



**Massachusetts Alliance for
Economic Development**

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Changing Times, Changing Strategies: Meeting the Challenge of the Downturn

**Executive Summary
June 13, 2008**

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“Changing Times, Changing Strategies: Meeting the Challenge of the Downturn” Renaissance Boston Waterfront Hotel, June 13, 2008

Panelists: **John Rhodes**, *Senior Principal*
 Moran Stahl & Boyer
 Jack Little, *President & CEO*
 The MathWorks
 Charles Lax, *Managing General Partner*
 GrandBanks Capital
 Greg Bialecki, *Undersecretary of Business Development*
 Executive Office of Housing and Economic Development

Moderator: **Geoff Howell**, *Partner*
 DLA Piper

Opening remarks by Geoff Howell, Partner, DLA Piper

Geoff Howell is a Partner at DLA Piper. DLA is an international law firm with more than 3,700 lawyers in 64 offices in 25 countries, and their clients include local, national, and global companies across a wide range of sectors, ranging from emerging businesses to some of the leading national and multinational companies. Geoff's areas of expertise are real estate development, finance, and leasing, and he has represented regional and national owners and developers in a broad variety of commercial real estate transactions, including the development and operation of hotels, multi-tenant and build-to-suit office buildings, and telecommunications facilities.

The Massachusetts Alliance for Economic Development (MAED) at its 15th Annual conference posed the question about how Massachusetts is positioned to meet the challenges of an economy in a downturn. The panelists included both private and public sector representatives who addressed a variety of industries and business cycles, and how Massachusetts' businesses fit in that cycle. Moderator Geoff Howell began the proceedings by questioning whether Massachusetts is really in the state of an economic downturn. From his perspective as a private sector lawyer, he indicated that Massachusetts is an increasingly bifurcated economy with some sectors doing very well, while others, not as well. Mr. Howell introduced John Rhodes, a consultant hired by MAED to provide resource assessments for each economic development region within the state.

Remarks by John Rhodes, Senior Principal, Moran Stahl & Boyer

Moran Stahl & Boyer is a consulting firm that offers support to companies throughout the United States with location site selection consulting, labor markets analysis, relocation feasibility, and location portfolio analysis. The firm serves a variety of industries including financial services, energy, telecommunications, transportation services, biotechnology, and diverse manufacturing. In addition, MSB helps communities and regions with economic development strategies, target industry analysis, and marketing. John has worked for communities in all regions of the country, and is currently working for Massachusetts in support of the Priority Development Sites initiative.

John Rhodes began with a summary of a company's maturation by describing the four stages businesses go through in his slide *Company/Product Life Cycle: Key to Understanding Opportunities*:

- Phase I: Business Start-up and Product Rollout
- Phase II: Rapid market growth through expansion, and acquisition
- Phase III: Maturation and consolidation
- Phase IV: Sustained Niche or “Last One Standing.”

Companies face a crucial decision prior to the advancement of Phase III. The company must choose to either go back to Phase II through new market expansion/product improvement, consolidate, go/stay private with niche operation and proceed to Phase IV, or continue to enhance

productivity in order to sustain margins. Mr. Rhodes believes that the goal for Massachusetts is to understand where the state can provide benefits to businesses along the life cycle. The entrance into the cycle happens in different places for different industries.

Mr. Rhodes separated the state's business development market into twelve target industries and indicated the phase where most of the businesses in that industry were located. For Massachusetts, he emphasized the potential for the industries of biotech/pharmaceuticals, medical/other instruments, the huge potential in Marine Science, alternative energy regardless of the number of market entries, and lastly, professional/technical/creative/IT services.

Although many in Massachusetts believe that the distance from one area of the state to another is great, Mr. Rhodes offered a comparison between the entire state of Massachusetts and the Atlanta Metro Area in order to demonstrate the compactness of the state and its contiguity with other major cities in neighboring states. Some examples of city pairings were: Springfield with Hartford, CT, New Bedford and Fall River with Providence, RI, and Lowell with Manchester, NH. Even with high operating expenses, a sometimes unfavorable strategic location for reaching markets, and the "non-business friendly" attitude of the locals, the Commonwealth can still project itself positively to outside companies not only within the U.S., but worldwide.

Mr. Rhodes highlighted our substantial college labor resources, centers for life sciences and other technologies, some niche back space office locations particularly in the Pioneer Valley, access to smaller airports with fewer hassles, access to Europe, and finally the "Boston" image. Through these assets, Massachusetts can leverage itself by marketing the state as one entity with diverse options. He believes we must build a better understanding within the state of the available options for emerging/expanding companies, have facilities available for each life cycle, and offer "post-incubator" multi-tenant (co-location, collaboration) sites.

Remarks by Jack Little, President & CEO, The MathWorks

The MathWorks was founded in 1984 in Natick and employs over 1,800 people worldwide, with 1,400 based in Massachusetts. The company develops MATLAB®, a high-performance technical computing environment for engineers using combined company expertise in mathematics, engineering, and computer science. The company also develops and markets an extensive family of add-on products to meet the more specific needs of scientific, engineering applications, and financial services. MathWorks has offices in South Korea, Germany, France, Netherlands, Switzerland, Italy, United Kingdom, Spain, and Novi, Michigan. The company, profitable every year since its inception, is privately held.

Next to speak, and representing the private sector was Jack Little of The MathWorks. Mr. Little opened with a brief description of his company, The MathWorks, and the main product, MATLAB®. The company's product, MATLAB®, is software used by scientists and engineers to create virtual prototypes and is continuously generating a demand due to its versatility and importance in the forward thinking of its clients. Most importantly, it saves the clients money and time. Although he followed Mr. Rhodes' presentation about a businesses life cycle and the economic downturn, Mr. Little informed the audience that "[The Math Works] continue[s] to grow and so the downturn has not really affected us...Mathematics is universal, so this has greatly helped us adapt."

Mr. Little noted that fifty-five percent of his business is outside the U.S., and "as the dollar weakens more money comes in; it is the strangest phenomenon." One of the most important elements to the company's success is diversification within the marketplace. Their largest client, engineers, encompasses an array of markets ranging from aerospace, automotive, electronics to even Wall Street, where their product is used to provide mathematical models for hedge funds.

Mr. Little then continued on to the discussion of the company's research and development, the majority of which happens in Massachusetts. As a private company, The Math Works has the ability to invest a considerable amount of their profits – 30% – into Research & Development. He believes this R&D produces a steady pipeline of new products and services and keeps The MathWorks recession-proof.

Mr. Little then turned his attention to Massachusetts, and highlighted the strengths companies can capitalize on. Having previously worked in Silicon Valley, he believes Massachusetts' greatest asset is the highly educated and stable workforce. "Ninety-five percent of our employees obtain a bachelor's degree, forty-three percent have a master's degree and twelve percent have PhDs." In addition, there is a lower turn-over rate thus generating very stable teams, "unlike Silicon Valley." Another benefit is the location of the state, a hub between the west coast and Europe which makes it feasible for companies to operate worldwide. However, the transportation infrastructure is antiquated and frustrates high quality employees and drives them to move out of the state. "The number one reason why people leave is the long commute, and I can't blame them." He exhorted government officials to remedy the state's infrastructure problems.

In conclusion, Mr. Little emphasized the importance of education being the foundation to success. The state must continue to promote math and science within its schools because it is the building block to newer technologies and ideas.

Remarks by Charles Lax, Founder and General Partner, GrandBanks Capital

GrandBanks Capital (GBC) is a firm that focuses on early-stage investment activities in the areas of internet infrastructure, software and software services, security and storage applications, media technologies and services, financial technologies and services, and wireless technologies and services. Charles has raised and managed over \$2.05 billion of venture capital investment funds over the last dozen years. His track record includes 15 public companies, of which 10 achieved market caps in excess of \$1 billion. With over 18 years of venture capital experience, he currently serves on the boards of GBC companies including Colubris Networks, Coradant, Ember Corporation, Incipient, and manages GBC's investment in OutStart. Additionally, Mr. Lax is a founding General Partner of both SOFTBANK Venture Capital (Mobius Venture Capital) and SOFTBANK Capital Partners, and co-created Flatiron Partners of New York City.

Originally from out-of-state, Charles Lax came to Massachusetts in order to pursue a bachelor's degree at Boston University, and twenty-six years later he is still here stimulating the creation of companies within the state and globally. Mr. Lax started his discussion with a brief overview of his venture capital investments, which have been generated primarily through pension funds, banks, and insurance companies that manage a great number of retirement accounts for Massachusetts' employees. "However, the economy has been facing a crisis in trying to get companies to capital markets, and many companies are struggling with this due to Sarbanes-Oxley. It's preventing many companies from going public even though their quarterly numbers are high."

Furthermore, one of the most depressing phenomena he has discovered since being in Massachusetts, and believes is truly holding us back from excelling even more, is the state's lack of entrepreneurial praise. Just to emphasize this point, he compared California, a relatively forward thinking state, to Massachusetts, and looked at key elements such as Nobel laureates, patents, expansions and start-up companies on a per capita basis, concluding through numbers that Massachusetts is a land of opportunity. Additionally, he added the fact that MIT is the top university in the world for producing the most start-up companies. In order to expand, Massachusetts must overcome its cultural notion of reserve and praise those who are injecting positive change.

In conclusion, Mr. Lax reiterated the importance of utilizing the tremendous talent within the state. In agreement with the other speakers, he believes the Massachusetts' highly educated workforce is

the state's greatest asset and the Commonwealth need to make this information better known. "The Boston Globe is making an effort, but in general is very negative. Universities are not afraid to publish their accomplishments in the daily newsletters, why can't we?"

Remarks by Greg Bialecki, Undersecretary of Business, Executive Office of Housing and Economic Development

The Executive Office of Housing and Economic Development brings together the departments responsible for marketing Massachusetts as a business and tourist location—in-state, nationally, and globally; administering tax and business incentive programs; providing expedited permitting; and overseeing housing and community development. The agency's broad objective is to retain and attract the best and brightest people to work and live in Massachusetts as a way to expand our economy and make Massachusetts an affordable and prosperous place to live.

Prior to discussing the issues at hand, Mr. Bialecki thanked MAED for all its efforts in putting together the conference, and in retaining John Rhodes and serving as a non-partisan, non-political organization. He then extrapolated certain points from John Rhodes' presentation and focused on expanding what he believed to be crucial elements in the process of improvement.

His first point and largest concern was high energy costs. He and his team are working on a strategy to slowly get companies off the grid and reiterated the urgency for developing renewable energy companies in Massachusetts. Tied closely with the high energy costs are the high labor costs, which although an expense for companies, "are great for the state. I want to work toward becoming an even higher wage state." With higher incomes per household, the tax revenue increases and can then be put back into Massachusetts' public schools. Stressing an area for improvement, Mr. Bialecki noted that:

"On average Massachusetts' math and science scores are among the highest in the nation, however, worldwide the United States in general does very poorly...Just recently, the Governor passed a life science bill which will hopefully move the Commonwealth in the right direction. We are taking the necessary steps to achieve in the long run, but for now we are focusing on the short-run which will facilitate our efforts for the future."

Mr. Bialecki responded to John Rhodes' point of a *non-business friendly* attitude within the Commonwealth. "The way we are going to do it is to focus on changing what we think are some false choices and impressions that in order to be business friendly it has to come at an expense of other things. Many think economic development is adverse to the character of our communities, but it doesn't need to be." Even if the impression is one of unfriendliness, there are businesses considering the state for expansion and the residents of the Commonwealth like living here.

Massachusetts residents also feel strongly about protecting the environment, and another common misconception is that in order to expand economic development the environment gets harmed, and according to Mr. Bialecki he wants to change these inaccuracies. He goes on to say, "[We] haven't done a good job in managing new growth and the lack of planning has become a bad habit." He mentions his 43D program which he hopes will soften and reshape this inflexible mentality. He truly appreciates Mr. Rhodes' un-biased, non-political insight which will be harvested further at another meeting.

In his concluding remarks, Mr. Bialecki discussed the idea of turning away from a top-down economic development growth policy to one where the Executive Office of Housing and Economic Development can develop partnerships with local communities and "in partnership" envision places where Massachusetts can have new growth, new jobs, new tax revenue and revitalize the under-utilized areas of the state.

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With more than 3,700 lawyers in 64 offices in 25 countries, DLA Piper is located in all of the most important and emerging markets in the US and internationally, positioning it as one of a small number of firms in Boston able to serve clients first-hand worldwide. DLA Piper's Boston office is an integral part of the firm's global presence, offering experience in all practices areas that local, national, and multinational clients seek when choosing a law firm. Our Boston office offers core services in Corporate and Securities, Government Affairs, Litigation, Real Estate, Tax and ERISA. The corporate and securities lawyers in Boston have a broad-based practice with special emphasis on emerging companies, mergers and acquisitions, venture capital, private equity, and fund formation. The litigation group is comprised of seasoned trial lawyers who are experienced in all areas of business litigation. The real estate lawyers offer a full range of transactional, development, leasing, and advisory services to a wide array of clients.

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About MAED

The Massachusetts Alliance for Economic Development (MAED), a member of the Massachusetts Business Resource Team, is a private, non-profit partnership of business and government dedicated to fostering economic growth in the Commonwealth. Launched in 1993, the Alliance markets Massachusetts by providing information services to companies seeking to expand within or relocate to Massachusetts.

The Alliance's products and services include a statewide Site Finder Service; the Research & Information Service, providing customized information to support a company's site selection decision; and the Massachusetts Ambassadors program, a private sector leadership corps that helps market Massachusetts as a place to do business. Through these channels, and in conjunction with state and local partners, the Alliance has worked with over 1,100 companies including Sun Microsystems, Erie Plastics, Merck, and American Superconductor.