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## Features

### A Tag-Team Effort to Foster the Next Generation of Startups

LEE STABERT | THURSDAY, NOVEMBER 07, 2013



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"I'm not enthusiastic about trying to replicate what goes on in Boston or what goes on in Silicon Valley," says [BioAdvance](#) Managing Director and CEO Barbara Schilberg. "I think Philadelphia has an opportunity to create its own model. Be creative. Be innovative thinkers. We are a little short on capital, but we do a great job with what we have."

Philadelphia's startup scene has entered its adolescence -- it's growing at a rapid pace, shedding ingrained expectations and trying to forge its own unique identity. The key is to capitalize on the region's inherent strengths, including a strong sense of community, a world-class life-science and health-care legacy and a scrappy, underdog spirit perfectly attuned to lean startup methodology.

This maturing entrepreneurial ecosystem has players all over the region, but its beating heart is in University City where the wealth of talent, resources and, well, wealth, has spawned incubators, investors and nascent entrepreneurs.

#### DreamIt stays agile

Startup accelerator [DreamIt Ventures](#) was founded by three serial entrepreneurs, David Bookspan, Michael Levinson and Steven D. Welch, who wanted to nurture the next generation. They looked at what Paul Graham was doing with [Y Combinator](#), a groundbreaking accelerator in the Silicon Valley, and hoped to put a Philadelphia spin on it. In summer 2008, they welcomed the first DreamIt class to their space in the [University City Science Center](#).

"Our focus is on working with entrepreneurs, using lean startup methodology to help them validate their businesses," says DreamIt Managing Partner Karen Griffith Gryga. "Our goal is that what typically takes an entrepreneur 12-to-24 months to achieve on their own, we help them achieve in three-to-six months."

DreamIt helps baby companies validate core assumptions, understand their market and define a target customer. They believe in leveraging intellectual capital before financial capital -- all the team members have entrepreneurial experience.

"Obviously, the core metric of success is these entrepreneurs really validating the concepts and going on to build significant companies," explains Gryga. "But, at the stage that we work, that's not going to be the case with every company. Another measure of success is, if something isn't going to work, to understand that and fail quickly."

DreamIt corrals the entire local entrepreneurial ecosystem for their programs, pulling in universities, successful entrepreneurs, investors, law firms, accounting firms, software providers, speakers, mentors and advisors. Having everyone in the same place is essential.

"Starting up a company is really, really tough," says Gryga. "It's one of the most difficult things that anyone will do in their life -- and also one of the most thrilling. Yes, the model that we play to started in Silicon Valley, but we put our own personal brand on the platform. Supporting entrepreneurs at the very early stage tends to be a geographic-centric exercise. Early-stage angel investors, when they're working with the companies, want to meet with the companies early and often. Certainly with technology, we can talk to anyone, anywhere. But for these intensive exercises and experiences, face-to-face is still the most powerful."

The program was run exclusively in Philly until 2010. In 2011, DreamIt expanded to New York City. In 2012, they started a program in Tel Aviv. This year, they headed to Austin, Texas, and, more importantly for the Philadelphia region, they launched [DreamIt Health](#), a health care IT-specific program run in conjunction with [Penn Medicine](#) and [Independence Blue Cross](#) (IBC).

With the Affordable Care Act, recent regulatory changes and the allocation of federal dollars towards healthcare IT, there is an explosion of interest in this space.

"There are so many opportunities, whether it be data analytics, systems integration, mobile health, patient care," says Gryga. "The domain is humungous. We started talking with IBC and Penn -- they wanted a platform that helped them work together collaboratively. DreamIt Health could present strategic solutions to their various operating needs and help them develop a relationship around innovation and collaboration."

DreamIt Health companies are also more likely to locate permanently in Philadelphia. The majority of them do pilot programs with Penn or IBC, and realize that their target market is here.

Despite all this local energy, there is still a lack of early-stage capital in Philadelphia. That should change as the region fosters more successful entrepreneurs. They, in turn, will work to groom the next generation, either with their expertise or their dollars (or both).

"That's the most challenging issue," admits Gryga. "We've got some angel

investors and institutional investors, and then we do have some early-stage capital, but it's not enough. Why has New York grown tremendously? Because there's a lot of available capital and the risk profile of the investors there is more robust."

DreamIt graduates have had tremendous success. [LevelUp](#) was one of their early participants. The now-ubiquitous mobile payment network started out as an SMS-based scavenger hunt. Through the process, the founders discovered that local merchants really needed a payment solution that also included a loyalty program. They now have one of the largest mobile payment networks in the country. DreamIt has also worked with local companies such as [CloudMine](#), [Cloudamize](#) and [SnipSnap](#), a mobile coupon app that now has over 1.2 million users.

### **BioAdvance thinks sustainably**

For companies that come out of accelerator programs, there are multiple options for next-stage capital. Lucky life-science companies in the region can end up with BioAdvance in their corner.

This "biotechnology greenhouse" was funded 10 years ago with tobacco settlement money -- the tobacco industry was forced to pay billions of dollars over time to the state of Pennsylvania. In the spirit of the settlement, the state decided to use the money to improve human health. They created a "capital continuum," sending \$70 to \$90 million dollars every year into university research. They also gave a one-time-only payment of \$100 million dollars to three regional life sciences greenhouses. The greenhouses were designed to take that aforementioned academic research and convert it into products. The third component of the plan seeded \$60 million to four different venture capital funds.

Each greenhouse came up with a business plan designed to address the strengths and weaknesses of their region; BioAdvance serves the five counties around Philadelphia. The need for pre-seed capital was the major issue here.

"We put our first investment out on the street in 2003," says Schilberg. "Over the years, we've invested about \$24 million into a total of 56 companies; 35 of those companies received investments of between \$200,000 and \$1.5 million. What we've observed is that life science companies need more capital than most other kinds of companies. We want to give people enough money to get to the other side of what they call the 'valley of death.'"

The truly exciting thing about BioAdvance is that they're an evergreen fund -- they recycle all their returns back into the pot. After a decade of operation, they are operating on their own returns. That success has bled into the larger regional economy: The \$24 million they invested has attracted \$1.6 billion in capital.

"It's a testament to the potential here," says Schilberg. "I think Philadelphia is hugely underserved. This is a hard business model, but I think it's the right business model. The difference between us and venture capital is that we can be more patient."

BioAdvance's most recent "exit" -- graduation from startup status due to acquisition, IPO or growth -- was [Ceptaris](#). They were the company's first institutional investor back in 2004. Ceptaris received FDA approval of their product in August 2013, and were subsequently bought by a large Swiss company. That process took nine years.

"That's a really long time if you're in a traditional venture fund," explains Schilberg. "There, you have to have results in three-to-five years so you can go out

and raise your next fund. It's a different dynamic. We think for early-stage investing, evergreen investing is what we should be doing."

This philosophy ties in with broader trends in the capital landscape -- a lot of funding is now coming from outside venture capital. Life science startups are getting money from the [National Institutes of Health](#) or from places like the [Wellcome Trust](#) and the [Gates Foundation](#). There are all sorts of 'capital alternatives' that have popped up. Even large companies getting into the act through corporate venture arms or innovation labs.

Like DreamIt, BioAdvance sees a huge future in health care IT. "That's a huge growth area," says Schilberg. "I'd love to see Philadelphia take the lead in that. We have a huge healthcare system, between our academic research and all the hospital systems. We have the pharmaceutical industry. And we have this historical technology strength. We have all the assets."

Most local life science startups practice what Schilberg calls "the semi-virtual model." They don't build huge labs with 30 chemists and 40 biologists; they have small teams that engage contract research organizations -- most of which are local.

"We think it's possible to do good and do well -- to solve human health problems and make money," says Schilberg. "I don't think anyone expected BioAdvance to be alive 10 years later. I think they expected us to put our money on the street and then disappear. But we've turned the corner. I see another 10 years ahead of us."

#### **Robin Hood Ventures looks to the community**

Though Philadelphia might be short on early-round capital, there are still organizations looking to plus the gap between acceleration and venture capital. [Robin Hood Ventures](#) is a group of angel investors focused on early-stage companies in the region. They are often an essential ingredient in a collaborative funding effort: for example, they invest in DreamIt graduates and they co-invest with BioAdvance.

Like BioAdvance, Robin Hood is located in the [University City Science Center](#). Their offices are adjacent to the [Quorum](#), a central gathering place for entrepreneurs, scientists, innovators, funders and resource organizations. It's a great way to casually engage with the increasingly robust startup scene. Robin Hood's central location also gives them access to events, workshops and meetings rife with talent.

"The Science Center has really helped build community," says Robin Hood Executive Director Ellen Weber. "I'll walk through Quorum a couple times a day, say hi to the entrepreneurs, introduce myself."

Robin Hood looks for companies that have a technology that one of their investors understands. They want to add value for entrepreneurs who already have proof-of-concept. Robin Hood takes a board seat at all the companies they invest in (45 so far). Their portfolio includes life science, medical devices and IT, among others.

"Available capital has a lot of room to grow in Philadelphia," says Weber. "I think we'll see it grow as we get some exits. People who came up through the corporate ranks aren't necessarily the people who are doing angel investing. It's usually people who have sold their business, who want to add value with early stage companies and put in some money along with it."

Next month, Weber is running an event to teach female entrepreneurs what it is

to be an angel investor. Robin Hood also hosts programs that help angels understand new technologies. It's all about building connections locally. Even in the internet era, geography remains incredibly important.

"The technology companies used to be in the suburbs," recalls Weber. "They didn't talk to each other; they didn't have a community. Now most of the tech companies at least start in the city -- they may move out later -- but they start here and they're talking to each other. In ten years that's happened."

"It's very exciting to be in University City right now," she continues. "I've been doing this a long time and I feel the pace changing so quickly. It's very real."

*The University City Science Center has partnered with Flying Kite to showcase innovation in Greater Philadelphia through the ["Inventing the Future"](#) series.*

*LEE STABERT is managing editor of Flying Kite. Send feedback [here](#).*



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