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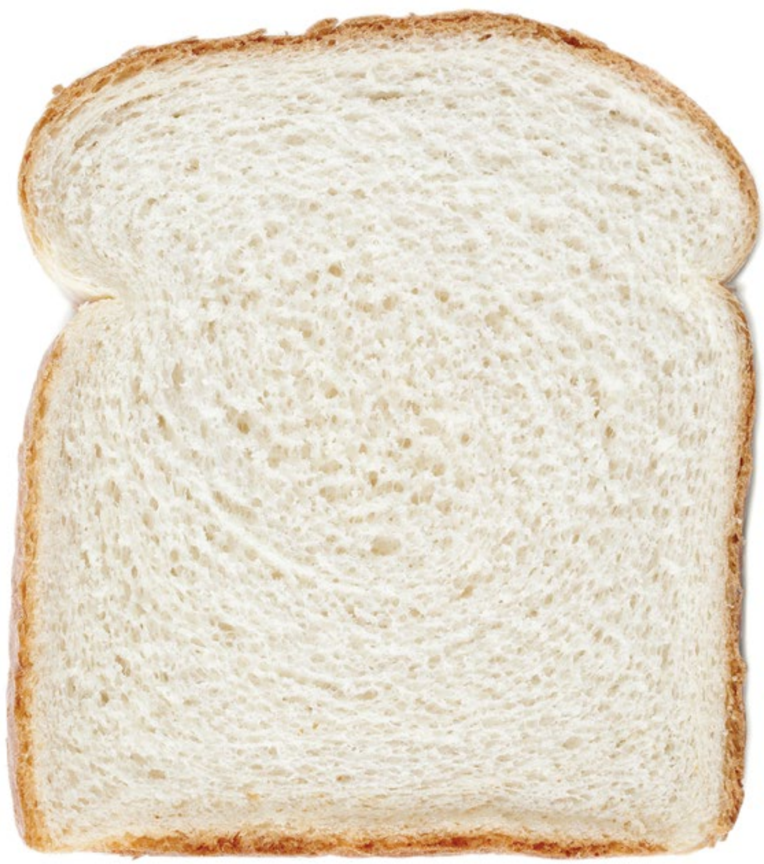
Twin Cities BUSINESS



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Correction:
In January's "The 'War on Coal' is Over—And Coal Lost," the Odell Wind Farm's ownership was misstated. It is co-owned by Algonquin Power & Utilities Corp. of Canada and Edina-based Geronimo Energy.

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BPA WORLDWIDE


1935

EDITOR'S NOTE
by Dale Kurschner

Why We're 'Bold North'

Boasting points to share with people who live elsewhere.

Whether you're visiting for the Super Bowl or a longtime resident, by now you've probably heard of the "Bold North" marketing campaign. I thought it was geared toward out-of-towners, but as of 27 days before the Big Game, the Bold North website seemed to outsiders more like "Hard to Find North."

More content was expected to be loaded on the site after this column went to press. But I thought I should offer up the following in case it still doesn't clearly address the question many of us will be asked more than usual in upcoming weeks: "Why do people live in Minnesota?"

First: there's SO much more to Minnesota than its winters. Our "theater of seasons" is unparalleled. We go from crisp, white snow, ice-covered lakes and 44-below temperatures (this Jan. 4, not counting wind chill) to lush forests, deep-blue water and skies, and temperatures that push 100 degrees, with tropical dew points. In between are springs that produce among the greenest greens you'll ever see and autumns that paint the landscape as beautifully as anything you'll see in New England.

> **If you're from out of town, fun fact: It gets hotter and more humid here at times than it does in Miami.**

Our lands vary from the dense woods and hilly terrain of the Iron Range and western ridge of Lake Superior to the grasslands and bluffs in the southeast. Scattered throughout the state are more lakes, streams and rivers than anywhere else in the country, giving Minnesota the distinction of having more shoreline than California, Florida and Hawaii combined. Then there's the Boundary Waters Canoe Area Wilderness, Voyageur's National Park, thousands of miles of bike and hiking trails, and more.

What makes Minnesota unique, though, is how all of the above combines with major-city attractions, one of the nation's most diverse and deepest economies, a spirit of innovation and collaboration that dates back more than a century and a knack for showing up on more Top 10 lists than just about any other state.

Take, for example, how in Minnesota one can enjoy a pristine lakeside sunrise two hours from a major metropolitan area that also is home to major sports franchises, great restaurants and acclaimed live theater. We're the best in the nation for these elements; consider these rankings:

1) The Twin Cities is one of only 13 major metropolitan areas with four major sports teams (baseball, football, hockey and basketball). Among the other 12, only Boston, Denver, Detroit, Miami, New York, Philadelphia and San Francisco are as close to locations as beautiful as the lakes of northern Minnesota and northwestern Wisconsin (and few of them have anything as close as Lake Minnetonka).

2) Minneapolis consistently ranks among the top 10 best cities for live theater, rivaling New York and Boston. We also rank high in per capita-theater ticket sales.

3) The Twin Cities ranks fifth in *Travel + Leisure*'s "America's Best Cities for Foodies" after Houston, Providence, R.I., Kansas City and Atlanta. Other experts also rank Twin Cities chefs as among the best in the nation.

We're also No. 1 for sports—watching, as well as participating. *Men's Fitness* magazine called Minnesota the best state for sports fans, measured by such factors as the number of sports bars and sporting goods stores per capita, sports radio stations and stadiums in the vicinity. "Minneapolis—along with its twin city, St. Paul—has solid MLB, NFL, NBA and NHL teams, but here's the kicker: It had more than 3 million in stadium

A Few Minnesota Inventions and Firsts

- Armored cars
- Airplane autopilot
- Cortisone
- Black-box flight data recorder
- Blood pump
- Deep-sea submarine
- Greyhound Bus Lines
- In-the-ear hearing aid
- Microwave popcorn
- Open-heart surgery
- Pacemakers
- Retractable seat belts
- Rollerblades
- Satellite TV broadcasting
- Snowmobiles
- Snow throwers
- Supercomputers
- Water skis

Minnesota is the nation's fifth-largest ag producer. It's the largest turkey producer, second-largest in hogs, sixth in cheese and honey, and eighth in milk production. In the crops arena, the state produces the most sugar beets, is second in wild rice, and fourth in corn, soybeans and flaxseed.

attendance between those four teams last year. That's more pro game attendance per capita than any other city in the United States. Then there are the 353 sporting goods stores, two ESPN radio stations and 20 sports bars per 100,000 people."

Pro sports here generate more than $330 million in spending each year. And then there are the sports that Minnesotans actually play. This side of the sports economy generates far more taxable revenue in this state—more than $12 billion a year.

Backing all those cultural and recreational amenities is an awesome economy. Minnesota has the most Fortune 500 companies per capita in the nation. In addition to UnitedHealth Group, Ecolab and Target, we have Mayo Clinic, Cargill and thousands of multigenerational family businesses (many quite large, such as Marvin Windows and Doors) within our borders. There's our Iron Range and the promise it shows of industry growth in upcoming years. And we have one of the largest agriculture clusters anywhere, supported by organizations such as Land O'Lakes and Hormel.

But most important of all: our people. We have a long, rich history of innovation (see "50 Fantastic Firsts" at bit.ly/2CGa5NT), and of giving back to our communities, from our C-suite executives through our front-line employees, leading us to rank second in the nation for "most giving states," according to *Fortune*.

There's more to be bold about when it comes to Minnesota, and I'm sure you'll hear even more on this in the weeks ahead. For those visiting, enjoy your time here, and come back and see us again, especially when we're at our best in the summer or fall. tcbmag

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Tax Hurdles for Small Businesses

It has been said that nothing is certain except for death and taxes. Tax season isn't something that generally ranks high on anyone's list of favorite things. For many small business owners, filing taxes on behalf of their business can be a daunting task, made only more complicated as your business grows. When it comes to the hiccups and hurdles of taxes for a growing small business, we spoke with Luke Roessler, Officer at Mahoney, Ulbrich, Christiansen & Russ, P.A. for an expert's take on taxes.

According to Roessler, two of the biggest tips for small business owners are to get organized and to forge a relationship with a tax expert early. Many business owners are traditionally self-sufficient and try to manage their taxes on their own. "You don't have to do it alone," Roessler says. "If you need help, asking earlier rather than later is always better. An ounce of prevention is worth a pound of cure." Even though many business owners are worried about the costs of professional tax assistance, the potential savings and the time gained back generally outweigh the costs.

Preparation is also key in Roessler's eyes. Building a good framework from day one of your business will make your life infinitely easier when it comes time for tax season. Roessler suggests utilizing systems for tracking all inflows and outflows of your business from the start. That doesn't just mean keeping an Excel document - bookkeeping software will save time and money every season. This tracking will get more complicated as your business grows but is vital to measuring the real-time results of your expenditures and efforts. Many people think accountants are continuously looking to the past but keeping complete records allows you to leverage that data to inform future decisions.

A major source of complication during a period of growth comes with employees. When a small business adds employees other than the owner, it greatly complicates the tax considerations for that business. Payroll, healthcare and benefits all affect the way that a business needs to approach their taxes. When starting a venture, knowing whether you are going to start with employees other than yourself or if you plan to add employees down the road will give you a leg up when preparing and collecting tax data. Because of the large increase in variables, the addition of employees is where Roessler sees many small business owners who did their taxes themselves run into difficulty. Once again, reaching out to a professional before you add employees can reduce stress and the risk for error down the road.

Entity choice is very vital to any small business's tax preparations. When choosing an entity, speaking with a tax professional it is important to make sure that you are aware of the requirements and benefits of each entity type. For businesses which are already running, it can still be important to consider your entity type. According to Roessler, upcoming changes to tax laws can have a great effect on entity choice. Many business owners should be examining their business to make sure that their entity is still correct for them or if they should reevaluate their choice.

Although it may seem like common knowledge, for small businesses, early preparation and professional assistance are pivotal to success come tax season. Building those systems and relationships from the beginning of your business's life cycle is important but, as Roessler says, "It's never too late to start good tax habits. Every period of growth will introduce changes to how your taxes are handled, so make sure you are continuously making time to work not just in your business, but also on your business. Don't hesitate to ask questions."

Luke Roessler, CPA, is an Officer with Mahoney, Ulbrich, Christiansen & Russ, P.A., a public accounting firm located in St. Paul, Minnesota. His firm provides a full range of services for small businesses, affordable housing developers, nonprofits, and many other clients in the Twin Cities and across the country. He can be reached at (651) 281-1839, or at lroessler@mucr.com.

STARTERS

NEWS | TRENDS | PERSONALITIES | EDITED BY ADAM PLATT

Hooked on Ponics

Living Greens Farm produces lettuce year-round, 21 days from seed to salad, out of thin air.

What do popcorn and lettuce have in common? Nothing, really. It's how Dana Anderson describes how produce is grown at Living Greens Farm: "It's like pushing the popcorn button on the microwave," he says.

Based in Faribault, Living Greens Farm is one of the largest indoor farms in the world, according to Anderson, who is founder, president and chairman. The company uses a computer system to control elements such as light, temperature, humidity and CO2, combined with aeroponics—a method of growing plants by suspending their roots in the air—to grow lettuce, herbs and microgreens. Rather than using soil, plants are sprayed with a nutrient-rich solution.

"Aeroponics is the fastest way to grow plants," says Anderson. "Harvest is less than 21 days for a head of lettuce. It's about two times faster than traditional farming."

While Living Greens Farm didn't invent aeroponics, it did develop its own vertical growing and traversing misting systems. The patented systems use 200 times less land and 95 percent less water than a traditional farm, says Anderson, which is huge, given that "70 percent of the world's fresh water is used for agriculture."

Anderson launched Living Greens Farm in 2012 after working out of his garage for three years. He and his team raised $8 million from friends and family to help get the company off the ground.

In October, Living Greens Farm completed its first expansion, increasing growing space from 5,000 square feet to 21,000. With the additional space, the company added 32 growing units to its existing 10, increasing its production to 1 million heads of lettuce per year.

Living Greens still has plenty of room to grow; right now it's using only about 35 percent of its space. Once the company reaches max capacity, it will have 60,000 square feet of growing space. "When all is said and done," says Anderson, "we will be able to produce a head of lettuce for every person in the entire MSP metroplex."

The company currently sells greens at Lunds & Byerlys, a handful of Cub Foods and Hy-Vee stores, Fresh Thyme and other major co-ops. A few stores in Iowa will begin carrying its produce this year. In addition to growing its grocery-store base, Living Greens Farm is working on adding accounts with food services at local colleges and corporate offices. Anderson also is exploring licensing opportunities worldwide and expanding its operations in other markets.

"There are hundreds of people who do this type of farming as a hobby, but in terms of large commercial companies, we only have three or four major [U.S.] competitors," says Anderson. "What makes us different is our patented systems and our impact on the economy; we keep more dollars in the state." —*Kate LeRette*

Big News

UnitedHealth Group (Minnetonka) announced the purchase of retail dialysis giant **Davita Medical Group** for $4.9 billion. Davita will be part of UHG's Optum division if the sale is approved by regulators.

Sun Country Airlines (Mendota Heights) announced an agreement for the Davis family (Davisco) to sell the carrier to **Apollo Capital Management** of New York. Terms have yet to be disclosed, but the carrier is expected to remain based in Minnesota.

Target Corp. (Minneapolis) annouced plans to purchase the Alabama-based online delivery platform **Shipt** for $550 million in a cash transaction. The purchase will allow Target to offer Shipt's same-day delivery services from approximately half its stores later this year.

Getty

Twins Back in the Neighborhood

Inside the ballclub's move back to WCCO Radio.

A dozen years ago, when the Twins left WCCO Radio, there was the sense of a permanent breakup. AM radio had become the province of older listeners, radio itself was under siege by Internet streaming, and 'CCO had been losing key local sports franchises right and left. For a time all it boasted was University of St. Thomas football.

Not a lot has changed since then, so some were surprised at the announcement the Twins were returning to 'CCO for the 2018 season. What looks rather random on the surface is mostly about strategic timing and short-term needs. When the Twins left 'CCO, after nearly a half-century, the CBS-owned station's national management showed a declining interest in sports. "We felt disenfranchised," says Twins president Dave St. Peter. Hubbard Broadcasting's AM 1500 was transitioning from right-wing talk to sports, and writing a check to the Twins seemed like a wise investment in rebranding.

A few years later, the thrill was gone. AM 1500 wasn't seeing sufficient return on its investment, say insiders, and the Twins wanted to be on FM, where younger listeners were. Thus the move to Pohlad-owned GO 96.3 FM. Alas, the marriage of music formats and up to 190 days of baseball play-by-play (including spring training) hasn't worked well around the country, St. Peter says. "We knew that, but were willing to try. We made a strong effort. But the revolving door of listeners was challenging."

Ownership decided it wanted GO 96.3 to reach its potential, while the team wanted the corollary benefits of being on a sports- and talk-driven station. Discussions ensued with the local players (KFAN, WCCO, 1500). The Twins preferred FM carriage, but iHeart Media's KFAN's commitment to the market-leading Vikings has consistently left the Twins on the outside looking in.

1500 was interested but saw less upside than WCCO, newly merged into Entercom Communications, with a revitalized focus on sports. "I'm not sure we would have done the deal with the previous ownership," St. Peter says.

The Twins will deliver a turnkey broadcast to WCCO, which is the new model, with 'CCO free to create complementary programming around it. It's not clear what, if anything, Entercom paid for the rights. All the incidental baseball listeners should boost WCCO's fortunes. The station is still a revenue leader in the market, but its audience is down dramatically from the previous Twins era. Even competitors are sort of pleased.

"It's great for the AM band," says Hubbard Radio Twin Cities market manager Dan Seeman. "It hopefully helps all of us."

—Adam Platt

Outcome Driven

Wallin Education Partners' scholarship support system helps ensure its low-income students complete college.

Wallin Education Partners awarded college scholarships to 216 low-income high school students in 2017. Every student had at least a 3.0 grade point average. "They have the academic firepower to get through college," says Susan Basil King, executive director of Wallin Education Partners. But those outcomes don't always pan out, a vexing problem for nonprofits looking to pave a path to educational achievement. "What takes a kid off track is not that the classes are too hard," King says. "It can be social anxiety, cultural differences or feeling lost in the crowd."

Many of the scholarship winners are first-generation college students and need help navigating the college experience.

So Wallin offers a built-in support system. Each Wallin scholar is assigned an adviser who meets with the student four to eight times a year to give them guidance and support. Once students are selected for a scholarship in their senior year of high school, they start working with advisers in April. Contact continues during the summer, and advisers help the students get ready for freshman orientation. There are check-ins during Thanksgiving and Christmas breaks. Advisers often visit students on campus during the semester.

"You are bringing in all these touch points," King says. "It's why our graduation rate is so high." A 2017 report shows that 92 percent of Wallin scholars who started college in 2009 finished their four-year degrees within six years. In contrast, 63 percent of Minnesota students earned their four-year degrees in that time frame; the national figure was 60 percent.

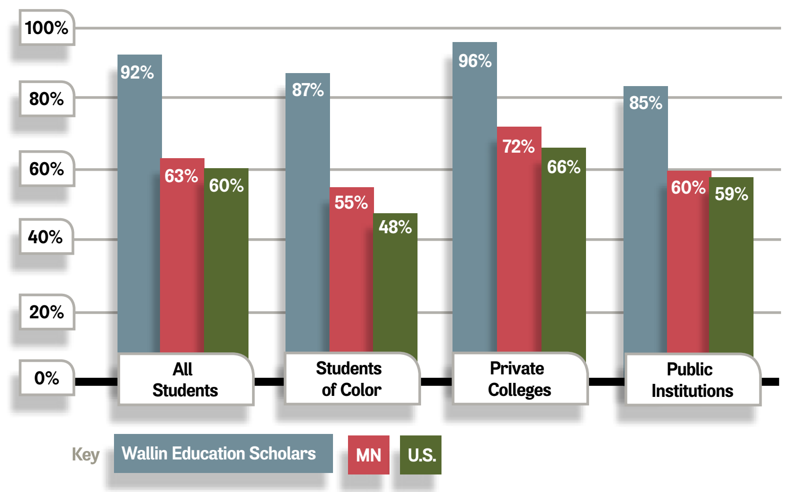
Each Wallin scholar is awarded $23,000, with $16,000 of it paid to the student's college. The remaining $7,000 goes to the student support program. Wallin scholars also take part in career fairs, mentoring, internships and financial literacy classes.

The late Pillsbury and Medtronic executive Win Wallin launched a scholarship program in 1992, starting with students at South High School in Minneapolis. Wallin Education Partners has grown into a nonprofit with an annual budget exceeding $3 million. About 27 percent of its expenses in 2017 were for the scholar support program.

Wallin's 2017 scholars came from 39 Minnesota high schools. For the 2018 scholarship round, King says they've raised enough money to support 272 scholars. "The data is so compelling, and the need is so clear," King says. "Donors are thinking this is a pretty good way to invest." *—Liz Fedor*

Getting the Degree

Wallin Education Partners provides advising and other support services to help low-income students obtain their four-year degrees. Within a six-year period, Wallin scholars complete their degrees at a much higher rate than other Minnesota and U.S. students.



SOURCES: WALLIN EDUCATION PARTNERS, MN PRIVATE COLLEGE COUNCIL

No cash? No sale.

Currency remains king at a small subset of local businesses.

Just about everyone today seems to be buying their morning $2 coffee with a debit or credit card. Many people, particularly millennials, forego cash altogether. But some local small businesses owners still say no to swiping, holding firm to policies of cash only.

"Taking cash is quicker. I'm kind of a one-man show," says Tom Goetz, longtime owner of Tom's Popcorn Shop in south Minneapolis.

Goetz doesn't want the hassle and costs of credit: "[Cash is] much simpler. It probably costs me a little bit [in sales], but what would it cost me to take [plastic]?"

Tom's Popcorn Shop is not alone. Minneapolis hamburger institution Matt's Bar refuses to take debit and credit, but will accept local checks. The bar has an ATM on the premises for customers who need Federal Reserve notes to settle their tab.

Local retailers with no-card policies largely appear to be long-standing local businesses that have solid bases of dedicated customers. (Matt's' reputation extends beyond Minnesota: President Barack Obama sat down for a "Jucy Lucy" at Matt's in 2014.)

U.S. retailers paid $88.4 billion in bank card fees in 2016, according to the Nilson Report, a California-based card and mobile-payment industry trade publication. Nilson's analysis found that merchants were paying an average of $1.49 in card fees for every $100 in sales.

The meat market at Ingebretsen's in south Minneapolis won't take plastic either. The market has been in business in south Minneapolis since 1921. "The owner of the meat [market] is a 91-year-old Norwegian," says Ingebretsen's Travis Dahl. "He is quite stubborn."

Dahl is a grandson of the stubborn Norwegian. So the meat market keeps its old-school payment philosophy. "I had a young man try to pay with his phone once," recalls Dahl. No sale.

Customers can still write a check, which seems to be a common loophole at plastic-verboten establishments. Dahl says the rules are clear to regulars.

"Most of our customers know," says Dahl. "A lot of them bring checks still." *—Burl Gilyard*

Paver Paradise

Your piece of the historic Nicollet Mall is waiting. Anyone? Anyone?

Has the City of Minneapolis got a deal for you. Shortly after reconstruction on Nicollet Mall began, upward of 18,000 granite pavers from the old thoroughfare sidewalks hit the market. With work on the new Nicollet Mall now "substantially complete," the city's Department of Public Works is still sitting on a mountain of pavers that it would love to get rid of.

"Even if it takes 100 years to get rid of them, well, right now, that's the plan," says Mike Kennedy, director of Public Works' transportation, maintenance and repair division.

Until then, the pavers, largely unused backups bought in 1990 to replace damaged pavers, are being stowed in a secure facility in North Minneapolis waiting for interested buyers.

Few have come forward. Larry Matsumoto, the city's principal paving engineer, estimates no more than six individuals have contacted the department; all are private citizens looking to re-do their garden or build a backyard fire pit.

Matsumoto says the price is in line with competitors (starting at $4 per paver), namely home goods retailers. Before putting them up for sale, Matsumoto talked to a number of landscapers, he says, including Maple Grove-based Coldspring granite company—where the city bought the pavers in the first place.

The idea to sell the pavers follows a system the Public Works Department set up in the early 2000s. "Back in the day when we would open up streets for construction, we'd often have people come out and pull bricks right out of the street," says Kennedy. (These pavers dated back a century or more.) "In a way, selling the bricks on our website was a [way] to keep [the public] off our construction sites." Buyers snapped up these those classic paving bricks, such is their appeal. But with such slim interest in the newer pavers, few sales are forthcoming.

The money the city receives from selling its bricks and pavers generally covers the cost to move and store them, Matsumoto estimates. "We're competing with Menards and Home Depot to sell these things," adds Kennedy. "There just aren't that many people who are really gung-ho to get Nicollet Mall pavers." —*Sam Schaust*

CONCIERGE

The Other Games in Town

No Super Bowl tickets? There are many ways to entertain clients this month.

The return of Zach Parise should make the Minnesota Wild a hot ticket in February.

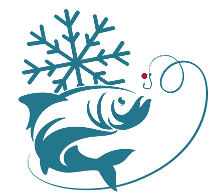
February has traditionally been a tricky month for luring out-of-town clients to the Twin Cities, but this one is a remarkable exception. In signature Scandinavian style, we're proud to present a smorgasbord of memorable local events for super-fans of all stripes. While Super Bowl LII is the undisputed pièce de résistance of this year's winter entertainment buffet, the spirit can be found everywhere, from ice rinks and cabin shows to outdoor golf tournaments and stylish pop-up urban saunas.

Minnesota Wild | Like the vast, much-vaunted single malt scotch list at the St. Paul Grill (stpaulgrill.com), the nearby Xcel Energy Center offers a tasty selection of Minnesota Wild home games for die-hard hockey fans. The month of February features eight match-ups against: the new Vegas Golden Knights, Arizona Coyotes, Chicago Blackhawks, New York Rangers, Washington Capitals, Anaheim Ducks, San Jose Sharks and St. Louis Blues. *February 2-27, Xcel Energy Center, xcelenergycenter*

Little Box Sauna | To give your clients a truly immersive Twin Cities experience, book a session—private or public, no nudity allowed—in the Little Box Sauna, an enchanting urban reinvention of the traditionally woodsy Scandinavian custom. Situated by Esker Grove's patio at the Walker Art Center, with magical views of the Minneapolis Sculpture Garden and the sparkling downtown skyline, Little Box Sauna was designed and constructed with a team of local design professionals and students from the University of Minnesota. *February 8-March 4, walkerart.org*

Wayzata Chilly Open | Clients with a passion for golf and a *Caddyshack*-style sense of humor will be delighted by an invitation to play in the annual Wayzata Chilly Open tournament. Outfit your guests with winter boots, hand-warmers and hockey sticks and spend a memorable afternoon swatting tennis balls around three nine-hole courses carved into the tundra. Warm up with bowls of the spicy end-products of the fiercely competitive chili cook-off, then head across Lake Street for a round of Irish coffees at McCormick's (mccormicks.pub). *February 9-10, Wayzata, wayzatachillyopen.com*

The Lake Home and Cabin Show | Give your out-of-town clients an insider's perspective on Minnesota's legendary cabin culture with a spin around the 14th annual Lake Home and Cabin Show. Soak up the distinctive Up North version of hygge as you mingle with Minnesotans from all over the state and discover the latest trends (and steadfast anti-trends) in lakefront real estate, cabin design and construction for luxe lakefront living. *February 23-25, Minneapolis Convention Center, lakehomeandcabinshow.com —Melinda Nelson*



More Super Fun and Festivities

1) Saint Paul Winter Carnival, *January 25-February 10, St. Paul, wintercarnival.com*

2) City of Lakes Loppet Ski Festival, *January 27-28 and February 3-4, Minneapolis, loppet.org*

3) United Way Ice Fishing Tournament, *February 10, Mille Lacs, business.millelacs.com*

4) Winter Beer Dabbler, *February 24, St. Paul, beerdabbler.com*

February

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Leadership Luncheon

Reba Dominski, president of the U.S. Bank Foundation and senior vice president of corporate responsibility, will talk about her leadership path during a TeamWomenMN event. She co-chairs the Leadership Council of Generation Next. *11:30 a.m., $25 to $45, Golden Valley Golf and Country Club, 952-525-2236, teamwomenmn.org*

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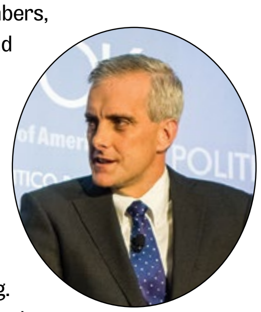
St. Paul Chamber Annual Meeting



Chamber members, city officials and community leaders are expected to gather for the Saint Paul Area Chamber's annual meeting. Denis McDonough, Stillwater native and former White House chief of staff to President Obama, will give the keynote address. *5 p.m., $125 to $150, RiverCentre, St. Paul, 651-223-5000, saintpaulchamber.com*

24

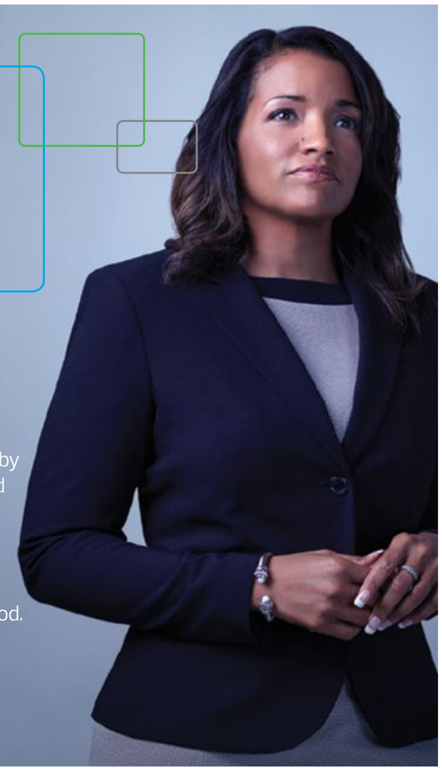
Bloomington Chamber Gala

"Broadway Your Way" is the theme of the 29th annual Chamber of Commerce Gala. Attendees will be wearing clothes that fit the theme for this annual chamber celebration. *5:30 p.m., $90, The Westin Edina Galleria, 612-370-9100, minneapolischamber.org*

24

Wishes & More Event

Wishes & More serves children with terminal or life-threatening conditions by providing memorable experiences and other supports. The organization is hosting its winter ball, with the theme "The Beach Ball: Glam in the Sand." *5:30 p.m., $200 to $250, Marriott City Center, Minneapolis, 763-502-1500, wishesandmore.org*




ADAM BETTCHER PHOTOGRAPHY

Twin Cities Business Live

From forums to award ceremonies, *Twin Cities Business* hosts a variety of events throughout the year, many of which have become annual occasions, including our **Women in Leadership Luncheon** (April), **Minnesota Business Hall of Fame Awards** (July) and **Veterans in the Workplace Forum** (November). Through these events, *TCB* extends its coverage of challenges and opportunities in Minnesota and engages the business community face-to-face. These events also provide an opportunity to recognize some of the state's top leaders. This year, *Twin Cities Business* is working to launch new events on health care and diversity, top-of-mind topics for business leaders. Keep up to date on upcoming events at tcbmag.com/events.

Today's News

Statewide news and perspectives on business-related expansions, shakeups, successes, wrongdoings and more.
Go online to: **tcbmag.com**

E-newsletters

Catch the latest business news—and explore what it means—every Tuesday and Thursday in *Briefcase*. Our monthly Minnesota small business e-newsletter, *Headway*, provides features, tips and insights for small businesses across the state.
To sign up, go online to: **tcbmag.com/Newsletter-sign-up**

On the Air

Tune in to 830 WCCO-AM every Monday at 10:35 a.m. to hear *TCB*'s take on the week's top business and economic news and trends, and KARE 11 every Wednesday at 5 p.m. and Thursday at 11 a.m. for perspective on the state's most significant business developments.
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AMPED UP

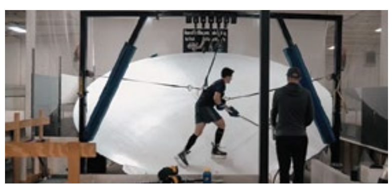
THE INNOVATIVE, FAST-PACED WORLD OF EMERGING BUSINESSES. | BY KATE LERETTE

Changing the Economics of Hockey

How a local training facility is helping players train off-ice.

Hockey season is underway in the state of hockey, and for many parents with a skater under their roof, the sport's return often results in two things: a need for more air fresheners, and a heavy hit to their bank statement.

The latter outcome is one reason Minnesota entrepreneurs Andy Blaylock and Scott Brokaw are looking to franchise their hockey training facility, Competitive Edge Hockey. The St. Louis Park-based center's most distinctive offering is also its most exclusive: a slanted disc of synthetic ice, known as the Crossover Flywheel. The machine spins up to 20 miles per hour at an incline between 12 and 38 degrees and is the only product of its kind in the world available for commercial use.



Both Blaylock and Brokaw claim the Flywheel is improving young athletes "quantifiably." By practicing crossovers, a critical hockey technique in which a player crosses their outside skate over their inside skate to sharply turn and accelerate, players are becoming faster and nimbler on the ice, they claim.

The Competitive Edge owners also say their product can do more than improve players—it could make hockey cheaper to play.

"Ultimately, we want to change the economics of hockey," says Blaylock. To improve "in any other discipline, whether it be academics or ACT prep, you will find a place to meet an instructor and you'll pay that instructor. With hockey, you find time on the ice and you will pay for the instructor and pay for [your time on] the ice, so you've doubled the cost. With our system, you just pay for the instruction, primarily."

Blaylock and Brokaw think the Flywheel would excel in warmer climates, such as Nevada, California, Texas and Arizona, all of which are home to an NHL team and some of the largest

Company:
Competitive Edge Hockey

Launched:
2006

Location:
St. Louis Park

Industry:
Sports

Hockey equipment cost

Helmet **$50-175**

Gloves **$50-150**

Hockey Pants **$50-150**

Skates **$100-600**

Shoulder Pads **$30-125**

Elbow Pads **$40-90**

Shin Pads **$30-100**

Mouth Guard **$10-20**

Hockey Sticks **$25-200**

SOURCES: HOCKEY SHOT, HOWMUCHISIT.ORG

growth areas for the sport.

"The reason something like [the Flywheel] hasn't caught on in other markets is insane when you think about it," says Brokaw. "Ice in California is around $600 an hour on the high end. It's around $180 here, and less in the summer."

With demand for ice-time rising as more players take to hockey in southern states, the Competitive Edge duo say it's a "no-brainer" for ice-starved hockey communities to offer off-ice training on the side.

Most of the skaters training on the Flywheel are between 6 and 14 years old, but professional players like John Madden, a three-time Stanley Cup champion and former Minnesota Wild forward, say they have experienced the benefits of the Flywheel firsthand.

Shortly after his training experience, Madden took an ownership interest in Competitive Edge and is now the facility's co-owner with Blaylock and Brokaw.

The machine has also helped give rise to players like Rem Pitlick, a 20-year-old Plymouth native now playing for the University of Minnesota hockey team. "The stuff we do [at Competitive Edge] really prepares you for on-ice situations," he said in a video on the training facility's website.

The concept for the Flywheel came to Blaylock in the summer of 2002 when he and Brokaw were students at the University of Minnesota. "One of our friends was working at Acceleration, which is the firm that kind of pioneered the skating treadmill," he says. "I asked what they were doing there to [practice] crossovers and he said they were just having skaters get on a treadmill and step sideways, which is a gross approximation of the technique."

Seeking a better way to train for crossovers, Blaylock constructed the first Flywheel and a year later demoed it at the State Fair.

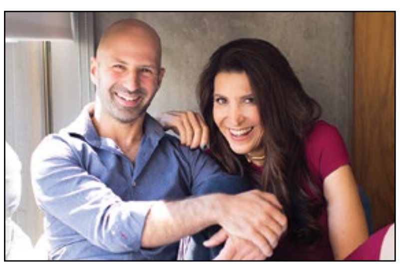
"On the original Flywheel, there were no hydraulics to adjust the incline, there was no motor, so you had to push the entire mass of the surface to get it going," recalls Brokaw. "It was probably 1,500 pounds and it would take about 15 seconds to get up to speed, by which time you're relatively exhausted and then [you're] trying to show people how you can do crossovers on it."

Still, fairgoers were fascinated by the machine, says Brokaw.

With an improved Flywheel, ice rinks, a skating treadmill and other drill zones, Blaylock and Brokaw are readying a franchisee search. Currently, the two price a Flywheel at more than $100,000, but aim to sell a larger training package and facility concept so rinks can model their space after the Competitive Edge facility. Blaylock and Brokaw hope to find an interested franchisee within the next year.

"The hardest buyer is going to be the first one," says Blaylock. —*Sam Schaust*

The Brand-less Brand



Co-founders Ido Leffler and Tina Sharkey

Company:
Brandless

Launched:
2017

Location:
Minneapolis and San Francisco

Industry:
Retail

"Life, liberty and the pursuit of fairly priced everything."

That's the philosophy behind Tina Sharkey and Ido Leffler's Minneapolis- and San Francisco-based e-commerce startup, which offers everyday essentials, from food to personal care items, for $3 apiece.

How are they doing it? By going brandless. The pair is eliminating what Sharkey calls "brand tax," hidden costs consumers pay for a national brand, by offering brand-free products. In doing so, Sharkey says, the company can charge 40 percent less on average for the same quality product.

"We're finding that the next generation of consumers are changing their consumption habits," says Sharkey, co-founder and CEO. And at a time when many big-name brands are struggling to connect with young consumers, "we are redefining what it means to be a brand."

Fittingly, the pair is calling their company Brandless. All of the company's products sport a brand-free label, simply stating what the item is, and none are made in-house. "We work with a collection of partners all around the world to source our products," says Sharkey. "We also work with a lot of our partners on product development."

Since launching in July, Sharkey and Leffler have grown their product line from 110 items to nearly 300, and by September repeat orders

hit double-digits. Sharkey expects to grow the company's product count to 500 this year.

"In comparison, the average supermarket has about 25,000 SKUs," says Sharkey. "Part of our philosophy is editing down to what matters and reducing the choice to just what you need."

Rather than drawing in customers with a wide array of brand options, Brandless focuses on catering to a variety of consumer lifestyles, preferences and dietary restrictions, offering products that are organic, non-GMO, fair trade or gluten-free, to name a few options.

The company's unique approach to offering lower-priced essentials has caught the attention of Golden State Warriors' Steph Curry, author and philanthropist Jessica Seinfeld and bareMinerals founder Leslie Blodgett—all of whom contributed to Brandless' $35 million Series B funding round. To date, Brandless has raised a total of $50 million in funding.

Although Brandless' approach might be unusual, the company isn't the first to offer generic-branded merchandise. The difference, says Sharkey, is "we are building a community first. We are creating direct and authentic relationships."

Those relationships extend beyond its customers. The company partners with Feeding America, donating a meal for every order placed. So far, Brandless has donated close to 200,000 meals.

"We are real people who want to make a difference," says Sharkey. "We are a purveyor of fairly priced everything." —*Kate LeRette*

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PLANTING SEEDS

By Rajiv Tandon

Riches in the Niches of the Wake

A path to exploiting unserved niche markets around big industries.

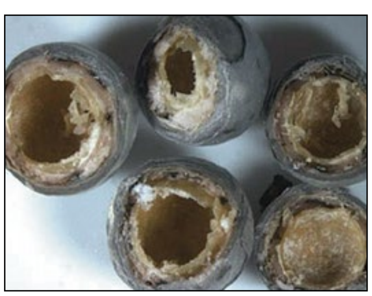
Established businesses, as they plow through a large industry, leave many smaller niches unserved in their wake. This provides lucrative opportunities for an observant entrepreneur; it's akin to having created a business with no competition.

A "wake" is the low-pressure region immediately behind a solid moving body. It makes it easier for followers to move forward with a lot less energy.

You can see wakes in a flock of geese flying in a V-shape pattern; one goose is front and center, leading all the others. Bicyclists riding behind others in a high-speed race conserve energy with the same strategy, as does a car using the slipstream created by the lead car in motor racing.

In cycling the bicyclist riding behind conserves energy, especially at higher speeds. In Motor Racing, along a long straight stretch, a car following close behind another uses the slipstream created by the lead car to close the gap between them.

Established businesses, as they plow through a large industry, leave many smaller niches unserved in their wake. This provides lucrative opportunities for an observant entrepreneur—with market knowledge but fewer resources—to serve and dominate. It is akin to having created a business with no competition.



Encapsulated salts with voids may be a locally pioneered solution to efficiently storing solar energy.

Providing electrical power is big business and one of the most basic needs. The challenge is to move away from an almost complete reliance upon fossil fuels. Several opportunities to generate renewable energy have opened up. Since sunlight is a perpetual resource, solar power is a leading renewable.

Solar power is generated by photovoltaic conversion, where electricity is converted directly using solar cells or by concentrating the solar energy to generate heat that is stored and then, on demand, drives a steam turbine to generate electricity. Hurdles include availability when the sun is not shining, economical storage and generation at a competitive price.

One promising approach to storing heat is to melt and then freeze (phase change) an inorganic mixture of salts. Researchers tried to do this for over 40 years, but because inorganic salts expand when they melt and need a large area for effective heat transfer, they did not succeed. The U.S. Department of Energy set up a challenge to solve this very problem.

Terrafore Technologies of Minneapolis, founded by Anoop Mathur, chronicles one journey of riding the wake in a large established sector of the economy. Mathur has over 35 years of industrial experience, developing and directing advanced technologies at Honeywell with a team of over 80 technologists in the U.S., India, China and Romania. With over 25 patents and several awards, including Honeywell's highest award for technology and business excellence, he had managed large programs for government agencies and Fortune 500s. He was well-versed in current and emerging technologies.

He spent five years doing research utilizing expertise and facilities at top-tier institutions such as Southwest Research Institute, Jet Propulsion Lab, Rocketdyne and the University of California, and received a $2.5 million grant from the DOE to make a major technology breakthrough.

The longstanding limitation of inorganic salt expansion was overcome by ingenious 10mm or 15mm capsules with open space inside. The open space allows the salt to expand and provides a large area for heat transfer. Efficient heat transfer requires very high temperatures. These capsules work at up to 850 degrees Celsius.

Creating the open space within the capsule is an innovative chemical process for which the company has filed three patents. The challenge now moves to making the capsules in large quantities and building a scaled pilot. Argonne National Lab and National Renewable Energy Labs are testing Terrafore's capsules for reliability and performance with money from the DOE. There is interest from the likes of Grumman and Jet Propulsion Lab.

These capsules have enabled a 33 percent cost reduction compared with other storage practices, and make it economically feasible to run small-scale power systems with mini-towers or a solar dish. The capsules are light, can potentially be factory-installed in the mini-tower and with very little site work. They can also capture thermal energy waste at existing utilities and other industrial plants.

Since other phase-change approaches failed competitive tests, Terrafore has become the go-to for this niche. Mathur believes they are within reach of the goal of making these systems price-competitive.

Jeff Bezos said that the important question is, "'What's not going to change in the next 10 years?' . . . because you can build a business strategy around the things that are stable in time." A high-probability route to success is finding a niche in the wake of existing industries that are satisfying the most basic human needs. tcbmag

Rajiv Tandon is founder and executive director of the Institute for Innovators and Entrepreneurs and an advocate for the future of entrepreneurship in Minnesota. He can be reached at rajiv@mn-iie.org.

PERFORMING PHILANTHROPY
By Sarah Lutman

Redefining Culture

Is visiting a museum a cultural experience? What about attending a street fair? A new survey examines how we view culture.

Culture Track is a national survey of cultural consumers' attitudes, motivators and barriers to taking part in cultural experiences. In late November, the national road show to present the 2017 survey results made a stop in the Twin Cities.

The study's principals offered their conclusions and insights, and a panel of local cultural leaders offered their reactions to the crowd of 170 assembled at the Minneapolis Institute of Art (Mia).

The survey, an initiative of national strategy firm LaPlaca Cohen first conducted in 2001, has two data sets. One follows key trends within a select set of cultural activities, remaining constant since the survey's inception. The second tracks responses to updated questions that are future-focused and intended to help cultural institutions adapt to the evolving landscape. Together the data sets comprise some 4,000 respondents' input. Demographic characteristics (age, gender, race) and geography closely mirror the U.S. population.

Do food trucks constitute culture?

Culture Track '17 delivers thought-provoking trends for nonprofit cultural institutions, but also for businesses engaged in offerings within the broad definition of "culture." In fact, one of the key findings is that respondents have a vastly expanded definition of culture, "democratized even further [than prior studies], possibly to the point of extinction."

Street fairs, food trucks and rock music festivals have taken their places next to traditional European-based art forms, including opera, symphony concerts, ballet and art museums, that are among the "cultural experiences" audiences are seeking out.

The authors go further: "The very audiences that are breaking down the definition of culture are also helping to rebuild a new one." Audiences describe culture as "any activity that makes you feel anything and question what you already know; bringing people who may not think they have much in common together; and broadening horizons, understanding life situations and helping me learn about other peoples in the world." What they're not saying? That "culture" is equivalent to a high art form in the European tradition.

As survey participants describe their motivation for cultural engagement, the top reason is "having fun." They also are seeking exposure to new ideas and personal development. The desire for self-improvement through cultural activities "is consistent across generations." Further, a whopping 76 percent of respondents say they engage in cultural events for stress relief.

Kristin Prestegaard, Mia's chief engagement officer, says in the previous Culture Track survey, stress relief was something that showed up for millennial audiences on what they're seeking from cultural experiences. "Now, we see that the whole world is stressed out," she says. "It's across all the age groups. People want a 'shoulder-drop moment'; it's a time when you can just be present where you are."

More insights concern shifting ideas of what constitutes loyalty. "Loyalty is not a transactional program," Prestegaard says. "Loyalty is a relationship you build with audiences and customers." The study draws on respondents' own words to describe their loyalty to places that offer them experiences that are "trustworthy, consistent and kind." This is the first study where the word "kind" shows up, further emphasizing that for audiences and customers, it's a tough world out there.

A final takeaway is that audiences are getting their information in many different ways. Nimble organizations will provide multiple entry points for creating experiences, and for programs that will be relevant to different audience types and segments. From the audience perspective, museums, theaters and music venues are competing for the public's time and engagement alongside restaurants, TV shows and recreational activities such as sports. They are all a "cultural experience" from the participant's vantage point.

How might we see this showing up in Mia's work? "We know that audiences define what culture is," Prestegaard says. "We do not [define it]. We are working to tell the stories of transformation that visitors experience when they encounter works of art. The biggest challenge is how to tell and share those stories and to convey art's real impact."

What might others take away? People are looking for meaning, connection and places where they can relax and be "in the moment." But one size does not fit all. A "portfolio approach" is needed in order to serve different kinds of people in different ways, and for different moods and contexts. Audiences want experiences that are meaningful and reciprocal, not transactional. And to provide financial support, the public wants to see "clear, measurable and tangible impact" from cultural organizations, comparable to what health, education and humanitarian relief organizations can deliver.

All these trends represent challenges for cultural organizations, but also huge opportunities for connection and engagement. Feeling stressed? Try immersing yourself in live music, visiting a museum or gallery, or maybe hanging out in a park for the afternoon. They're all "cultural experiences." tcbmag

Sarah Lutman is a St. Paul-based independent consultant and writer for clients in the cultural, media and philanthropic sectors.

IT'S ALL RELATIVE

By Tom Hubler

Leadership Doesn't Bully or Coddle

Family business members need to share with each other what they need to thrive and be successful within their families and companies.

James Schultz appeared to be at the top of his game. A locally recognized leader in his industry, he had earned a national reputation for craftsmanship and business acumen. But his dream to have his three sons work in the business had become a nightmare. While each of his sons had grown up in the company, none of them demonstrated the necessary skills to take over leadership.

James Schultz (not his real name) was beyond disappointed in his sons' lack of performance in business; he was depressed.

As part of my consulting firm's process, we asked about the business transition that occurred with James' father, the founder, by then deceased. Schultz told his story.

He was already working with his father by the time he was in high school. In his junior year, he asked for some time off to try out for the baseball team. Schultz told us, "My father didn't say a word. He decked me, and then said, 'Get out of here.' "

He went home, and the phone was ringing as he walked in the door. He picked it up and his father barked, "Get back down here." James was disappointed that he didn't play baseball, but continued to work in the company, enrolled in a vocational school where he excelled and after graduation returned to work full time at his father's company. Schultz took to the work and eagerly learned how the business operated.

When Schultz was in his mid-20s, his father had a fatal heart attack. The estate plan left the business to Schultz's mother, Susan, who now had 100 percent ownership of the company. The younger Schultz took over the operation, working for his mother, and continued to develop the business.

As he expanded the business, Schultz understood that the more successful he was, the more expensive it would be when it came time for him to purchase the business. He approached his mother because he wanted to see her lawyer and arrange for the sale. She refused to discuss it. This conflict continued for two years as he continued to raise the issue as he built the company.

Finally, Schultz said to his mother, "If you don't sell me the business, I will open a shop as a competitor across the street. I have the backing of a bank and am ready to go." This motivated his mother to contact her lawyer, who arranged for him to purchase the business.

As he told us, he was overjoyed to finally own the business and began to dream about his three sons, who were still children at that time, someday working with him. He was determined not to repeat the bullying tactics his father had used on him. He vowed he would not put his sons through what he experienced and would be good to his boys.

Fast-forward 15 years. Schultz had promoted his sons to positions of responsibility. But they weren't ready for the important jobs. Each of them was struggling, and success looked unlikely.

By the time my firm was asked to help, everything negative had already happened. The climb back looked daunting. What would you have done to resolve this dilemma?

First, we used interviews to assess the extent of the problem. Based on the interviews, we created a report that identified the issues and discussed them at a planning meeting. With the family, we created an action plan and proposed solutions to address and resolve issues.

The action plan called for each of the three sons to participate in a leadership assessment. This would help determine their career gifts and how to use their talents in the business. Unfortunately, the results were mixed. It appeared that only the youngest son, Nick, was a good fit for the business. Ultimately, the older two sons, Elliott and Chris, left the business with the support of James and found success in other businesses.

Nick engaged in a career and leadership process that helped him gain the skills needed to lead the company. He worked with an executive coach and after several years began to lead the company. When he was ready, Nick bought the company from his father James and still maintains 100 percent ownership.

From my team's conversations and work with the family, we also recognized that it was important to strengthen family relationships. James met with his sons one-on-one to discuss their expectations. They were encouraged to share what they needed from each other to thrive and be successful as a family, and at whatever work they chose to do. In these discussions, everyone made the commitment to participate in family holidays, events and rituals. They wanted to maintain close family relationships.

Schultz's early dreams did not become a reality. This is not unusual. In fact, fewer than one in three family businesses makes it to a third generation. But, with support and a plan, James enjoys positive relationships with his three sons and hopes for the same with his future grandchildren. Now his dream is that some members of the fourth generation will want to work in the family business, too. tcbmag

Tom Hubler (tomh@thehublergroup.com) is president of Hubler for Business Families, a family business consulting firm.

Life Insurance Benefits Left Unpaid

The Commerce Department finds life insurance companies' practices for tracking down beneficiaries problematic.

The Minnesota Commerce Department announced in November that it reached a multimillion-dollar settlement agreement with American International Group (AIG) for failing to pay Minnesotans who had insurance policies, annuity contracts or retained asset accounts through the New York-based life insurance company.

The settlement with AIG is the latest of 13 agreements the Commerce Department has made with insurance companies over a failure to pay beneficiaries after policyholders died.

Commerce Department spokesman Ross Corson says investigations into insurance companies began about five years ago and have resulted in settlements totaling more than $226 million. Money from the settlements has been either paid directly to beneficiaries or, when they could not be located, placed in unclaimed property programs for a deceased policyholder's heirs or rightful owners to claim.

"When people buy life insurance to help their loved ones, they trust that the insurer will pay the promised benefits," Commerce Commissioner Mike Rothman said in a statement. "That simply was not happening in thousands of cases."

The Commerce Department's investigation has also led to settlements with Allianz, AXA Equitable, John Hancock, Jackson National, Lincoln, MetLife, Minnesota Life, New York Life, Prudential, Riversource, Transamerica and Voya (ING).

Beyond benefits payments, all 13 life insurance companies have reached agreements to pay settlements to the State of Minnesota. With approximately $2.4 million coming from AIG's settlement, a total of $17.7 million has now been paid to the state.

"I encourage Minnesotans to make sure their life insurance companies have up-to-date contact information for themselves as well as their beneficiaries," said Rothman. "Many people are never told they are named as beneficiaries in life insurance policies, so they often have no idea an insurance payment is owed to them." *—Sam Schaust*

New Technology Could Lead to Transplantable Organs

Using a custom-built 3-D printer, researchers at the University of Minnesota successfully created artificial organ models that could revolutionize the way medical professionals prepare for and complete complex operations.

While 3-D printing lifelike organs has been around for years and adopted by health organizations like the Mayo Clinic, a 17-person research team—(14 of whom are at U of M)—has announced they have significantly advanced the technology's capabilities.

Instead of using hard plastic or rubber to print their organ replicas, the researchers developed customized silicone-based inks that can be "tuned" to match patients' tissue.

The researchers produced patient-specific organ models that mimicked the exact anatomical structure, mechanical properties, and the look and feel of real organs. Each model also included sensors that the researchers think could help surgeons anticipate how an organ would react to various surgical tools.

"The sensors could give surgeons real-time feedback on how much force they can use during surgery without damaging the tissue," Kaiyan Qiu, a lead author of the paper, said in a statement. "This could change how surgeons think about personalized medicine and pre-operative practice."

Michael McAlpine, the lead researcher of the study, said his team's discovery could be the next step toward the creation of transplantable organs.

"If we could replicate the function of these tissues and organs, we might someday even be able to create 'bionic organs' for transplants," he said in a statement. *—Sam Schaust*

Treatment Costs to Rise

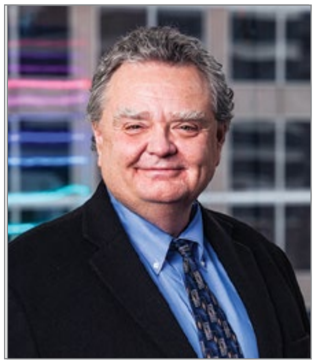
A new report from the Minnesota Department of Health projects treatment cost for chronic medical conditions will jump by nearly 35 percent, to about $18.2 billion by 2023 from about $13.5 billion this year.

The report is based on an analysis of claims paid by public and private health insurers for medical services and prescription drugs for patients with chronic conditions.

The report projects medical service and prescription drug costs will rise over the next six years to treat Minnesotans with:

- **Hypertension**, 31.25%, to about **$7.8 billion**
- **Diabetes**, 28.5%, to about **$2.1 billion**
- **Obesity**, 14.6%, to about **$514.5 million**
- **Dementia**, 35.7%, to **$396.7 million**
- **Smoking exposure**, 19.2%, to **$237.3 million**

For employers, the report is a warning that unless they do more to prevent and manage chronic conditions in the workforce, they will be facing double-digit increases in health care costs. *—David Burda*



Specialty Drug Costs Are No Laughing Matter for Employers

Most businesses continue to cover high-cost medications, but are taking steps to tame spending.

EXPLANATION OF BENEFITS

By David Burda

We've all heard the commercials. The lengthy list of possible side effects and potential complications makes us laugh and question whether taking the medication will make you sicker than the disease it's trying to treat. What's not funny, especially to employers, is the cost of these wonder drugs, called "specialty drugs" in pharma and benefits parlance.

Specialty drugs are special in the sense that they're complex medications developed to treat complex or chronic conditions like rheumatoid arthritis, heart failure and cancer. They're also special because of their price. Medicare defines a specialty drug as one that costs at least $670 for a 30-day supply.

As you know from reading the papers (that's newspapers, if you don't remember), many new specialty drugs cost more than $10,000 per month. A recent example is a new drug that goes by the brand name Kymriah, which was approved by the FDA in August (bit.ly/2grlPdB). It's an immunotherapy drug that's customized with the patient's own genetic material to treat leukemia in children and young adults. The list price for one course of treatment, which takes less than an hour to administer after the manufacturer takes up to four weeks to mix the custom brew, is $475,000, per Reuters (that's a news service).

Curing your teenage son or daughter of cancer is priceless. But for those who have to pay most of the bill, namely employers, it's another call to action to do something to control specialty drug costs, lest they break the employee health benefits bank.

Some numbers from the QuintilesIMS Institute tell the story. In 2007, the net per-capita spending on prescription medications in the U.S. was $811, with 24 percent spent on specialty drugs. By 2016, the net per-capita spending on prescription medications in the U.S. rose 10.4 percent, to $895, but 43 percent was now spent on specialty drugs (bit.ly/2tUzmN8).

A number of recent employee benefits surveys reveal how employers feel about that trend and how they intend to address it. Managing specialty drug costs was the top priority of nearly 300 employers recently surveyed by the Pharmacy Benefit Management Institute (bit.ly/2j4VnZ3). Making sure workers taking specialty drugs were satisfied was far less important to management (see chart).

By far the top driver of rising employee health care costs is specialty drugs, according to a 2017 survey of 148 large employers by the National Business Group on Health (bit.ly/2vMp3yW). Some 80 percent of the employers cited specialty drugs as one of three top drivers of health spending. That was followed by high-cost claimants (69 percent) and specific diseases or conditions (55 percent). High-cost claimants often have specific diseases or medical conditions that require specialty drugs.

Asked what they were going to do about it in 2018, the employers most frequently cited these tactics, in order of rank:

- Adopting more aggressive utilization management protocols (71 percent)
- Requiring specialty drugs to be obtained through a specialty pharmacy or specialty department of a pharmacy benefits manager (68 percent)
- Managing the site of care where the drugs are administered (44 percent)
- Including a specialty drug tier in pharmacy benefit design (38 percent)
- Requiring prior authorization for specialty drugs covered as a medical benefit (31 percent)
- Using high-touch case management (30 percent)

Another tactic being used by employers is requiring workers who use specialty drugs to pick up a larger share of the tab. A 2017 survey of more than 2,100 employers by the Kaiser Family Foundation and the Health Research & Education Trust found that 97 percent of employers offer specialty drug coverage, with 47 percent including a specific specialty drug tier in the benefit design (kaiserf.am/2fcLdzS).

The average co-payment for a medication covered in the specialty drug tier was $101 last year, with the average co-insurance share 27 percent. By comparison, the average co-payment for a medication covered in the first tier of a pharmacy benefits package was $11 last year, with an average co-insurance rate of 17 percent.

If all else fails, employers can lobby the FDA, the Federal Communications Commission and the Federal Trade Commission to restrict direct-to-consumer advertising of high-cost specialty drugs by Big Pharma. Some 90 percent of employers surveyed by the PBMI said DTC advertising "greatly" or "moderately" increases the pressure on physicians to prescribe a specific specialty drug. Another 76 percent said it increases the number of patients seeking medications for previously undiagnosed medical conditions.

If laughter is the best medicine, though, keep the DTC advertising and I'll take my chances. tcbmag

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IT'S ALL ABOUT THE COST

Employers' top goals for managing the use of specialty drugs by employees

GOAL	PERCENTAGE OF SURVEYED EMPLOYERS
Manage specialty drug cost trend	51%
Reduce inappropriate utilization	13%
Improve adherence and persistency	11%
Reduce drug acquisition cost	10%
Manage site of care/place of service	7%
Reduce variability between pharmacy and medical benefit design	3%
Improve patient satisfaction	3%
Reduce variations in physician prescribing patterns	2%

SOURCE: PHARMACY BENEFIT MANAGEMENT INSTITUTE

SHORT TAKE

Speaking of arthritis, I don't have it yet from writing this column. But if and when it does happen, it will cost you big—or, more specifically, it will cost my employer. A new study pegged the total national cost incurred by working adults with arthritis at $303.5 billion in 2013 (http://bit.ly/2AmniLu). The study, from the Division of Population Health at the Centers for Disease Control and Prevention, appeared in the journal *Arthritis Care & Research*, appropriately enough. Of that amount, $139.8 billion was spent on medical services. Even more—$163.7 billion—came from earning losses of those whose arthritis prevented them from doing their job. Maybe there's a return on investment in specialty drugs for employers after all.

Economic Optimism Highest in More Than Six Years

Business leaders expect business conditions—especially outside Minnesota—to improve this quarter, and look to raise wages as they face a persistently worsening talent shortage.

More than half of the business leaders responding to *TCB*'s Quarterly Economic Indicator (QEI) study in late December say they expect business conditions nationally and globally to improve during the first quarter of 2018. This is the highest level of optimism on this front in the 26 consecutive quarters that *TCB* has conducted these surveys.

About 10 percent of respondents expect conditions nationally and internationally to worsen—the lowest percentage yet recorded by the survey, and down nearly 50 percent from sentiment expressed when heading into the fourth-quarter of 2017.

Optimism about business conditions in Minnesota for the current quarter also increased, but not as much. Some 34 percent of respondents expect conditions in the state will improve, a level last seen heading into the second quarter of 2015. It's also up from last quarter's dismal 16 percent, and higher than the 25-quarter trailing average of 31 percent.

TCB's findings run parallel with those of Creighton University's nine-state Mid-America Business Conditions Index for November, which was reported in early January. It also found business confidence rose to the highest level it's seen in nearly seven years.

In Minnesota, however, finding qualified talent continues to tarnish an otherwise optimistic outlook, and to clearly stand out as the greatest challenge facing the state's economy. *TCB*'s study found 59 percent of respondents expect finding qualified talent will become more difficult this quarter—the highest percentage recorded since this survey started in the summer of 2011. Less than 2 percent said they thought it would become easier.

Nonetheless, 43 percent say they plan to increase hiring in the first quarter, compared with a trailing average of 36 percent; only 6 percent plan to reduce. Fifty-five percent say they plan to increase wages, the highest percentage since *TCB* began tracking this indicator at the beginning of 2016. Only 43 percent of employers now say they expect to keep

About the survey

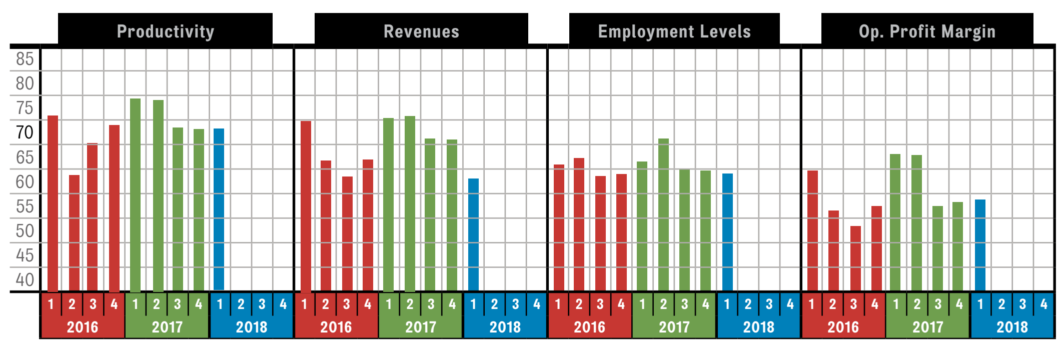
Since mid-2011, ***Twin Cities Business*** has sent more than 10,000 business leaders throughout the state the same set of questions every quarter, asking them about plans and expectations for the next three months. This issue's survey, conducted at the end of December, provides insight into the first quarter of 2018, ending March 31.

Gov. Mark Dayton's Approval Rating

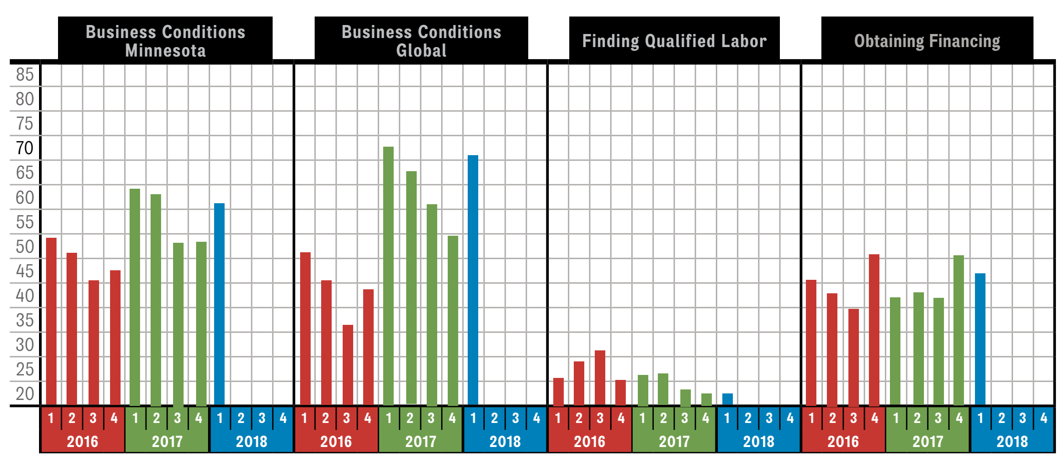
32.1% (up from 28.4% last quarter). The governor's approval rating rose from 27.8 percent a year ago at this time. The percentage of those who disapprove of the governor came in at 56.6 percent, about the same as last quarter and slightly less than 58.9 percent one year ago.

At right, percentage of respondents anticipating increases or improvements in these areas during the first quarter of 2018.
Note: this is diffusion-indexed. For each question, all responses for "increase" added to one-half of responses for "maintain/stay the same." Above 50 is positive; below is negative.

Business Conditions *(Quarters 2016-2018)*



Business Planning *(Quarters 2016-2018)*



Minnesota Economic Outlook Index

Survey responses are used to compile *TCB*'s Minnesota Economic Outlook Index, which comes in at 53.4 this quarter. This is up from last quarter's 50, but about the same as one year ago (53.1). An index above 50 indicates healthy business growth; below signals slowing business growth. This indicator compares with a 25-quarter average of 52.6.

Minnesota Economic Outlook Index Drops *(Quarters 2015-2018)*

51	47	46	48	53	54	49	50	53
Q1•2016	Q2•2016	Q3•2016	Q4•2016	Q1•2017	Q2•2017	Q3•2017	Q4•2017	Q1•2018

wages constant.

Among other indicators, capital expenditures are expected to increase at 37.5 percent of the companies responding to the survey. This compares with a trailing average of 33.6 percent. R&D spending is expected to stay about the same.

Revenue is expected to grow at 57 percent of businesses responding to the survey, up considerably from 44 percent last quarter and a 25-quarter trailing average of 50 percent. And profit margins are expected to increase at 38 percent of responding businesses, compared with a trailing average of only 29 percent.

TCB's quarterly study also asks respondents to tell us what they expect to be their greatest business challenge in the fourth quarter. Finding good employees topped the list among the 218 written responses, with more than one-third of the answers expressing this concern. Among the other issues:

- "Ag commodity prices are depressed and eating into the margins of producers in many industries. Keeping them in business, until a recovery takes place, is a major concern."
- "Keeping pace with an expanding and changing national and international marketplace, while Minnesota politicians and powers-that-be cling to the ways of the past."
- "Understanding the new federal tax law and its impact on Minnesota resident S-corporations."
- "Unpredictability at the national level. Lack of a long-term vision of our national leaders, rise of greed and short-term gain of a few at the expense of the many."
- "Overall health care market conditions . . . increased medical premiums and health insurance costs."
- "The economy has been on a steady pace. But there are a number of issues that could cause problems in the economy: Trump, the new tax bill, Congress, health care, immigration, North Korea . . ."

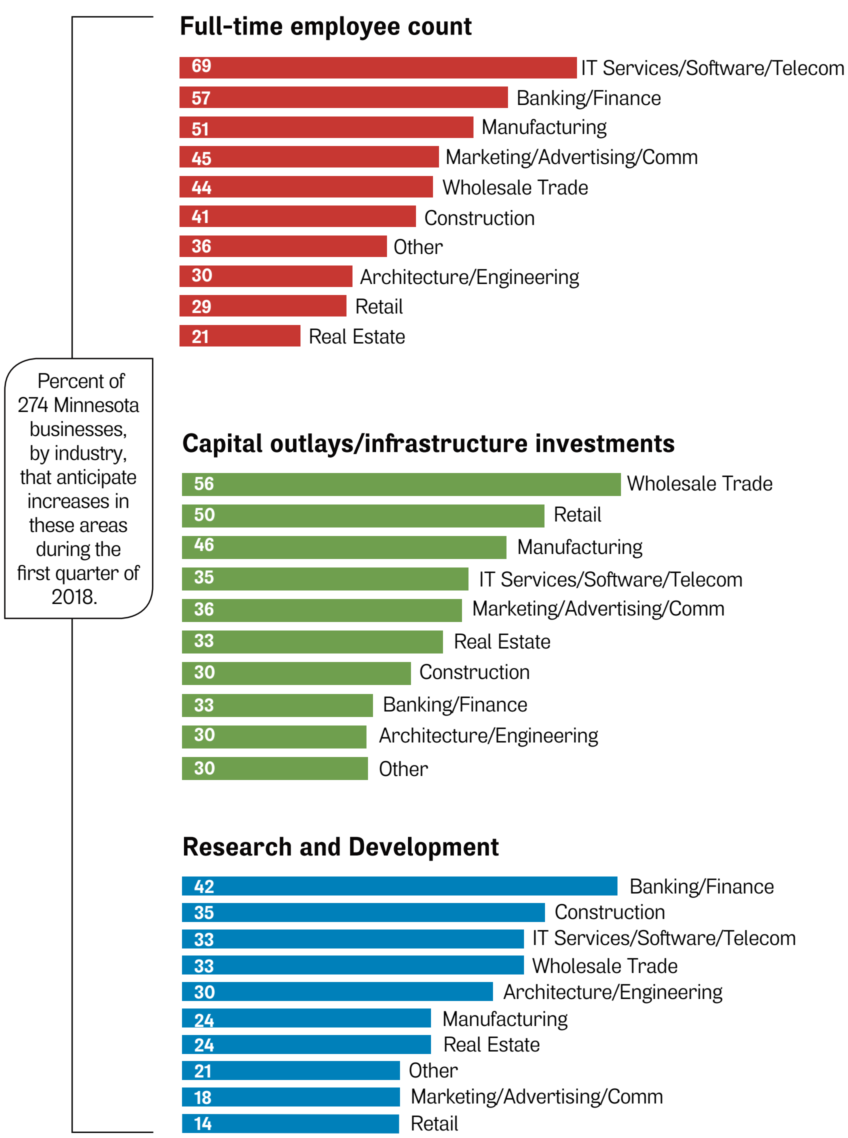
Given a chance to add their opinion to any other issue, 48 respondents chimed in. Here are a few of their responses:

- "Minnesota is clearly without an economic vision of how the state economy will grow and what business segments will be prioritized for growth."
- "National policy from Congress and the Trump administration makes up for the weaknesses of Gov. Mark Dayton."
- "Impeach Trump and the Republicans; they are killing the country!"
- "The tax reform passed in Washington is going to make it hard to compete against lower-tax states while running a business in Minnesota."
- "I worry about the rural-urban battle at the state Legislature and efforts by suburban and outstate legislators to weaken metro areas, particularly the Twin Cities."

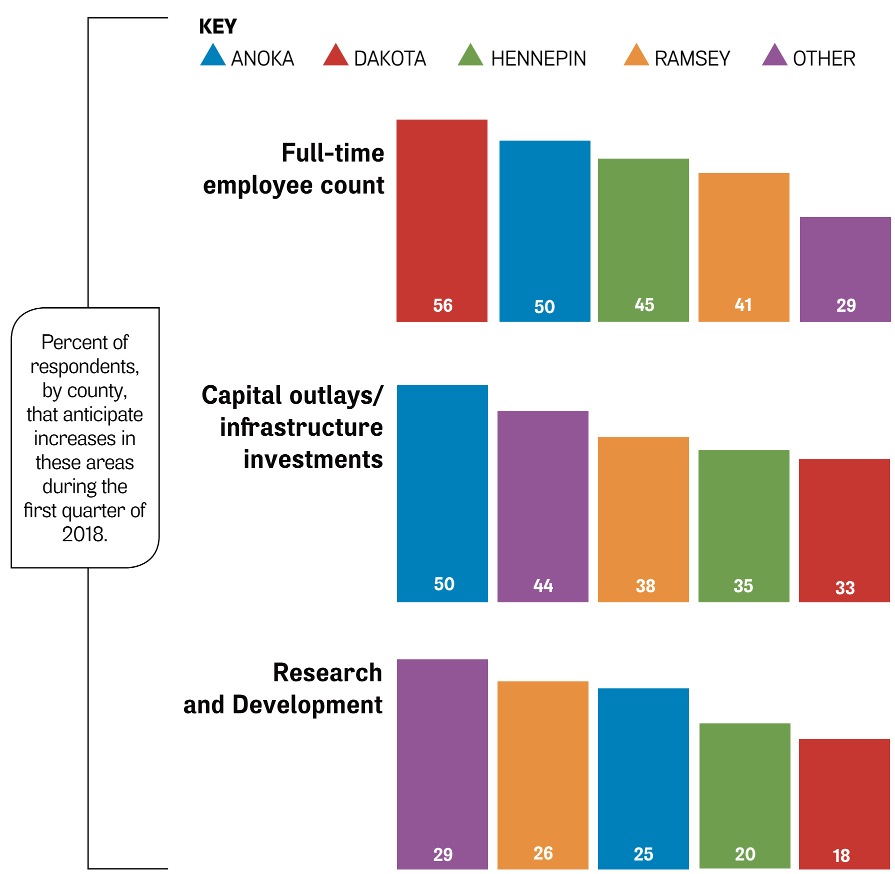
Another question asked whether those businesses that plan to expand will do so in Minnesota. This quarter, 59 percent indicated they will, up from 53 percent last quarter and the same as one year ago at this time; 22 percent said they won't; 19 percent answered "unknown." tcbmag

Methodology

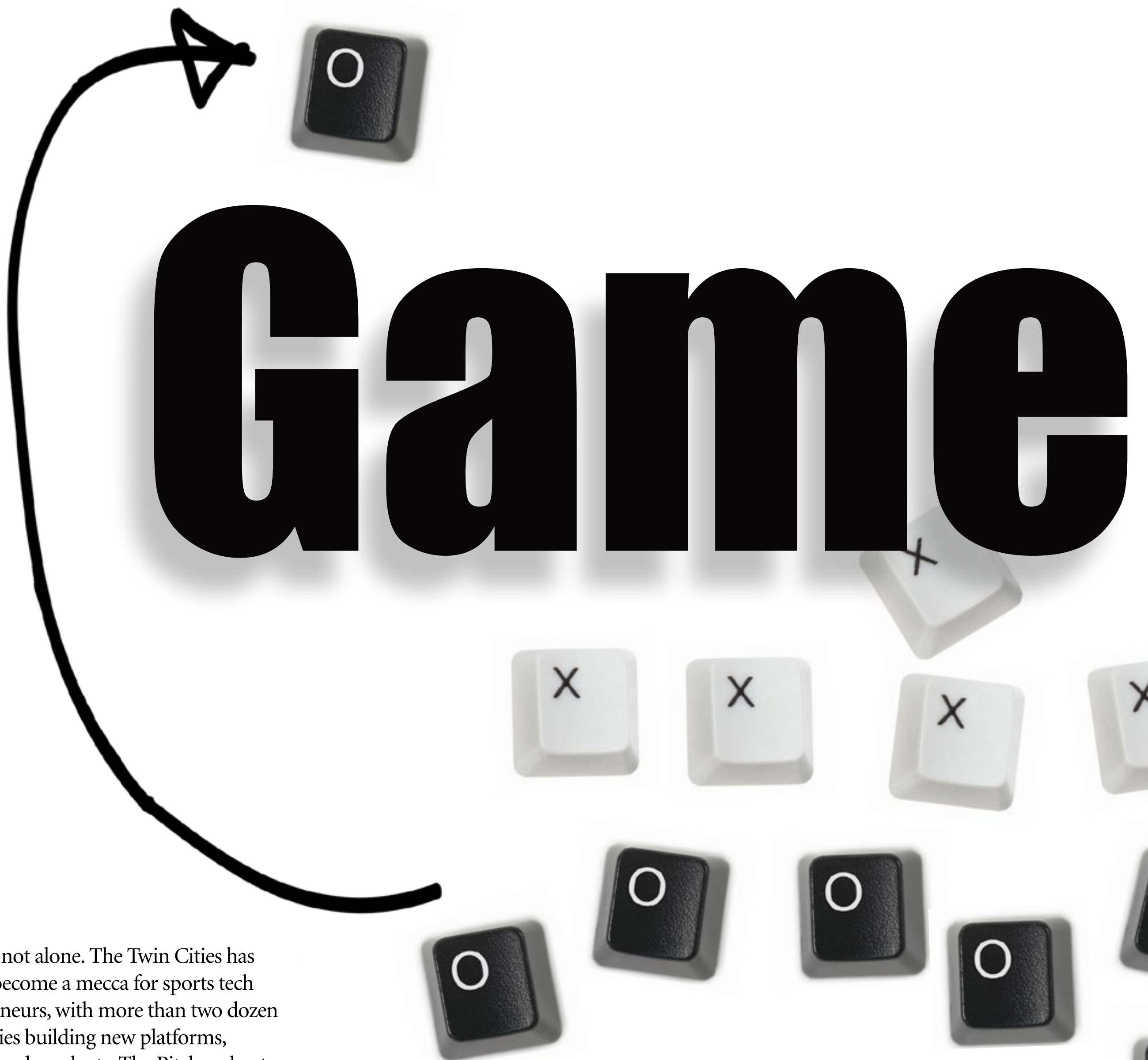
Twin Cities Business conducts its survey quarterly to provide a look at business planning and sentiment among leaders across all industries in Minnesota. An email link to an online survey was sent to 14,056 Minnesota business leaders in late September, and reminder emails were sent the following two weeks to those who had not yet completed the survey. The Minnesota Chamber of Commerce provided some of the email addresses used in this outreach. As of January 3, 274 leaders responded, resulting in a 2 percent net response rate.



55% of business leaders in Minnesota expect to increase wages during the first quarter, the highest level reported since *TCB* began tracking this indicator two years ago.



Game



Minnesota Sports Tech Startups Are Suiting Up

By Burl Gilyard

Tyrre Burks attended Winona State University, was an outstanding football player and went on to play pro football in Canada. But he was plagued with injuries throughout his playing years and, at just 24, had to hang up his cleats for good and move back to his hometown of Chicago.

His experience, however, prompted him to start the nation's first universal health management and compliance app for young athletes, called Player's Health. Coaches, trainers, parents and athletic directors can monitor the health and progress of an injured player. Parents are instantly notified the moment their child has been injured.

While kicking it off, Burks heard about Sport Ngin, a Twin Cities company with a parallel mission, and ventured north to meet its co-founder and CEO, Justin Kaufenberg. As he looked around Sport Ngin's headquarters and saw hundreds of employees—and heard about similar, albeit smaller startups in the area—Burks called an audible and decided that his business needed to be here instead of Chicago.

"I was like, 'I've got to figure out how these guys did it.' Because we want to be the next Sport Ngin," says Burks. "That's exactly why we came up here."

He's not alone. The Twin Cities has quietly become a mecca for sports tech entrepreneurs, with more than two dozen companies building new platforms, services and products. The Pitch, a short-lived co-working sports tech incubator in Minneapolis, emerged as a nucleus for many startups in the sector.

Worth magazine noted in 2017: "While Minneapolis-St. Paul isn't about to topple the nation's well-established coastal tech capitals, it's definitely a force to be reckoned with when it comes to sports tech."

Burks and other entrepreneurs are building on a foundation established by more recent upstarts such as Sports Ngin [pronounced "EN-jin"] but also one of the world's pioneers of mixing sports and tech: Fanball (see "Sports Tech Godfathers" page 26). And they're out to serve a rapidly growing industry (see "Sports Tech Industry Heal Thy Self: Where Are Your Stats?" page 26).

Firing up the Ngin

Sport Ngin kickstarted the current local sports tech trend in the Twin Cities by developing an intuitive team-management website and app for sports teams, players and parents to use to keep track of schedules and stats. Founded in 2008, it grew quickly, attracting $39 million in venture capital and topping 5 million registered and active athletes before being sold to NBC Sports in July 2016 for an undisclosed sum.

The company remains based in Minneapolis and now employs about 450 people, primarily in Minnesota. (At the time of the deal, Sport Ngin had about 250 employees.) NBC immediately rebranded the company as SportsEngine.

"There was no market for sports and tech before those guys," says Scott Litman, a serial technology entrepreneur and co-founder of MN Cup who was an early investor in Sport Ngin.

The company began as TST Media Inc. and did not seem destined for greatness; potential investors did not see youth sports as a particularly lucrative market.

"It was a tough sell back then," recalls Carson Kipfer, a co-founder of the original company who remains with SportsEngine as principal designer.

It found the financing, however, and Sport Ngin's ability to scale its business and draw millions of users demonstrated there's money to be made in youth sports. Since then, youth sports has become a $15.3 billion industry, according to WinterGreen Research; the National Council of Youth Sports estimates an estimated 60 million kids participate in youth sports programs each year.

"What those guys started at Sport Ngin has definitely been making an impact and inspiring other entrepreneurs to go into that space, which is really cool," Litman says. "As a parent with kids in sports and as a coach in youth sports, you can't run a league without seeing their software."

NBC Sports plans to promote SportsEngine with TV ads during the 2018 Winter Olympics.

Meanwhile, another local sports tech company also made it to the major leagues in recent years. Minneapolis-based SportsData started compiling data for fantasy football players and media companies in 2010 before being acquired in 2013 by Sportradar, a global company based in Switzerland. The company's downtown Minneapolis of-

Changer

fice serves as headquarters for Sportradar US. Sportradar has more than 1,900 employees globally.

SportsData got its modest start by paying college kids to watch games on television to compile data.

"The biggest thing that has changed for us is, really, scale. When we were acquired, Sportradar just brought us an enormous amount of credibility," says Dave Abbott, a SportsData co-founder who is now Sportradar's senior vice president of innovation and product integration. "When we were just small, SportsData out of the University of St. Thomas, it was tough to get the NFL or NBA or someone like that interested in us."

At the time of the sale, Abbott says the company had about 20 full-time employees and 100 part-timers. That has now grown to 150 full-time staffers with 120 part-time workers.

Today Abbott sees new frontiers for sports data. He points to player-tracking data from the NFL (through chips in shoulder pads) and the NBA (via cameras above the courts). "We're at a crazy, exciting time," says Abbott. "Now you can really, truly quantify where the players are … it's allowing us to generate a whole new raft of statistics around the game. I think that in the next five years we're going to really, truly change the vocabulary of how we describe the game."

Up to Bat

"Over the last decade, [we] have started to see a lot more of these startups emerge," says Kipfer of the Twin Cities sports tech industry. "There's actually a pretty solid community here in the sports tech space." Yet a big gap remains between SportsEngine and Sportradar, and the emerging generation of Minnesota-based sports tech companies that seek to follow in their wake.

The fledging firms want to get off the sidelines and onto the sports tech playing field. Like startups in any sector, they don't have much revenue. They want to draw fans. They are hoping to get scouted and drafted by investors. The leaders of the young companies sound like head coaches talking up the next season: They have a great team. They plan to outsmart the competition. They have a strategy to win. Now, will they beat the odds?

The four that are the most promising right now are Player's Health, Starting 11, MatBoss and Team Genius.

Starting 11

Minneapolis-based Starting 11, which created a fantasy soccer playing app, has been in business for less than a year and had no revenue as of mid-December.

But company CEO Teague Orgeman is thinking big and looking to the World Cup, being held this summer in Russia. Orgeman says it could offer a worldwide stage; the 2014 World Cup was watched on television by 3.2 billion viewers.

"We're going to have contests for that available in a number of different countries," says Orgeman, who quit his job as a lawyer in May 2017 to help start and lead the new company.

Starting 11 won the high-tech division of the 2017 MN Cup entrepreneurial competition, rising to the top of the 60 companies that submitted plans in that category. The award meant $30,000 and access to the broader business community.

MN Cup does not have stats tracking sports tech entrants, but John Stavig, director of the Gary S. Holmes Center for Entrepreneurship at the University of Minnesota's Carlson School of Management, says that judges saw a marked increase in sports tech submissions in 2017.

In contrast to most fantasy sports, Starting 11 is a daily game and allows users to make substitutions while a match is in progress. Most people associate fantasy sports with NFL football, but it's a different story outside the U.S. Orgeman notes that the United Kingdom's Premier League has 5.6 million users for its own fantasy platform.

"For us it's really about scaling," says Orgeman. "It's about the ability to be able to successfully market what we're doing internationally."

Starting 11 is planning to seek $2 million in a financing round in the first quarter of 2018.

The Sports Tech Godfathers

In the beginning, there was Fanball.

Back in 1993, there was no sports tech industry. Two local fantasy football players, Rob Pythian and Paul Charchian, created Fantasy Football Weekly, which later became Fanball.com. It started as a weekly magazine with stats for fantasy players. The Twin Cities was an early hotbed for fantasy football players.

"It's always more popular in cold-weather cities," says Charchian.

Charchian and Pythian are arguably two of the godfathers of today's sports tech companies in Minnesota.

As technology expanded, Charchian and Pythian went online with Fanball.com, which rode the ups and downs of the dot-com explosion and the "dot-bomb" implosion. Fanball filed bankruptcy in late 2001 After rebuilding the company, they ultimately sold to a U.K. group in 2005 for $22 million, including earnouts.

Pythian and Charchian departed in 2007. Pythian went on to cofound SportsData, which was sold to Sportradar in 2013. Charchian launched LeagueSafe, effectively a digital escrow tool for fantasy players playing for money online.

Another Pythian fantasy sports venture, Minneapolis-based SportsHub Technologies, acquired LeagueSafe in November 2016. SportsHub operates gaming sites and works with media companies to develop interactive games and mobile apps.

In early January, SportsHub announced it was buying the MFL10s line of business—draft software for fantasy players—from MyFantasyLeague. The deal marked the sixth acquisition for SportsHub since it started in early 2016.

SportsHub Technologies founder and CEO Pythian says that local investors are a big reason why the Twin Cities is seeing growth in sports tech companies: "We have a rare mix of supportive angel and strategic investors that are willing to back entrepreneurs," says Pythian.

SportsHub was also based at the Pitch, but has since moved to the North Loop of downtown Minneapolis. Coming full circle, SportsHub acquired the Fanball name again through the March 2016 acquisition of CDM Sports.

Both are now considered elder statesmen in the business of fantasy sports. Charchian is the current president of the Fantasy Sports Trade Association.

"I talk to a lot of startups and try to offer some historic perspective," says Charchian. "There's still tremendous opportunity for people that want to innovate."

Sports Tech Industry: Where Are Your Stats?

Although sports tech's stock in trade is metrics, definitive stats detailing the true scale of the emerging sports tech industry remain elusive. Data for subsets is available, however. The sports analytics market alone has been growing at about 40 percent a year. Smart sports products and other fitness wearables accounted for $3.5 billion in 2014, which is expected to grow to $14.9 billion by 2021, according to a recent study commissioned by Market Reports Hub.

A recent report from Deloitte explains this growth by the proliferation of alternative ways people can watch pro sports events and how these new methods also allow for new kinds of engagement.

"For example, 52 percent of all sports fans say they will use a smartphone or a tablet to access sports-related content while watching televised sports, up from 36 percent in 2012. Moreover, 66 percent of devoted fans go online at least once a day for sports content," the report says.

Accessing real-time updates and highlights on social media also is growing rapidly: "The overlap of mobile, digital and social media technology is not only changing the way sports is consumed but is also allowing fans to get in on the action."

Greater participation is also being fostered by online fantasy leagues, which are now multibillion-dollar subsectors. The fantasy football market is estimated at $40 billion and $70 billion a year.

The sports tech sector in the Twin Cities is largely a guy's game. One notable exception is Minneapolis-based Sportsdigita, founded and led by Angelina Lawton. The company offers teams data and digital tools to improve marketing, ticketing and social media presence.

John Peterson
MatBoss
. . .
"We definitely found kind of a niche."

Player's Health

Player's Health (its legal name is AO1 Solutions Inc.) scored a win in 2016 when it took top honors in Google Demo Day, a national competition for technology startups, which helped generate buzz for the company. "It validated us in the investor community," says Burks.

The company raised $1.5 million in seed financing two years ago and is now working to raise $7 million in Series A financing, he says. Player's Health has 13 employees and moved from space in the Pitch last fall to a small office in the North Loop of downtown Minneapolis, an area that has become a hub for startups and tech companies. The Player's Health app launched in July 2016 and now has more than 90,000 athletes, coaches, parents and administrators using the tool.

MatBoss

John Peterson demonstrates that there's no such thing as an "average" sports tech entrepreneur. At 55, he's no millennial, but he's had a long-standing fascination with technology and gadgets. For decades, he taught high school math and computer science in Elk River, where he was also the wrestling coach. He says he created the MatBoss application in 2015 to address "everything that drove me nuts as a head coach," which includes wrangling statistics and matching videos smoothly.

"We definitely found kind of a niche," he says. Approximately 1,200 teams now use MatBoss, including several Division 1 college programs.

The app was developed for the iPad, but Peterson wants to add a version for Android-based devices. Peterson is the company's president and has five other partners. He says revenue for 2018 will

Lasting Impressions from the Pitch

Many of the companies highlighted in this story shared co-working space at the Pitch, a short-lived sports tech incubator next to Sport Ngin's office in northeast Minneapolis.

Sport Ngin helped create the concept to help local startups, just as the company was about to be acquired by NBC Sports. A June 2016 press release for the Pitch outlined ambitious goals calling it "a sports tech innovation center designed to be the nation's hub for cutting-edge sports tech startups, businesses, entrepreneurs and developers."

But the space closed at the end of December, after an 18-month run. SportsEngine (Sports Ngin's new name) needed the space to accommodate continued growth, says its co-founder, Carson Kipfer. The Pitch program will still offer networking and mentorship for aspiring sport techies.

"At its height, we probably had 70 people in here," says Kipfer. "Probably 15 companies were represented in some capacity."

be $600,000 to $750,000.

TeamGenius

MyTeamGenius LLC, which began in 2016 in the Chisago County town of Wyoming, was also a high-tech division finalist for MN Cup in 2017.

Co-founder and CEO Todd Larson says that the company's technology replaces paper and clipboards with an app to track an athlete's performance. For youth sports, Larson says, "tryouts are the biggest pain point."

Dozens of kids show up for a tryout. Coaches scribble notes and hand those off to be entered into a spreadsheet. Larson says that it has historically been a "very inefficient, time-consuming, error-prone" process. TeamGenius streamlines the process of ranking players. The company finished as a finalist in the MN Cup high-tech division and won $10,000 for as the competition's "best idea from Greater Minnesota."

TeamGenius was one of the original members of the Pitch (see "Lasting Impressions from the Pitch," above) and was based there for about a year; the company has now moved into the WeWork co-working space in downtown Minneapolis. Larson says that the company is working to raise money from a seed financing round.

What's Ahead

It's still early in the game for sports technology, says Pete Giorgio, who leads the sports consulting business for Deloitte Consulting, a subsidiary of New York-based Deloitte LLP. In the big picture, sports tech now includes a wide swath of specific digital niches including data, management apps for teams, fantasy sports, wearables to track health and performance, video streaming and even virtual reality.

"I think you're starting to see a lot more attention paid to data and analytics on the business side of sports," says Giorgio, noting that teams are using information to create better profiles of their customers.

Giorgio also sees strength in the youth sports category. "There's lot of opportunities there," he says, adding, "however, I do think there are some risks, because you are dealing with personal information and there's starting to be a lot more scrutiny on people who collect personal information and what they do with it and how it's protected."

Also big: virtual reality, which "has some pretty interesting implications for sports and any live event," Giorgio says. "The nearer-term technology is going to be augmented reality."

Augmented reality lays digital info or images over one's view of the real world. Giorgio's example is a fan holding up his phone to focus on a player, as a raft of statistics about that player pop up on the screen. A popular concept is to use technology to both enhance the sports experience and extend it.

Whatever the subniche, Minnesota is uniquely positioned as an incubator for sports tech, says Starting 11's Orgeman. "There's a robust investor network here, there's a lot of marketing talent here, there's a lot of design talent here."

There's also experience: "Part of the equation is Minneapolis in particular is a really good tech market … you've got successful businesses that create alumni," says Litman. "That's how entrepreneurial hubs get established." tcbmag

Burl Gilyard is TCB's *senior writer.*

PHOTOGRAPHY BY CRAIG BARES

Kaywin Feldman

A decade into her tenure at Mia, she discusses disruption, reinvention and the dangers of relying exclusively on data.

By Adam Platt

This winter marks the start of Kaywin Feldman's second decade as director and president of the Minneapolis Institute of Art (Mia). That tenure is notable for dramatic growth in the museum's collection, revenue and attendance (the latter has more than doubled, reaching a record 891,000 last year, up from 425,000 at the dawn of her directorship). Observers credit her for moving aggressively to modernize Mia in the face of the generational obsolescence issues that all legacy arts institutions struggle with. Feldman and Mia labor in relative obscurity, as the Walker Art Center garners local and national media attention (not all of it favorable). Still, it's been argued that the more compelling transformation story is on Third Avenue, not Vineland Place. As she begins her second, and likely final, decade there, we spoke to Feldman, 51, about transformation and the necessity of reinventing legacy institutions as their customers and marketplaces change—as evidenced by Mia's creation of the Center for Empathy and the Visual Arts just days after our interview.

TCB ***Take us back a decade to what you understood to be the challenges in 2008.***

Feldman: I told the board from the beginning that one of the things that distinguishes us is the quality of our collection. I didn't feel our [guest] experience in the galleries was equal to our collection. I was also interested in animating the building and collection, connecting the community with the collection. We had spent the past 30 years acquiring more art, and [expanding the physical space]. It had become a distraction to programming.

Q ***What are the unique challenges that encyclopedic, so-called survey museums face?***

The biggest one is a changing America. Demographics. [The U.S.] will be majority people of color by 2043. We were founded 102 years ago, when the citizens of Minnesota decided we needed a great art museum and we needed a culture and they completely looked to Europe. We were founded to look like Europe.

With audiences becoming so much more diverse and digitally native, we're responding so that people see themselves reflected in the institution. That's in staffing, collection and in relevance. Younger generations demand we be more than pretty places to look at art. They want to know that we're connected to what's happening in society, whether it's thinking about Black Lives Matter and integrating that into our programming or that we're thinking about a border wall with Mexico. It's being political with a small "p." All art is political, and you ignore it to your peril.

Q ***When I think about a great European still-life painting, it feels like an escape from the tumult of the world. So it's intriguing that your strategic plan emphasizes connecting Mia with the chaos.***

Well, I want you to come and be able to look at beautiful art quietly. Fifty years from now people will still be doing that here. But millennials are much more interested in social responsibility. They are less interested in how many still-lifes we have [and more interested in] how we have impacted people with them.

Q ***That's a lot of responsibility for what was just a decade ago a box of art with a restaurant.***

Yes. Earlier the idea of a museum was like a secular church, a spiritual place to go. Younger people want more a central square that reflects cultural values. Maybe that still life was owned by a slaveholder who bought it with ill-gotten gains. They want that complexity acknowledged.

PHOTOGRAPHY BY TRAVIS ANDERSON

Q ***That seems to fly in the face of last year's "Scaffold" controversy at the Walker Art Center, which caused me to ask how artists create challenging art in the current environment. Then this idea of cultural appropriation—that, for example, Gauguin had no right to go to the South Pacific and paint another culture and then profit off it.***
For the last two years I've said to my board that identity politics is the one thing that keeps me up at night. One of my trustees suggested that what happened at the Walker couldn't happen here. But go upstairs—we have sexism, we have racism, we have colonialism, we have imperialism, we have war. Because we represent all of human history.

We can't be too careful in our work. Boards and staffs of museums have to look like their communities. In this particular sensitive moment it is difficult for someone of another race to produce a work of art.

Q ***Even if the motivations are good?***
Yes, it's a moment to be very careful. That will change, but for now, very careful.

Q ***Was there any difficulty in convincing your board of the need to reorient Mia externally?***
I wouldn't say that we did so exclusively. We have certainly continued to make great additions to the collection and to maintain our facilities. The difference is that we focused our work around strategic plans that were measured by outcomes and impacts on the community. Ultimately, serving community needs and impacting human lives is much more important to us than the number of works of art that we can acquire.

Q ***Was there anyone in particular on your board or in the corporate or arts community who has served as an advisor or helped you navigate difficult dilemmas or phases? How so?***
One of the favorite parts of my job is that I never stop learning—and I get to learn from so many smart, experienced and talented people. I have worked now with seven board chairs at Mia: Brian Palmer, Diane Lilly, John Himle, Hubert Joly, Maurice Blanks and Nivin MacMillan. Each one of them has supported me with excellent advice and guidance along the way and I am a better leader for it.

Q ***What was in your original strategic plan?***
I was instructed to do one in my first six months. I did it without consultants, because it was a way to listen. It's the worst strategic plan I've been a part of, but it served its purpose. It was rooted in the last century. It was focused on our collection. We decided to start a contemporary art department.

Q ***Were there economic imperatives?***
Well, the crash happened as I wrote it. And we did two rounds of layoffs. We had to slice $5 million out of [a $24 million] budget over 18 months.

Q ***How would you describe the changes here over the past decade?***
From the public standpoint, we now focus a lot on surprise. People will say, "I've been there. I've done the Met, I've done the Uffizi"—as if visiting once, you've consumed it. We rely on a local population. We don't get a lot of tourists here. So we need to be constantly fresh and constantly surprising. We brought in a contemporary artist from Los Angeles to paint all the walls in our contemporary gallery. People love it, people hate it. I'm good with both, I just want people to care.

We have video art now. There are a lot more experimental installations. We try to connect news of the day with art. When we heard a royal baby was coming, we had an art deco pram in the collection and we took it out and put it on display. And we do a lot more programming that is community-based. Our exhibitions are bolder. It's not enough to do a blockbuster; King Tut was 40 years ago. Our Martin Luther exhibition included a German church pulpit from the 1500s preserved from a church.

Q ***Behind the scenes?***
Technology has been an emphasis. Even when we were laying off, tech was growing. Now the biggest area of growth is data analysis. I changed the org chart to create a leadership team; there hadn't been one before. We've tried to change the culture. We have a culture plan. We hire for culture, we don't just hire for skills. We review for it as well.

When I first arrived, there was something called EMIC, the employee morale improvement committee. It met every month and the first agenda item was always "rumor control." I said to the board, "When EMIC is gone I will know I have made progress." It took about six months.

I liken [running a museum] to being a shark that can never stop swimming.

Q ***Your strategic plan is big on "personalization." How do you do that?***
About 10 years ago we came to understand that people don't interact with us based on age or number of kids or ZIP code, as was believed. People operate on different motivations—fear of missing out, guests in town. A lot of personalization comes from CRM (customer relationship management) and data. We are still building it, but we will have a lot of opportunities for you to check in.

Q ***So you want that relationship whether there's revenue attached or not?***
Yes, because we're here to serve the public good.

Q ***We see an endless train of corporate headquarters leaving the Twin Cities, with ominous trends for philanthropy. What is the current state of philanthropy at Mia?***
After the crash, we made an effort to increase our operating endowment from $190 million to about $250 [million] now. In terms of overall trends, the one we're concerned about is corporate giving. Individuals write annual checks and help us buy works of art, but corporations tend to fund large exhibitions. Not only is corporate support declining, but they're becoming so specific—"We want to fund K-12, we want to fund nutrition." So we're working to build our individual donor base to pay for exhibitions. That's a harder sell. They'd rather see something [that exists] long term. As these exhibitions become more expensive and your audience gets more and more sophisticated, they get harder to pay for.

Q ***I remember reading an article about the difficulty of finding leaders for major museums because of how much of the job is fundraising.***
I liken it to being a shark that can never stop swimming.

Q ***One thing I hear a lot from key figures at Mia is that the institution has become "customer-focused." What does that mean and why?***
In the last 15 years the biggest change in museums is this move to being more visitor-centered. We used to do things more because a curator wanted to present an exhibition that would make a contribution to scholarship. The labels were written in case a curator from the National Gallery came to town.

It's thinking about being accessible: free admission, the titles for our shows. All visitor studies often show the biggest barriers to getting people to visit are practical, like parking and finding bathrooms. If you can bring people once and get them accustomed to the institution, they are likely to come back.

Q ***Is there a simple answer to why visitation has doubled in a decade?***
It's all of those things.

Q ***Is that a trend line that a lot of survey museums are showing?***
Not to the degree we have shown.

Q ***"Engagement" is the buzzword of the era. What is the business imperative behind it here?***
Engagement, in the past, meant whatever your thing was—the orchestra, the museum—you wrote your $60 annual check, and that was engagement. It meant you cared about this place. But the trend line is that people are visiting but they are not joining. People are more culturally promiscuous. We got ourselves into a system that was too transactional—if you pay us $60, we're going to give you all these free tickets and a discount at the gift store and we're going to send you a Christmas card. And then the next year we're going ask for $65, so we're going to add a party.

Q ***So how did that translate to a free level of membership at Mia?***
We love the label of "the people's museum." If you self-select, then we can get to know you. If I know you have come to the last three African art shows and bought catalogs in the shop, we can market to you. It's a better connection.

Three Favorite Works (and two Feldman acquisitions)

1} Writing Desk, 1870, William Howard (acquired 2012)
KF: It's a really important piece because it was made by a freed slave. He carved all of these implements, like 70 [of them]. We haven't been able to identify all of them. And when you open it up inside, it's cotton crates. There is not much known about William Howard. I had put a moratorium on arts purchases because our funds were depleted, but I said, "Get that."

TCB: What did something like this cost?
KF: We don't ever talk about that.

2} Ram, 1938-42, William Edmondson (acquired 2013)
KF: [Edmondson] was the first African-American artist to have a solo exhibition at the Museum of Modern Art in New York. It is also self-taught art, like Howard's. He was born in Nashville, the son of freed slaves. He used railroad ties and hammers and found stone. Because he was illiterate he used biblical scenes or things in the news. He did sculptures of Joe Louis and Eleanor Roosevelt.

3} Self-portrait with Dr. Arrieta, 1820, Francisco Goya (acquired 1952)
KF: Goya painted it after he got really sick. Dr. Arrieta was a plague specialist, so we think he had the plague. But he was healed. It's about vulnerability and love. You can see Goya is ashen-faced, clutching at the bedclothes, letting another man embrace him. What man paints himself in such a vulnerable way? Doctors love to use this painting on conference programs. I don't think it's about medicine. I think it's about love. It's an incredible masterpiece in the collection.

Q ***With free membership and free admission, what is your revenue pie chart like?***
We raise about 35 percent of our revenue. Earned revenue is 15 percent. It's one of the smallest earned revenues of any museum because everything is free. We charge for parking to keep up the ramp; ticket sales, facility rentals. The rest is endowment and the Park Museum Fund.

Q ***The Museum Fund contributed nearly $12 million last year?***
It's about 40 percent of our revenue base. It comes from Hennepin County taxes for parks. [The contribution rises nearly 7 percent to $12.77 million in 2018.]

Q ***What is the greatest predictor of museum attendance today?***
Oddly enough, it's proven that the people who go to museums are the ones whose parents took them.

Q ***Do you use focus groups?***
We do a lot of them. For every exhibition. Our show titles were [formerly] created by curators and they were always clever. Well, through focus groups I've learned we cannot be literal enough! I sat behind the glass for "Rembrandt in America." People didn't get it. "When did Rembrandt come to America?" So our titles have gone super-literal. We test promotional images, words that resonate.

Q ***How is data transforming things here?***
A lot. We can see how and when people buy tickets for our shows. We have a person who does nothing but measure how successful we are in social media.

[But] I would say that museums, to their detriment, have focused too much on numbers. Your excellence becomes measured in that. But we become increasingly irrelevant in the eyes of many if we only count paintings on the wall. That's why we've increasingly, as a staff, turned our eyes to the impacts we have. It's hard to track and measure.

We've all done economic impact studies. I don't think anyone is swayed by the fact that we have an economic impact. They care because we change people's lives. That's the story we need to keep telling.

Q ***You've been here a decade. How much longer are you going to stay? It's kind of an itinerant profession.***
It is. Seven years is the average. I also believe museum directors have a shelf life. You can stay too long. I want to leave while the party is still fun. You have a supportive community. It's not as easy in other parts of the country to run an art museum.

I'm really excited about this project we're doing with the architect David Chipperfield. I feel like a lot of the work we need to do is fixing design problems from the past. And we have some really aging infrastructure. Our parking ramp is 50 years old. I feel really strongly that I have the connections and credibility now to fix these things to leave the museum in a better place.

Q ***What besides the parking ramp?***
We've got 500,000 square feet here, with three primary buildings. We maintain, we're super-responsible. But in 100 years, things pile up. We have some HVAC issues. We are out of art storage. Gallery [navigation] is super-confusing. Our restaurant hasn't been touched in 50 years. It's in a bad location, so we have to move it. Our classrooms are dated. We own a lot of land around the museum, so it's also thinking about how we might use it in the future. We own a church and two former nursing homes.

Q ***Food has become a key driver of interest at many museums; not so much here. How do you figure out the sweet spot?***
Museum directors gripe constantly about food: 90 percent of museum restaurants lose money. I'm not interested in subsidizing food. We don't at the moment. But we want a proper restaurant. Sometimes board members get starry-eyed and say, "Let's have a destination restaurant." That's not us. We're the people's museum. We want something that reflects our brand.

Q ***So you don't see it as potentially a tail that wags the dog?***
No. Part of it is we're not in the middle of a lot of people. We're not downtown. We're not open nights. Whatever it becomes, it will still be about enhancing the experience here.

Q ***You've added a contemporary collection. How do you do that with one of the world's leading modern art institutions down the street?***
So many of our collections, when I arrived, ended around 1900. I felt it was a disservice to not show that these cultures are vibrant and still producing art.

Q ***This is a community that prides itself on its literacy and support of the arts. It's also terribly insecure about its place in the world.***
When I arrived, our mission statement began, "The mission of the MIA is to be the leading art museum in the world." *No it's not.* We changed that.

Q ***A decade in, what's your take on Minneapolis as a cultural hub?***
There's always that sense of "[How] do we stack up?" It's not an easy question. But this is such a golden place to be because it's long believed in the arts. But because we don't see many tourists, our audience is the region. So what feeds my soul the most is impacting people's lives. We do it here, as do so many of our [other] arts institutions. How wonderful for us. tcbmag

The **Diversity** Drop-Off

There aren't many leaders of color at Twin Cities companies. So what's being done about it?

By Chris Clayton

Ravi Norman is tired of the "white benefactor" narrative. The African-American CEO of Thor Cos., one of the largest black-owned construction firms in the country, is more interested in bootstrap success stories. "Minority workers are always getting pitched in this subsidy, needy, deficit situation where they look to the white power structure to solve their problems," says Norman, leader of Fridley-based Thor since 2009. "But there are a lot of positive things happening. I hope that's the narrative you put forward."

Of course, there is no single narrative in the fight for racial equity in Minnesota's job market. It's an epic story with twists and turns, power struggles and little victories—*Game of Thrones* minus the dragons. Some of the plotlines, like Norman's, inspire. In the early 2000s, he was a star manager and loan officer at Highland Bank, keeping pace with his older, better-compensated coworkers. When his request for equivalent pay fell on deaf ears, he quit and started a management consulting firm, with Thor among its clients. Norman later joined Thor full-time, growing annual revenues to well over $200 million thanks to high-profile gigs like U.S. Bank Stadium, where it served as associate construction manager.

It's a good story on its own, but it loses some sheen in context. Though the number of minority-owned businesses in Minnesota spiked by 53 percent between 2007 and 2012 (the most current Census data available), those companies accounted for just under 10 percent of the state's businesses in 2012. As of 2016, minority firms comprised 7 percent of Twin Cities businesses, while minorities themselves made up about 22 percent of the metro population. With non-whites driving most of the state's population growth, the #minnesotasowhite excuse no longer explains such disparities: Between 2010 and 2015, the state added four times as many people of color as white; minorities now account for 19 percent of the state's population, a figure the state predicts will hit 25 percent by 2035.

The numbers reveal other plotlines. According to one-year estimates from the 2016 American Community Survey, the state's 2016 unemployment rates were 3.1 percent for non-Hispanic whites, 6.4 percent for Hispanic/Latino, 10.7 percent for African-Americans and 12.8 percent for American Indian and Alaska natives. Another story: When adjusted for population, minorities are at least twice as likely as whites to hold low-skill service and labor jobs, according to the latest statistics from the Equal Employment Opportunity Commission. The same data shows that whites are about 1.5 times as likely than are non-whites to hold better-paying jobs that require higher education—think sales, technician and professional positions.

One number in particular brings the imbalance into focus: White Minnesotans are three times likelier to hold senior management, C-suite and other leadership positions relative to their prevalence in the workforce. The power gap in the Minnesota workforce is "an epidemic," says Sara Taylor, a diversity and inclusion (D&I) expert whose Woodbury-based deepSEE Consulting firm has worked with 3M, General Mills and Wells Fargo, among others. "A lot of companies are aware of the diversity drop-off [at the top], but not all are actively doing the work to shift that tide."

None of Minnesota's 17 Fortune 500s has a CEO of color. (Speaking of *Fortune*, the magazine featured exactly zero Minnesota businesses on its 2017 list of the "100 Best Workplaces for Diversity.") While our big-fish companies are relatively diverse at the bottom, they become increasingly white as you go up the ladder. According to its 2016 employee demographic report, U.S. Bank's sales and admin category was roughly 35 percent racially diverse, compared with senior management, which was about 9 percent diverse. Taylor sees this slide at small and mid-size companies, too. "It exists in organizations and industries across the state and, frankly, across the country."

With a strong grip on power positions, whites also control the talent pipeline. Norman, for his part, saw the writing on the wall and left traditional banking to strike out on his own. Today, he's an outlier: a minority executive at a large minority-owned firm. (Norman also writes a regular column for *TCB*.) Dipanjan Chatterjee, a strategist at Minneapolis branding firm Zeus Jones, is concerned by the diversity drop-off but sees potential for a more optimistic storyline. "Companies make more money with diverse teams, plain and simple," he says. Like Norman, Chatterjee bristles at the "needy minority" narrative. "When white [business leaders] try to determine how to diversify in this almost philanthropic way—that doesn't work," he says. "The question they should be asking themselves is, 'How do we capitalize on diversity throughout our company?' "

Norman agrees. "It's time for a paradigm shift. And it starts at the top."

In search of solutions

Harvard sociologist Frank Dobbin has spent a lot of his career thinking about the elephant in the room that is workplace diversity. "Over the past 40 years, the educational attainment of blacks and Hispanics has shot through the roof," he says. "It's still below whites, but way above what it was. So what we're seeing in EEOC data is blacks and Hispanics, in particular, have increased their numbers in professional jobs that require an advanced degree—your lawyers, doctors, accountants, etc. But there's been slow growth in senior management jobs." Dobbin explains that for generations, minorities knew that professional degrees led to professional jobs. The qualifications for upper management, by contrast, are more nebulous.

On top of that, white executives bring inherent bias to the hiring process, says Dobbin, pointing to a study showing that African-American men rise through the ranks more slowly than their white counterparts do. "White executives take longer to become familiar-


Zeus Jones' Dipanjan Chaterjee

An Expert's Guide to Diversity and Inclusion

The dos and don'ts of building a balanced workplace, according to D&I expert Sara Taylor, whose deepSEE consulting firm has worked with 3M, U.S. Bank, Wells Fargo, Xcel Energy and other local companies.

Do

- **Embed cultural competence into your company's DNA. Have all employees, including leaders, undergo unconscious bias training.**
- **Take a top-down approach to building diversity, with higher-ups who lead with cultural competence.**
- **Consider replacing mentorship programs with sponsorship programs where leaders proactively move minority workers through the pipeline instead of just imparting wisdom.**

Don't

- **Make diversity initiatives programmatic and policy-based.**
- **Be all about inclusion, but ignore diversity—and vice-versa.**
- **Think you're going to solve your diversity issues overnight. "It's amazing how many times we'll get companies who will call us and say, "Can you come in and do diversity for about an hour-and-a-half on the 25th?" says Taylor.**

"When white [business leaders] try to determine how to diversify in this almost philanthropic way—that doesn't work. The question they should be asking themselves is, 'How do we capitalize on diversity throughout our company?'"

—Dipanjan Chatterjee

ized with African-American men and become comfortable moving them into management and executive jobs," he says.

White gatekeepers also can confuse perception with reality. "We perceive ourselves to be more competent than we are," says Taylor. "So, as organizations, we say we want diversity and inclusion—it's a good thing. And because we say it's good—because we say it out loud—it will happen. Not true."

A recent survey underlines this disconnect. In 2016, the state's Department of Employment and Economic Development (DEED) polled 1,049 Minnesota companies about diversity in the workplace. Eighty percent of respondents said they have a diverse workforce, with DEED defining "diverse" as employing one or more people of color. Even with the bar set so low—and with EEOC numbers showing otherwise—companies still viewed themselves as diverse.

"Diversity and inclusion is often treated as theater," says Chatterjee, whose first job out of college was a sales manager role for an office furniture manufacturer based in Michigan. "The company was not super-progressive with diversity," says Chatterjee. "Everyone was really nice, but diversity was not a priority. They were very white."

Chatterjee's recruiting class, however, was atypical. "They hired me—the Indian guy—along with another Indian guy, an Asian girl and two white people," he says. The company quickly scheduled a photo shoot of the group for its marketing materials. "I made the photographer uncomfortable," Chatterjee recalls. "I said, 'I bet the reason I'm here is because of my perfect bone structure.' He looked at me like I was crazy. I said, 'Man, I'm joking.'" Jokes aside, Chatterjee's not entirely sure why his former employer made a fuss over his recruiting class. "Were they proud of this diverse group of new hires? Were they exploiting us? Both?"

Chatterjee says his old company's amorphous attitude toward diversity is hardly unique, nor was its racial makeup. He sees similar homogeny in the ad and branding world. In its 2016 survey of Twin Cities marketing firms, the non-profit BrandLab found that minorities made up 6.3 percent of total employees in the poll. Their research also found that less than half of respondents collected demographic information on their employees. Minneapolis-based BrandLab works to bridge this gap by helping minority students land internships at local agencies like Zeus Jones. "Zeus is trying," says Chatterjee. "They are well aware of the problem."

"The lack of diversity in our industry [comes from] a lack of awareness," says Dorion Taylor, one of the few minority leaders in Twin Cities marketing. Taylor, an African-American, is a partner and director of new business at Carmichael Lynch. "As a person of color in a senior position, I feel a responsibility to bring about awareness. Any chance I get I'm mentoring students, educating others in the industry."

Thor's Ravi Norman

"Blacks and Hispanics, in particular, have increased their numbers in professional jobs that require an advanced degree—your lawyers, doctors, accountants, etc. But there's been slow growth in senior management jobs."

—Frank Dobbin

There's an awareness problem everywhere you look, says Sara Taylor. "It's not about a lack of good intent," she says of D&I efforts. "It's literally about the lack of competence to make systemic, sustainable changes that are needed to attract and retain diverse talent."

The futility of initiatives

If there's a through-line in Frank Dobbin's research, it's that workplace diversity initiatives generally fail to increase the number of employees of color at all job levels—especially the top. In 2016, Dobbin and colleague Alexandra Kalev wrote an article for *Harvard Business Review* titled "Why Diversity Programs Fail." They paint a fairly grim demographic picture of America's job market:

"Although the proportion of managers at U.S. commercial banks who were Hispanic rose from 4.7 percent in 2003 to 5.7 percent in 2014, white women's representation dropped from 39 percent to 35 percent, and black men's from 2.5 percent to 2.3 percent. The numbers were even worse in investment banks (though that industry is shrinking, which complicates the analysis). Among all U.S. companies with 100 or more employees, the proportion of black men in management increased just slightly—from 3 percent to 3.3 percent—from 1985 to 2014. White women saw bigger gains from 1985 to 2000—rising from 22 percent to 29 percent of managers—but their numbers haven't budged since then."

The problem is rooted in control tactics, says Dobbin. After the EEOC launched in 1965, American employers started holding "race relation workshops"—a forerunner to modern D&I training used by HR departments. Thus began the era of compliance-based diversity programs. If you want to avoid a discrimination lawsuit, the old line of thinking goes, you'd better train away bias in your managers and add performance ratings, hiring tests and grievance systems to hold leaders accountable. "We want to believe if you stick [in] some rules about how managers can make hiring and promotion decisions, you can erase biases," says Dobbin. "But we have evidence that mandatory training backfires and actually reinforces biases."

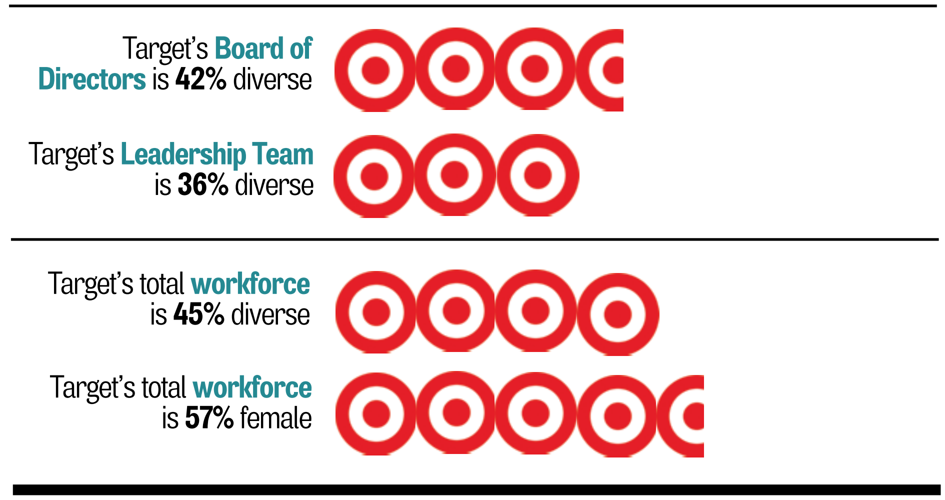
Companies can get stuck in this defensive, preemptive mindset. "There are different professions that will require continuing education credits to eliminate bias, and that's impossible," says Sara Taylor. "The legal profession, for example, requires attorneys to do that." She sees many employers taking a "flavor of the month" approach in their efforts to be more inclusive or racially balanced. "I've heard employers say, 'This month let's talk about Somalians, next month let's talk about Hmong people.' They keep it at this level that's all about how others are different."

Taylor has a go-to thought experiment to help her clients see the futility of their D&I initiatives. "A lot of organizations pull volunteers to lead monthly brown bags dedicated to diversity," she says. "When I hear this, I insert 'finance' for 'diversity.' Can you imagine an organization saying, 'We're going to redo our financial practice, so let's call on folks who love balancing their

Target's Caroline Wanga

A Target for Diversity

Our mega-retailer is leading the way in terms of diversity and inclusion, and its 2017 workforce demographics don't lie.



checkbooks to redo our financials. This shows we care.' It would be ludicrous."

Taylor, Dobbin and other experts prefer long-view tactics such as targeted recruiting at diverse colleges, hiring a diversity and inclusion manager, and forming a task force to monitor a company's racial and gender demographics. "Companies that proactively build D&I into their culture have more success," Taylor says.

Caroline Wanga, Target's vice president for diversity and inclusion, views parity in the workplace as an "ecosystem." You start by looking in the mirror, says Wanga, explaining Target's use of unconscious-bias training—not to train away bias but to help employees see how their preconceptions influence hiring and management decisions. "Traditional diversity training asks you to look away from yourself at others," she says. "It's ineffective and reinforces stereotypes." The mega-retailer's diversity ecosystem also includes "reverse mentorships" where a lower-level employee of color might teach a white director about what's happening on the ground. A happy by-product of these relationships? Junior workers connect to power networks in a meaningful, more democratic way.

A large part of the ecosystem is Target's 100-plus employee resource groups (ERGs), some based on race and ethnicity, others on religious affiliation, still others on various factors (there's even one for pet lovers). ERGs have been around in corporate America since the 1970s. Some companies, including Deloitte, are disbanding such groups, viewing them as archaic and isolating—the corporate equivalent of an echo chamber. Though research by Dobbin and others has shown the weaknesses of ERGs, Wanga remains a fan—but only if they serve a purpose beyond being a support network. Target changed its approach to ERGs years ago evolving them beyond support networks. The African-American employee group, for example, gives Target insight into the needs of black consumers. It also counts white leaders among its members, which creates an organic mentorship dynamic.

Target's holistic approach to diversity appears to be working. In 2016, racial and ethnic minorities accounted for 25 percent of the company's leadership team, well above baseline goals of other Fortune 500s. In 2017 that percentage jumped to 36 percent. Target's board is now 42 percent diverse, up from 38 percent in 2016.

General Mills is another relative success story. Between 2006 and 2016, its minority officers increased from 10 percent to 19 percent. James Momon, senior director of global inclusion and staffing, attributes the jump to a philosophical shift. "We've focused on ensuring that we've had a diverse workforce for quite some time now," says Momon. "Some of that is EEOC compliance driven, but frankly, for us, today it's values driven. We want a workforce representative of our consumer base." Like Target, General Mills recruiters visit diverse college campuses across the country. "When you're headquartered in Minnesota," Momon notes, "diversity doesn't necessarily sit in your backyard."

General Mills CEO Jeff Harmening reviews the company's diversity and inclusion progress on a quarterly basis. Sara Taylor applauds this top-down D&I strategy, which is also used by Target CEO Brian Cornell, Healthpartners CEO Andrea Walsh and other local executives. "With cultural competence, a group within an organization can't be farther along than its leader," says Taylor. "Leaders need to establish competence first, not be driven by it."

White-driven flight

Gina Kastel, vice chair and chief operating partner at Faegre Baker Daniels law firm in Minneapolis, acknowledges that challenges remain with D&I, especially in the notoriously white legal industry. One of those challenges, she says, is retention. Kastel and the firm try to fight that problem by "making sure we're engaged with relevant stakeholders in the community." This includes a partnership with Twin Cities Diversity in Practice, a nonprofit dedicated to attracting attorneys of color to the region, and retaining them once they're here. FBD hosts events for the nonprofit, and three of the firm's partners sit on its board.

Keeping workers in-state is an issue across the Minnesota professional landscape. In 2016, economic development nonprofit Greater MSP surveyed 1,200 local professionals of color about the metro job market. Sixteen percent of respondents said they would likely move out of state in the next five years; the percentage jumped to 22 percent for workers 30 and under. Those who plan to leave said a lack of diversity and cultural awareness, both in and out of the office, influenced their decision more than the cold weather.

Nearly all respondents noted a lack of diverse leadership at their workplace. Source after source for this story had a similar refrain. Many spoke under the condition of anonymity; one interviewee, an Asian-American employee at a local software developer, described his company's leadership as "embarrassingly white."

Camille Chang Gilmore didn't realize she was black until she went to college. "I'm a unique bird," she says. "I'm Jamaican Chinese. I was born in Kingston, Jamaica, where, instead of race distinction, there's class distinction." As an incoming freshman at Penn State in the late 1980s, Chang Gilmore remembers filling out a financial aid form at the school. When she got to the race section, she checked the "other" box, only to have the woman at the front desk erase the checkmark and say, "No, honey, you're black."

"That's when I knew there was a lot of work to be done in the diversity and inclusion space," says Chang Gilmore. Today, she's vice president of human resources for Boston Scientific's Maple Grove-based Interventional Cardiology Group and leads the company's global D&I efforts. Chang Gilmore views diversity as a business imperative: "Research by McKinsey has shown that racially diverse teams see 35 percent better financial returns than their peers."

Chang Gilmore won't share Boston Scientific's employee demographics, but she says she's proud of improvements in the company's approach to D&I. Rather than parachuting in senior leaders of color from the outside, the medical device manufacturer now works hard to promote minorities to top positions from within its ranks. Chang Gilmore is a prime example—she spent about a decade exclusively in interventional cardiology before her role expanded in 2014. For all her rah-rah positivity, however, she admits that there's room for improvement at Boston Scientific: "I have a saying: Progress over time, not overnight."

Sara Taylor says that building cultural competence into company DNA increases diversity at all job levels, but argues that "we can't just expect our employers to solve racial disparity and unconscious bias. We need to look at this systemically as a community."

Ravi Norman of Thor echoes this sentiment. "If we want to attract business leaders from around the world, we can't be known as the region or state where communities of color don't thrive," he says, adding that the Trump school of homogeneity and nepotism won't cut it in workplaces of the future—especially in Minnesota, which is staring down a serious labor shortage. Beyond investing in piecemeal D&I efforts, Norman says businesses need to invest in marginalized communities—not in the white benefactor sense, but in a proactive way that brings economic opportunity.

That's the story Norman really wants to hear. Rather than the same old inequity narratives, he craves a happy ending wrapped in a solution. Well, here's one: This spring, Minnesota's largest minority-owned business will move its headquarters to the corner of Plymouth and Penn avenues in North Minneapolis, one of the poorest, most segregated areas of the Twin Cities. Thor's four-story, 92,000-square-foot development will feature both retail and office space. Among the development's investors? Target. tcbmag

Chris Clayton is a Twin Cities writer and a frequent contributor to TCB. *He wrote about Minnesota's cannabis industry in our April 2017 issue.*

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Real-World **Skills**

Employers want workers with strong skills in written and oral communication, teamwork and ethical decision-making, as well as the ability to think critically.

By Nancy Crotti

As technology continues to disrupt the workplace, some workers can expect to change careers—sometimes into jobs that don't exist yet—several times before they retire. Employers expect them to be prepared, whether that means a graduate degree or a short-term education program that provides a certificate of completion or a digital badge.

The proliferation of these short-term programs—many by nontraditional education companies—has shaken the ivory tower and forced colleges and universities to rethink their post-baccalaureate offerings. So has pressure from employers to keep supplemental education costs down.

Some Minnesota colleges and universities are changing their MBA programs or adding courses that yield certificates or badges, some of which students can "stack" as credits toward a degree. Others are seeing higher enrollment in existing post-baccalaureate courses and they report increased numbers in their traditional MBA programs.

Concordia University in St. Paul now has three components to its MBA—the standard marketing, business law and economics courses; complex problem solving, critical thinking, emotional intelligence, judgment and decision-making skills; and systemic thinking and analysis to enable students to understand and adapt to deep patterns in business.

Concordia's MBA program is geared toward working professionals with some organizational leadership experience, according to program chair Craig Lien. One-third of current students are seeking an MBA with a health care emphasis.

The university added a mentoring program in 2013 to help MBA students develop a customized professional skill each semester. Increasing numbers of men and women are looking at graduate-level business education to provide them with new career trajectories, including entry into other business areas, Lien says. He estimates that 70 percent of the program's 300 students enrolled so they can change their jobs or careers. Twenty-nine of the last 31 graduates were promoted or found new positions, he notes.

"Our belief is that the world of commerce is simply moving too fast for structure. Students are creating positions for themselves inside organizations by being able to spot issues [and] problems before the organization ever does," Lien says. "That prepares them to live in a world that's in constant change. They can't wait for the HR department, because it'll never move fast enough."

Online MBAs

Bemidji State University has restructured its four-year-old online MBA program to meet student needs and is seeing increased enrollment as a result, according to George McConnell, director of graduate programs.

Courses now run as eight-week intensives rather than for a full semester. Students may take two to four such courses at a time, and can earn an MBA in as little as one year for about $18,000—the same in-state tuition for all students. Bemidji State also gives students up to seven years to complete their MBA, up from the more typical five years that other universities require.

Students have hailed from the Upper Midwest, Alabama, Iowa and Utah, and from employers as diverse as Hormel, DigiKey Electronics, Target and 3M. Enrollment has grown from 14 students in the program's first year to 79 students currently, with applications coming in daily and interest from other countries, McConnell says.

St. Mary's University began offering an online MBA with an optional emphasis on social media management and marketing in May 2016. The university also has a social media certification course that prepares students for the social media strategist certificate that's awarded by the National Institute for Social Media. It provides three credits toward an MBA.

Enrollment in the online MBA program is growing, with most students coming from education, business and health care. About a quarter of the 150 students are pursuing the social media emphasis, according to Holly Tapper, MBA program director at St. Mary's.

The fastest growth is coming in the online programs, says university spokeswoman Deborah Nahrgang. The university will move its master's in educational leadership to online only this year, she adds.

Popular post-baccalaureate programs at St. Mary's, which has campuses in Winona, Minneapolis and Rochester, include master's degrees in educational leadership, special education, health and human services administration, organizational leadership and information technology management.

Demand for project managers

At the University of Minnesota's College of Continuing and Professional Studies, the most requested certificate programs are in project management, business analysis and human resources, according to Ashley Alexander, program director for professional development. Employers who want workplace training frequently request project management or some sort of leadership development program. The college also can customize its programs or develop new programs to meet employers' needs, Alexander says.

Most courses are taught in a classroom, although the college offers an online business analysis certificate. Students needn't be University of Minnesota graduates or even hold baccalaureate degrees, although most have a bachelor's and some have completed some postgraduate work. Many students come from mid-size employers in a wide range of industries, Alexander says.

"Typically, they don't have the kinds of courses that we offer already built into their organizations," she says. "We focus on providing easy, tangible, real-world skills that can be applied on the job. This is one of the ways that we try to differentiate. It's competency-based education that we provide, really catering to those who want to either enhance their skills for their current job or transition into a new career."

Hamline University recently hired Brian Bethune as the new continuing studies director to develop certificate and badge-yielding programs. Hamline already has post-baccalaureate programs in education, paralegal studies and forensics. It's considering which other subjects to add and how to offer these courses with the quality that employers expect from the university, according to Bethune.

Traditional educational institutions face stiff competition from companies that offer specialized training in high-

Hamline University is developing additional certificate and badge-yielding programs.

demand careers. For example, employer demand for coders has led to an explosion of coding boot camps, which have tripled to more than 90 since 2013, according to a *New York Times* article. Among the leaders are Code Avengers, which offers online courses and in-person boot camps; online software, creative and business skills provider lynda.com; and SitePoint.com, which teaches website design and development.

These programs have yielded nearly 23,000 graduates and have inspired some more-traditional for-profit colleges to join the fray. Minneapolis-based for-profit Capella University bought Hackbright Academy, a non-degree software engineering school for women, in 2016.

"They're meeting a need in an industry where people need coders," Bethune says. "Typically if you wanted coders, you had to go through a bachelor's degree. We have a lot of academic courses and a lot of knowledge that folks in the industry want but they may not want to finish a bachelor's degree or a master's degree."

Because certificates and digital badges don't carry the weight of a degree, employers have had difficulty discerning how much students actually learned in those programs, Bethune adds. That's beginning to change, as certain companies, such as Credly and Acclaim, have begun to offer verification. Acclaim partners with badge- and certificate-granting organizations to show employers what specific certificate and badge programs entail.

Colleges and universities that offer health care degrees and continuing education courses are feeling particular pressure from employers to augment their programs. Health care is changing rapidly, and traditional continuing education classes required to maintain a professional license don't necessarily ensure competency, says Penelope Moyers, associate provost and dean of the Henrietta Schmoll School of Health at St. Catherine University in St. Paul.

"I think employers are looking for better ways to enhance competence because of technology, and they find that sending them out for continuing ed is expensive and doesn't produce the results," Moyers says. "What I'm seeing more of is [that] employers want shorter training methods that are in-depth on a particular thing. That's where a lot of these certificates are."

Tailoring the training

Some employers are partnering with universities to custom-train groups of workers. St. Catherine, for instance, partnered with a healthcare organization to co-train nurses to work in the

Project management and business analysis certificates are in big demand at the University of Minnesota.

operating room. The school's advisory group, made up of major health systems, recently met to discuss more such cost-sharing training relationships. One area they considered was sharing patient simulation resources.

"A lot of universities and companies are talking about this because education is so expensive in an industry where things change dramatically overnight," Moyers says. "I think everybody realizes that they have to focus their education differently instead of trying to train everybody on everything."

Employers urged the University of Minnesota's College of Nursing to create programs in nursing informatics, according to Thomas Clancy, associate dean for practice, partnerships and professional development. Originally designed for nurses to manage electronic health records, nursing informatics programs now train nurses to design and manage information technology systems as they relate to nursing practice. That includes telehealth, e-health and sensor technology that monitors patient conditions outside the hospital.

"They're a nurse first, but they can speak the language of the IT technician," Clancy says of nurse informaticists. "They can translate what the clinical nurses want in technology. They really work as a bridge."

The college offers a doctorate of nursing practice with an informatics specialty, a three-year blended online/on-campus program that *U.S. News & World Report* ranked second in the nation in 2016. Nationwide, about 70,000 nursing informatics jobs will become available in the next five years, Clancy notes. Among those positions is chief nursing informatics officer, responsible for strategic planning and operations and nursing-related information among several hospitals.

Students who want to learn informatics without pursuing a doctorate may enroll in the college's Leadership in Health Information Technology for Health Professionals certificate program. The college also partners with an association to offer a nursing "10x10" certificate that examines the implications of informatics for practice, including nursing, public health and health care in general.

No matter what knowledge workers acquire through a degree, certificate or badge program, employers still want them to have the skills typically associated with a bachelor's degree. Those include strong written and oral communication, teamwork, ethical decision-making, critical thinking, and the ability to apply knowledge in real-world settings.

That's according to a 2015 survey by the American Association of Colleges & Universities, in which employers overwhelmingly endorsed broad learning and cross-cutting skills as the best preparation for long-term career success.

Traditional higher education will likely continue to evolve to meet those needs and the newer ones that technology demands as it evolves as well.

"Where is it going to go? I'm not quite sure," says Bethune of Hamline University. "I tend to err on the side of as many skills as we can certify and validate; it's better for our graduates. And if you want to go into project management as a career, then, by gosh, you had better have the certification." tcbmag

Nancy Crotti is a St. Paul-based writer and editor.

Capital Infusion

Financing options for Twin Cities entrepreneurs are increasing, but securing early-stage money is still challenging.

By Fran Howard

Twin Cities entrepreneurs have more sources of capital to choose from today, but access to capital is still an arduous road.

"Entrepreneurs need to be really good at rejection," says Abir Sen, CEO and co-founder of Gravie. "Just because 20 investors have said no doesn't mean the 21st investor won't be happy to invest. You have to have thick skin and not get thrown off course too easily." Gravie is a platform that gives employers an alternative way to offer their workers health care benefits.

The markets that entrepreneurs or early-stage companies serve usually drive their sources of financing, and it always has been challenging for companies to raise early-stage capital.

"These companies are in an early stage of development—of their technology, their team and sometimes their market," says Michael Gorman, founding managing director of Split Rock Partners, an Eden Prairie-based venture capital firm focused on investments in software and cloud-based technologies. "But it is a good time for these companies in the Twin Cities. There are more sources of early-stage capital than there have been historically."

Organized angel groups as well as crowdsource funding are relatively new to the local market. Examples are Kickstarter, a New York-based web platform with more than 13.9 million backers who have helped fund more than 137,000 start-up projects worldwide, and MnVEST, a digital platform introduced in 2017 that allows individual angel investors to invest in early-stage Minnesota companies.

Accelerator groups, such as Techstars Retail and Wisconsin-based Gener8tor, are also new entrants that complement traditional sources of capital.

In 2016, Minneapolis-based Target partnered with Techstars, a network with a $150 million venture capital fund supporting its accelerator programs, to create Techstars Retail, which chooses 10 companies a year from around the world to provide mentoring and $120,000 in capital. "The companies, which have to move to Minneapolis, are run through a three-month accelerator program," says Ryan Broshar, managing director of Techstars Retail and founder and managing director of Matchstick Ventures, a $5 million venture capital fund for early stage companies. Two Twin Cities-based companies, Local Crate and Upsie, have progressed through the program, and several companies have chosen to permanently be based in Minneapolis.

Tough path to investment capital

The path to financing a startup, particularly for high-risk software and app developers, is typical. "First you put your own skin in, then, when you have something viable, you quit your day job and put more money into it. Then you raise money from family and friends, people who know your character. As the product gets traction, you can raise money from institutional investors, seed venture capitalists and others," says Dug Nichols, CEO of Kidizen, a Minneapolis company that developed an app that lets parents buy and sell children's used clothing, toys, accessories and décor.

Businesses that are not considered as high risk as digital technology firms often seek traditional financing from banks, which have become more willing to lend in the past couple of years. Following seven years of economic growth, banks' appetites to lend more aggressively has increased, says Craig Veurink, senior vice president and lead regional business banking manager for U.S. Bank.

U.S. Bank provides loans guaranteed by the Small Business Administration (SBA) for start-up and early-stage companies with annual revenues generally up to $25 million. "A lot of businesses we work with are those you see driving down the road—manufacturers, veterinarians, dentists, retailers, accountants, hair salons. Companies that have not produced any revenues yet are not bank customers," Veurink says.

Becoming bankable

Before lending to a start-up firm, banks generally look for clear-cut criteria. They want to know entrepreneurs have experience in their industry, or are buying a franchise that offers training along with having transferable experience. "We are also looking for them to have some cash, typically 25 to 30 percent of start-up costs. They need to be willing to take some risk themselves," Veurink says. "If the barrier to entry is easy and quick, that industry will struggle to get bank financing."

For fiscal year 2017 (October 1 to September 30), the SBA guaranteed 1,908 loans in Minnesota valued at $681 million, compared with $685 million in fiscal year 2016. In addition, micro-lenders made 148 loans averaging $18,757 each for a total of nearly $2.8 million, up from 132 loans averaging $15,776 each for a total of $2.08 million in fiscal year 2016.

"We are really fortunate in the Twin Cities. When it comes to startups, we continue to improve," Veurink says. "We have so many great Fortune 500 companies that either spur startups to support them or that create entrepreneurs."

According to the Minnesota Chamber of Commerce, Minnesota ranked 16th among the nation's largest 25 states in start-up activity in 2016, up from 21st in 2015. Minnesota also improved its ranking in venture capital per capita, moving from 15th in 2015 to 12th in 2016, at $61.49 of venture capital per capita, compared to the national average of $181.32 per capita. (Most of the nation's venture capital origination occurs in California and New York.)

Disruptive technologies

Entrepreneurs with disruptive technologies capable of rapid growth are attractive to both angel investors and venture capitalists, and typically angels are the first outside investors in a startup, with venture capital providing follow-up rounds of financing. Particularly attractive to Twin Cities-based venture capitalists and angels today are companies working in cloud computing or cloud-related technologies, artificial intelligence, cybersecurity, medical devices and digital health.

"There are terrific opportunities here," notes Gorman of Split Rock Partners. "Companies that have a very long clinical trial path or regulatory hurdles will find it more difficult to raise financing, while companies that are dramatically advancing productivity or adding capabilities and that have a team capable of growing and scaling the business will find it easier to attract capital than companies without those attributes."

In the first six months of 2017, early-stage companies in Minnesota raised more cash from venture capital firms than they did in 12 months of the previous year. For the first three-quarters of 2017, Minnesota companies raised $291.2 million in venture capital from 14 financing rounds, according to the PricewaterhouseCoopers' Money Tree report. By contrast, 23 venture capital deals in Minnesota raised $339.4 million in full-year 2016. The second quarter of 2017 was the second-largest in terms of funds raised in Minnesota since 2008.

Large venture capital firms active in the Twin Cities market include Split Rock Partners, Arthur Ventures, Rally Ventures, Dundee Ventures and Versant Ventures. Organized angel groups include Twin Cities Angels, Gopher Angels and the Sofia Fund. According to Securities and Exchange Commission (SEC) rules, an angel investor must have a net worth over $1 million (excluding home) or an annual income over $200,000 for two prior years.

Angel investing

Cathy Connett, CEO and managing partner of the $5.5 million Sofia Fund, says angels historically were a quiet network of deep-pocketed people who used their lawyers or accountants to find deals for them. Today, individual angels are doing their own research and growing more sophisticated. Minnesota angel groups also are more willing than funds on the coasts to share deals, which helps them spread risk.

"We think there are good deals in the middle of the country that are being overlooked by the coasts," Connett notes. The Sofia Fund invests $100,000 to $500,000 in companies with disruptive technologies that could sell in three to five years. A typical financing round of interest for the fund is $1 million to $3 million, with money held back for a follow-on round. Kidizen is one company that has received funding from Sofia.

Nichols founded Kidizen with Mary Fallon and Dori Graff in 2013 and launched the app in 2014. Today, Kidizen has more than 400,000 registered U.S. users and is approaching $1 million in revenue. Between 2013 and 2016, Kidizen raised $2 million, primarily from seed-stage venture capital firms and Minneapolis-based angel investors, including the Sofia Fund. Then in 2017, Kidizen raised $3 million in venture capital in a round led by Chicago-based Origin Ventures. "Most of our investment money is being used to grow the business in a smarter and faster way by adding more team members," Nichols says. "The whole point of raising venture capital money is because we believed we could grow our business faster." In 2017, the firm added seven employees to its existing staff of six.

Nichols says that while Minneapolis is starting to attract more money from investors based elsewhere, as a rule, investors like to be close to their investments. Raising money for Kidizen is getting easier. "The further along you are in showing traction and growth, the easier it gets, but the bar is higher here than in the Bay Area," he adds.

Connett says more investors want to avoid the coasts, where valuations are high. "The money is there, but I believe they are throwing money at things that are not going to make it. They are taking too much risk. The middle of the country is more rational and reasonable about expectations. Some on the coasts are looking for the next unicorn—like Uber. A small fraction of entrepreneurs is going to the coast for money; there is the belief that if they go to the coast, they will get a higher valuation, but you have to be able to sell the company—the valuations are too high."

Gravie CEO Sen has been involved with three other startups, all based in Minneapolis. He has had two successful exits, and most of his financing has come from the coasts. "There is a reason most of the early-stage capital has been from the coasts. There isn't enough capital for early-stage companies here. But as an entrepreneur, the biggest question isn't where my partners are based, it's whether I am getting the right partners," Sen says. "The benefit [of being nearby] accrues more to the investor than to the entrepreneur. It is easier for investors to keep their eye on the business; they can just get into their car and drive over to see the CEO."

Sen started Gravie in 2013 and has raised $44 million for the company. His first round of financing was through FirstMark Capital in New York, which was followed by a round with Aberdare Ventures in San Francisco. His third round of financing, which raised $12.5 million, was led by Gorman at Split Rock Partners. A fourth round of financing of $14 million was led by GE Ventures.

The biggest mistake entrepreneurs can make—other than choosing the wrong partner—is to sell an investor on their product while forgetting to sell their shares. Often an entrepreneur will develop a presentation that has 20 slides detailing the product but only two slides on the business.

"That's not enough. The investor cares about the financials. The financials need almost equal weight," Sen says. "Another mistake an early-stage company can make is to raise too much money. Too much money makes a team a little more stupid than it should be. A team needs to be lean and fiscally disciplined."

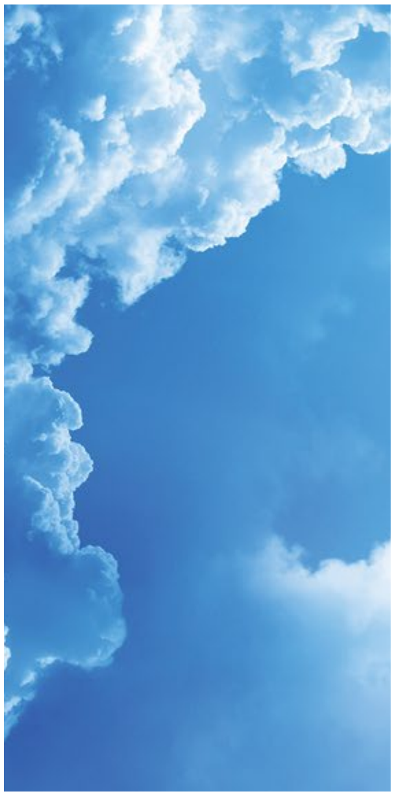
The University of New Hampshire reports that only 20 percent of the deals angel investors consider are funded. "Entrepreneurs don't realize they are competing for money. The investor may be looking at 20 other deals. They need to make the pitch and get the investor hooked. They need to know who is on the other side of the table," Connett says.

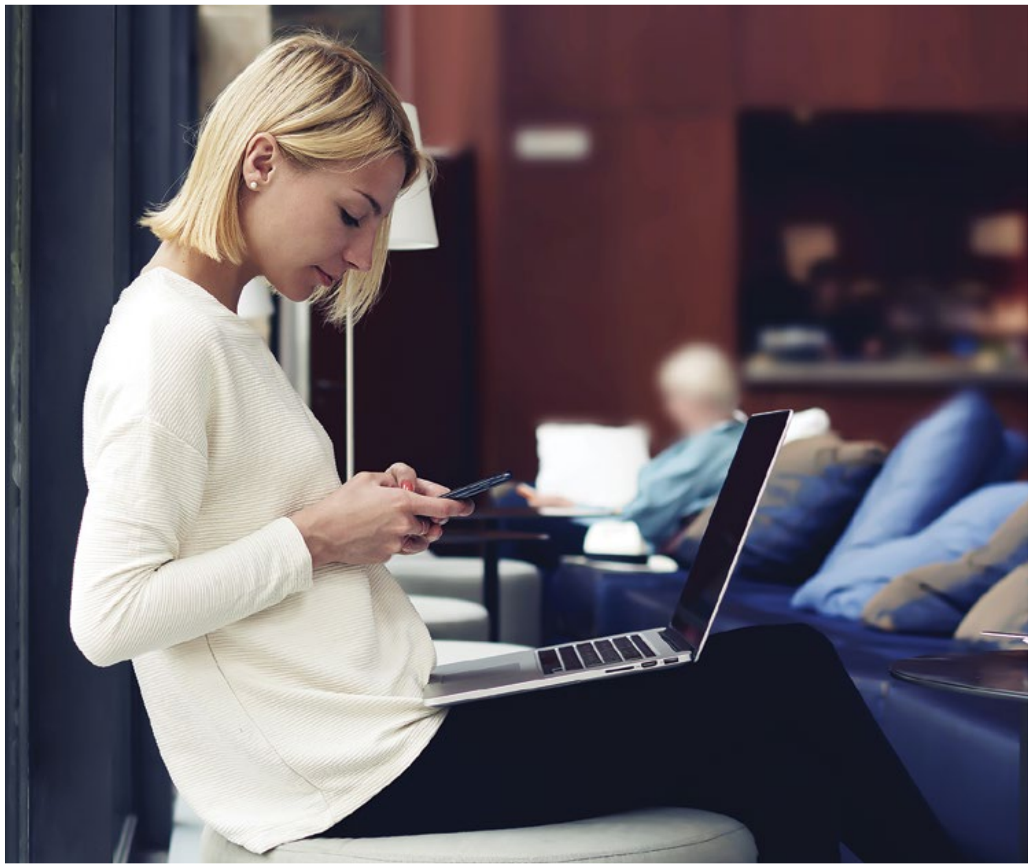
About 100 businesses have applied for financing from Sofia in each of the past two years, but the fund has only chosen five companies to fund so far. The speed at which early-stage companies, particularly app developers, must succeed also has increased; early-stage investors are becoming more sophisticated, looking for which of several similar companies might go national first, Connett notes.

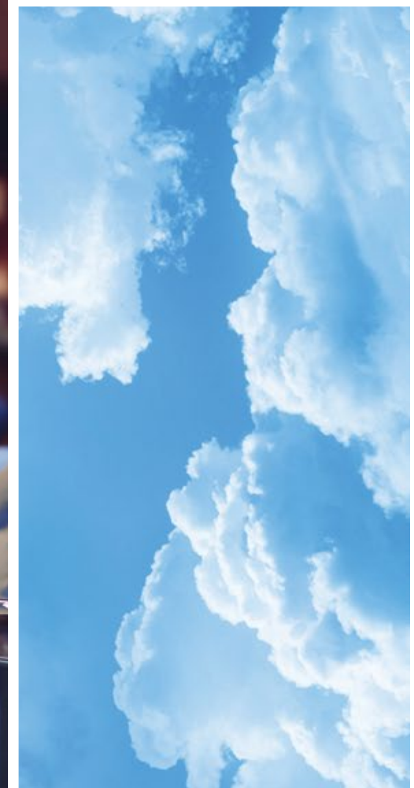
Despite these hurdles, Minnesota is known for its deep engineering talent and for an increasing number of companies that have achieved meaningful scale and significant exit, Gorman says. Successful exits of the past couple of years include Calabrio, JAMF Software and SportsEngine; companies that have raised a significant amount of capital include Leadpages, When I Work, Code42, Gravie and Bright Health.

"There is evidence that national investors have taken note of this market," Gorman says. "An increasing number of quality companies are achieving scale in this market and exiting out at meaningful valuations." tcbmag

Fran Howard is a St. Paul-based editor and writer.







Talk to the Cloud

Telecoms are creating cloud-based products and services to move business communications well beyond phone calls and emails.

By Gene Rebeck

The move of business telecommunications from office-centric phone systems and computer servers to the cloud is accelerating. That demand translates into telecoms developing new products and services to take advantage of the trend.

There are many reasons for this technological shift. In particular, mobile wireless devices make it easier for employees to work outside the office. In addition, businesses of all sizes always are looking for ways to trim capital expenditure costs, and in-house phone and IT systems can be costly to maintain.

Then there's the ongoing convergence of data and voice on a single device that also can easily and quickly share information, whether it's contained in documents or emails. With devices enabled to make calls, send emails and share data, phone service and data management are blending.

The rise of services like Microsoft Office 365, designed to allow employees to collaborate via the technological giant's OneDrive file-sharing platform, is just one example of how vendors are developing new cloud-based communication systems.

Not every business is shifting voice and data capabilities to the cloud, but telecommunications providers are offering ways to make it easier, cost-effective and more secure to do so.

Freedom of choice

Talk to telecom providers about what has been changing in the business market, and nearly all will mention the trend called BYOD—bring your own device. Employees can work from anywhere—and often they need to do so. Companies that support that practice "will clearly improve employee satisfaction, which is directly tied with employee productivity," says Kim Green-Kerr, senior vice president for Sprint Business Solutions, who's based at Sprint's Kansas headquarters.

Employees also are out in the field talking with each other, customers and vendors—often on a national or worldwide basis. That means they need agility and flexibility, Green-Kerr notes. The technology that allows this to happen can help businesses integrate voice and office productivity applications and eliminate unnecessary desktop devices, she adds. This mobile strategy, Green-Kerr maintains, can benefit enterprises of any size, from big corporations to small operations looking to operate nimbly.

"Bring-your-own-device obviously drives more network needs," notes Kalyn Hove, vice president of Comcast Business at Philadelphia-based Comcast Corp.'s St. Paul regional headquarters. For instance, bandwidth security and scalability "are of utmost importance to handle that increasing traffic," she says.

With eight out of 10 Americans owning smartphones and a great many bringing them to work, it's important, Hove says, to establish policies about who can use their own devices and how they can use them. Minimizing employee websurfing on the firm's internet connection might be one useful restriction. If employees spend lots of time on sites unrelated to their work, it "can bog down the network bandwidth needed to run your business," she adds.

Meeting security challenges

Green-Kerr notes that BYOD can create security and business challenges. With all the different devices floating around among employees, businesses are worried that smartphones and tablets might serve as gateways for hackers to access sensitive company data. But there are services that allow device owners to keep their business and personal communications separate.

One of those is Sprint MultiLine—in essence, it's a second line on an employee phone. "The business owns that second line and that number," Green-Kerr says. The personal and business voicemails also are separate.

Sprint introduced MultiLine this past August, which lets users store and record calls. The service is available on Android and Apple smartphones, not just Sprint devices, and can operate on cellular, wi-fi and data networks worldwide. Green-Kerr says that Sprint has seen a particularly large demand for this service in the financial services sector, since industry regulations require recording conversations involving transactions and trades.

In November, Comcast launched a cloud-based mobile-phone service with similar capabilities. In addition to allowing the employee's smartphone to have two numbers—one personal and one business—this offering, VoiceEdge Select, provides other business-oriented call-handling features. They include call forwarding that can be performed on the employee's smartphone.

Best-of-breed technology

Telecommunications companies note that a cloud service is more than a means to achieve telephone and internet connections. With more high-speed networks accessible throughout the U.S., an everything-as-a-service IT model has emerged. That's the terminology used by Stefan Pittinger, Minneapolis-based vice president of local government, medium and small business markets for Louisiana-based CenturyLink.

Many business IT departments are asking about particular services, such as bookkeeping or sales management, Pittinger says. They are questioning the need to buy equipment rather than simply purchasing services.

By shifting services of all kinds—including telecommunications—small and midsize businesses can be extremely nimble and better compete with larger companies, he says.

Building your own infrastructure is capital-intensive. That can make it prohibitive for smaller companies "to really leverage IT the way they can today," Pittinger says. High-speed networks "have democratized data."

He argues that some small companies are best suited to benefit from cloud-based IT. Companies that "were born in the cloud" have fewer capital expenditures to depreciate, including hardware, he says. "They can actually take advantage of the best-of-breed technology that's out there," he adds. Because telecoms and other cloud-services providers typically use an à la carte model, businesses pay only for what they consume.

One of the drivers of a cloud-based approach to business communications is the need for multiple departments to share information and collaborate, sometimes very quickly. "Collaboration helps increase productivity and fosters motivation internally," says Chris Lewter, Colorado-based vice president of small business sales and distribution for Verizon Business Markets, a unit of New Jersey-based Verizon. This requires that "your teams have secure, reliable access to data, applications, services and other collaboration solutions," he adds.

As a result, Lewter says, companies need to identify the right application platforms that will connect, protect, compute and store the data that fuels their entire organization. A cloud-based solution that brings together many software and data platforms could be a useful approach for companies with far-flung departments that need to work together. Along those lines, Verizon offers a converged VoIP product that allows customers to stream voice, data and internet connections over one network.

Outlook for 2018

One concern about cloud computing many businesses mention is security. Can an IT network managed by an outside company be more trustworthy than one that a business has under its physical control? Advocates for cloud-based telecom services argue that the cloud can provide more security for company phones and data.

Security is a major concern when companies handle large volumes of customer payment information. "Increasingly, I think a lot of businesses are finding that doing security by themselves may not always be the best way to handle it," says Satya Parimi, group vice president, data and cloud products, for Spectrum Enterprise, a unit of Connecticut-based telecom provider Charter Communications. "That's because of the sheer rapid nature in which the security space is changing. It's hard for internal IT teams to keep up with all the breaches and attacks."

Spectrum Enterprise's cloud-based services include its recently launched Hosted Voice, which offers business-oriented capabilities, including high-definition voice equipment, data connection and voicemail-to-email transfers. Spectrum Enterprise manages the IT to run Hosted Voice's various offerings. Spectrum Enterprise's cloud communications management also can keep watch against any nefarious activity on the network. Instead of protecting an email server from a hack attack, a company can shift security vigilance to the cloud provider, Parimi says.

If your company operates its own private branch exchange (PBX) phone system, "you have to dig the moats and build the firewalls around that to protect the integrity of your business," says Joe Martin, Sprint's director for wireless solution enablement. A move to a cloud service can provide security "because it's very difficult even for a big business to keep up with all the bad guys," he adds.

Martin notes that cloud telecom providers also typically offer what are called mobile device management (MDM) or enterprise mobility management (EMM) services. They update the company's mobile-phone users' business-centric applications and software. Some also can "wipe" a lost phone clean of all data while keeping the phone's data safe in the cloud.

Yet companies still need to manage their security. When it comes to BYOD, for instance, businesses "need to go beyond passwords," Comcast's Hove notes. They need to have an added layer of security, such as a test question or other second line of verification, so that only employees can access a company's phone and IT networks. Other cyber-security guidelines, such as training employees to avoid phishing emails and leaving digital devices unattended, still apply.

While many telecom representatives argue that moving to the cloud for telephone and internet connectivity can better protect business data on employee devices, each business should evaluate their own situation and needs.

CenturyLink's Pittinger recommends that companies start simply by taking a detailed inventory. What communications services are under in-house management? These could include not only services such as internet access and email but also other platforms where data is shared electronically, such as accounting.

Next, he says, the business needs to ask: "What is absolutely mission-critical and what can afford some downtime?" The next question: "Do you have 24/7 staff to work on those mission-critical services?" Pittinger offers one final tip: Test your systems regularly; small and midsize businesses in particular can't afford any system downtime.

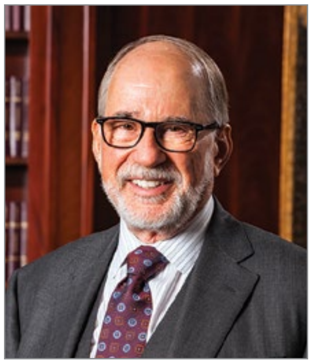
That could be especially true of very small businesses. "Professional services businesses like real estate offices or law firms often don't have a lot of employees," Parimi says. "But they're heavy users of software applications and storage."

Like Pittinger and other telecom executives, Parimi advises businesses to reassess anything related to applications, servers and storage, and see if moving to the cloud might help. "Solutions from the cloud are better and, in many cases, cheaper because you're not paying anything up front," Parimi says. "And you're not burdened with maintaining the infrastructure that you have."

Telecoms are responding to marketplace changes and what businesses want and need from their companies. With all the new products and services available, businesses of all sizes can readily re-evaluate their communications systems and see whether it makes sense to shed in-house phone systems and servers and move to the cloud. It's a move that even businesses with just a few employees might find affordable.

And with telecom providers offering a variety of approaches, this could be a good time to do some comparison cloud shopping. tcbmag

Gene Rebeck is a Duluth-based freelance journalist who writes monthly for Twin Cities Business.



OPEN LETTER

by Vance K. Opperman

[Reps. Emmer, Lewis and Paulsen:] Why don't the three of you simply introduce legislation that rebates to each state the differential from what that state pays into the federal fisc, minus what it receives back?

SALT in the Wound

To: Rep. Thomas Emmer
315 Cannon House Office Building
Washington, D.C. 20515

Rep. Jason Lewis
418 Cannon House Office Building
Washington, D.C. 20515

Rep. Erik Paulsen
127 Cannon House Office Building
Washington, D.C. 20515

Gentlemen:

SALT stands for state and local taxes, but clearly you do not. At least, you have been voting to disallow your Minnesota constituents from being able to deduct state and local taxes from their federal income tax liability. The deductibility of state and local taxes is older than the current federal income tax. You three have voted for dropping that deduction for individuals.

On the other hand, Minnesota corporations have received your vote to continue to be able to deduct state and local taxes. But there is a group more deserving of your solicitude than Minnesota corporations—Minnesotans! There are valid reasons for the exemption for state and local taxes. When the top marginal rates for federal income tax surged to 77 percent during the height of World War I, and again in 1944 to 94 percent, in the absence of a deduction for state and local taxes some taxpayers would have faced income tax rates exceeding 100 percent. There are other sound reasons for the more than century-old practice of exempting state and local taxes from federal income tax.

Benjamin Franklin often said that in life, the only things that are certain are death and taxes. And it is true that you politicians seem to have an unearthly addiction to levying taxes. Some politicians—mostly Democrats—want to tax death (by estate taxes). Others, including you three, appear to wish to tax taxes.

There used to be a political party that believed in moving government functions as close to the electorate as possible. It used to be an article of faith that to the extent possible, government functions and associated taxation should be moved as close to the electorate as practicable. That political party was called the Republican Party. You may remember it. One of you (Jason Lewis) has even written a book that is a paean to state's rights. Or, as the late Gov. Rudy Perpich used to say, "It's a lot easier to drive to St. Paul to talk to your elected representatives than it is to drive to Washington, D.C." States should be free to experiment with various programs and taxation levels. That is why we used to refer to states as the laboratories of democracy. You may remember those days.

Many states adopted a high-tax, high-service model, while other states went a different direction. Perhaps you should reflect on how that has worked out. According to a study conducted by the personal finance resource website Wallethub, the five states least dependent on the federal government are New Jersey, Delaware, Illinois, Minnesota and California. Minnesotans, the study found, received a fraction of every dollar paid in federal income tax back in return.

The five states most dependent on the federal government, according to the same survey, are New Mexico, Mississippi, Kentucky, Alabama and West Virginia. Or put another way, red states—basically those states that have politicians that bray loudest for lesser influence by the federal government—are much more dependent on the federal government than blue states are. Why is this the case?

Most readers of this column have children who have attended college or are now applying to college. They, of course, could encourage their children to go to any one of a number of educational institutions in the state of Minnesota; we have one of the finest university, state college and private college systems in America. As state taxpayers, we have paid dearly for these assets. Other states that involved parents may have looked at would include California, New York, Illinois, Massachusetts and Connecticut, all states with long histories of residents paying high taxes, in part for educational excellence.

On the other hand, few college-admission-obsessed parents spend a lot of time looking at Alabama, Mississippi, Louisiana, South Carolina or for that matter, Texas or Florida, all states where the local electorate has chosen not to tax itself for educational excellence. The three of you should be educated enough to see the connection.

Several Republican members of Congress have been quoted in the media as suggesting that if residents of high-tax states object to elimination of the SALT deduction, they can simply move. Perhaps you three share that sentiment. But here's a better thought: Why don't the three of you simply introduce legislation, either as an amendment to the conference committee report or as separate legislation, that rebates to each state the differential from what that state pays into the federal fisc, minus what it receives back? In other words, rather than moving, we just want our money back.

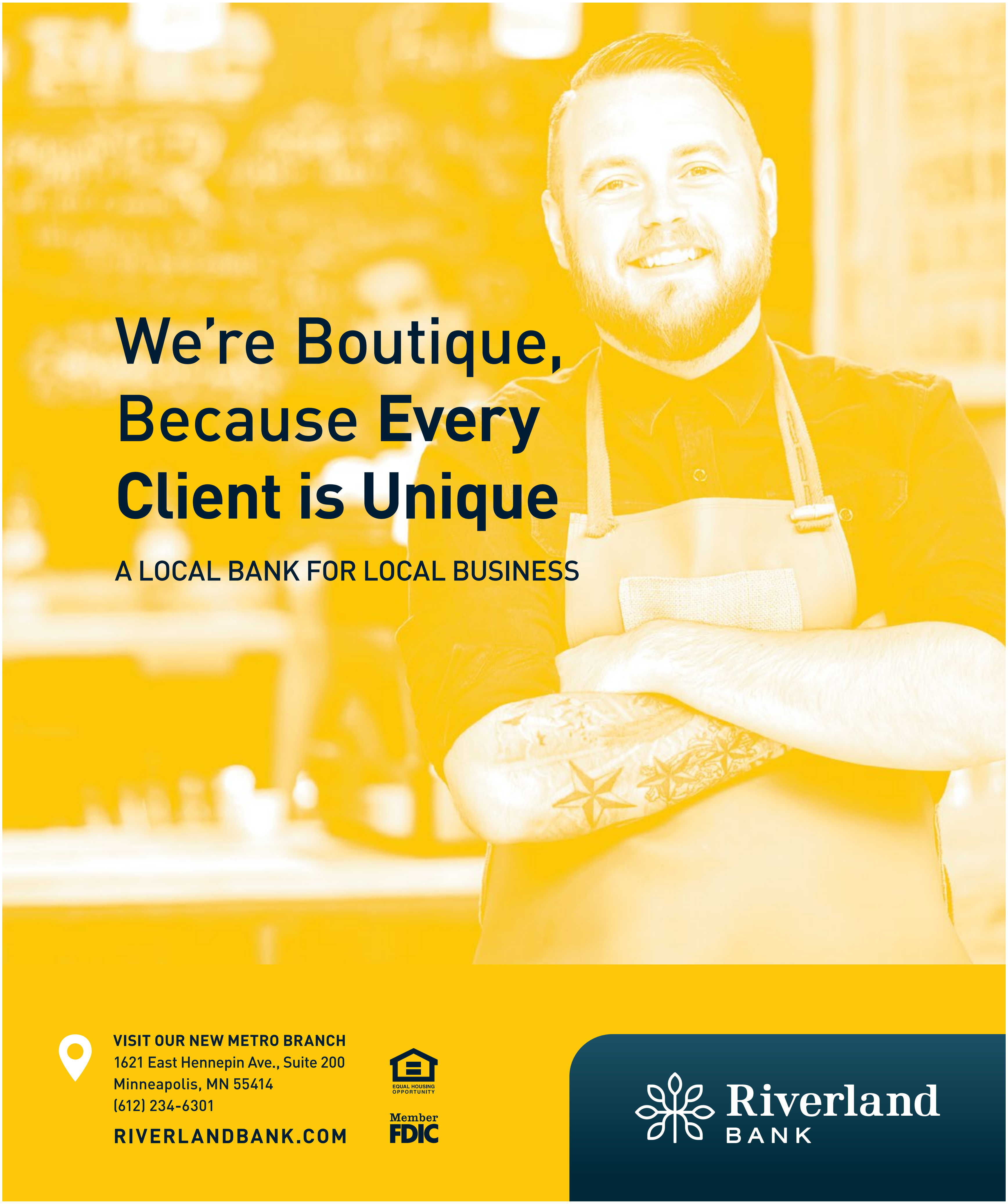
Congressmen are elected every two years in districts corrected by the census every 10 years, so they are close to the people and represent their constituents' interests. If you truly believe in moving effective government to the level closest to the people and support states as laboratories of democracy, you should reflect the interest of your Minnesota constituents.

You have a number of votes with which to correct this misguided attack on them. It may be that you have been solicitous of the interest of Minnesota companies. But this coming November, you will rediscover that corporations cannot vote for your reelection, but we can. If this is not corrected, residents of this state should not move to low-tax states (Mississippi?); you should move. We may be able to accomplish that next November.

Sincerely yours,

Vance K. Opperman
For the deductibility of state and local taxes

Vance K. Opperman (vopperman@keyinvestment.com) is owner and CEO of MSP Communications, which publishes Twin Cities Business.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