

Exceptional

Americas

Entrepreneurship + Innovation = Growth
July–December 2015

Warby Parker's Dave Gilboa
and Neil Blumenthal on Kerouac,
social good and rethinking retail

Why J.B. Pritzker built a start-up
ecosystem in Chicago

Linda Hasenfratz: leading a family
business to exceptional growth

Redefining entrepreneurship

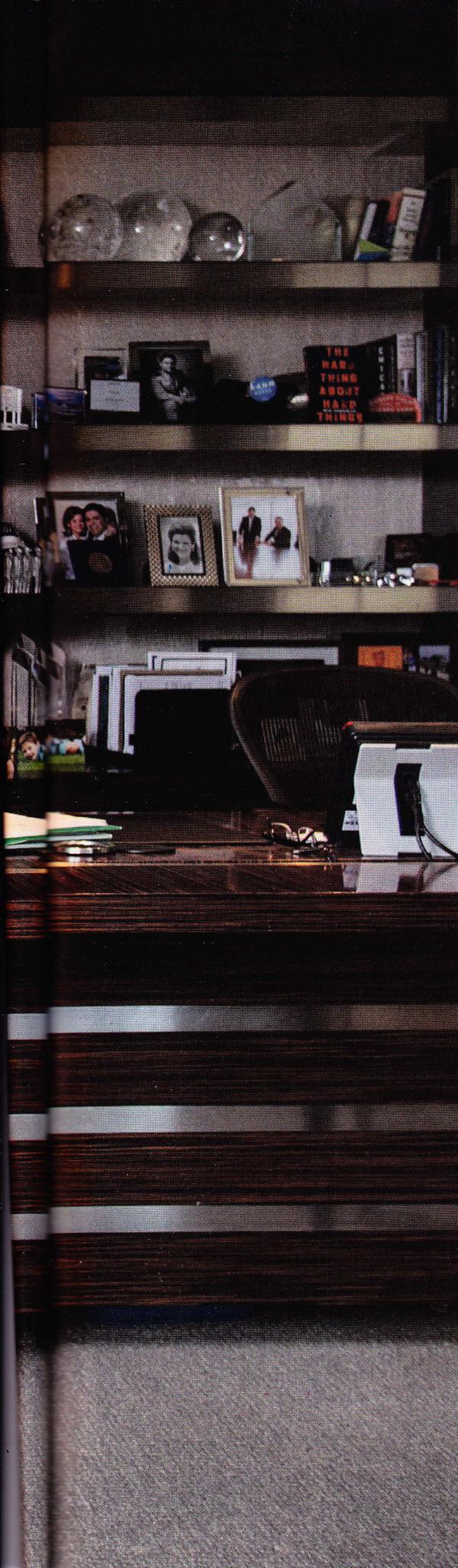
How Jessica Herrin of
Stella & Dot is empowering
thousands of women to go into
business on their own terms.

The EY logo is positioned in the bottom right corner of the page. It consists of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal line cuts through the bottom right corner of the 'Y'.

Building a better
working world

A full-page photograph of a man in a blue checkered suit jacket and light blue shirt, smiling and leaning on a dark wood desk in an office setting. The background consists of dark wood paneling.

**“You have to build
a track record.
And so I built one.”**



Creating a buzz

Through Pritzker Group's venture activity and the 1871 digital incubator, J.B. Pritzker has helped put Chicago on the start-up map. But while the companies he helps grow may be driven by technology, the city's heritage plays a key role.

words Joanne Cleaver_ portraits Matthew Gilson

Any healthy ecosystem needs a honeybee or two – and a start-up ecosystem is no exception. Chicago's honeybee goes by the name of J.B. Pritzker.

Ten years ago, the Windy City's tech start-up scene was fragmented, small and barely growing. Would-be entrepreneurs spent more time piecing together resources, chasing money and pleading with talent than they did building their companies.

Today, Chicago has an ecosystem entrepreneurs relish. Much of this is due to 1871, a digital start-up incubator led by Pritzker and backed by the city's business and political power brokers. Headquartered in Chicago's historic Merchandise Mart, it has fostered more than 400 companies since 2012. ▀

► The other string to Pritzker's bow is Pritzker Group, the private investment firm he founded with his brother, Tony, in 1996. It is split into three divisions – private capital, venture capital and asset management – and invests directly in and oversees digital start-ups and middle-market service, manufacturing and health care companies.

Childhood education

The Pritzker brothers know a little something about starting and growing a successful business. Members of the extended Pritzker family, one of America's wealthiest, founded the Hyatt hotel company and industrial gear manufacturer Marmon Group (since sold to Berkshire Hathaway) and have stakes in numerous investments and nonprofit organizations.

But while J.B. Pritzker may have been born with striking advantages, his parents also set expectations on how he would use them. He, Tony and their sister, Penny, pitched in as their parents and uncle built the Hyatt hotel chain one property at a time. And Pritzker watched as their



1871, Pritzker's digital start-up incubator, is based in Chicago's historic Merchandise Mart.

democratic leadership style infused everyone they hired with responsibility, accountability and enthusiasm.

"In hotels, the talent are the bellmen, the housekeepers, the front desk staff. Everyone makes it successful," says Pritzker. That's why he's on the lookout for entrepreneurs who describe their ventures as "our endeavor," not "my endeavor."

It follows that when he was just getting started himself, he fully expected to put in the hours.

His first business opportunity came in the early 1990s. As the internet and all its potential were emerging, Pritzker realized that he and his law degree were not a good fit for the traditional world of investment banking.

He smelled opportunity in the newfangled internet and went all in with US\$3m of his own money, which he invested in several promising start-ups. Venture capital was where he wanted to make his mark. But nearly all the venture firms winning digital deals were based in California, especially in the Bay Area. Pritzker, whose heart was and is in Chicago, realized he would need more than his pedigree to build something even approaching a Silicon Valley in his hometown.

"You have to build a track record. And so I built one," he says. "The tipping point for me came when I was thinking about the Chicago ecosystem. [Pritzker Group] had success with several companies. We were one of the best venture capital firms in Chicago. Could we be one of the best in the Midwest? And if we could do that, could we be one of the best in the country?"

Building a support network

Pritzker readily acknowledges that luck and good timing explain some of his early wins. But he also smashed some hidden barriers that had made it harder to successfully launch a Chicago tech company. "It's not just seed money" that young companies need, he says. New entrepreneurs trying to develop new ideas also need advice, mentors, champions and a constellation of expertise and talent.

Retaining local talent was an especially prickly challenge. The University of Illinois produces hundreds of top-notch computer engineers every year, but many immediately decamped for Silicon Valley, where their talent and ideas were valued more. The never-ending exodus of Illinois engineers dismayed politicians and employers, and Pritzker realized that the state was also losing an entire generation of entrepreneurs.



J.B. Pritzker has concentrated on smashing the hidden barriers to entrepreneurship in Chicago.

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To reset the growth drivers for Illinois, the start-up ecosystem had to be much bigger than Pritzker Group. To be sure, the brothers expected that few of the start-ups they backed would grow so quickly that the companies in their private capital portfolio would in turn acquire them. But their shared vision was about much more than creating a closed ecosystem. It was about turning Chicago into the city where good ideas went to thrive.

J.B. and Tony knew what that looked like. They'd seen the challenges of building companies through economic

ups and downs – especially the downs. “I realized that to sustain yourself as a venture capitalist, you have to invest through downturns. That’s when some of the best, most sustainable ideas emerge,” says Pritzker.

So he rallied commitment and money to found 1871, named for the year of the great Chicago fire, which is credited with resetting the city’s growth trajectory.

“In 2005, there wasn’t any seed capital available in Chicago,” says Pritzker. “You couldn’t find it. There wasn’t a place to go. Nothing existed. Now, there’s something. Entrepreneurs and engineers come – and stay.”

Chicago might get the last laugh yet, as the Internet of Things gains traction. After all, the Midwest, with its heritage of manufacturing companies, knows “things” like no other region. That means Chicago tech talent and companies are perfectly poised to connect



J.B. Pritzker learned valuable lessons from watching his parents build the Hyatt hotel chain.

“We are at the nascent stage of this ecosystem taking off. It has its own momentum.”

► the digital world with the real world. And the kinds of companies in which Pritzker’s private capital division invests stand to gain the most.

For instance, PECO Pallet, part of the Pritzker portfolio, is redefining itself from a manufacturer of wooden decks to a data-driven logistics company. The Pritzker approach of investing time, expertise and money is paying off. PECO increased its year-on-year revenue by more than 22% between 2011, when Pritzker Group acquired it, and 2014.

Searching for common ground

This melding of two seemingly disparate worlds is at the heart of the Pritzker approach.

“They’re like chocolate and peanut butter,” says Pritzker as he walks down the cubicle corridor at Pritzker Group. Employees from the three divisions of the company work side by side. And while it might appear that start-ups have little in common with solidly growing companies a hundred times bigger, it’s also true that start-ups succeed only when they solve real-world problems. The private capital group offers plenty of those. Packaging, metal casting, shipping and distribution – it doesn’t get any more real than that.

As staff from both divisions work side by side, ideas spark, with digital concepts finding practical applications and established companies applying digital sandpaper to chronic friction points. “The tech team found the industrials,” says Pritzker. “Chocolate and peanut butter: they’re better together than they are on their own.”

Brand new entrepreneurs discover their own delicious moments at 1871. A beehive of chatter, with people young and old huddling over screens and coffee, the bright loft space is redefining Merchandise Mart, a landmark art deco building on the banks of the Chicago River.

Pritzker enjoys sitting down with new entrepreneurs to hear how things are going. But he’s also on the lookout for those who remind him of his parents.

“A great entrepreneur will do anything it takes,” he says. “In the early days of Hyatt, everyone wanted in on the act. My parents worked 24/7.” 1871 gives him and other senior business leaders a chance to see rising entrepreneurs in action and to invest accordingly.

He sees not just people exercising their entrepreneurial muscles, but tomorrow’s mentors, investors and advocates. Serial entrepreneurs, he believes, are the overlooked drivers of sustained expansion for Chicago.



When today's start-ups sell, and their owners reinvest in more companies – their own and others' – that's when capital builds a city.

"We have the fundamental underpinnings, and now we're taking advantage of the Fortune 500 companies based in Chicago and of the universities here, especially the engineering program at the University of Illinois at Urbana-Champaign," says Pritzker. "We are at the nascent stage of this ecosystem taking off. It has its own momentum. And if you are an investor, you want that ascent."

Links with the past

He thinks his parents would feel right at home at 1871, with its caffeine-fueled conversation. "In the venture capital world, every day you meet entrepreneurs who are doing what my father did," he says. "Where you are an ally, advisor and owner, and you can help them build success."

And help he has. Chicago's start-up ecosystem has now grown so large that, in 2014, venture investment in the city's companies passed US\$1b for the first time, according to *Crain's Chicago Business*.

It appears Pritzker is on his way to creating the environment he's always dreamed about. 

Viewpoint

An ecosystem for entrepreneurs

Matthew Udoni, Partner, Transaction Advisory Services, Ernst & Young LLP



The repercussions of the 2007-08 financial crisis were many and varied. One that affected both developed and developing economies was rising unemployment, an issue that had an impact on those under the age of 25 in particular. Global youth unemployment has reached 16.1%, and the plight of the young is evident in almost every community around the world.

As part of our ongoing work to support entrepreneurship and its impact on job creation, an EY report, *Avoiding a lost generation: ten key recommendations to support youth entrepreneurship across the G20*, gives clear and actionable guidance based on best practices adopted by governments across the G20. At its heart is the belief that young entrepreneurs hold the key to reducing youth unemployment.

The report highlights the importance of encouraging a culture of entrepreneurship among young people and notes that this can best flourish within a regional ecosystem framework that fosters and attracts a critical mass of talent, capital and, most importantly, entrepreneurial leaders.

The prime example of a regional ecosystem in the US, and indeed the world, is Silicon Valley in California, a hub for high-tech innovation and development, which is a magnet for venture capital. It was formed by the convergence on one site of new technological knowledge; a large pool of skilled engineers and scientists from major universities in the area; generous funding from an assured market with the Defense Department; the development of an efficient network of venture capital firms; and, in the very early stage, the institutional leadership of Stanford University.

While Silicon Valley has a head start, other US cities and regions have a great opportunity to develop their own entrepreneurial ecosystems, and thus retain and attract talented young people, if they follow the recommendations in the report:

- ▶ Provide an overarching ecosystem framework and a flexible funding model to support regional entrepreneur ecosystems.
- ▶ Provide funding for a lead organization or consortia of organizations at the regional level that includes comprehensive entrepreneurship ecosystem indicators.
- ▶ Provide funding to regional organizations and have them work within a regional alliance model comprised of all entrepreneur service providers (nonprofit organizations), colleges and universities, and all levels of government.
- ▶ Emphasize the pillar of entrepreneurial education and skills development for the 21st century.
- ▶ Collaborate with business to deliver more robust testing of entrepreneurs' ideas and bring commercially viable opportunities to market.

More information

You can download *Avoiding a lost generation: ten key recommendations to support youth entrepreneurship across the G20* at ey.com/lostgen.