skills that are critical for today's entrepreneur. Learning to identify opportunities, prepare executable business plans and hone skills through a combination of classroom study and applied learning, makes our program unique. Entrepreneurship education is the fastest growing field of study in the United States, with entrepreneurs projected to be the group that creates vigorous and sustained economic development worldwide.

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Introduction

A vibrant entrepreneurial ecosystem is vital for producing the conditions that spur new business growth. It represents the increasingly complex and interdependent social systems that stimulate entrepreneurial activity. The focus on entrepreneurial ecosystems is part of a broader movement within entrepreneurship to shift away from individual, personality-based investigations towards a broader focus on the role of context, particularly of social, cultural, and economic forces, that impact entrepreneurial processes (Steyaert & Katz, 2004; Dodd & Anderson, 2007). Our research on the Tampa Bay area entrepreneurial ecosystem is concerned with economic performance and how entrepreneurship in the region is impacted by and how it affects its contextual environment.

Economists dating back to Alfred Marshall (1920) have emphasized the benefits of co-location such as the availability of skilled labor and knowledge. In his research on business clusters, Porter (1988) suggested that it is not just the endowment of resources or factors of production that influence economic performance but also their configuration, or organization within the relevant geographic space. The idea is that enhancing economic performance is not limited to access to key resources but also location in a place characterized by a rich cluster of economic activity in the relevant industry.

These geographical concentrations include interconnected companies, specialized suppliers, service providers, firms in related industries, associated institutions (e.g. universities, standard agencies, trade associations) in a particular economic field, that compete but also cooperate. Specialization of economic activities within a cluster can maximize economies of scale while concurrently minimizing transaction costs. Advantages of interconnected business environments also exist in terms of social embeddedness and value creation (Pitelis, 2012) and knowledge spillovers also occur more frequently in clusters of economic activity, which fuels innovative activity.

So, “what is the state of the Tampa area entrepreneurial ecosystem in 2019?” To answer that question, we conduct annual reviews of the entrepreneurial ecosystem, using both primary and secondary data. This report is our fourth installment in that longitudinal study.

Research Context

The 2018-2019 report is the fourth installment in a longitudinal study of the Tampa Bay Entrepreneurial Ecosystem. The goal of this stream of research is to provide the Tampa Bay region with information that can help enhance the vitality and growth of entrepreneurial ventures and endeavors. Each year the study includes an overview of the econometric measures of entrepreneurship in the region and an examination of the wellbeing of the elements of the ecosystem. The foundational study, presented in November 2016, was funded by the Marion Ewing Kauffman Foundation and conducted by a team of scholars, led by Dr. Rebecca White, Director of the John P. Lowth Entrepreneurship Center, Sykes College of Business. Using a systems approach to examine the regional entrepreneurial activity, the team identified six factors that impact economic ecosystem health: fluidity (ease of movement in and out of the system), density (number of new and young startups), vibrancy (energy of the system), connectivity (among the key roles), redundancy (competition among the support systems for entrepreneurs) and diversity (of industries in the startup space).

The findings of the 2016 study suggested that while the region had strong fluidity, vibrancy and diversity there were gaps in the density measure and bottlenecks that occurred from lack of connectivity and the presence of redundancy among support programs.

Identifying the elimination of bottlenecks as a priority, the next research report in 2017 focused on mapping the connectivity of the region and identifying key influencing players — specifically entrepreneurs, investors and the companies they create. However, the foundational study served as a call to action for not only the research team but also the community. And, during the 2017 report, a new not for profit organization, founded by several Tampa Bay community investors and entrepreneurs, was announced. This organization, called Synapse (<https://synapsesummit.com>), includes an annual summit, a technology platform, an annual book of highlights and challenge sessions.

The 2018 study continued to examine the themes introduced in the original study and builds on the previous work conducted. The study again included econometric measures of entrepreneurial activity as well as an in-depth examination of the connectivity and individual system elements necessary for a healthy and vibrant ecosystem. We added to our previous findings with data collected via a partnership with Embarc Collective, a new addition to the ecosystem support system.

The goal of the 2019 study continues to serve as a provider of information and education for the Tampa Bay regional entrepreneurial ecosystem. The focus in 2019 was to review the key econometric measures of entrepreneurial activity and to update and refine the support organizations available to early stage companies.

The Tampa Bay Ecosystem continued to mature and grow in 2018 and 2019. The economic activity was vibrant and helped to fuel the growth experienced by our local companies. Private equity and venture capital investments had another great year in the Tampa Bay area. The increase in population and economic activity has raised the cost of doing business in Tampa Bay.

Ecosystem Economics:

The Tampa Bay Entrepreneurial Ecosystem has flourished over the last year as gauged by a host of economic factors that support the ecosystem. The geographic boundaries of our analysis are based on Metropolitan Statistical Areas (MSAs) which are geographical regions with a relatively high population density at its core and close economic ties within the area (Wikipedia.) We focus our study to the Tampa Bay area defined as the Tampa-St. Petersburg-Clearwater MSA as reported by the U.S. Census Bureau, Population Division. The Tampa Bay area has continued to see growth in population and a reduction in unemployment in 2018 as the ecosystem continues to prosper. The growth has increased the costs of doing business in the Tampa Bay area and pushed the infrastructure to its limits. The culture of success is evolving as Tampa Bay now has two unicorns (private companies valued over one billion dollars) which are ConnectWise and KnowBe4. Both of these companies received large private equity investments in 2019 and have many newly made high tech millionaires that are likely to launch new high tech startups in the Tampa Bay area. Combine this with great leadership in the business community and investments into infrastructure, Tampa Bay is poised to accelerate the momentum that is has enjoyed over the last year.

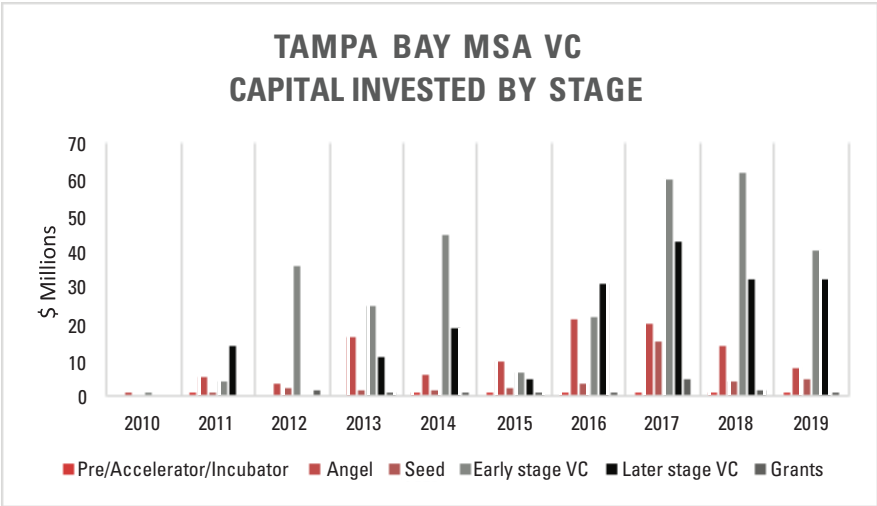
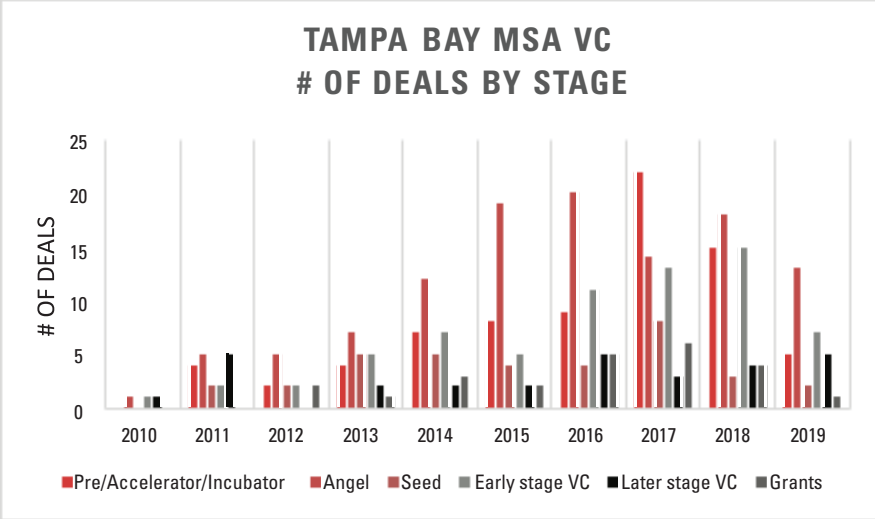
	2015	2016	2017	2018
Population	2,969,251	3,034,215	3,091,225	3,142,663
GDP (\$ Billions)	\$135.6	\$141.6	\$146.3	\$149.5*
Unemployment Rate	5.2%	4.6%	4.0%	3.5%
# of Fortune 650 Firms	7	7	6	5
Revenue of Fortune 650 Firms (\$ Billions)	\$73.0	\$74.5	\$72.2	\$93.6
# of Inc. 500 Fastest Growing Firms	67	75	79	81
Revenue of Inc. 500 Fastest Growing Firms (\$ Billions)	\$1.7	\$1.7	\$2.2	\$2.4
# of Non-Profit Universities/Colleges	10	10	9	9
Non-Profit Universities/Colleges Enrollment	173,728	191,421	174,468	152,971
2 Bedroom Apartment Median Monthly Rent	\$957	\$992	\$1,133	\$1,320
Office Space Lease Ask Rate Per Square Foot per Year	\$19.84	\$24.70	\$26.50	\$27.85

The growth in the population of the Tampa Bay area is due mostly to net migration and the growth has outpaced the national average population growth. The growth in population is vital to support larger ecosystems. The population data was gathered from the United States Census Bureau website <http://www.census.gov/population/metro/data/>. Gross domestic product (GDP) is the value of all goods and services produced over a period of time and is used as measure of economic performance for the area. The 2018 GDP for the Tampa-St. Petersburg-Clearwater MSA was not available so the value was estimated by using the growth rate of Florida's GDP in 2018 as a proxy for the growth rate in the Tampa Bay area's GDP. Unemployment continues to decline in the Tampa Bay area as the business community grows. The unemployment rate captures the availability of labor and the rate of business activity within an MSA. Both GDP and Unemployment data were collected from the Bureau of Economic Analysis website and the Bureau of Labor Statistics websites, respectively.

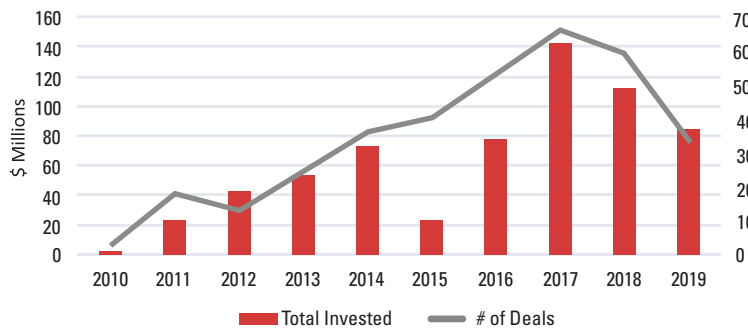
The Tampa Bay area has five Fortune 650 companies headquartered in our region. The Fortune 650 companies are large companies that support the entrepreneurial ecosystem by providing a customer for many startup firms' services and products. Over the last two years two of our Fortune 650 companies (TECO and HSN) were acquired and are no longer headquartered in the Tampa Bay area. The Fortune 650 data was collected from the Fortune 500 website. Fast growing companies are identified by using Inc. 5000 Fastest Growing Companies lists for 2015, 2016, 2017 and 2018. The minimum revenue to be considered for inclusion was two million dollars. We have seen an increase in both the number and revenue of the fastest growing companies in the Tampa Bay area. University and college students provide highly trained employees to support the growth of the entrepreneurial ecosystem. University enrollment data was collected from the Free-4U National Database of Scholarships website. In 2017 Clearwater Christian College closed leaving the Tampa Bay MSA with 9 remaining non-profit universities or colleges. The area has had three straight years of declining college and university enrollment. The economic and population growth has increased the cost doing business in the Tampa Bay area. The median monthly rent for a 2-bedroom apartment has increased to \$1,322 which captures the cost of living for the Tampa Bay area. The monthly rent data was collected from the ProximityOne and the RentCafe websites. Median Office Space Lease Rate has increased by over five percent in 2018 which provides a measure of the cost of doing business in the Tampa Bay area. Lease rate data was downloaded from the LoopNet website.

The data used to describe the venture capital activity comes from a proprietary data set built over the last five years. Venture capital, private equity, M&A, and IPO data for private companies was collected from multiple sources and cross validated using the Mass Investor Database, PrivCo, VentureSource, Bloomberg, Crunchbase and PitchBook. Venture capital investments are split into stages to classify the type venture capital investments and the maturity of companies. The Incubator stage includes incubator or accelerator investments into private companies. These investments are typically small with companies very early on in development. Seed stage represents capital invested into companies that are commonly pre-revenue from angels, friends and family with investments that are typically less than \$100,000. The Angel stage includes individual angel investors and organized angel networks with investments typically less than \$2 million into companies that have revenue and are gaining traction in their markets. These three stages of capital help grow companies to a size suitable for venture capital investments. Venture capital is broken into two stages, Early Stage Venture Capital and Later Stage Venture Capital. Early Stage Venture Capital are often the first institutional round of capital or a Series A round into private companies with investments typically in excess of \$5 million. These investments are riskier than later stage investment. Later Stage Venture Capital is for companies that have achieved significant revenues and are approaching a liquidity event. The rate of return and risk associated with later stage venture capital is lower than that of early stage venture capital. These two stages of venture capital propel companies toward liquidity events including IPOs, sale to a strategic partner, or sale to a financial partner which is often private equity firms. The private equity firms represent the final stage of the venture capital ecosystem for the larger more mature private companies with investments that typically exceed \$15million. 2018 was a great year for VC investments with 59 deals and over \$110 million invested into companies headquartered in the Tampa Bay MSA, including 15 early stage VC deals valued at \$61 million. 2019 is off to a great start with 33 deals raising \$85 million in capital.

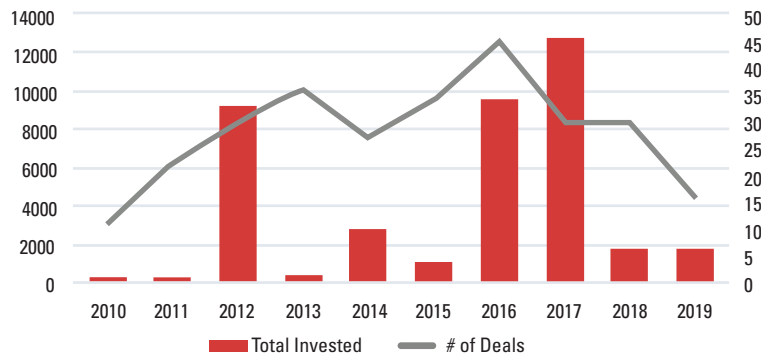
The Tampa Bay venture capital ecosystem saw a strong run-up in activity from 2016 to 2017, with 2018 deal flow lagging slightly behind 2017 but far ahead of previous years. Looking forward it seems that 2019 will be another strong year, with 33 deals as of July 1. This growth in VC activity provides a pipeline of future companies for private equity investors, mergers and acquisitions (M&A) transactions and initial public offerings (IPOs). In 2018 the Tampa Bay MSA had 52 private equity deals valued at \$515 million compared to 31 private equity deals valued at \$1,258 million in 2017. M&A activity in the Tampa Bay MSA in 2018 resulted in 52 deals valued at \$780 million compared to 30 deals valued at \$12,834 million in 2017. Deal flow for M&A looks to have a trend of having one or two years of few but large transactions, followed by several years of many but smaller transactions. This makes sense as companies take on smaller acquisitions to grow and then sell their larger company several years later. Tampa Bay only had 1 IPO in 2018 valued at \$66 million compared to a strong year of IPOs in 2017 with eight IPOs valued at \$1,402 million, 4 IPOs valued at \$467 million in 2016 and 3 IPOs valued at \$1,207 million in 2015. So far 2019 has had zero IPO's. However, the reason behind this lack of public offerings was less about adequate candidates, and more about the lackluster IPO environment that companies have been faced with over the past year.



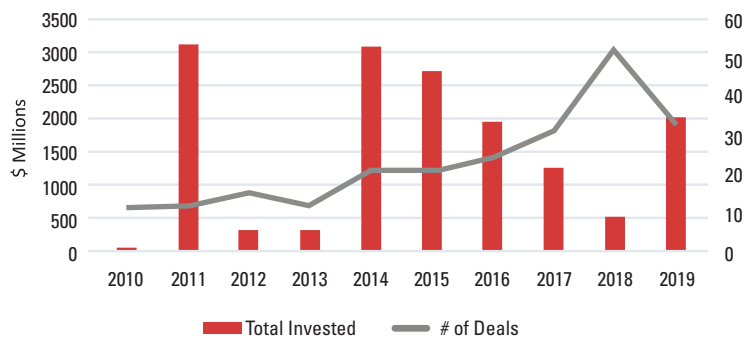
Tampa Bay MSA VC Activity



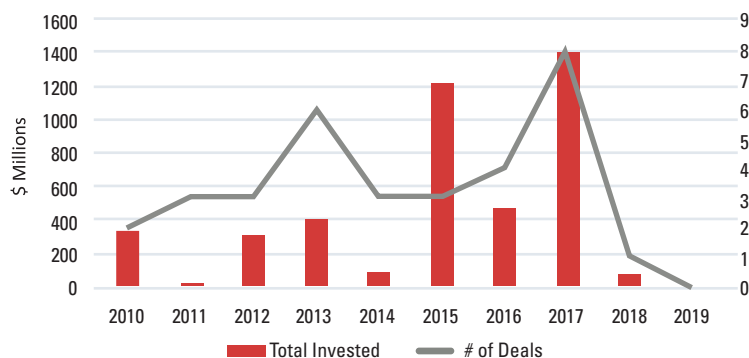
Tampa Bay MSA M&A Activity



Tampa Bay MSA PE Activity

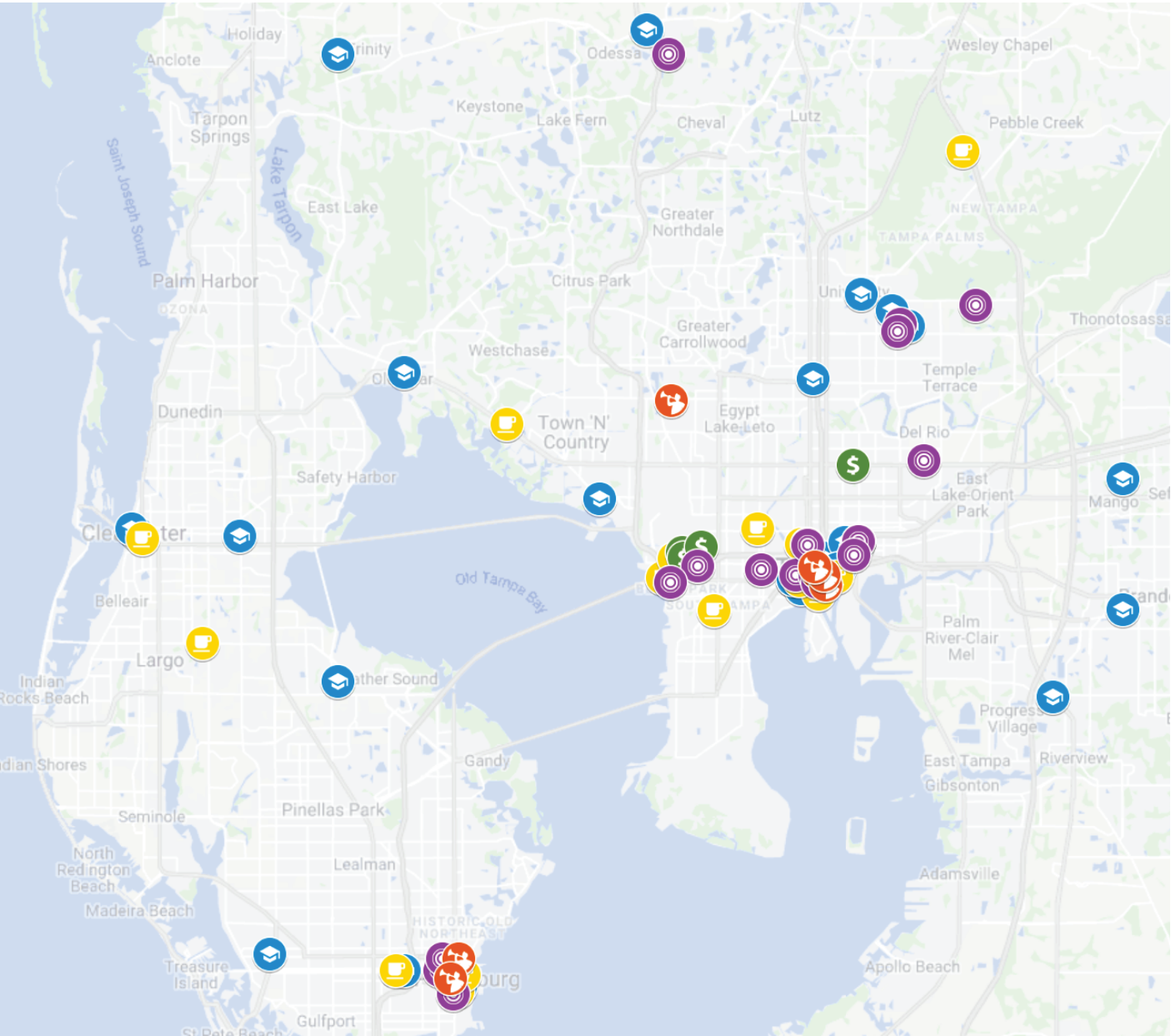


Tampa Bay MSA IPO Activity



Tampa Bay Entrepreneurial Support Organizations

In Tampa Bay, we have numerous ESOs scattered around the region to assist budding entrepreneurs. We have conveniently mapped and segregated these ESOs into 5 categories of support: accelerator/incubators, investors, educators/trainers, entrepreneurship events, and co-working spaces. At 100 organizations, the number of ESOs in the region continues to grow, making the Tampa area a vibrant and supportive place to launch and grow your next company. To view an interactive map and find information on each ESO please visit TampaBayESO.org.



- Education/Training/Consulting
- Co-working
- Financing
- Accelerator/Incubator
- Events

Conclusion

The best ecosystems provide an opportunity for entrepreneurs to succeed. Strong entrepreneurial ecosystems start with smart people willing to take on the risk of entrepreneurship. In those ecosystems, entrepreneurs are supported by organizations that allow them to leverage the differentiating elements of the community. They also provide a platform to enhance collaboration, transparency and access to resources. In our inaugural study we identified bottlenecks of connectivity, redundancy in support organizations and lack of seed capital. The Tampa Bay ecosystem has worked hard to effectively address many of these issues since our first study in 2016. The past year was a banner year for the region in terms of early stage investment. We have also seen a positive increase in efforts to connect entrepreneurial support organizations. Despite that fact, we have experienced a 56% increase over the past 4 years in entrepreneurial support organizations which may indicate a continued redundancy in services to entrepreneurs. The 2019 report also suggests that there continues to be a challenge overall for startups seeking funding. Moreover, we found that the recent population growth and low unemployment rate has put a strain on the infrastructure and talent needed to build strong companies. Future attention to investment capital, talent and infrastructure is recommended. Moving forward we are also providing a venue to improve the transparency of available support through a new platform TampaBayESO.org.