

ANNEX BULLETIN

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EDITORIAL

Updated 2/01/11, 7:30PM HST

Analysis of New "Startup America" Entrepreneurship Initiative

Case Makes a Case for Innovation

*Intel, IBM among Private Business Sponsors in New Government Initiative:
Create Companies That Create Jobs*

HAIKU, Maui, Feb 1, 2011 - Jobs are like plants. They grow from seed, bottom up. The more seeds you sow, the more you can hope to harvest. You stop sowing or watering the crops, and you face deprivations or famine. That's what happened in America in the last three years.

Businesses with less than 500 employees account for over 50% of the U.S. employment. Up until 2008, small business was the growth engine of the U.S. economy. But the banks throttled down the engine in 2008 by tightening the credit after their self-made "sub prime" fiasco. That's like stopping the watering of good crops, too, because some fields had gone bad.

Shortsighted. Stupid. Wasteful. All of the above. Any farmer could tell you that.

Yet tell it to our government officials. Two presidents of the United States and two slates of Congress acted as Wall Street's accomplices in this travesty. To save some of the jobs in big companies, which laid off some workers anyway or shipped their jobs to China, India, etc., Washington allowed millions of small business jobs to shrivel up and die like wilted leaves on a tree.

Rather than help the innocent victims - small business owners and employees - and let the market punish the greedy bankers, Washington used taxpayers' money to bail out the failing big businesses. By doing so, both Bush and Obama showed the American people whose interests they were really serving. Their actions proved that America is a plutocracy, not a

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democracy (see [Stupidity on the Rise in U.S.? Or Just Government/ Media Betrayal?](#), Dec 2010, and [Poverty Up in U.S., Again](#), Sep 2010 - [Truth in Media](#)).

Startup America Initiative

Well, it looks like everybody is finally trying to come to their senses. The new [Startup America initiative](#), launched at the White House yesterday (Jan 31), is designed to foster innovation and job growth from seed - an entrepreneur's creative vision. The Small Business Administration (SBA) has pledged \$2 billion in small business loan assistance over the next five years. The government also put forth a handful of policy suggestions, including a proposal to expedite the [lengthy patent application process](#) by charging applicants a "fast-track examination" fee.

On the private side, Intel has committed \$200 million to expand startup investment, IBM will invest \$150 million in business mentoring programs, and Facebook will launch a series of mentoring events across the country. Also participating is the startup accelerator and seed investor [TechStars](#), which will expand its network of business "incubators" to include entrepreneurship boot camps across 20 U.S. cities, aiming to create 25,000 jobs nationwide by 2015 (click on [Startup America | The White House](#) to view the announcement press conference video).

The White House said the Obama Administration will also ask Congress to permanently eliminate capital gains taxes on qualified small business investments. Congress passed the tax elimination as a temporary provision under the small business bill in September, but the new proposal would make the tax break permanent.

But there is a catch. To qualify for the tax break, small businesses must be pretty big. They must have a net value under \$50 million at the time of the investment, and be incorporated for at least five years. Which means that those requirements effectively exclude the types of scalable, high-growth startups the Startup America initiative is designed to foster.

Oops... Washington giveth with one hand, and Washington taketh away with another. Never mind that businesses LESS than five years old create ALL of the net new jobs in America! Well, government has never been known for common sense, has it?

Better Late Than Never

Still, something is better than nothing. And later is better than never.

We have been saying for the last 20 or so years that small business is the engine of growth of the U.S. economy. Check out, for example, these slides which were excerpted from one of our 1998 executive workshops.

[The Upsizing of America](#) (PDF, Sep 1998)

At the time corporate America had been downsizing for nearly two decades (left chart below), we said in big bold letters that "The Growth Is from the Bottom" of the U.S. economic pyramid (middle).

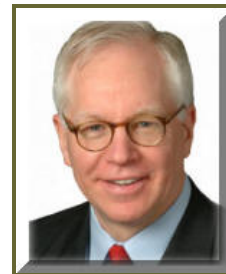


We also predicted that by 2010, small and medium size business growth will exceed by far that of large enterprises (right chart). Is that why the bankers tried to kill the small entrepreneur? Was it really stupidity or elimination of competition?

Either way, it was shortsighted. For, small competitors are also bank customers. Talk about shooting oneself in the foot. Ouch. Like the government, the banks have never been known for common sense, either.

In designing Startup America, it is clear the Obama administration took cues from a slew of widely-publicized [Kauffman Foundation](#) studies released over the past few years. They found that young, high-growth firms or so-called "gazelle" firms *comprise less than one percent of all companies, yet generate roughly 10 percent of new jobs in any given year.* Similar [Kauffman research shows](#) that *net job growth in the U.S. over the past three decades is entirely driven by startups.*

"All net new job creation in the U.S. is done by firms less than five years old," said [Carl Schramm](#) (right, founding board member of Startup America, formerly with Kauffman), speaking at the White House conference. "In order for America to have a growth economy, America needs an economy that will grow little companies," he added.



Amen to that. Wonder why it took Washington more than 13 years (since we published some of those 1998 reports) to hear the voices of reason? Could it be because the three presidents who have occupied the White House during that time - Clinton, Bush and Obama - are all more attune to Wall Street tunes than to the plight of small businesses?

If in doubt, note quickly they got a \$700 billion Wall Street bailout package approved by Congress in October 2008 vs. how long it took them to come up with \$2 billion to start to ease the small businesses' credit crunch?

Innovation, Entrepreneurship on the Wane in America

As a result, by early 2010, the American entrepreneurs created new businesses at the second slowest pace in over 18 years. And a year later, the number of self-employed Americans has fallen for three straight months and is down 336,000 from a year ago, according to the [Small Business and Entrepreneurship Council](#). So innovation and entrepreneurship are on the wane in America.



"Valley of death is becoming wider and deeper," said Karen Mills, SBA secretary, at the White House Jan 31 conference. She was referring metaphorically to the loss of small business jobs.

To open the floodgates of entrepreneurship and unleash waves of new jobs, the

administration aims to provide small business assistance to those entrepreneurs capable of scaling their businesses.

"This isn't to say that one or two-man plumbing shops aren't important to America's economic well-being," Fortune's Dan Primack [points out in a column](#), "but simply to acknowledge the greater value of a company that may someday be able to hire hundreds or thousands of workers."



"We want to do Startup America because everybody deserves at least one change to change the world," Austan Golsbee (left), Chairman of the [Council of Economic Advisers](#), told the audience on Monday, with Steve Case, the Startup America chairman and an internet pioneer, nodding approvingly.



Case (right) is the founder of AOL who has made a case of innovation in America by deeds and not just words. He and eight other panelists announced some of the initiative's [27 public and private commitments](#) aimed at doing just that.

"It's the creation of new ideas that keeps America the premier economy in the world," Golsbee added.

Critics: Tokenism and PR Stunt

While something is better than nothing, some critics were also unimpressed by the size of private investments in Startup America. Fortune's Primack points out that Intel's \$200 million investment basically maintains their status quo:

"Yawn. Reminds me of Intel's announcement last February that it and 24 VC firms would invest \$3.5 billion in U.S. startups over two years. Isn't that what Intel and VC firms do already? In fact, isn't Intel typically the most active U.S. venture capitalist, via its Intel Capital arm? It would be as if the New York Yankees announced plans to, you know, play baseball games."

Furthermore, Intel's \$200 million and IBM's \$150 million are only a tiny fraction of the money these two companies spend on stock buybacks. Since 2005, Intel has spent over \$70 billion of its earnings on share repurchases. And just last week, its Board authorized another \$10 billion for that purpose.

IBM, on the other hand, which has been a leader in stock buybacks, spent over \$15 billion on it in 2010 alone, some \$68 billion since 2005, and over \$112 billion since the start of the share repurchases 15 years ago.

So Big Blue's \$150 million fingered for innovation in small businesses is only about 1% of the amount of money the company spent on stock buybacks last year alone.

And most of it ends up on Wall Street anyway. Institutional shareholders dominate the holdings of companies like IBM or Intel (61% and 64% respectively). So instead of channeling the earnings to areas the companies would like to develop, such as the small and medium size markets, for example, management and shareholders give up control over where their money is reinvested. Wall Street may choose to put it into a competitor or some place

like Egypt of Tunisia, for all they know.

So until big businesses start to invest in startups and small companies' innovative project at the rates closer top the money they are spending on Wall Street or their own R&D, critics can justifiably view their "altruism" as tokenism.

Several attendees at Monday's White House told the media that the new initiative was merely a PR stunt. Some said that, prior to the partnership with Startup America, Intel already had plans to invest \$200 million, and TechStars was well overdue for an expansion. And some of the public and private programs proposed under the initiative were underway well before anyone had even heard of Startup America.

IBM, for example, said in a release that, "IBM has a deep commitment to the entrepreneurial community. Since launching the IBM Global Entrepreneur initiative last year, IBM has helped launch over 500 new businesses in key areas such as green energy health care and transportation. Examples of Global Entrepreneurs include: Carecloud, Streetline and Sproxil."

Summary

So Startup America seems to be a repacking of various public and private investments into one bucket from which would-be American entrepreneurs can draw. That's not a bad thing. Cuts down on duplication and redundant administration by individual companies or agencies. And bureaucracy can slow down or kill good ideas before they are even born.

Brendan Buck, a spokesman for House Speaker said in a statement that, "not until the administration is prepared to break down Washington barriers to job creation -- onerous mandates, costly regulations, and economic uncertainty resulting from massive budget deficits -- will we renew confidence from American small business owners."

Amen to that, too.

Like most new ideas and projects, Startup America has flaws. We've outlined some of them above. But Startup America is a step in the right direction. And flaws can be corrected. If there is a will, there is a way.

It is a good thing that finally the government and private businesses are getting together to address the core of America's job problem - waning innovation and entrepreneurship. And since small business is the growth engine of the American economy, unless we reignite the spark that created the engine, we will continue to suffer financially, emotionally and geopolitically.

Anyone with doubts about the power of innovation should go see the "[Social Network](#)" movie. And then start working on his/her own idea that will change the world. Good luck!

Happy bargain hunting

Bob Djurdjevic

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