

MONEY

Inflation, tensions from Russia's war in Ukraine could hurt ability of Wisconsin startups to raise money

**Rick Barrett**

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Tom Dean's business, Renaissance Inc., could be well positioned for growth.

It aims to solve problems in freight delivery at a time when a shortage of truck drivers and shipping containers has hurt a wide range of companies. It uses software and advanced technologies to address issues still routinely handled with paper on clipboards.

"We really don't see a lot of other companies doing what we do," said Dean, president and CEO of the Milwaukee-based business.

With only five employees, in its third year Renaissance recently landed \$1 million in financing to hire more staff and further develop the business.

"Because we're growing so quickly, we need those unique individuals who are good with people and technology," Dean said.

Record setting investment

Altogether, around \$850 million was raised by Wisconsin startups and early-growth companies in 2021, a new state record. Most outfits like Renaissance didn't have trouble finding venture capitalists or wealthy individual investors, known as angels, willing to finance their dreams.

But could weakened financial markets, the threat of recession, and geopolitical tensions put a crimp in that pipeline of money?

Maybe so, experts say, as investors review their strategies.

It could be a more difficult year for the startups, said Mike Partsch, chief venture officer for Wisconsin Alumni Research Foundation, which helps bring technologies and innovation to the marketplace.

Venture capitalists could focus more on early-growth companies they're already involved with, that have a proven track record.

"They're going to be backing more repeat entrepreneurs," Partsch said.

But it's still easier to raise money now than it was five years ago, said Tom Chapman, a business consultant from Omaha, Nebraska, who has worked with hundreds of startups and has founded some himself.

New funds, including billions in government programs, have been launched. "As that happens, there's just more money in that system," Chapman said.

Rising costs add another twist

Startups and early-growth companies have been slammed with rising costs.

"What that means is they're going to have to get capital quicker than they would have predicted 18 months ago," Chapman said, and those that received funding in the last couple of years may have to return for more sooner than expected.

Still, crisis creates opportunity.

For example, U.S. businesses that have waited months for items backordered from China have come to realize the value of local suppliers.

"We're starting to see opportunities," Chapman said. "And a lot of those go back to the (manufacturing) heritage of Milwaukee and southeast Wisconsin."

Even small manufacturers are well positioned to regain work from overseas.

"You don't have to be the company that makes the big widget, to benefit from this, if you make the little widget that goes into it," Chapman said.

"I think there's a real opportunity for Milwaukee right now in a way that wasn't there three or four years ago."

Ideas come from unsolved problems

Renaissant is helping solve logistics problems for some of the largest shippers in Wisconsin, according to Dean. It aims to reduce delays in freight yards through contactless check-in stations for truck drivers. It provides real-time information for freight haulers and their customers.

Experts say those types of startups, that solve real-life problems, will continue to attract investors even in a tighter market.

“Good ideas are still fundamentally good ideas,” Partsch said.

While the pandemic blindsided the hospitality industry and some other segments of the economy, technology startups focused on solutions fared well, according to Craig Dickman, managing director of TitleTownTech, a venture capital fund formed out of a partnership between Microsoft Corp. and the Green Bay Packers.

“As long as there are problems being created, there are openings for startups,” Dickman said.

He's confident in the availability of capital even as the stock market has been stressed and investors assess the various impacts of inflation, rising energy costs, supply chain problems and the war in Ukraine.

“There's money out there,” Dickman said. “It's not really more difficult to get funding currently.”

Northwestern Mutual Future Ventures, an arm of Northwestern Mutual, in Milwaukee, recently participated in seed financing for a California startup focused on labor issues.

The startup, named Ramped, aims to help job seekers attain credentials and experience sought by employers, according to co-founder Manoj Jonna.

“Today's job market is battle tested and weary,” he said.

Ramped raised \$3.1 million from a group that included Northwestern and several angel investors.

“We recognize there's an opportunity to reimagine the job search process for a new generation and an evolving workforce,” Craig Schedler, managing director of Northwestern Mutual Ventures, said in a statement.

“Ramped has identified a disconnect between employers and job seekers, evidenced by mass resignations and job vacancies,” Schedler said.

Career burnout leads to startups

Many of those resignations have fueled startups.

At the Small Business Development Center on UW-Madison's campus, Director Michelle Somes-Booher says she's been surprised by the number of medical professionals enrolled in the center's entrepreneur classes.

At first it was one or two people in a class of 25. Then it was four, and a pattern started to emerge.

"It was enough that we took notice," Booher said.

The timing's right for many people to take the risk of starting a business, and if it doesn't work out, they can fall back into a strong labor market.

What medical professionals lack in business experience, Booher said, they make up for in many other ways.

"They're accustomed to plenty of training and professional development," she said.

While starting a business appeals to many people weary of their career path, Gen Zers, those individuals born after 1996, didn't experience the Great Recession when capital was much harder to get and startups suffered.

But early in the COVID-19 pandemic, they got a taste of hard times.

The number of Gen Zers who reported that they or someone in their household lost a job or took a cut in pay was significantly higher than millennials, Gen Xers or baby boomers, according to the Pew Research Center.

Don't underestimate the resolve of Gen Zers.

Entrepreneurs of any age, "are a special breed. They're fighters," said Tara Carr, director of the Small Business Development Center at University of Wisconsin-Green Bay.

"I think most importantly, they're educated and have a realistic understanding of what's happening," Carr said.

It doesn't necessarily take a lot of capital to launch something like a software company. In some ways it's easier now than it was a decade ago, according to AnHai Doan, associate professor of computer science at UW-Madison.

"There are all kinds of technologies that allow you to develop products very quickly," Doan said. "If you need powerful computers, you can run them on the cloud...but of course your competitors will also have the same advantages."

What's hurting many technology startups is the high cost of talent.

"Good programmers are very expensive. It doesn't have anything to do with inflation; it's just very hard to find them," Doan said.

Capital fuels social causes

Venture capitalists and angel investors have helped launch and grow businesses aimed at having a social impact as companies use environmental, social, and governance (ESG) standards in making decisions.

For instance, Milwaukee-based Agricycle Inc. recently raised \$2.4 million in a round of funding led by Wisconsin firms MaSa Partners and CSA Partners.

Agricycle works with small farms in sub-Saharan Africa whose products have been excluded from traditional food supply chains. It creates alternative opportunities for them in the global marketplace.

"Agriculture is broken for the 1.5 billion people who farm small plots of land or live in rural communities and can't access land ownership," Agricycle Chief Executive Officer Josh Shefner, said in a statement.

In less than two years that spanned the pandemic, Agricycle has grown into a robust business, according to Max Duckworth, co-founder of Madison based MaSa Partners.

"This is a pretty unique concept and a company that is checking so many boxes when it comes to how MaSa Partners thinks about social and environmental impact and how to address real problems," Duckworth said.

MaSa Partners' portfolio includes companies focused on climate change and gender and income inequality. It was making those sorts of investments long before ESG was trending on Wall Street.

Duckworth held executive positions at a Fortune 500 energy company before he and Sarah Godlewski founded MaSa Partners.

"I believe we can improve the planet and people's lives without sacrificing economic wellbeing," he said.

In his corporate career, Duckworth saw how clean air policies reduced pollution at a fraction of the projected cost to industry.

"I'm confident we can overcome our greatest challenges, such as climate change and adaptation, cost effectively by investing in people, fostering innovation, and increasing access to capital for early-stage companies."