CHAPTER FOURTEEN

RURAL STARTUP COMMUNITIES

In the 2016 US Presidential election, much was made of the urban–rural divide throughout the country. While each state has its own unique characteristics, suddenly a significant distinction was being made between activity in and around major cities (urban) and everywhere else (non-urban, or rural). While *rural* isn't necessarily the correct word for many of the regions being discussed, as some of them were smaller cities, the geographic areas were generalized as rural.

In Colorado, I started exploring this along with several other people, including Stephanie Copeland (then the head of the State of Colorado Office of Economic Development and International Trade), my Foundry Group partner, Seth Levine, and Marc Nager, whom you met earlier in the book around Startup Weekend and who is now running the Greater Colorado Venture Fund.

Marc lives in Telluride, Seth lives part-time in Winter Park, and Amy and I live part-time in Aspen. As a result, we have bases in three different areas of what is considered rural Colorado. While the traffic through these ski resort towns—both from the Colorado Front Range (urban Colorado) and from out of state—is high, there wasn't much focus on the startup communities in the surrounding area.

Mark spent several years developing the startup community in Telluride as the head of the Telluride Venture Accelerator. By using the dynamics of the ski town, Marc attracted a number of entrepreneurs to the region and created some critical mass around Telluride. Similar activities were being driven by others, such as Dave Mayer, in the Roaring Fork Valley (which includes Aspen, Basalt, and Carbondale).

Through the ensuing exploration, Seth, Marc, and his partners, Jamie and Cory Finney, developed a number of ideas around building rural startup communities. Following are their thoughts that can be applied throughout less populated and more geographically spread-out startup communities.

DEFINITION OF A RURAL STARTUP COMMUNITY

Rural communities are by their nature different in composition, size, resources, and proximity to other communities. As a result, they typically have more limited opportunities. While key principles from the Boulder Thesis apply, rural communities require a different approach to startup community building and fostering an entrepreneurial ecosystem.

Rural startup communities are entrepreneur-led, perhaps even more so than in urban centers. However, fewer people in rural startup communities identify as entrepreneurs. Consequently, nomenclature, and specifically the phrase *entrepreneur* can be a barrier to the development of these startup communities.

Rural startup communities thrive when many people are involved in creating an entrepreneurial environment and the activities around the startup community aren't centralized. Since these are smaller communities with participation from fewer people, the impact of each member's actions on the community is that much greater. In rural startup communities, respect and trust are earned, not assumed; but, once given, they are not questioned again. The role and importance of #GiveFirst are magnified in rural startup communities while at the same time received with greater skepticism.

The importance of economic development is magnified in rural startup communities. The Colorado Department of Local Affairs (DOLA) developed a measure of that impact called a "job equivalency metric," which shows the value of a job in a rural community versus that same job in an urban community. For example, Grand County had 10,000 estimated jobs as of 2017 while Denver County had an estimated 600,000 jobs. Ten new jobs created in Grand County would have a 0.1 percent total employment level while it would take Denver County 600 new jobs to recognize the same increase in employment base. It's not uncommon for rural markets to have a job equivalency metric of 20, 30 or 40, indicating that the value of a single job in these markets has the local economic equivalent of 20 to 40 jobs in an urban market. In a community with a lower total economic output, the value of a single additional job as a percentage of that output is much greater.

A BROADER DEFINITION OF ENTREPRENEURSHIP

While the definition of entrepreneurship needs to be broad and inclusive in any startup community, this is particularly crucial in rural areas. In many situations, the goal isn't only to foster fast-growing tech startups, but also to help businesses of all types prosper and grow. Think of this as the "reinvention of Main Street," as all of the local businesses on the main road in a rural community—from a coffee shop to a cleaning business to a clothing company—are a key part of the local startup community.

The motivation for starting a business can be different in rural communities. Founders often aspire to create jobs for themselves and their friends instead of an internationally known high-growth company that eventually goes public or sells to a larger business. This can be as simple as "I really wanted to live here, and I started the company so I'd have the economic and community means to do so."

Western Rise, in Telluride, Colorado (population 2,427), is a great example of a startup that is "Reinventing Main Street." Given the rise of the internet and ecommerce, what would have once been a local clothing company making gifts for tourists is now a scalable opportunity that can outfit individuals in the Telluride valley and across the world. While Western Rise is growing rapidly and scaling internationally, they participate in the same meetups in Telluride as 8750ALT (a local gym) and Ghost Town Coffee. They don't make a distinction in Telluride between the "growth" entrepreneurs versus the "coffee shop" entrepreneurs since everyone is part of the Telluride startup community. While Western Rise is growing rapidly and scaling internationally, their status as founders is the same as that of 8750ALT and Ghost Town Coffee. Removing the distinction between "growth" entrepreneurs and "coffee shop" entrepreneurs results in creating camaraderie, value, and momentum for a diverse group of existing entrepreneurs.

ENTREPRENEURS BEFORE CAPITAL

The capital obsession problem, where entrepreneurs endlessly complain about the lack of capital, is prevalent in rural startup communities. However, while capital scarcity is a real issue, a different approach to capital is needed in rural startup communities.

All startup communities are driven by entrepreneurs, not capital. In rural startup communities, organizing around entrepreneurs isn't the starting place, either, as the term can exclude the vast majority of founders in a rural startup community who don't identify as entrepreneurs.

Capital follows density of activity and companies. Developing this density, especially throughout geographically dispersed areas, is important for sources of capital to see the potential in the rural startup community. Getting people together from all different parts of the business community on a visible and regular basis will generate early momentum and identify others in your area who share your passion for helping local businesses thrive.

Once a certain level of density has been reached around entrepreneurial activity, investor education and organization are critical to the long-term viability of an ecosystem. Investors in rural communities often don't have experience making angel investments. While they may have heard of venture capital from watching *Shark Tank*, they generally aren't aware of the risks, return profiles, or best practices around diligence and terms associated with early-stage investing. It is critical to have an outside organization or a local expert with early-stage investing knowledge provide a baseline level of education for potential funders of the ecosystem. Angel groups and angel syndicates are the easiest structures for local investors to start supporting local investment opportunities—whether it be a new brewery or an enterprise SaaS company—while leveraging each other's shared learning.

In Colorado, there is a natural resource for attaining critical mass, which is adjacency of startup communities to ski towns like Telluride, Vail, Steamboat, Durango, Breckenridge, and Aspen. Rather than view the ski town as distinct from the rural startup community, view it as a startup neighborhood with a set of adjacent towns within about an hour's drive of one another (approximately a 50-mile radius). All of the other small towns in the circle within this 50-mile radius are part of the broader startup community, which can be named after the ski town (the Telluride startup community) or the greater area (the Roaring Fork startup community, rather than the Aspen startup community). By casting a wide net, all of the nearby startup neighborhoods (near Aspen, this would include Carbondale—where the center of gravity is increasingly located—Basalt, Glenwood Springs, and Rifle) become part of the broader startup community and benefit from all of the people who travel through the ski town on an annual basis. This results in a much larger supply of potential capital sources and mentors over time, as many skiers are either from the major cities in Colorado's front range (Boulder, Denver, Fort Collins, and Colorado Springs) that have developed startup communities, or are wealthy people from various parts of the United States and the world, many of whom are often institutional or angel investors.

This reinforces the importance of creating entrepreneurial density by encouraging startup neighborhoods to work together. This takes effort and leadership as there is often inter-town rivalry that goes beyond high school sporting events. By encouraging startup neighborhoods to be inclusive of their neighbors around their entrepreneurial activities, these areas are better able to create the density needed to drive more meaningful entrepreneurial activity over time. Once people from these startup communities start working together, they are eager to continue to do so. And, even though the distance to travel may be physically longer, there is a willingness to travel to attend entrepreneurially focused events because there is rarely any traffic.

BEYOND TRADITIONAL CAPITAL MODELS

Traditional venture capital and equity investment models are often not the right fit for the types of businesses that thrive in rural startup communities. At the Alternative Capital Summit in Denver in 2018, hosted by Startup Colorado, the Kauffman Foundation, and Zebras Unite, people came together from all over the country to talk about the huge gap that exists between traditional banking, venture capital, and the funding needed in rural startup communities. The discussions crystallized the large need for different financing structures that are not fundable by traditional banks, yet the venture capital model (where there are many failures and investors make most of their money on a few outsized winners) simply won't work.

Fortunately, there are a number of innovative risk capital models, using ongoing company performance metrics, such as gross revenue to calculate scheduled returns, that support this kind of expansion capital but have lower risk-and-loss profiles. These approaches also recognize that many rural entrepreneurs have no expectation or desire to sell their businesses, which is the traditional path to create liquidity for venture capital investors.

In many rural communities, the concept of venture capital or equity investing isn't well known or understood. Rather than being interested in talking to a venture capitalist, the question more often is "Why would I want to work with you?" At the same time, many of the companies in the startup community are profitable, service-oriented businesses, which are atypical targets for traditional venture capital. Educating local entrepreneurs on the basics of venture capital and equity investing, and pulling together local investment groups, can help address this gap.

As an example, consider the "Venture 101" workshop that was hosted by local leaders in Steamboat, Colorado. Over 30 community members, founders, and investors attended the workshop to learn more about venture capital investing. This event helped surface the existing cultural and entrepreneurial density that exists in the Yampa Valley (the area around Steamboat Springs). One month later, a group of participants in the workshop created Four Points Funding that has since invested in six companies across Western Colorado, hosted four showcase events for rural Colorado startups, and is now putting together a Colorado-based Opportunity Zone fund. If we had tried to somehow force this group to put together a fund, we wouldn't have been successful. But by getting the right people together in a room as part of a larger discussion around entrepreneurship and capital, the conclusion and activity that emerged was to coalesce capital together for the startup community.