

BCBR Article

Challenges for high-tech: attracting capital, talent

By Michael Davidson

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BOULDER - The lack of venture capital in Colorado and the need to lure talent to the state are the two most pressing issues for technology companies, according to the panelists at the latest Boulder County Business Report CEO roundtable.

The meeting on Oct. 18, hosted at the offices of Ehrhardt Keefe Steiner & Hottman PC and cosponsored by EKSH and Holland & Hart LLP, brought together executives from several of the area's most prominent tech companies.

Lack of money is creating "a choke point" for small companies and entrepreneurs looking to build their companies and develop products, said Paul Guerin, chief executive of Longmont-based Rebit Inc.

"Outside investors are very reluctant, especially at an early stage, to come into Colorado," Guerin said. "You can't have a really, really robust and healthy technology community if you don't have investors. It certainly is a much different landscape than 2004, when I came out here."

Investors from outside Colorado are wary about investing in young companies unless they're in a hot niche of the industry, said Tim Miller, CEO of Boulder-based Rally Software Development Corp.

"Until you reach a certain scale, or are in a very sexy space, it's hard to get capital from outside," Miller said.

Money is easier to find for companies that have a track record, said Andy Grolnick, CEO of Boulder-based LogRhythm Inc.

"Once you have traction and you're doing well from a revenue standpoint ... you can access quite a bit of capital from out of state," Grolnick said.

The presence of the Foundry Group and other small- and medium-size venture capital firms "abates a lot of fear," said Jud Valeski, CEO of Boulder-based Gnip Inc. But for some on the coasts Boulder remains "a dot on the map with not many people here."

The success of incubator programs, most notably TechStars, is attracting attention to Boulder, and they are helping to create better young entrepreneurs, Miller said.

"Young kids are doing better pitches for their first rounds than I was able to," he said.

Angel investors can be a mixed blessing.

Venture capital firms are not as emotionally or financially invested in the companies they fund, Valeski said. VCs are better able to take a long-term view, largely because they are unlikely to have a large part of their personal money on the line.

"I've seen too many angel scenarios go south," Valeski said. "Angels are emotional investors who don't have a lot of capital, and they're directly attached to the capital."

Other companies had better luck with angels.

"The angel round worked out well for us," Grolnick said. "It enabled us to move forward with relatively little capital."

Being able to pick who invests in your company is a luxury, and for many entrepreneurs they don't have a choice - or let that bother them.

"As an entrepreneur, you do whatever it takes," Miller said.

Successful companies backed by venture companies face their own problems. Rally Software's plan is to proceed toward an initial public offering in the not-to-distant future, Miller said, but finding a time with a stable market that would create favorable conditions for an IPO remains a challenge.

Aside from finding investors, broader economic trends are not really affecting Boulder's tech startups.

"The macro is irrelevant. ... The GDP goes up and down, it really doesn't affect how much you're going to sell," Miller said. "Tech companies at our scale are not subject to macroeconomic trends."

On the contrary, economic disruptions are creating opportunities for nimble tech companies, said Scott Green, site director for Google Inc.'s office in Boulder.

"There are huge shifts in the economy that benefit technology companies," Green said.

One shift is that the consumer market, not the business market, is driving major shifts in the tech industry, Guerin said. Companies are learning that getting hot products into the hands of the public is more lucrative than focusing on the business IT market, a lesson best exemplified by Apple, he said.

The transformations are changing the expectations of workers as well. Workers are better equipped to be successful on their own if the large corporations that provide traditional 9-to-5 jobs are not doing well.

"We're a full generation in on knowledge workers and the creative class," Valeski said. "There are enough people working and thinking in that segment that more traditional commerce and

industry being sucked down doesn't affect them."

Finding talent remains a challenge. Boulder and Denver do not have the large pool of young talent that the Northeast and Silicon Valley can call on, Guerin said, but not many places do.

"We don't have MIT, we don't have Stanford, but there only a couple of those anyway ... there are communities that are doing good that don't have those things," he said.

The presence of industry leaders such as Google and Microsoft Corp. help validate Boulder in the eyes of the global tech industry, but they also pose challenges for small companies looking to hire.

"Google and Microsoft being here are both a blessing and a curse," Valeski said. "For years I wanted that, and we got it. ...But now that I'm trying to hire, it definitely makes it harder."

The companies offer good paying jobs, security and the chance to work on interesting projects. In contrast, startups that are not headed toward an IPO because of poor market conditions cannot lure people with the promise of cashing in on shares, Valeski said.

Quality of life and cost-of-living issues are major drawing points when Google tries to recruit people from across the country. Employees with families find Boulder especially attractive, Green said.