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# Market shifts could spur investment in Ariz. firms

*Emphasis on startup funding has entrepreneurs optimistic*

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For years, entrepreneurs have bemoaned the real estate market's tight grip over metropolitan Phoenix investors.

Business owners, especially those in Arizona's emerging technology and biosciences sectors, watched as financiers looked past their ideas, throwing dollars at real estate because it provided almost guaranteed returns.

Now, entrepreneurs are banking on several developments, including the recent housing slump, a growing network of investors and a new state tax credit, to result in big gains.

"This (housing) downturn that we're seeing could end up being the catalyst for a renaissance for technology investing in Arizona," said Akira Hirai, managing director of Phoenix-based business consulting firm Cayenne Consulting LLC.

Arizona historically has lagged behind other states when it comes to private equity and early-stage financing activity.

Venture capital, or money that individuals and businesses typically invest in fast-growing startups, is considered a key measure for gauging a region's entrepreneurial climate.

In 2005, 21 Arizona-based companies received \$148 million in venture capital, making it 18th out of the 50 states and the District of Columbia, according to data collected by the National Venture Capital Association in Arlington, Va. and Thomson Financial.

While Arizona ranks in the top half of states, the amount of capital pales in comparison to that received in areas such as California's Silicon Valley, Boston, the Research Triangle in North Carolina and Austin, Texas.

Ultimately, any discussion about investment activity and a lack thereof comes back to investors' perceived love affair with real estate.

But investors and entrepreneurs alike say real estate is not the only reason that capital has been hard to come by for new technology firms in metropolitan Phoenix.

Population size, demographics and the stage at which many of metropolitan Phoenix's startup firms are in their life cycle also play a role.

"I think that one thing that's become very clear over the last five to 10 years is that Phoenix is a relatively early-stage market," said Thomas Curzon, board chairman of Invest Southwest, an annual conference that aims to connect startup firms with investors.

Many of the Phoenix area's startups are young, which makes it more difficult for them to land capital from investors who want to see evidence of a proven management team and revenue, Curzon said.

Curzon and others point to Invest Southwest and other local events as efforts to jump-start investment activity.

"We've had lots of discussion about Phoenix needing venture capital, Phoenix needing seed capital and early stage capital, and with Invest Southwest we have deliberately focused on that need," Curzon said.

### **Tax credit**

The state's new Angel Investment Program is one tool that many hope will lead to more investments.

The tax credit was established by state legislation in 2005, went into effect on July 1 and is set to expire on June 30, 2011. Individuals who invest between \$20,000 and \$250,000 in a company that is certified for the program through the Arizona Department of Commerce are eligible to receive a tax credit of 30 percent or 35 percent of their investment, depending on the type of company they invest in, over a three-year period.

OpenTech Alliance Inc., a Phoenix-based firm that sells automated kiosks for self-storage facilities, is one of 22 companies that have been certified through the program since July. "I think the program's going to get more people interested (in investing)," said Robert Chiti, founder, president and CEO of OpenTech Alliance.

Customers can use the company's kiosks to conduct all transactions related to renting a storage unit without stepping foot inside a company's office.

OpenTech Alliance has not received any outside investments since it was certified on Sept. 12, but Chiti and a colleague invested a combined total of \$140,000 because of the program and will be eligible for the credit.

Infusion Software & Consulting Inc. in Gilbert has received a total of \$50,000 from two outside investors since it was certified on Sept. 12.

President Clate Mask said the program has provided an incentive for investors leery of technology ventures to give companies like Infusion Software a second thought.

"It's just a matter of kind of pushing them over the edge and giving them that willingness to write the check," Mask said.

### **Future growth**

Technology firms like Infusion Software, which develops and sells customer relationship management software products for small businesses, also tend to be labor-intensive rather than capital-intensive, Mask said.

"You can get a loan for something and secure that loan with a piece of equipment," he said. "That's a capital expenditure. But you can't secure a loan (for) three people you're going to hire next week that you're going to use to start the business."

Infusion Software turned to Silicon Valley Bank in Tempe to get a line of credit after increasing previous lines of credit with mainstream banks and hitting a ceiling.

The Santa Clara, Calif.-based bank, which works primarily with venture companies, opened its local branch in 1998.

"Based on the support network that is beginning to come of age here in Phoenix, I believe the Phoenix market as it pertains to entrepreneurial companies is well-positioned to grow exponentially in the future," said Travis Wood, manager of Silicon Valley's Tempe branch.

While some business owners say metropolitan Phoenix lacks a local investment pool large enough to support the needs of the region's entrepreneurs, Wood and others like Mark Heesen challenge that notion.

Heesen, president of the National Venture Capital Association, said entrepreneurs are able to attract financing regardless of where they are located as long as they have an innovative idea.

"I don't think that having what I call indigenous venture capitalists is very important in the respect that venture capitalists are followers, not leaders," he said. "We follow the entrepreneurs."

The key is for developing companies to establish an appealing package that will entice potential investors, said Terree Wasley, director of Arizona State University's Technopolis program, which provides counseling and other services for emerging companies.

Attributes that can make or break a company's ability to attract investors include having a product or service that provides a solution to a problem in the marketplace and having a solid management team, Wasley said.

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