

# THE WINSTON CHURCHILL MEMORIAL TRUST OF AUSTRALIA

**Report by – Daniel Lee Smith – 2010 Churchill Fellow**

**Support Programs for Young Entrepreneurs**

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Signed  
**Daniel Lee Smith**

Dated  
**22 July 2011**

# Support Programs for Young Entrepreneurs



Report on programs in the  
UK and USA by  
Daniel Smith  
2010 Churchill Fellow  
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For The Winston Churchill  
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*Some people regard private enterprise as a predatory tiger to be shot.*

*Others look on it as a cow they can milk.*

*Not enough people see it as a healthy horse, pulling a sturdy wagon.*

**Winston Churchill**



**Contact details:**

**Daniel Lee Smith**

email: [me@danielleesmith.com.au](mailto:me@danielleesmith.com.au)

Linkedin profile: <http://au.linkedin.com/in/danielleesmith>

The fellowship blog - [www.churchillstartups.blogspot.com](http://www.churchillstartups.blogspot.com)

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Truly a time to remember!

Dan.

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## Introduction

For the past three years I have been running a program for Business SA called the South Australian Young Entrepreneur Scheme (SAYES).

This is a not for profit program which assists 18-35 year olds to start or grow a business and has been operating since 1998. The program runs for 12 months with workshop training and mentoring by experienced business people (all volunteers).

There have been over 400 graduates in the last 13 years and with no restrictions other than age the range of businesses is wide. In the process hundreds of jobs have been created on top of the business owners themselves. I get a lot of energy from the startup owners and the mentors alike, the program is such great fun and I really feel lucky to be involved. There have been many successful graduates with young entrepreneurs' efforts featuring on the Hollywood red carpet, art galleries around the world, sporting goods distributors and more recently on iPhones to name a few.

The program relies chiefly on state government funding supplemented by sponsorship and a contribution by the participants themselves. The reliance on government funding for such an established and successful program, as well as other programs around the country, concerned me. I applied for a Churchill Fellowship to look at entrepreneurial support programs around the world. The pitch was to find a model, or combination, that will ensure SAYES and other Australian programs continue to support dynamic young Australians.

A few short months later state government funding cuts were announced for SAYES and many other South Australian business support programs effective June 30 2011.

The questions are many but a starting list might be:

- Who has a vested interest in seeing businesses succeed?
- What kinds of revenue streams support programs around the world?
- What kinds of people and businesses want/need the help?
- What are the success rates and how are they measured?

Or, since business is commercial by its very nature should it just look after itself?

The question that remains of most interest to me is 'how do we make entrepreneurial support programs sustainable?'

Some of these answers are going to depend on the people seeking help and the types of businesses to be created. Through discussions with world experts I hope to shine some light into the corners.

First stop (4th April 2011)... London, England.

## Travel Program

The Fellowship commenced the 31st March and concluded the 13th May 2011 spanning 6 weeks.

### United Kingdom, 4<sup>th</sup> April – 15<sup>th</sup> April

- The Bright Ideas Trust
- The Prince's Trust
- LINC Scotland
- The Prince's Scottish Youth Business Trust
- Young Enterprise
- Kingston University - Design & Entrepreneurship
- London Borough of Richmond Upon Thames
- The National Enterprise Academy

### United States of America, 16<sup>th</sup> April – 11<sup>th</sup> May

- NYU-Poly Varick St Incubator
- TechStars New York
- Trifusion
- The University of Texas
- Triton Ventures
- Tech Ranch Austin
- Accelerator - an Entrepreneurs' Organisation Program
- Youth Business America
- ANZA Technology Network
- AusTrade
- Startup 2011 Conference



## The United Kingdom

### Introduction

I decided to visit the UK for the 2 following key reasons:

- Large mature market.
- Similar culture and government to Australia which might make programs and systems uncovered more easily transferred.

London and surrounds were the obvious choice for the bulk of programs but Glasgow, Scotland was recommended to me as a great place to visit for the study of start-ups. This proved to be excellent advice as I found some great information there as well.

Due to the numerous and diverse meetings I have structured the report as a series of overviews of each meeting/visit.

## The Bright Ideas Trust

Tim Campbell is the founder and CEO of the Bright Ideas Trust which provides support services to 16-30 year olds in London who are looking to start their own business.

You might recognise Tim as the winner of the first series of The Apprentice TV show with Sir Alan Sugar. After winning the show Tim received lots of requests from fans seeking assistance in setting up their own businesses. "I'm not sure they understood that I was the apprentice" Tim Joked but after two years learning from Sir Alan Tim set about forming the Bright Ideas Trust to help people get started in the world of business.

### Key Findings:

- Eligibility criteria include - 16-30 year olds in London (currently but may expand) who are currently not in employment, education or training or are from socially excluded groups and are looking to start their own business.
- Started with a lean team in 2007 – CEO, admin and a trustee board.
- Fundraising to start the trust was very successful with over a million pounds raised from just two partners for example. The operating fund and investment funds are held and contributed to separately.
- Keystone partners contribute a minimum of £250,000 ranging down to smaller sponsors who put in £10,000.
- Sponsors may also provide in-kind support such as professional services and staff volunteer days.
- Interest from funds provides revenue for general operating expenses as well as returns on investment. A small management fee is recouped from the investment fund.
- Government funds are not currently accessed which provides a degree of freedom for the program activities. The trust can determine its own targets for who requires assistance.
- Mentors are handpicked (or refer their colleagues), must have run their own business to qualify, are provided group training and attend a quarterly meeting.
- 10-12 young people are assisted each year with up to £25,000 available for investment (investment model started in 2009).
- The trust takes an equity stake in the young business of around 25% but this can vary depending on the business.

- Applications are always open (no rounds) and 4 or 5 applications are received every week.
- The application process consists of 1. Eligibility check, 2. 4 page application form, 3. Phone interview, 4. Interview and 5. Board interview.
- KPIs used include – businesses still operating, turnover, employment, funders and funds, media coverage, number trained and number of applications received.

Tim's energy and enthusiasm have certainly contributed to his success in engaging corporate partners to fund the program including the creation of the investment fund. The fund is used to assist businesses from an investment standpoint rather than as a grant. As Tim said you can't teach someone about business by giving them a handout and by investing cash and expertise into the business in return for a small equity stake the future of the trust is more certain. Over time the aim is to make the trust self-funding.

Tim recently authored a book 'What's your bright Idea' to help people get their ideas off the ground.



## The Prince's Trust

The Prince's Trust is a huge organisation dedicated to assisting young people in a number of ways. I met with Nina Prosser, Programme Executive - Awards and Business, to delve into their enterprise offerings.

The Prince's Trust has offered assistance to young entrepreneurs since 1983 including low interest loans and mentoring spread over 2 years. However the program underwent a revamp and was relaunched in 2009.

### Key findings:

- Eligibility criteria include - Have a business idea they want help to explore, are aged 18-30, are unemployed or working less than 16 hours a week and live in England, Wales, or Northern Ireland.
- New staged approach to program deliver – outlined below.
- Last year 6,333 people nationally completed the stage 2 training. 80% of people who finished the stage 1 said they at least had a positive intention to start a business.
- There are over 78,000 alumni! Maintaining contact is difficult and most are no longer known (moved, changed email or phone numbers). New web site and other ideas in progress to address this but work load is large.
- Approximately 7,000 volunteer mentors on their books across 12 regions. The core is in London.
- Six monthly review of mentors and mentors provide monthly reports to the program manager.
- Mentors receive a monthly newsletter, attend 1 regional event and 1 annual event per year.
- Partner with other organisations to assist vulnerable youth such as mental health, rehabilitation and youth offender agencies.
- Funding from the program comes from various sources including Government funding, Royal British Legion (young people exiting the army) and various private trusts and foundations (some themed eg agriculture). Some public donations are received but this does not make up a large amount of the total funds received.
- Government funding cuts resulted in some of the online training modules to be no longer available, the Trust aims to relaunch these in the near future.

- Provide loans to participants and some grants. Loans average £2,500 and grants £1,500 but 90% of funds are provided as loans.
- Loan default rate is 36% and is managed in a professional manner at a separate office with a team of 7. Repayment is a priority even if the number drops to a very low weekly payment (a couple of pounds is better than nothing).
- Low credit rating needed to get a loan eg +138 for loan where +250 would be required to get a mobile phone.
- Focus of program is youth training in general rather than number of businesses operating at the end.

### Program Delivery

The program now includes a staged approach in assisting young people and integrates into some of their other programs i.e. employment if business is not the chosen path of an applicant.

Briefly the stages are:

- Stage 1 - Eligibility checks.  
The trust assists young people aged 18-30 who have a business idea they want help to explore, are unemployed or working less than 16 hours a week and live in England, Wales, or Northern Ireland.
- Stage 2 - Intensive Training  
A 4 day training course is conducted. This is not just on business but basic money matters and aims to give participants enough information to decide if business is for them. Even if they decide it is not the training is designed to provide them with real world transferable skills as the core goal is assisting youth. Those that still want to start a business progress to the next stage, there are other options for people to go into job skills training programs making the first two stages of this process multi-approach.
- Stage 3 - One on one  
Coaching is used to consolidate the 4 days of training and assist the participants in defining what they want.
- Stage 4 - Mentoring and other assistance  
Experienced business mentors are now engaged to get the businesses up and running.

Mentoring is 1 hour per month for the first year reducing for year two and sometimes year three. Micro loans are available as well as a limited number of grants.

I am impressed with the staged approach which enables the trust to filter and assist as many people as possible depending on their needs. Those who put in the work progress to receive more assistance.

The sheer scale of the organisation is amazing. There are around 7,000 volunteer mentors nationwide, over 6,000 participants progressed to stage 2 training with a positive intention to start a business and there are approximately 78,000 alumni. The mind boggles at the management implications.

The Prince's Trust recently published a book 'Make it Happen' to reach out to even more young people and share the knowledge built up over the past 28 years. This was in part made possible by a sponsor donation.

## LINC Scotland

LINC Scotland is the national association for business angels in Scotland, with a membership network of hundreds of investors including those operating individually, many of the best known groups and syndicates, and a number of significant private offices.

I met with David Grahame, CEO of Linc Scotland to discuss entrepreneurial assistance programs, investment and finding the right money and assistance for your business.

### Key findings:

- Tends not to see young businesses straight out of programs but might see them when they start business number 2 or 3. This links with some of the Prince's Trust comments where the programs are about youth training for the future regardless of the end result in terms of business survival first time around.
- Equity is the most expensive capital for your business but it usually comes with advice and contacts.
- Ensure equity investment is the right money for you. Don't come for it just because you can't get money elsewhere!
- There must be enough fat for all parties to be involved therefore some businesses will not be suited to equity investment.
- You don't need to be the next Google to get investment just be realistic about your goals.
- You are unlikely to be able to retire and never work again on your first successful business (and exit).
- If equity investment is a possibility in the future get advice on your business structure as you may make it difficult for investors to get involved later.
- One area that immediately grabbed my attention was government incentives to stimulate investment in the UK. I have outlined this below.

Government incentives to stimulate investment in smaller companies.

### Government co-investment fund

- Government will match investor dollars into an investment and take equity alongside the angel investor.
- Aim is not to add more money to companies but to increase the number of companies funded.

- Results to dates show ratio of government to private funds is 1:3. This suggests that Angel investors do not want to give up equity in a great deal and therefore the funds are likely being used to get deals over the line that may not have otherwise been funded. The government is pleased with this result.

#### Enterprise investment Scheme

- The Enterprise Investment Scheme (EIS) is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies.
- Investors:
  - Must hold 30% or under of the companies interests.
  - No partner or associate may have any holdings in the company (eg. Parents, relatives, former business contacts).
  - Must have no preferential share of the company nor controlling interests of it.
  - Must not be used to evade tax.
- Companies:
- All capital invested under this scheme must be engaged in the company within 24 months.
- Investors receive:
  - 30% rebate on your tax return that year for angel investment.
  - If you get a win and a therefore a profit there is ZERO tax on the gain.
  - If you lose the investment you can write off 50% of the loss on your tax as a deduction.
- Full details at <http://www.hmrc.gov.uk/eis/>

Now, if we think that through a \$100,000 investment only costs you \$70,000 (30% rebate) so you get more for your money, then the profit is tax free if things go well. On the other hand if you lose the entire \$100,000 investment you get \$30,000 back as a rebate (30%) you can then claim back 50% of the \$70,000 loss or \$35,000 as a tax deduction so worst case scenario you get back up to \$65,000 of your investment. Investment risk of 35 cents in the dollar is great incentive to get the market moving for small businesses.

The scheme has attracted some unsophisticated investors but syndicates have formed to help with experienced core teams performing the investment analysis.



## The Prince's Scottish Youth Business Trust

The Prince's Scottish Youth Business Trust (PSYBT) is Scotland's leading charity in providing essential finance and professional support to 18-25 year olds in Scotland, to start up and run their own business. Geoff Leask, Director of Operations, met with me to discuss the details.

### Key findings:

- The PSYBT was founded in 1989 - It is an independent charity and one of the Prince's Charities
- PSYBT has helped over 12,000 individuals start over 10,000 businesses. 81% of which continue to trade after their first year in business and 60% are still trading after 3 years
- The trust assists around 650 young people a year to start a business with a package of pre-start advice, low interest loans, occasional grants, ongoing mentoring and further wrap around support
- There are over 750 volunteers who assist young people in many ways including mentoring support, panel advice and ambassadorial roles
- Mentors provide quarterly reports. They meet within their Region quarterly, communicate via online forums and attend a bi-annual conference
- Work is ongoing continually to ensure that the database of Volunteers is diverse and fills the needs that exist
- Loans of up to £5,000 are provided to start-ups at 4% interest with no fees.
- Some grants are available for individuals where it would be morally wrong to lend (inability to repay) including unemployed, single parent, recovering from substance abuse and other disadvantaged individuals.
- Growth Fund support for clients established - In 2002 a growth fund was launched to fill a gap in the market. Businesses trading up to 5 years, previously supported by PSYBT, that wanted to grow were finding it difficult to source funding: a development loan of up to £10,000 and an Accelerator Loan up to £25,000 were introduced for this group. The default rates were lower from these businesses because they were up and running with revenue.
- At the other end of the market many applicants are not yet ready for starting a business so a market test grant was introduced. Successful applicants are awarded £250 to test the market while working on their plan. This might include building the web site, prototypes, setting up a stall at the market etc. If successful they may then apply for the

standard start up package of support. 400 of these grants are allocated per year with 50% of recipients going on to trade, half of these do not request further funding with the other half apply for further funding

- Mentoring support for clients lasts for a minimum of 2 years.
- Alumni tracking and contact has been improved by using LinkedIn and Facebook (users keep their own details up to date). This will require some management over time as platforms change but is a vast improvement over manual methods.
- Alumni are encouraged to give back to the program but are not contractually obligated to do so. As an example when a loan is repaid the participant is contacted and asked if they would like to continue the payments at the current rate as a donation. Even one extra payment can be a huge help. The thinking is that the direct debit is already active and the business is used to this amount of money leaving the account each month. This approach has some success so far.
- Funding
  - No commercial arm
  - <30% comes from the public sector
  - Fund raising through charitable trusts
  - Government funding is used for overheads with private funding going to special funds (loans etc). People/companies often do not want to fund overheads.



## Young Enterprise

I met with Bracey Parish, Area Development Manager, Young Enterprise in South London and Paul Jagers from program partner HSBC.

From their web site:

"Young Enterprise is building a connected world of young people, business volunteers and educators, inspiring each other to succeed through enterprise. Each year, our business volunteers inspire over 250,000 young people aged 4 to 25 years. Our programmes empower the next generation with the confidence, ability and ambition to succeed in a rapidly changing global economy."

Key findings:

- With the support of more than 3,500 businesses and over 5,000 schools, colleges, universities and local communities, Young Enterprise is the UK's leading enterprise education charity.
- A range of programs are provided from 1 day to many months in length.
- Mostly for school age children but a few programs extend well beyond that.
- Students learn by doing rather than studying text books.
- I took particular interest in their company program aimed at the equivalent of our Year 11 and 12 students (16-18 years old). Students set up and run a company over a year with the assistance of volunteer business advisors. Events such as trade shows allow students to use a large area to sell their wares which along with a company report and presentation make up the judging requirements.
- If the last point sounds a little familiar it is similar to Young Achievement Australia. YAA was founded in 1977, assisted over 185,000 young Australians in 2000 schools. It was closed in 2009 after government cutbacks and a decline in corporate sponsorship. A huge loss.
- I asked Bracey about their funding model and was surprised to learn that they also lost a large proportion of their public funding about a year ago i.e. from (Government funded) Learning Skills Council and latterly from some local authorities (councils). Corporate sponsorship saved the program but it was not an easy task. Paul from HSBC was clearly a huge supporter of the program and told me about their contribution to Young Enterprise including cash, use of rooms and staff involvement. Staff volunteer time on

judging panels as well as mentoring of students which he says is great for staff morale and development. Smaller sponsors get involved with events, trophies etc. Schools also pay a fee for the program to be run, this is sometimes paid for by the local council.

- The scale of the organisation and international equivalents is large. Students start their business locally, trade at a local open air market (an area has been donated for this use), provide a company report and a presentation to be judged. The top 2 teams from 4 areas in South London then head to London for the area final. The winners of this then head to the national final then the Euro final held this year in Oslo in August . A Team from Bracey and Paul's area represented the UK and won this event! Over 250,000 students and 30,000 companies took part in Company Programme in Europe and 'Summit' from St Pauls School prevailed against 33 other European representative companies.

Additional meeting:

Tim Barber is a graduate of the Young Enterprise Company Program. I joined Tim for lunch to learn about his experience with the program.

Tim's team made the national finals when he was back at school a few years ago. Tim spoke to me about some of the details of the program such as food safety, insurance and rules/regulations.

Key findings:

- Program is extra-curricular.
- A teacher facilitates the groups.
- 5 to 25 students in a group. In some areas entry is competitive and you must interview to gain a place.
- Trade under the Young Enterprise entity.
- HSBC provide a bank account.
- Some products and services are not allowed for safety and insurance reasons eg food, medical, advisory, mains power related etc.
- Schools pay for the places but sometimes students pay to attend (average £15 per head).
- Companies raise funds by selling shares to family and friends. At the end of the course the profits go to charity (after paying back shareholders).

## Support Programs for Young Entrepreneurs

- Even participation across public and private schools. Public schools do well in the competition.
- Local businesses sponsor the trophies and prizes.
- Local papers and media cover the stories.

Tim has since become a judge for Young Enterprise and sits on the Kingston board further developing his corporate skills and giving back to the program. Tim is a great example of how this sort of training and opportunity can build real skills and confidence in young people.

## Kingston University - Design & Entrepreneurship

I met with Dr. Corrine Beaumont, Lecturer of Design and Entrepreneurship at Kingston University. Corrine has pioneered a new course where design students learn about business through hands on application i.e. they start a business during the course.

### Key findings:

- Corrine could see the gap in learning between theory and practical application.
- Resources are supplied by Young Enterprise (see entry above) along with insurance and mentor contact details.
- Students start a business and then liquidate at the end of the course similar to the Young Enterprise Company Program.
- Students must sell on campus (not a real problem with 22,000 students within a 3 mile radius!).
- Teams of 3-4 have worked well (8 was too many).
- Teams must enter the external Bright Ideas Competition. This involves creating a 3 page business proposal and cash prizes are awarded. 5% of their mark is assigned to entering this competition.
- Corrine estimates 30% of the students become very dedicated to the business with the remainder completing just as part of their course. I think this sounds like a good result.
- New Kingston Uni business web site is being developed which includes mentor profiles, a student job board (outsource or find a business partner), events, competitions and classes.

An idea that is being explored for the program is to have Students pitch for startup funding from a pool of funds initially donated by alumni. Unsuccessful teams then merge with the successful pitchers to start their business. Stock prices are updated weekly and the business must be liquidated at the end of the course (but students can start again on their own). All profits go back to the fund for future students so the real driver here is the competition. The return of funds assists the sustainability of the program. This is modeled on a program run by the business school at BYU-Idaho University.

## London Borough of Richmond Upon Thames

I met with Sean Gillen, Economic Development Manager at London Borough of Richmond upon Thames. I was interested in a competition for young entrepreneurs which the council ran last year. The competition was open to 18-24 year olds and offered a 2,000 pound startup prize for the winner. In addition every entrant received a free business taster course at the local college. Entrants provide a short overview of their idea (250 words only) initially and then a longer plan if they progress to the next round. All entrants who reach the final round receive a full day of 1 on 1 coaching to assist with their business.

Unfortunately the application numbers were low in the first instance and the program. With such a low barrier to entry and a great prize something didn't add up and different methods of reaching the target audience are being considered for future programs.

Sean has a new program in development based around supporting social enterprises. "Social enterprises are commercial organisations that run primarily for a social or environmental objective". An 'expo' style event is planned and there will be a 'Dragon's Den' style competition later this year.

Sean expressed that there was a clear need in the community for business support programs. Youth unemployment is high and the financial crisis also left its mark with corporate executives who lost their jobs. These two ends of the market have been looking at business as an opportunity to progress.

## The National Enterprise Academy

From their web page:

"The National Enterprise Academy is the brainchild of Peter Jones CBE from BBC2's Dragons' Den. Peter had a vision. This vision had been bubbling away in his mind for many years – Peter wanted to create a centre of excellence for developing enterprise skills.

Peter took action with his vision and by September 2009 the National Enterprise Academy was launched. As the UK's first non-profit educational institution dedicated to teaching enterprise and entrepreneurship. The NEA is a pioneer, giving people a head start in their career."

I met with Lisa Cooper-Smith from Ammersham & Wycombe College to discuss their experience with delivering the program.

Key findings:

- The course is delivered through vocational education (BTEC) at 2 levels for ages 15-16 and 17-18.
- Value added content (delivered outside of the standard lessons) was over 60% of the course. The value added content included master classes with successful entrepreneurs, challenges, group and one-on-one mentoring amongst others.
- Mentoring is performed through business surgeries where a group of mentors are available at desks for appointments with students, this addresses some of the issues around child protection for mentoring outside of the school.
- Challenges are sponsored by corporates and provide a fun way for students to hone their skills. One example was a mobile phone application design challenge sponsored by Orange. Winning students were funded to actually build the app they pitched.
- Students can also pitch to mentors and investors at the end of the program. Amounts are very low, sometimes a couple of hundred pounds, and are fun for mentors to get further involved. The agreements formed are between the mentors and students, the school provides the forum.
- Funding comes from government seed capital, corporate sponsorship, the learning and skills council, franchise royalties (courses delivered through other educational institutions) and Peter Jones himself.



## **The United States of America**

### **Introduction**

I chose the United States of America as there are a great many entrepreneurial assistance programs available but more so than this I was interested in the culture and attitude towards entrepreneurs in this country. My initial investigations suggested that in America you are not seen as a maverick or trail blazer if you decide to start a business but it is a much more mainstream activity. Funding seems to be available for the right ideas even in the current economic environment and certainly the angel investment and venture capital markets are far more advanced than at home. My goal is to look at a variety of programs and investigate how some of them might be applied in Australia.

## NYU-Poly Varick St Incubator

I met with Steven Kuyan, Operations Manager at New York University's (NYU) Varick Street Incubator.

Steven gave me a tour of the floor that houses the program and startup tenants. Assisted startups were from a wide variety of industries as the program places no limits on who can apply. Steven likes to keep the focus wide for the general program but they did receive a grant for clean energy companies and reserve space and resources specifically for this side project. Steven pointed out that the program aims to assist companies to grow primarily through attaining customers and secondly on acquiring capital.

When choosing tenants the scalability of the business is considered along with the potential to generate employment. Successful applicants then receive relatively cheap office space and access to other resources to kick start their business. The program does not take any equity in the startups.

Key findings:

- No specific industries or tech focus (although they did receive a grant for a clean tech position(s) within the incubator) provides a wide range of business opportunities.
- The program was started with \$80,000 seed capital from the city of New York.
- Costs to run the incubator:
  - The building space was donated by Trinity Real Estate.
  - NYU provides staff costs.
  - Remaining program running costs are quite low (taxes, electricity, cleaning etc).
  - The above costs are divided amongst the tenants which results in very affordable space overall.
- Very little corporate sponsorship is received except for odd events to avoid conflicts of interest with the university.
- When selecting candidates Steven looks for scalability and likelihood to create employment as two key attributes.
- The University's temporary employment program is integrated. The school hires staff and then passes on the costs to the business eliminating a lot of the paperwork for a small business and encouraging them to employ sooner.
- The incubator is purposely housed physically separate to the university itself. This provides a more independent operating environment.

- No equity is taken in any of the companies assisted.
- Steven is working on a way for University staff to receive academic credit for time spent at the incubator (off of various university requirements to conduct research, publish, teach etc).

Similar to the comments made by Sean Gillen from Richmond council in England, the financial crisis has pushed a lot of young people towards running a business as graduate opportunities decline.

The incubator is a great example of a local government and university teaming up to create a successful business incubator.

## TechStars New York

About TechStars from their web page:

"TechStars is a mentorship-driven seed stage investment program. We run a three month long program in Boston (MA), Boulder (CO), New York City (NY) and Seattle (WA) once each year. We're very selective - hundreds of companies apply and we only take about ten companies per city. These companies get up to \$18,000 in seed funding, three months of intensive top-notch mentorship, and the chance to pitch to angel investors and venture capitalists at the end of the program"

I met with Adam Rothenberg, Associate Director of TechStars New York. My first impression of the building was that this met the stereotypical tech startup space - people playing ping pong, stocked fridge and snacks and people glued to their monitors. This was their quiet time between programs but there was still a buzz and I wanted to sit down and code something there and then. TechStars has some serious 'cool' value.

Key findings:

- The program attracts a huge number of qualified applicants making it very difficult to whittle this down to the 10 successful companies. The acceptance rate is lower than Harvard or Yale.
- TechStars tries to meet as many of applicants in person as possible and application videos (usually a short 2 minute online video) make it a bit easier to get a feel for the applicants and their businesses.
- TechStars really values a team of entrepreneurs over single operators because a startup is just too much work for one person. They also see immense importance in teams having technical talent so that they can iterate throughout the program. Only about 1 in 20 split due to founder issues.
- The program is very intensive lasting a little more than 3 months.
- Successful applicants receive \$6,000 per founder up to \$18,000 and in return for this (and the rest of the benefits) the applicants transfer 6% of the business to TechStars.
- The core value of TechStars comes from the mentorship, community, and network provided.

- All mentors are volunteers and each business company works with upwards of 10 lead mentors. With this large amount of mentoring time you really do need a team to start the business.
- The program is funded as an investment (chiefly by angels and VCs), operating expenses and sub-investment in the chosen companies then come from this pool.
- Investors include venture capitalists and angel investors. Investors in TechStars see tremendous value in supporting an institution which works to support the startup echo system from the earliest stages.
- Community philosophy to create and share information. Eg their open source documents.

Mentors get a tremendous amount of value as well. Mentors gain additional benefits such as peer to peer networking, the opportunity to live vicariously through the individuals, and potential deal flow.

I purchased a copy of David Cohen's new book 'Do more faster' prior to flying out and it is jam packed with case studies and examples of great tech startups and the benefits of the program. It points people to open source legal documents and other information on their web page. Overall this is something that really stood out about TechStars, it is really open. Knowledge is freely shared and unlike some other programs, that will go unnamed, TechStars provides value well beyond the 10 lucky teams accepted onto the program each year.

## Trifusion

Corey Bell is a member of the Entrepreneurs Organisation (EO) and was introduced to me by one of the Adelaide EO members. I discussed a number of things with Corey from assistance programs to his company and challenges he has faced. What really intrigued me was he didn't talk much about the product but more about the process and how he makes decisions. I have noticed over the past 3 years that whilst many people start a business based on a skill the really good entrepreneurs depart from this and concentrate on the business aspects, the product is almost irrelevant.

We spoke about how many entrepreneurs (and people in general) don't really have an end goal or set of consciously chosen principles to base their journey on. The SAYES business plan that we use aims to address the business direction through the Now, Where, How structure - Where are you Now, Where do you want to be and How will you get there? Often people are just 'open' to where the business will go but actively deciding what the end goal is can open people's eyes to barriers and opportunities they may not have considered.

Corey has what he calls his Cardinal Values, these 4 carefully chosen values provide him direction with any decision that needs to be made. Whenever a tough decision comes his way he runs them through the values check and the answer becomes clear. I'm not going to tell you what his 4 are (you should come up with your own using a clean slate!) but what comes across very clearly is that good character and ethics play strongly in what Corey does.

Building these kinds of planning and decision making skills into young people is a huge deal. With a plan and a compass you really are ahead of the pack, and not just in business. Well worth building into any training program for young people.

## The University of Texas

The site of the next meeting was the 40 acre campus of The University of Texas at Austin. I met with Gary Cadenhead, the Director of the Master of Science in Technology Commercialisation (MSTC) Program and former director of the world famous MOOT CORP competition from 1992 until 2005. Here are a few sentences from their web page:

"The Global Venture Labs Investment Competition (formerly Moot Corp) is considered the pioneer of business plan competitions. The competition attracts students from universities around the world including Australia, Brazil, Canada, China, Colombia, France, Germany, Great Britain, Mexico, Sweden, Norway and Thailand.

Started at The University of Texas at Austin by Master of Business Administration students in 1984, the Venture Labs Investment Competition is the oldest new venture competition in the world. The competition provides graduate students with a chance to simulate the process of raising venture capital."

As mentioned in the text above, if you visit <http://www.mootcorp.org/> one of the first things you will see is the change of name to 'Venture Labs Investment Competition'. The original competition was based around moot court used to train legal students but the business planning competition has gone beyond being just a training exercise. Many successful companies have launched from the competition hence the new brand and positioning.

The scope of the competition has increased beyond the engineering and MBA students to any University student. Many of the new technologies ready for commercialisation come from other departments and this was a logical progression.

Past graduates are welcomed back to run workshops and speak at events. They pass on their experience and show current students what is possible. Personal relationships play a big part in keeping in contact with Alumni. The power of a good alumni relationship is a recurring theme in my meetings, there is real power there and great benefits to everyone involved. In fact one of their early winners gifted a 6 figure donation to the program to give back.

The University also offers a Master of Science in Technology Commercialisation (MSTC). In one year the MSTC Program teaches mid career students to identify emerging technologies with market potential, develop a business plan to get them funded, and prepare an operational plan for launching new products incorporating the technologies into the market. The goal is to create wealth for the entrepreneur, company and community. MSTC teams are successful competitors in the Venture Labs Investment Competition.



## Triton Ventures

I met with Laura Kilcrease, Managing Director and Founder of Triton Ventures and the founding executive director of the Austin Technology Incubator. Her experience with a wide range of entrepreneurial assistance programs was extensive.

### Key findings:

- Alumni are the key to any program. This is where the success is housed and to neglect them is to ignore your greatest asset. Alumni are of interest to your sponsors and particularly the government, they can pass on skills and training to the new recruits and they may be in a position over time to contribute financially to a program.
- Prestige/cool value works well for some programs. They get to choose from a large number of applicants.
- Flat fee equity fees can be hit and miss. An investor would usually decide on the percentage on a case by case basis.
- Programs may be able to create income streams by selling complimentary services.

### The Austin Technology Incubator

- ATI was founded in 1989.
- Self sustaining in 10 years through service fees from tenants and corporate sponsorship - building was donated by the university.
- Currently some city funding is received as well.
- The model is easier in times of high unemployment and high building vacancy rates.

## Tech Ranch Austin

I met with Kevin Koym, founder of TechRanch in Austin

A few minutes with Kevin and you can tell he is very passionate about startups. He even used his own money to start the ranch and has secured some impressive sponsors to keep things running. The Tech Ranch assists very early stage startups with mentoring, training and physical space. We discussed funding models, alumni and the structure of the ranch including details of his pyramid model for program delivery - basically wide services up to specific as you progress.

Key findings:

- Kevin founded the Tech Ranch with his own savings. He is not reliant on government funds and hence he is able to make his own rules.
- Corporate sponsorship and incubator fees provide income streams to the program.
- Pyramid model for program delivery as follows:
  - Campfires – Wide reach. These are open house discussions which anyone can attend.
  - Membership ‘tribe’ (with no hierarchy) - Mutual support network, develop, trade and share information. Membership fees are a filter for who is serious.
  - Programs – Monthly round tables (Pioneer) or 8 week Program (Venture Forth).
  - Incubator – Back office services and office space available for monthly rental. Only 12 available.
  - Portfolio – Companies in which equity is held.
- Program mentors are all volunteers.
- Alumni are the muscle for any program. The difficulty is in how to harness that power as it requires resources to stay in touch and keep records up to date.
- Kevin is also involved in some consulting work utilising his own extensive skills and leveraging his networks.

Kevin had a really refreshing take on this space. He is self funded which provides him with complete freedom on who he engages with and what he provides. No strings, rules or tick boxing, just targeted program delivery and a quality network. Sometimes when you are funded by others the attached strings can compromise the outcomes.

## Accelerator - an Entrepreneurs' Organisation Program

Jamie Douraghy is a successful business owner who runs Artisan Creative, a hub to help businesses find graphic designers and creatives. Jamie is an EO member and volunteers considerable time to the organisation. We discussed the EO's Accelerator Program just as Jamie is about to take up a position as the global chair for the program. Here is an overview of the program from their web page:

"In a series of quarterly, high-impact learning events, Accelerator gives you tools, knowledge, and skills to grow your business to more than \$1 million (US) in annual revenue. This comprehensive program also connects you to the most influential network of entrepreneurs on the planet. Through the multiple learning and networking opportunities Accelerator provides, you sharpen your skills both as an entrepreneur and as a leader."

To be an EO member you must have a turnover above US\$1million, the aim of the accelerator program is to assist businesses to grow into that range. The big deal here is the EO network where applicants can access an international database of success (I was referred to him via this network).

### Key findings:

- The Accelerator program is designed to get 6 figure companies up to 7 figure revenue companies in order to grow the EO membership.
- Minimum of 15 participants and up to 30 per program.
- Full day program of events to attend every quarter.
- Mentoring by volunteer EO members.
- Participants enter the program for 3 years before graduating.
- A fee of \$1500 is charged to participants to cover costs of the program.
- LinkedIn and Facebook are employed to maintain links with Alumni.

## Youth Business America

Henry Rogers has set up Youth Business America (YBA) in Oakland just outside of San Francisco. YBA is affiliated with the successful Youth Business International (YBI). From their web site:

"If you are 18 to 35 years old, committed to starting your own business and have received training from one of our Community Partners, you may be eligible to become a YBA Entrepreneur. Youth Business America's mission is to Find, Fund and Mentor young entrepreneurs who need help to start-up or expand their own businesses which would generate employment and promote the economic health of low and moderate income communities."

Henry is enthusiastic about assisting young business, he rattles off the names of their young entrepreneurs and clearly knows their businesses in detail. The core of the program is lending and mentoring, addressing two of the things that are most in need for startups.

Key findings:

- YBA is chiefly a startup loan provider with mentoring provided for those funded. Their motto is find, fund, and mentor.
- Founded in 2009 with seed capital from the Arthur Guinness Fund and a Kauffman grant.
- Affiliated with Youth Business International (YBI)
- Only a very small proportion of the funding was allocated to operating with the vast bulk added to the loan fund.
- The board is key to the success of the program. It is important to have successful influential people in support of a program. Members of the board personally donated a considerable sum to the program.
- Loans range from \$5,000 to \$25,000, are unsecured and charged at prime +3.25 fixed interest(currently 6.25%). Terms are usually 3 years.
- Loan default rates are expected to be around 30% based on other programs around the world.
- The program employed a professional grant writer to increase chances of assistance.

This program was in the early stages having just been set up some months ago. An area of the operations which really stood out as unique was the effort put into developing systems for the program. Scalability and efficiency are top of the list . As one example their loan system (which integrates with the customer database) is able to track loans through the stages of application and upon completion even generates the forms and letters of offer from data already in the system. These kinds of efficiencies are a huge help to programs which often operate on low operating funds.

## ANZA Technology Network

Viki Forrest provides the inside scoop for Australian businesses wanting to plug into the valley and beyond.

"ANZA Technology Network assists innovative Australian and New Zealand technology and biotechnology companies with global commercialization in the US and China. Through our webinars, workshops and Gateway and Fast Track programs we work with committed companies to determine the right foreign marketplace and what it will take for successful business expansion."

After a few minutes with Viki I was convinced that if you want to set up in the valley you would be crazy not to access her program. The information and extensive network will cut time off your journey and increase the chance of success.

### Key Findings:

- ANZAtech was founded 11 years ago and is run as a not for profit (California based).
- Mission – Accelerate Australian and New Zealand business expansion into the USA and China.
- Funding comes from client program fees, financial contributions from government and corporate partners which have a vested interest in the outcome.
- Various programs offered but smaller ones act as information provider to those starting out and lead generation to find those that are ready to take the next step and head over to the USA or China for the larger program. This is a win-win for those involved.
- Gateway is the short-form program where entrepreneurs fly to San Francisco or Shanghai to meet people, attend workshops and assess their readiness to enter the market.
- Fast Track is for companies ready to do business in the USA or China. Mentors in the program are compensated. Additional success fees may be negotiated but no equity is taken in the businesses that are assisted. Many great success stories have emerged.

After speaking with Viki I am convinced that if you want to set up in the Valley you would be crazy not to access her program. The information and extensive network will cut time from your

journey and increase the chance of success. Mentoring and connections are key, that has been the recurring theme throughout my trip.

## Startup 2011 Conference

Crossing the country again I am back in New York specifically to visit the Startup 2011 conference.

This was a great day with a few interesting sessions but the real value came from the pitching competition and the people I met in the breaks.

Eight startups pitched for a cash prize of \$25,000 judged by a panel of Angels and Venture Capitalists. The presenters were polished and well spoken, I was impressed. What really surprised me was that I probably wouldn't have called them startups! For example one company had invested \$100,000 of their own money to develop a prototype then raised \$250,000 from an investor to get to market followed by \$750,000. They had thousands of users and considerable turnover. Surely \$25k is not needed? I was expecting much earlier stage companies. The reason for pitching may not have been the prize money however as the companies were looking for further investment. I suspect winning a competition like this would raise their profile. You can view the winner here – [Quartzly](#).

They don't do things small here and the Angel/VC scene is very large and mature when compared to Australia. As one speaker said 'we are about hitting home runs not singles'. They play for keeps



## Summary

The fellowship was a very interesting overview of the different types of programs that exist in the UK and US. Every program was different in some way but there were some common themes and overlap that are worth mentioning.

### **The role of government**

The hand of government appeared in many of the programs that I visited.

- It is clear that government has a vested interest in business creation in the form of new employment, increased tax and the movement of capital in the marketplace. Funding from government can be of great help to programs.
- Sometimes the reporting requirements can be onerous and take time away from the goals of the program.
- Restrictions on the funding can cause programs to alter the selection criteria to fit the funding rather than the entrepreneur. This may compromise the outcomes.
- Funding can be cut at any time which may result in programs appearing and disappearing over time. This may reduce the effectiveness of programs in a number of ways (see next section on alumni for a key example of this).
- Programs build capacity for the area both in new businesses formed and in the training of youth regardless of the business outcome.
- Government can make a great impact by setting the playing field rather than recruiting the players. The UK Enterprise Investment Scheme (see LINC Scotland meeting) is an example of this. Investing in this environment has become attractive and business has benefitted.

### **The power of Alumni**

I was very interested in how other programs were managing and engaging their alumni as this is something I have struggled with. The workload can be quite high in keeping details up to date.

- Almost without exception those I interviewed felt that they should be doing more in this area.
- In some cases there were tens of thousands of alumni to manage.
- All agreed that alumni are a huge asset to any program. They can provide feedback, mentoring, word of mouth marketing, lobbying, assist fundraising/donate and be a source of success stories just to name a few.

- The electronic age is making the management of alumni easier and services such as LinkedIn and Facebook (Google+ on the way) are being utilised. The key features of these sites are that people keep their own details up to date (this is one of the biggest issues, databases go out of date over time) and it opens up the network allowing everyone to interact much more easily, this adds great value. The Prince's Scottish Youth Business Trust seems to have this working well with a reasonably active LinkedIn discussion group the highlight.

### **The target market and program goals**

Most of the programs that I visited had a niche, in most cases this was youth but there were other examples.

- Is the real focus youth training or business creation in these cases? Does the message get mixed up when communicating the program to stakeholders and in particular government? The programs I visited were clear on their purpose but it was interesting to ask the question and put myself in the shoes of those who may be assessing the value of the programs. From what I saw the successful programs targeted their message clearly at the stakeholders.
- There was some evidence that programs may be developing packages based around available funding and themes. Sometimes this works and other times a compromised program results. This is an issue both for government and for those designing and running programs. There is the potential for a great deal of diverted focus and waste.

### **Funding**

Last but not least is funding. It can be very difficult to make a program sustainable over time particularly when aimed at the youth market who are starting out with very low funds (refer to youth training and role of government above) and have little capacity for a user pays system. The core question of how to make these programs sustainable is not an easy one but over the course of the trip there appeared to be three core models as follows:

1. Government funded
2. Investment based
3. Foundation based

### Government funded

This seems to be the core model in the UK as well as Australia. There is a clear interest and benefit to be gained in this area by government and many amazing programs have been funded in the past.

The other side of the blade however is that funding is not assured over time and programs can disappear overnight. One Australian example of government funding cuts, other than SAYES, was [Young Achievement Australia](#):

- Discontinued nationally in 2009 as a result of government funding cuts and a lack of corporate sponsorship.
- Established in 1977
- They assisted over 185,000 young Australians, 2000 schools, 25,000 parents.

Additionally the restrictions on funding can influence the types of projects that are run.

Administrative and reporting requirements vary depending on the funding body but can be a burden to some programs.

In defense of government some programs become completely reliant and the short term security of the funding may prevent some from building additional revenue streams.

### Investment

This was a common model in the US but I did see one program in the UK that provided investment in a company in return for equity. In return for shares in the company a modest amount of cash and extensive access to expertise and networks was provided. In the US the focus was on large equity events (eg trade sale) where a handful of winners would be able to pay for the program's continuance. In the UK program the types of businesses involved would be unlikely to pursue this path (similar to most of our SAYES candidates) and more likely to be buy and hold with dividend payments over time.

There is the possibility for this model to work in Australia but our angel and venture capital markets are far less mature than the US (but they are there, and those that are involved are world class standard). Having said this there are a few investment based models in Australia including the recently launched [Startmate](#). Interestingly the last part of this course involves flying graduates to Silicon Valley for, from what I can see, better access to capital.

### Foundation based

The third key funding model is the foundation. Option one is to form your own. The idea here is that you raise enough cash that you never have to ask for a cent again once certain levels are

reached. An example of this is the Churchill Trust itself which was founded in 1965, after the death of Winston Churchill, through a door knock appeal which raised £911,000. Today the fund holds equity in excess of \$65million allowing 100 Australians to travel the world gathering knowledge each and every year in perpetuity. Clearly, this is an attractive proposition, there is an obvious issue in sourcing the large pool of funds required to make a foundation work however.

The second option in this area is to seek funds from an existing trust. The problem with this is there are strict rules on who can receive the money (often must have deductible gift recipient , DGR, status) as the money going into the foundations is usually tax deductible. There are a number of rules and regulations around forming foundations and particularly who they can fund depending on the structures involved. This is beyond the scope of this review but information can be found at [Philanthropy Australia](#). These restrictions limit the activity of a program (eg unemployed, disabled etc. These are valid and admirable recipients but not wide reaching enough for all young people who want to learn about business).

### **General funding Issues**

Regardless of the source of funding there are a few key issues:

1. No one wants to pay to keep the lights on.
2. Restrictions on what you can use the funds for.

Number one is something that popped up in a couple of meetings. Governments and corporates were interested in funding investment pools or loan funds but would not provide any funding for administration and management. It begs the question, who is supposed to deliver the program? Number two relates to the government restrictions and foundation limitations discussed above. Greater flexibility to let the experts do their job is needed from those who fund these programs. The result will be superior programs and lower overheads.

### **The future of The South Australian Young Entrepreneur Scheme (SAYES)**

I am pleased to announce that [SAYES will continue in 2011](#). Over the past few years we have grown our corporate sponsor base and increased the component that young entrepreneurs contribute in return for the assistance we provide (it is still a bargain in my opinion). Business SA has increased its support and commitment to maintain the program this year. The program now accepts applications once a year in June [www.sayes.com.au](http://www.sayes.com.au)

## Recommendations

### For Programs

There is a real stability issue for Australian (and world) programs particularly when government funding is involved. ***Massive value in the form of alumni and networks is lost when programs close down.*** Based on my observation of successful world programs I would make the following comments:

- Work on alumni relationships and systems, there is massive value here.
- Government funding should be considered as seed capital. There must be a plan in place to become self funding over time (or at least a plan to ride out extended drought years) otherwise the program should be treated as a project to fill a short term need.
- Battle against mediocrity. Programs need refreshing to take on new developments, trends and ideas.
- Target your message very clearly to stakeholders in order to maximise value and relevancy.
- Be wary of restrictions and 'forced fit' when seeking funding. It is usually not worth compromising the goals of the program.
- Volunteer mentors were without a doubt the backbone of virtually all the programs I observed. Look after them!

### For Government

Government can play a massive role in encouraging activity in the space. The success of the Enterprise investment Scheme in the UK is an example.

- Payback is in youth training, employment, taxes and movement of money in the marketplace. A report by the Kauffman Institute found that over the last 20 years in the US “...excluding the jobs from new firms, the U.S. net employment growth rate is negative on average. This simple comparison highlights the importance of business startups to job creation in the United States.” [The report can be found here](#). The report shows that 100% of new jobs in the US over the last 20 years came from new businesses. Small business truly is the engine room of the economy.
- Government can have a great impact by influencing the business environment rather than the businesses themselves.

- Low reporting requirements and flexibility in delivery (KPIs etc) will allow the experts to deliver a much better program and likely at reduced cost. 'Forced fit' is not helpful to government or programs.

### **For Corporate Australia**

There are some amazing businesses out there who support youth training and entrepreneurship but to the rest I ask - Where are you?

Young entrepreneurs can generally feed themselves, are probably not on struggle street and almost certainly not cute and fuzzy. So why fund them? This is about building Australia's capacity. Fund an entrepreneur and create more jobs, feed more families and make Australia competitive on the world stage. Provide our youth with a leg up in the business world and watch the country prosper. We need your support, funding and expertise.

Plus, it is brilliant fun watching them succeed and then start helping others themselves!

### **For Entrepreneurs**

Follow your passion

Fire up everyone around you

Don't go it alone

and above all persevere.

in essence keep doing what you are doing.

and when you make it, stick your hand down and help the next person up!

### **The next step. A fund, a program, a movement?**

I have formed a working group and we are investigating the options for a program fund to drive entrepreneurship in Australia. If you are interested to learn more please feel free to drop me a line.

**Dan Smith**

**2011**

*Never give in! Never give in! Never, never, never, never - in nothing great or small, large or petty. Never give in except to convictions of honor and good sense.*

**Winston Churchill**