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High-tech business looks to grow on the prairie

BY JERRY SIEBENMARK
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After more than 13 years in Los Angeles, Clint Brauer decided to come home. The Haven native and Kansas State graduate was able to get in on the dot-com boom of the 1990s and turn degrees in business marketing and advertising into a career in high-tech that's taken him from entry level to senior positions at companies such as USWeb, Universal Music Group, Sony and Fox Interactive.

But at 36, Brauer wanted a change in the pace of his lifestyle.

So the West Coast techie opted to come back to his home state and run his current venture, Cyberread.com, an e-book company, from his hometown.

"L.A. was great. (But) L.A. is a hard place to truly relax because the bar is so high to do well there," Brauer said.

Brauer said he thinks there could be other technology entrepreneurs on the coasts who would find Midwest living appealing — a more relaxed pace and a lower cost of living.

But one large barrier exists that tech entrepreneurs such as Brauer may encounter in the so-called Silicon Prairie.

While Kansas has made strides in recent years to connect disparate groups of early-stage, or angel, investors with entrepreneurs and put systems in place to groom entrepreneurs with training and other resources, it's tough for them to find later-stage financing.

That's "where it gets complicated and where Kansas is at a disadvantage," Clint Everton said.

Everton knows firsthand how hard it was to find later-stage financing for his former company, Knowledge Communication.

He founded the business training software company in 1995, when he was a junior at Wichita State.

As the company evolved, and Everton needed additional investment capital, he had to move much of the company to where the venture capitalists were, which in his case was Dallas, "where there was an existing and established venture investment community."

"We eventually hit a wall when it came to raising millions in capital for the business," said Everton, who sold Knowledge Communication in 1999 to publisher Harcourt General for nearly \$20 million.

Everton returned to Wichita in 2008 as keynote speaker at the Great Plains Capital Conference.

There, he said he was able to catch up on what had happened in Kansas in the years since he had left. Between the formation of angel investment groups such as Midwest Venture Alliance and Mid America Angels, he said he thinks it's easier than when he was just starting.

His source of private investment in Knowledge Communication's first years was friends and family.

"From what I can see as an outsider now, seed capital investing is where Kansas has made the most progress," Everton said. "Both accredited investors and small syndicates of funds understand the upside of... these early-stage ventures. There is less evangelization necessary on the part of entrepreneurs."

But Everton and others in Kansas' entrepreneurial and venture investing community think there's still a hole when it comes to companies needing serious dollars to make the transition from a startup company putting out small quantities of a product or service to one whose output is much greater.

If a technology startup in Kansas needs \$1 million or more in venture capital financing, they'll likely have to look outside the state. And as was the case for Everton, getting that financing might mean moving the company.

"Starting a technology business has never been cheaper and easier," Everton said. "But sweat equity only gets a company so far. You can prove the viability of an idea and remove some of the risks to the business. A lot can be accomplished that is beneficial to both investors and entrepreneurs. However, at some point you need to ramp market share, sales and scale the business. That takes money."

Building the network

Joni Cobb is doing what she can to improve Kansas tech entrepreneurs' access to capital.

As president of Kansas Pipeline, a 4-year-old entrepreneurial grooming program for leaders of technology and bioscience startups, Cobb said a key element to helping entrepreneurs is finding ways to connect them with people in the venture capital arena outside Kansas.

"A significant part of Pipeline's work is to develop relationships, both across the state as well as across the nation," she said.

Cobb and this year's class of Pipeline students, or innovators, are in California's Silicon Valley this week as part of their quarterly education sessions.

They are being hosted by Silicon Valley Bank, law firm Sonnenschein Nath & Rosenthal and Microsoft.

She said the visit and the companies that are hosts show that "we achieved a strong reputation in four short years as a reputable source of high-quality entrepreneurs."

"That kind of positive reputation allows Kansas entrepreneurs a much stronger chance at reaching the kind of investors and experts we need in order to continue to aggressively grow in the middle of the country," Cobb said.

But don't look for Kansas or other Midwest states to replicate what has been created over decades in Silicon Valley, the hotbed of high-tech entrepreneurship where deep-pocketed venture capitalists are literally doors away from entrepreneurs.

Cliff Reeves, general manager of community development for Microsoft's emerging business team, said Silicon Valley is an aberration in the sense that what has happened there is not likely to be re-created, at least on the same scale.

"The trick is to do things well, build an ecosystem locally that plays to your strength," said Reeves, who splits his time between Microsoft's headquarters in Washington state and Silicon Valley.

He also is a national adviser to Kansas Pipeline.

Reeves said venture capitalists continue to "invest where they live" though that's "not as true as it used to be."

So the key to attracting venture capitalists, like what has been done in Silicon Valley, is through networking on a national level and fostering a regional entrepreneurial community that is continually creating new companies while growing and spinning off existing ones.

"There are systems that offer returns to scale and as they get bigger, the returns get more valuable," he said.

That will help fill the void in later-stage financing for Kansas tech companies.

From Brauer's perspective, access to venture capital could be an issue for him at some point.

But not enough to prevent him from making a return to Kansas. He feels because he has been in circulation in the tech community in Southern California, he knows the right people to connect him to venture capitalists when he needs it.

"Every place has its challenges," Brauer said. "Hiring talent there (in California) is probably going to be a lot more expensive than hiring talent here."

Reach Jerry Siebenmark at 316-268-6576 or jsiebenmark@wichitaeagle.com.

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