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JumpStart Inc: Economic Impact on Northeast Ohio

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JUMPSTART INC.:
ECONOMIC
IMPACT ON
NORTHEAST OHIO

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INTRODUCTION AND SUMMARY

This research note estimates the economic impact resulting from JumpStart Inc. investment in start-up companies in Northeast Ohio. JumpStart is a business development organization or, more specifically a venture-development organization that funds high-growth businesses and ideas, works with their founders to develop the businesses into venture-ready entities, and celebrates Northeast Ohio's early-stage company successes.¹

The research is based on data from the 18 companies in which JumpStart has invested through 2006 and data on JumpStart itself. In this study, Northeast Ohio is defined as a 21-county region consisting of six metropolitan areas (Cleveland-Elyria-Mentor, Akron, Canton-Massillon, Mansfield, Sandusky, and Youngstown-Warren-Boardman) and eight non-metro counties. The Cleveland metro area includes Cuyahoga, Geauga, Lake, Lorain, and Medina Counties; the Akron metro area includes Portage and Summit Counties; the Canton metro area includes Carroll and Stark Counties; the Mansfield metro area includes Richland County; the Sandusky metro area includes Erie County; and the Youngstown metro area includes Mahoning and Trumbull Counties. The eight non-metro counties include Ashland, Ashtabula, Columbiana, Crawford, Holmes, Huron, Tuscarawas, and Wayne.

JumpStart's Total Economic Impact

Output Impact - \$40.3 million

Income Impact - \$14.2 million

Employment Impact – 308 jobs

¹ <http://www.jumpstartinc.org/About/About.aspx>

WHAT IS ECONOMIC IMPACT?

Economic impact is an analytical approach used to estimate economic benefits from projects, programs, or companies on affected regions. These economic benefits are measured in terms of output (value of goods and services produced in the economy), employment (number of jobs), and labor income (household earnings). Economic impact estimates measure benefits for a specific region and time period.

Economic impact analysis is based on inter-industry relationships within regions, which determine how regions respond to changes in economic activities. Multipliers are calculated from the inter-industry relationship estimating the “ripple effect” throughout the economy.²

METHODOLOGY

Total economic impacts in output, income, and employment are each a summation of three impacts: direct impact, indirect impact, and induced impact. Direct impact refers to the change of economic activity by the studied organization, such as the number of additional jobs or the initial value of goods and services, including labor, purchased to deliver the organization’s goods and services. Indirect impact measures the value, capital, and other inputs of production needed to produce the goods and services of the studied organization. Induced impact measures the change in spending by local households due to increased earnings by employees in local industries who produce goods and services for the studied organization.

As stated earlier, economic impact analysis is based on inter-industry relationships within an economy—that is, the buy-sell relationships among industries. These relationships

² For example, suppose that company ABC reports sales of \$1 million. From the revenues, the company pays its suppliers and workers, covers production costs, and takes a profit. Once the suppliers and employees receive their payments, they will spend a portion of their money in the local economy purchasing goods and services, while another portion of the monies will be spent outside the local economy (leakage). By evaluating the chain of local purchases that result from the initial infusion of \$1 million, it is possible to estimate a regional economic multiplier.

largely determine how an economy responds to changes in economic activity. Input-output (I-O) models estimate inter-industry relationships in a region by measuring the industrial distribution of inputs purchased and outputs sold by each industry. Thus, by using I-O models, it is possible to estimate how the impact of one dollar or one job ripples through the local economy, creating additional expenditures and jobs. The economic multiplier measures the ripple effect that an initial expenditure has on the local economy. This study utilizes regional I-O multipliers from IMPLAN Professional.³

To estimate the economic impact of JumpStart, we use the number of jobs in 2006 in the portfolio companies in which JumpStart has invested. It assumes that these companies would have not existed without JumpStart's pre-seed funding. We also include the number of JumpStart employees to account for the services they provide their portfolio companies as well as technical assistance to other entrepreneurs and companies in Northeast Ohio. Each of the portfolio companies and JumpStart are assigned to one of the 509 industries included in the IMPLAN model.

MAJOR FINDINGS

Three measures of impact are summarized: output impact, income impact, and employment impact.

Output Impact

The output impact provides an estimate of the total change in output produced in Northeast Ohio due to JumpStart's activities. Measured in 2006 dollars, output impact amounted to \$40.3 million (see Table 1). Of that, \$21 million (52%) is accounted for by direct production of goods and services by JumpStart and its portfolio companies. An additional \$6.7 million (16.5%) is indirect impact—goods and services produced regionally to support the activities of JumpStart and its companies. The induced impact

³ IMPLAN was originally developed by two federal agencies, the Department of Agriculture and the Department of the Interior, to assist in land and resource management planning. The model was later commercialized by the Minnesota IMPLAN Group, Inc.

of \$12.7 million (31.4%) measures the value of goods and services produced in the region to satisfy the increased demand by households throughout the economy.

Table 1: JumpStart Economic Impact on Northeast Ohio

	Economic Impact		
	Output	Labor Income	Employment
Direct Impact	\$20,975,072	\$7,442,325	121
Indirect Impact	\$6,657,374	\$2,039,240	49
Induced Impact	\$12,672,412	\$4,761,666	137
Total Economic Impact	\$40,304,858	\$14,243,232	308

Of the output impact of \$40.3 million, JumpStart itself accounts for 9.2 percent of the output impact. The remainder is accounted for by the portfolio companies.

Labor Income (Earning) Impact

Every new job created by JumpStart’s portfolio companies and by JumpStart itself generated new earnings for local households. Total households earnings in Northeast Ohio increased by \$14.2 million in 2006 due to JumpStart’s activities (see Table 1). Of this impact, \$7.4 million (52.3%) resulted from the direct effects of payroll of portfolio companies and JumpStart employees. Two million dollars (14.3%) of the total income impact is a result of the increased earnings in other industries in the region that supply JumpStart and its portfolio companies. The remaining income impact, \$4.8 million (33.4%), is due to increased household earnings throughout the economy.

Of the total income impact of \$14.2 million, 11.3 percent is accounted by JumpStart Inc. itself. The remainder is a result of the portfolio companies.

Employment Impact

The total employment impact in Northeast Ohio by JumpStart and its portfolio companies in 2006 amounted to 308 jobs (Table 1). Of these, 121 (39%) are a direct impact—the number of employees working at JumpStart and its portfolio companies. An additional 49 jobs (16% of total employment impact) were created in industries supporting

JumpStart and its companies, and 137 (45%) more jobs were created throughout the economy due to increased employee earnings.

Of the total employment impact of 308 jobs, 14.6% are a result of JumpStart Inc. itself. The remainder employment impact is due to the portfolio companies.

NEXT STEPS

This is the first estimate of the economic impact of the activities of JumpStart Inc. since its inception. These estimates are based on 2006 data. It is expected that these estimates will be updated on a semi-annual or annual basis.