

Topic: Can a Foreign Alliance Center for Tennessee be Self Sustaining in Knoxville?

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March 10, 2017

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Knoxville

The home of the Volunteers is keeping tradition alive through the spirit of the original Volunteers. Social enterprise in Knoxville has supported local businesses through Facebook events, public support fairs, and local programs such as "What's the Big Idea?". Knoxville is proud to be a community where individuals can have the life they love at a price they can afford combined with a community spirit geared towards helping businesses succeed. Mastered in Tennessee has become the slogan of the state; keeping in tune with that spirit, foreign-owned businesses can *launch* in Knoxville. An incubator focused on the needs of small and medium-sized foreign-owned businesses can help identify potential threats these businesses face and strengthen the future business to be even more successful in the US Market through education in the accelerator program. This international incubator/ accelerator would be a resource center for foreign-owned businesses to better understand where to locate in the Knoxville area and provide a better understanding of why they should do so. In order to steer clear of political dilemmas, this center would be a for-profit LLC. The Foreign Alliance Center for Tennessee (The FACT center), could be a major source of foreign funds as well as a good jumping off point for many small to medium-sized businesses wanting to anchor themselves in the US market; minimizing risk and maximize their business profit model through education.

Knoxville is centered in the heart of natural beauty, yet can be easily accessible through its many highways, train stations (a cheaper mode of transportation for heavy cargo), and an international airport. The McGhee Tyson International Airport is rebuilding 90% of its paved surfaces in order to "bring it into compliance with changing federal regulationsⁱ." These changes, which are projected to be complete in 2021, will create more accessibility from larger airports. Commerce is currently accessible through the network of Interstate highways: I-40, I-75, and

even close to I-81 which connects businesses to many east coast hubs; Knoxville stays competitive through this convenience. Patricia Nash, a designer from New York City, described it best during her speech to the Young Professionals of Knoxville when she said, "It is a small enough city that you still have the home town values, but not so small that you have nothing to do or where everyone knows your business. That is an ideal place for creativityⁱⁱⁱ".

Foreign-Owned Businesses in the US

Many international businesses have entered the US market already and have been very successful. This was historically done by starting in a coastal region in order to gain access to a major port improving veridical FDI, also known as adding business function to the value chain through developing a stronger relationship with exporters as well as direct access to a large customer base. Although most businesses no longer need to be near a port in order to be successful, large businesses still have the funds to open up near areas which allow quick access to commerce coming into or going out of the US; these areas are often in high demand and so a lot of capital is needed to get started. Small and medium-sized businesses do not have the luxury of spending money on these areas and it becomes almost impossible to compete with large businesses with bigger budgets. "The US has the largest and most liquid market in the world"ⁱⁱⁱⁱ. Expanding into a new market will always have risk, but where there is risk, there is also opportunity. This is why an international incubator is so appealing to smaller foreign-owned businesses. It is a place where businesses can dip their toe into the US market while they acclimate to the new environment. It is the difference between learning to swim in a local pond verses learning to swim in the ocean. Knoxville is that small pond; the community is full of people who are so passionate about social enterprise that they are willing to invest their own

funds in crowd funding to ensure the success of those businesses. Donating time, effort, and money, is the spirit of those same "Volunteers" the state of Tennessee was founded upon.

As the purchasing power of the US Dollar continues to rise, it creates a safe place for international investors to keep their funds. In the past, when the Dollar was high, investors from all over the world would invest their money in US real estate in order to protect their wealth from taxes, devaluation of their home country's currency, and inflation. International companies will be willing to do business in the United States so long as it is profitable to their wealth management. The US has a robust consumer market and its policies towards private enterprise and competition are transparent. Although the US was hit by the 2007-2008 real estate bubble bursting, the US is starting to recover and the Dollar is on the rise. "It seems to me that most of the data we've seen over the last couple months is very much consistent with the economy continuing to grow at an above-trend pace, job gains remain pretty sturdy, inflation has actually drifted up a little bit as energy prices have increased," Dudley said in a CNN International interview^{iv}. With the economy of the US growing, the purchasing power of the Dollar will also raise and with it the attractiveness of the US Market to foreign investors.

Why Tennessee

At the Tennessee Economic Development Council's Fall Conference in 2016, a panel was put together of foreign-owned businesses and each CEO was asked why they chose Tennessee as the state to do business. The CEO for Hankook Tires, who recently relocated to Nashville, joked that it was the music and pretty people that made up his mind. He also said that through all of the places he visited, "Nashville was the only one where the people [he] met were genuinely happy"^v. He went on to say that you cannot fake happiness like that for long. Also the relationships the City and Counties have with each other in Tennessee are more friendly than

other areas. When State, City, and County governments are all on the same page, businesses are free to do business. Precious time is not wasted waiting on permits, unnecessary fees are not generated, and businesses feel welcome in the state of Tennessee. Tennessee has proposed a 25 year "\$6 billion plan, which would expand the area's transit system to include better services, such as light rail^{vi}". Should this plan pass, infrastructure would be better positioned to handle future growth while the state remains debt free in infrastructure costs. Businesses in Tennessee enjoy low cost energy thanks to TVA. "Tennessee was ranked number 8 of the Top 10 states for Quality Workforce"^{vii}. A skilled workforce, low-cost energy, and quality infrastructure are all positive points which attract FDI.

Business in Knoxville

In 2016, 19,668 businesses were recorded as established businesses in Knox County. The most prevalent range from retail trade, health services, construction, and business services^{viii}. These industries are a part of why the Knoxville economy is so stable. In the Innovation Valley's 2016 annual report, it was shown that Knoxville had "4,150 new jobs, \$1.54 Billion in total capital investments made (2013-2016), and there was a 2.8% wage increase"^{ix}; all signs of a healthy, growing economy. CNN Money voted "Knoxville #5 in best cities for Small Businesses"^x; which is good news for small businesses looking to relocate. With programs such as Propel, Diversity Champions, CAP, IVYP, Knoxville Entrepreneurship Center, and the Manufacturer's Round Table, citizens can see the hard work the city puts in to supporting businesses. From 2015 to 2016, job growth in "Knoxville grew 4.1%, trailing just behind Nashville which grew a full 5% "^{xi}. This is pretty incredible when considering that Nashville has the country music scene and even a TV show named after it as exposure, whereas Knoxville has an economy depending on universities and research laboratories for exposure.

The City of Knoxville does put a lot of effort into programs such as the Knoxville Chamber, the Knoxville Entrepreneurship Center, and Innovation Valley's Young Professional's program. These programs are dedicated to the success the people of Knoxville, who bring in the power of innovation into this region. Entrepreneurs are encouraged by the Knoxville Entrepreneurship Center, young professionals feel supported through the City's Young Professionals Program, the Knoxville Chamber supports the growth of local businesses; the City of Knoxville supports its citizens through programs which educate and cultivate powerful networks allowing citizens to make educated decisions when supporting foreign-owned businesses. This is a small part of what makes Knoxville so attractive to foreign businesses.

The City and County have shown time and time again though the diversity of business programs that they are willing to help businesses grow and stay in Knoxville. This is not true of many cities or states in the US. California, for example, has sided against businesses in many cases and has often overregulated and overtaxed businesses to the point of no return. Many businesses who have a long history in California have been "driven out by high taxes and oppressive regulations"^{xii}. In 2016, Mercatus ranked the states by fiscal condition based on solvency using 14 metrics. "California was ranked 44 out of 50, Tennessee was ranked 9"^{xiii}. "In 2016, Knoxville was ranked as the 5th lowest-cost city to start a new business"^{xiv}. With the spirit of the founding Volunteers, Knoxville is willing to help businesses relocating to the region with time, attention, and even tax incentives. In addition to City and County programs, several business incubators in Knoxville were started to support the success of other business.

Why Knoxville

Global Trade Magazine voted Knoxville as a "Top 10 city for a global trade vibe"^{xv}. The city itself is aesthetically pleasing, the weather is often mild, and there is natural beauty that can

be experienced through lakes, rivers, parks, and forests. In addition, the job market is growing, the established businesses are in stable industries, the area has a high quality of life and a relatively low cost of living, and Tennessee is a right-to-work state. This kind of stability is very appealing to foreign-owned companies who are looking to enter the US market. Many businesses have already been enchanted by Tennessee, taking full advantage of the many pro-business incentives offered, such as no state income tax, TIF's, PILOT programs, Launch Tennessee, low-cost energy, the "FastTrack economic development fund, FastTract infrastructure development program, job tax credit, enhanced job tax credit, industrial machinery tax credit, and the sale/use tax exemptions^{xvi}". Knoxville sets itself apart in the fact that it has remained a community where the public cares about the success of local businesses and is willing to financially invest in social enterprise. The public has helped many businesses through successful crowd funding ventures. Knoxville is growing into a thriving metropolis while staying true to its community values of supporting one another, volunteering, and moral integrity which helps create a network of trust in the community.

Many believe Knoxville's pro-business spirit is derived from the University of Tennessee and the Oak Ridge Laboratory. The University does a lot to contribute to the education of the people in Knoxville, offering many diverse programs that affect citizens statewide. The Tennessee Economic Development Council puts on classes assisted by UT in the education of Economic Developers. The Oak Ridge Laboratory brings in international talent collaborating on many high tech projects. These two major institutions have brought a wealth of knowledge and culture to the Knoxville area.

Current FDI in Knoxville

According to the Knoxville Chamber, there are currently 23 Japanese-owned companies doing business in Knoxville. By choosing Knoxville, one country was able to add 8,041 jobs to the local economy. In an article by Marketwatch, it states that "the Yen has depreciated against the US Dollar by .34%"^{xvii}. Those Japanese-owned businesses would be better off leaving their monetary assets in the US in order to take full advantage of the increasing purchasing power of the dollar. Knoxville benefits by the jobs those businesses create and could capitalize on this opportunity by bringing in more small to medium-sized foreign-owned businesses through an international business incubator.

That same article shows that the Euro has increased 1.09% against the Dollar and the Dollar has decreased by .24% against the British Pound. Knoxville currently has businesses from the U.K. and much of Europe. Those businesses have not left and likely still feel safe doing business in the US due to the stability of the market and the US corporate tax policy being 35% on businesses (corporate tax 20% plus value added tax 20%- which the US does not have - to make the total 40% for tax charged in the UK)^{xviii}.

Incubators in Knoxville

The Fairview Technology Center was created in 1980 and is currently run by a board through Knox County. It has helped a number of businesses survive the 'Valley of Death' - the time before the business starts to break even on their profit model. Dr. Ming Qi, a recent graduate from UT and a foreign student, is one of those success stories. He needed space in which he could control the lab environment in order to "make hydrogen peroxide cheaper for wood-pulp companies, which use large quantities of the chemical in bleaching^{xix}." The Fairview Technology Center was able to provide Dr. Ming Qi, a low rent office space while he continued his work off campus from the University of Tennessee Knoxville Campus.

The Central Collective and Modern Studio are both small co-work/entertainment incubator studios in North Knoxville that were designed to inspire and help other businesses succeed. Both businesses were crowd funded by the local Knoxville people and both businesses have proven to be an overnight success by turning a profit immediately through the strong support of social enterprise. Crowd funding allowed both businesses to purchase their buildings debt free and focus on getting businesses into the incubators immediately.

Alma Diem, a highly selective business incubator is focused on local Knoxville professionals who need an elite incubator to get started. Although this was not crowd-funded, they were able to start turning a profit in less than a year and ran out of space after being established for only 8 months. All four of these incubators have been successful in providing aid to businesses just starting out in the Knoxville area. Even though these businesses have different profit models: one is a non-profit, two are crowd funded for-profits, and one is strictly a private sector for-profit, business incubators are not only highly valued by the businesses they serve but they are also able to make enough profit to stay in business in Knoxville.

Why an International Incubator?

Knoxville currently has a few business incubators that have positively impacted businesses during the start-up phase. Those incubators have been successful in turning a profit. Small to medium-sized international businesses are often overlooked because large international companies have more funds and look more appealing to recruiters due to their size. International businesses bring with them an international culture full of different ideas and a new perspective. Diversity works in favor of the creative process and having a center of business professionals working in a collaborative environment focused on making networking and social bonds, creates a very rich work environment. An international incubator could bring in more funds to the

Knoxville area that would not normally be accessible, it could bring in more businesses to the Knoxville area, and if those businesses are successful, it could even bring in more jobs to the Knoxville area.

As a private sector international incubator, it is separate from the government and can offer a third party voice which is not commissioned by the city or county, to businesses looking to relocate to this region. This center can also be used by local people or businesses looking to gain firsthand knowledge into international business, relations, or culture. Best of all, this center would provide international businesses with a network of people and relationships to help them succeed. Once these businesses have created bonds with local people, learned the rules and regulations of business in Tennessee, the programs offered by the City and County of Knoxville, those businesses would have to re-learn those regulations should they choose to move to another state. Investors prefer to do business in places they are familiar, where they have emotional or familial ties, as well as the economic attractiveness of the region. An incubator focused on international clientele can allow businesses to form strong bonds within the community it is located.

Foundation of the Business Incubator

A business incubator is designed to assist businesses which are just starting up during the vulnerable stages of development. Most business incubators provide some management training and office space, but this incubator would have a social enterprise core. The incubator would be there to help businesses become successful, but also a place where businesses can influence each other in positive ways.

Co-working hours, a space where individuals pay a membership fee to work collaboratively on different projects from different companies, would be available for the general

public. Such a space creates a 'social think-tank' like atmosphere ideal for creative projects and allows the public to socialize with the international clientele; at the same time the membership fee brings in additional income.

An accelerator program would also be available for the businesses in the incubator. These businesses would be offered classes to help their businesses be successful in the United States. Classes would be on a wide variety of topics such as, the City of Knoxville and programs available to businesses, regulations of the State of Tennessee, working in the US - common business techniques which differ internationally, and even basic business classes. These classes would be a third way to generate funds to the incubator while outsourcing the classes to experts in these fields. Local businesses such as law-firms working in international relations, CPA firms familiar with international law, and even media relations specialists would be encouraged to rent space at a base market price so as to be close to international clientele with whom they would be working.

The primary goal of this incubator is to make money, as it is a self-sustaining incubator. Due to the shifting political policies surrounding international relations, creating a for-profit incubator would mean the business could focus more on the businesses it is there to protect and less on bureaucratic operating procedures/ red tape.

Accelerator vs. Incubator

In theory, an accelerator based Alliance could be created with local businesses in Knoxville without a brick and mortar building. If businesses agreed to work together and pooled resources, the accelerator aspect would be relatively simple to set up. A six month business boot-camp could be created with 12 classes aimed at making international businesses successful in the US marketplace. If international banks, international law firms, and international CPA firms all

worked together in this Alliance, they would likely have the contacts to find businesses looking to enter the United States quickly.

Unfortunately, people have a tendency to hoard their resources. Once people are united in a cause, they are willing to work together; yet, while working for themselves in an Alliance: bankers, lawyers, and CPA's will want proof that something will be successful before they are willing to put in much time or effort. Therefore, an incubator would have to be created in a brick and mortar location first in order to give foreign-owned businesses a place to locate. Once the incubator is successful, which may take time, it becomes a rallying point for the local businesses who would make a profit on the international clientele. The incubator becomes the glue that holds the Alliance together but only if the incubator is successful first. This is a big risk for those supporting the incubator financially.

Creating the Alliance

There are things the Alliance would still be able to do before opening a physical location to make the international incubator in Knoxville a success. A team needs to be created first to ensure the business of the incubator will run smoothly. It is absolutely essential a business like this is run in a way that works with and promotes the City of Knoxville, the Chamber of Commerce, the Industrial Development Board, and any other entity dedicated to the promotion of business relationships in Knoxville. This business would have to ensure that it is operated legally by keeping current on all businesses licenses, business compliances, and mandates set forth by City, County, State, and Federal jurisdictions. Once a good support team is in place and the cornerstones of the Alliance are laid out for other businesses to better understand the mission and purpose of the incubator, then a brick and mortar location can be fashioned.

Creating the Incubator

Business incubators, by their very nature, are not money makers. They are specifically designed to protect businesses just starting up. However, the primary goal of foreign direct investment is job growth. Even though the incubator itself might not generate a large profit, the local region would benefit by any business deciding to remain in the area. As long as businesses supporting the alliance understood that they will reap the reward only if the incubator is successful, then there would be motivation to work together rather than hoard resources.

The more services provided by the business incubator, the more money a project like this will take in order to start up. This is where the social enterprise aspect of the business becomes important. Because this is a business designed to help other businesses while bringing in businesses that could generate more jobs and bring in a new source of capital, it is a project for the public of Knoxville to help support. Businesses such as Modern Studio and Central Collective were able to crowd fund start-up capital and co-working furniture; so the idea is not at all far-fetched. The people of Knoxville are willing to invest in businesses which do good for their community; this is the very idea behind social enterprise.

Funding

Creating a user friendly website, posting videos about the mission of the incubator, and using crowd funding websites such as indiegogo, allows the general public to show its support for the incubator. Crowd funding does not have to be from local people; on websites such as indiegogo, you can bring in crowd funding from anywhere in the world. This is also a useful way to allow other businesses in other countries to get to know the mission of the business incubator before it has been created. In addition, "due to CRA requirements, banks are required to by law to invest in the community in which they charge a deposit fee"^{xx}. Sponsorship from local banks, universities, law firms, and CPA firms would be an ideal way to pool start-up capital. Most

grants are available to non-commercial enterprises. This does not mean some money from the City or County of Knoxville is out of the question, but the likelihood of funding being available is not very high. A revolving loan fund might be a possible source of revenue, but this would only be eligible after the incubator has a two year business history. As the incubator becomes more successful, it can expand its services into things such as a warehouse incubator for manufacturers. That would be an ideal time to secure a revolving loan fund or even look into the bond market.

A TIF - Tax Increment Financing or a PILOT - Payment in Lieu of Taxes, could be used to take some of the tax burden off of a center like this one. As this is a public improvement project that would help businesses coming into the region, it is possible the City of Knoxville would consider allowing an incubator to defer taxes for a set amount of time through a TIF or PILOT. The South Knoxville Waterfront Project is currently under construction and it is currently using a TIF grant. An incubator located in this area would be a prime business anchor and would legitimize this portion of Knoxville as a 'good place to do business', but it would not be able to use a TIF to help with the tax burden. Locating to this area of Knoxville would be beneficial to the incubator as it is close to the business hub of downtown Knoxville, it is close to the interstate, and it is very close to rentable houses/ apartment buildings/ condos. The City would benefit by businesses graduating from the incubator and remaining in Knoxville if they choose to do so.

Another possible revenue stream would be the EB-5 program. This program allows a foreign investor to have their green card expedited as long as they invest in a project for \$1 million and 10 permanent jobs are created. With \$1 million in startup capital, it would be much easier to lease a building and begin advertising to attract other foreign-owned businesses.

Foreign investors are actively looking to invest in a project that means something to them, one which they know will have an impact on the country into which they are planning on adopting the lifestyle. Due to the million dollar buy in, these people are already invested in making the project work and are likely to use the project as a way to make future projects even more successful.

An incubator of this size would need a small staff to keep things organized and that staff could be available to businesses operating in the incubator, should they be needed for administrative purposes. Working with angel investors might be the most likely option to assist with financing.

Features of the Incubator

The incubator would need to be close to the business hub of downtown Knoxville so as to be near the City/County Building, the Knoxville Chamber, and other local businesses which could assist in their success. Office space will be the primary means of rent provided through the incubator; however, in order to remain self-sufficient the incubator must offer competitive office space and useful programs that generate funds. Co-working space, consulting, and outsourcing an accelerator program can offset some of the cost an incubator of this size will incur. Conference rooms need to be available for use by the businesses in the incubator as well as co-working space for the public. For additional security, key card access can be provided to businesses and co-workers working in the incubator. High speed internet will be required for these businesses to function. Servers with large data loads must be able to handle the capacity of these businesses.

Once the LLC is formed, the business incubator can focus on attracting small to medium-sized foreign-owned businesses. Founders of the incubator can go to international trade shows

and inform others about what Knoxville has to offer. A marketing video can be created by foreign-owned businesses as well as foreign students at the University of Tennessee documenting what it is really like to live, work, and play in Knoxville; preferably in the native language of that individual. Relationships with international law firms and international banks are essential in helping to find qualifying businesses to enter into the incubator.

Conclusion

The problem with business projections is that there is a big difference between the world of theory and the real world. In theory, a lot of things seem warm and fuzzy, but in the real world nothing is ever easy and projects often cost more than expected. Creating a business incubator that is a non-profit would require a substantial amount of capital. It would take a lot of time to gather the resources needed to participate in international trade shows and market to small and medium-sized businesses abroad. It would be a huge risk to all parties involved. Until enough businesses are brought into the incubator, the whole project is just an idea accumulating debt. If it takes too long to get those international businesses into the incubator, the incubator itself will likely fail before it ever has a chance to begin. Unless a business Alliance can be formed which pools the resources of companies such as law firms, banks, and CPA firms that would benefit from foreign-owned businesses in the incubator, the incubator would not likely be able to sustain itself for long. The amount of funding needed to start up a project of this magnitude is not likely to be found without the support of a business alliance dedicated to the success of this international business incubator. However, some hope can be found in the hearts of the Knoxville people where the idea of social enterprise has inspired the dreams of business owners to create a better community. Tennessee was established by the hearts of Volunteers committed to social enterprise. As long as the spirit of the Volunteers lives on, there is hope.

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