

# FINANCIAL TIMES

Special Report: **Doing Business in Chicago**

## Start-ups in Chicago find that focus on B2B clients pays off

Innovative apps address real-life needs in the city's traditional industries



*Combined expertise: Stephanie Murphy and Jim Boccarossa © Matthew Gilson*

YESTERDAY by: **Neil Munshi**

When Jim Boccarossa met Stephanie Murphy, he did not know anything about the aviation industry. She had spent 10 years in the business, however, brokering spare parts.

“We were dating and I found it very interesting that it might be the biggest small industry you’ve never heard of,” he says. He also, he adds, found that the system the aerospace industry used for buying and selling parts “archaic”.

The participants included well known groups such as Boeing, Airbus, GE and Honeywell — some of the biggest companies in the world — but they were “buying and selling parts using technology from the 1980s”. Mr Boccarossa had founded a few start-ups and he and Ms Murphy sensed a chance to combine expertise.

Two years ago, Ms Murphy launched Air Spares Unlimited — an online brokerage for landing gear, wheels and brakes — and brought in Mr Boccarossa, now her husband, to be its chief executive.

The company is one of many that form the core of the technology scene in Chicago, which tends to tilt away from the glamorous social media apps of the US coasts, and toward start-ups serving other businesses or the industries that have deep roots in the region, such as manufacturing and logistics. Even the better-known Chicago-born Groupon, the site which offers daily deals on goods and services to retail customers, has strong connections to the city's corporate past. It is housed in the former home of [Montgomery Ward \(http://www.chicagoarchitecture.org/2015/08/25/groupon-to-renew-lease-and-expand-in-former-montgomery-ward-building/\)](http://www.chicagoarchitecture.org/2015/08/25/groupon-to-renew-lease-and-expand-in-former-montgomery-ward-building/), the mail-order catalogue giant that was an antecedent to ecommerce.

One reason for the Chicago tech scene's low-key approach, Mr Boccarossa says, is that tech talent in the city has “realistic business expectations”.

“They understand that this isn't building an app so I can take a picture to send to my friends; this is building software so people can buy wheels to land a plane,” he says. “We're building real B2B technology . . . you have real companies here who look at real revenue streams to solve real-life problems.”

If you're a start-up you need a paying customer, and there's a lot of them in Chicago

Mark Tebbe

Linda Darragh, who taught Mr Boccarossa at the Innovation and Entrepreneur Initiative at Northwestern University's Kellogg business school, says the diversity of Chicago's economy — in which no industry accounts for more than about 15 per cent of city GDP — is a leading driver.

“I see Chicago as basically a Petri dish for entrepreneurs to test and build tech-enablement for existing established industries, so you start looking at what industries are in Chicago, it's all over the place — it's everything from healthcare to transportation,” she says. “So there's a lot of opportunity to really get into the ecosystem of an industry and improve upon it.”

UI Labs provides those kinds of opportunities. It is a public-private, non-profit “innovation accelerator” that receives funding from major industrial companies such as [Caterpillar \(http://www.caterpillar.com/en/news/caterpillarNews/h/caterpillar-collaborates-with-other-manufacturers-and-universities-to-develop-digital-manufacturing-institute-through-white-house-initiative.ht](http://www.caterpillar.com/en/news/caterpillarNews/h/caterpillar-collaborates-with-other-manufacturers-and-universities-to-develop-digital-manufacturing-institute-through-white-house-initiative.ht)

ml), GE (<http://www.geglobalresearch.com/news/press-releases/ges-digital-marketplace-to-revolutionize-manufacturing>) and Deere, and from the government. One focus, says Caralynn Nowinski Collens who heads the organisation, is manufacturing. UI Labs is running more than 30 industrial projects through its labs and its factory floor.

“We have so many legacy strengths in old-line legacy industries — not the sexy ones, but things like construction or manufacturing,” she says.



The city has bolstered those roots with over 100 entrepreneurial environments, including accelerators, incubators, co-working spaces and innovation hubs, says Mark Tebbe, chair of Chicago Next (<http://www.chicagobusiness.com/article/20150512/BLOGS11/150519948/mark-tebbe-named-chair-of-chicagonext>), a tech-focused group connected to the city’s economic development organisation.

The group has created industry-specific incubators for financial technology linked to Chicago’s long history with the futures industry, with water — given the city’s place on the shores of Lake Michigan — and with manufacturing. “You have a diversified base of businesses [and industries] to work with,” says Mr

Tebbe, a former tech entrepreneur. “This makes for a strong customer base — if you’re a start-up or a tech company, the one thing you need is a paying customer and there’s a lot of them in Chicago.”

Jodi Navta, chief marketing officer for Coyote, the logistics company that last year was sold to UPS (<http://www.lloydsloadinglist.com/freight-directory/news/UPS-confirms-1.8bn-acquisition-of-Coyote-Logistics/63700.htm#.WEbga7KLS0o>) for \$1.8bn, agrees. “Being the epicentre of the Midwest is good for a lot of reasons: there are a lot of businesses that we can help locally, a lot of carriers that we can build relationships with that are local,” she says.

A diversified business landscape gives rise to companies like SMS Assist (<http://chicago.inno.streewise.co/2016/06/07/sms-assist-raises-150m-from-goldman-sachs/>), which in June raised \$150m from Goldman Sachs Investment Partners, giving it a \$1bn valuation. SMS manages 25,000 property management subcontractors to over 135,000 customers. “You wouldn’t think of

a maintenance company with 100 to 150 code-writing technologists,” says its chief Mike Rothman.

Four Kites is a logistics company founded by Matt Elenjickal, who spent years working in supply chain management. He says one reason such low-glamour companies have taken off in the city is because local venture capital firms are willing to take risks on businesses that may not generate headlines.

“There are a lot of VC firms in Chicago who really focus on B2B, who focus on these industries that are not sexy,” he says.

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