In the News

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Startup Fever Rocks New Haven

Matching high-tech jobs, low-skill workers

Start-up data center gets funding

Tech firm is in the 'zone'

New Economy entrepreneurs say why they're here - and what they're building

Deep into the Internet revolution, and perhaps in spite of itself, New Haven is at last seeing a burst of dot.com entrepreneurial energy. What has happened to actually alter the landscape, and why didn't it happen sooner? To plumb these questions and others, we invited a half-dozen New Economy entrepreneurs to a roundtable discussion of New Haven's present role and future prospects, as well as their own ideas and dreams. They are: David Meyers, a 1999 graduate of the Yale School of Management and founder of Bluenet Ventures, an Internet incubator and venture consulting firm housed at 300 George Street; Jim Wong of SYNNAP, LLC, which is breathing new life into the former Starter Sportswear building on James Street in New Haven; Jackie Lightfield and kHyal (that's how she spells it, and it's the only name she uses) of the New Haven-based Blowtorch Studios Inc., which develops technology infrastructure and Internet initiatives for companies in which Blowtorch may take an equity stake; and John Astarita and Leo Samson, director of business development and director of technology, respectively, of MyPeople.net of New Haven, which develops Web-based wireless solutions enabling companies to communicate with field-based workers faster and better. What follows is an edited transcript of that discussion.

Every business starts with either a new idea, or a vacant market niche that begs to be filled. Which was it for each of your own businesses?

kHyal: Jackie and I met while working at a hardware company in 1993. Then we left to form a software company, and then we formed Blowtorch in 1994 to develop Web sites and interactive products.

Astarita: In late 1999, I came up with an idea to have a Web application that was little more closed-loop and a little more user-friendly — a next-generation AOL, or something of that sort. By closed loop, I mean that the service would start from the person and [circle] back to that person. We figured that the greatest piece of that closed loop was bringing that application and that capability closer to the user. We saw a movement in Silicon Valley — we have a lot of friends looking at the wireless piece — we saw the wireless platform as a way to (345)

Wong: Our business definitely came from a niche, as opposed to a new idea, because my roots come from servicing customers, as opposed to developing specific products. I started a real-estate firm about 12 years ago whose specialty was technology-oriented companies. And when the Internet became commercialized, we were positioned to represent a lot of companies that were newly formed and going through the hyper-growth process for the first time — Yahoo, Broad Vision, Doubleclick, Razorfish, companies that have gone public since. They went through the hyper-growth process and had to experience different logistical elements — infrastructure was one. [As part of that process] they were willing to outsource and peel off more hats, so as long as we were willing to take on that responsibility and showed an aptitude to lower the hurdle to accomplish, our business was fulfilling the [functions] that they didn't know how to do well, or didn't want to do well.

Meyers: Bluenet Ventures comes out of a niche as well, but it's more geographical than business-oriented. I started an Internet company my last semester of business school [Yale School of Management '99] and was with that for a little bit. I left there, then went to the Enterprise Center looking for the next company to jump off onto. I ended up working at the Enterprise Center for six months helping entrepreneurs in the New Haven area rethink their business strategies and find investors. I thought that New Haven needed an incubator, physical space, where I could leverage some of the skills I had learned to help start-up companies make it. So, it was a niche play. Subsequently I've decided New Haven is a very, very early market; there is not a whole lot of start-up activity here. But I'm hoping that improves pretty quickly.

Please tell us a little bit about how you funded your ventures.

Meyers: We didn't have to raise a lot of money, mostly because we're a services company. But we did start with some friends-and-family money.

Samson: During my career as a software engineer, I've kept in the back of my mind key individuals who, when I started my own company, could be part of it. About a year and a half ago I contacted those individuals to help me develop the applications that we needed and the learned expertise that we needed in the wireless piece before we even got funded. So there were two other engineers and I who, with the help of John, identified the market and designed these software tools that we're going to provide for our customers. After we developed the tools, we turned around and tried to minimize our expenditures [by offering equity].

Astarita: Initially we were funded by Leo and myself with some of our own personal money; we also found some 'angel' investors who were friends and family.

Wong: We assembled a team of successful entrepreneurs who had the means to be able to sustain working for a new initiative over a period of time without having to draw a salary. And, the founders of the company put in an initial million dollars of seed capital to fund our growth and the elements we needed to put together our larger financing. As you know, we were approved for a $25 million bond issued by the city of New Haven, and then we raised $2.5 million from the state and $5 million from a venture-capital company in New York and we're on the verge of closing an additional $10 million from an addition two sources in New York as well.

Lightfield: We had clients [laughs]. When we started Blowtorch, we were classic garage entrepreneurs. We put in our own money; VISA and MasterCard became a major funding source in the early days. But, since then, it's mainly growth off of revenues. And, as we expanded the business, we split off distinct parts of our business into other businesses, so we now have three companies that feed into the overall revenue stream.

John, what do you guys actually do?

Astarita: MyPeople Networks is a wireless workforce-automation company that provides solutions for real-time communication of business information. Basically, if you have an organization with a field-based workforce, we provide those companies with the ability to communication via wireless technology with these field-based workforces back and forth. We can do this because we have partnerships with some of the wireless-device
hardware manufacturers like Palm, Unix, 3Com. We also have partnerships with the wireless service carriers like AT&T Wireless and some others. We basically write the software that resides on these platforms; we also provide the service-side software and communications tools that allow [clients] to communicate with the wireless devices that are out in the field and the systems that are in the back-end office. The three products that we've rolled out already [include] a wireless sales-ordering system for distributing companies and companies that have a vast field-sales force that sell mainly short-shelf-life products; a wireless dispatch system for the transportation industry, for short-haul delivery companies, courier services, [permitting] the dispatcher to dispatch to the delivery person via wireless technology. We also have a wireless appraisal system for the property and casualty insurance market. [This allows] outside field appraisers to appraise a damaged automobile or piece of real estate.

Samson: Our value proposition to the companies that use our services is for business-efficiency improvements. We'll make field workforces much more efficient — reducing their paperwork, reducing error rates, and allowing them to see more customers or make more appraisals. And because of our integration with the back-office systems of these companies, we can also make back-office operations more efficient.

How about SYNNAP, Jim?

Wong: We're a Web hosting managed-services company. We building an infrastructure platform here in New Haven bringing several large carriers together in one location — AT&T, MCI and Sprint. They will exchange information internally within our facility. On top of that we have a data center that houses the brains that all of this runs on. Any e-business initiative has to run on a server, and servers need to house in a controlled environment — it has redundant power, redundant fiber-optic feeds, engineers that make sure the system never goes down. That type of infrastructure currently isn't located in the New Haven area. It is located in Boston and New York, which is why most of the engines for a lot of these initiatives are shipped out of the [New Haven] area. SYNNAP is an infrastructure platform that allows those engines to be located here and commercialized here; the business that surround them can grow here as well.

What is the marketplace really like out there for venture capital in late 2000, after the Wall Street skittishness of recent months?

Wong: There's still a lot of money out there, but there's a gap between startup initiatives and established companies. The floor now is around the $15 million level for most companies; so there's a gap between seed/angel funding and that $15 million point. [That gap] desperately needs to be filled, and a lot of entrepreneurs out there now sourcing money are finding that squeeze. Venture-capital companies are cherry-picking businesses that fall into that larger category. Also, venture-capital companies only have a certain amount of resources that they can deploy, so it's more cost-effective for them to work on a bigger deal than it is [to work] on many small deals. The stock market, NASDAQ in particular, hasn't helped things since April.

Lightfield: The VC market is pretty gun-shy. The standard matrix there is that they're looking for a 60-percent return and significant equity stake in companies. From the Internet side, it's been hard to prove that you can get a 60-percent return on most Internet ventures. The flip side of that is that the private-placement market is alive and kicking. If you have solid business plans and connections to private placements, you won't have difficulty raising money.

Meyers: Are you referring to angel networks, or do you mean later-stage financing?

Lightfield: Just private-placement offerings. It could be institutions, private parties, angel investors…It depends on your partnership with the right business-development managers or lawyers who can put together a private-placement offering.

How do you see it, David?

Meyers: This 'gap' that Jim was talking about is a very significant thing that's been thwarting startups. You need capital, technology companies especially. Uncle Bob doesn't go too far when you need to spend $5 million on your Web site to build it up. New Haven is a wasteland for early-stage capital. There's no angel network here; there's no venture fund even at the $5 million or $15 million level. But there have been several funds that have started in the last year that could potentially change the landscape. Connecticut Innovations and Phoenix have started Next Generation, which is a seed-stage fund for Connecticut. There's a company called Village Ventures, which is helping to create independent funds in under-served markets all over the country; they're starting a fund here called Blue Harbor. They're raising about $15 million or so and will invest in the seed-stage level. There's Sachem Venture Partners, started by David Cromwell at the Yale School of Management, which is a fund that will be about $1.5 million. SwingBridge Capital Partners in Hartford are apparently raising a fund called IronBridge, or something like that, which is focused on New Haven. There's also a small fund located somewhere around Hartford called Quarterback Capital, which is an early-stage fund that's just starting up as well. So with all these funds kicking in soon, we could see a totally different face for entrepreneurship in New Haven in the next 12 to 24 months.

Wong: With 40,000 students, we obviously have a large knowledge base here. Harvard and MIT have built up the Cambridge [Mass.] area; same thing for Stanford and Berkeley [Calif.]. It's logical from a resource standpoint that we have the same resources that those other cities do. The goal of everyone in this room is to make New Haven the path of least resistance. When some of the money considers investing in a company in this area, the system has to be pre-set; all the business partners have to be pre-set. My experience has been, you go into a city, and ultimately the decision goes back to the money source, the venture people sitting on their board. If they see a lot of resources that aren't organized, they're going to say, 'Why go there? I want you guys to commercialize quickly, and it's going to take you nine months there, but only three months here. So go here.' So our collective goal is to lower those hurdles so that when the money considers New Haven, it's a no-brainer.

Not very many enterprises get very far with just one or two people. How and where have you found people to work with you, and difficult and/or expensive has it been?

Leo: We've been pretty adaptive in attracting talent. The talent we've contacted is strewn all over the U.S. Right now, our technical folks are in a virtual office, with one in San Francisco and another in Indianapolis. Initially, because we are capital-limited, we had to be adaptive, because the folks out in California are not going to want to move to Connecticut. So we have to have a virtual office.

Lightfield: I started in the technology field in Connecticut about 15 years ago. The first tech company I worked for was in Westport in the mid- to late '80s, went through my first IPO and met a great group of people who were all in technology. From that we've developed a network of people in the IT field or the tech field. Before the Internet took everything into a whole new direction, finding people was not that hard. The Internet changed everything. When I was hiring programmers a couple of years ago, we were spending $50,000 or $60,000 a year in salary. This year, we can't touch anyone for under $150,000. That's a huge difference – even though the quality of the work you get out of the employee really isn't much different. As a startup, when you can't convince people to work for sweat equity alone, it become very difficult to find quality tech-savvy people to bring into your organization to grow you to the next level. What we've reverted to doing is pulling people out of high school, instead of college, and training them in business practices to help them understand how to be a team player and teaching them why businesses really exist — that's it's not just so you can have T-1 access to rip MP3s all day.

High school? Really?

Lightfield: Kids coming out of college these days have this incredible expectation that just because you have a B.S. or a B.A. in marketing, that you're worth $100,000 a year. We'll take someone who has 15 years in packaged-goods brand management any day over someone right out of college, because there are certain things that you don't learn in college. The lesson that the economy is teaching us is that profits do matter. Yes, ideas are great, but experience and knowing what has been tried before, and what hasn't, is an important thing.

kHyal: We're also pulling people from Yale who can't find anything to do after they get their master's degrees, because there's nothing to do in New Haven that's up to what their expectations were from their education.

Samson: We've also been drawing from the Midwest. There's a lot of talent in the Midwest, where the $150,000 salary is not prevalent for software engineers. So that's a potential area where we can manage our expenses by paying a reasonable salary and provide the carrot by giving them equity in the company in return for performance.

Lightfield: We've found that New York, Los Angeles and San Francisco is where [programmers] are most up-to-date with the tools and used to the pace.

Here's a cultural question: In California, a lot of companies find that if they don't offer stock options, they can't recruit. In Connecticut, if a company offers stock options, people think, 'What's wrong with the company?'

Meyers: The entrepreneurial culture partially exists here. It's a shame it's not [stronger], because historically New Haven of entrepreneurship and innovation. We missed the boat in the first round of this Internet explosion; we just weren't set up for it. Yale, historically, has been anti-commerce; until about ten years ago they were opposed to commercialization of their ideas. Now, Yale's waking up, but it's going to take some time. The efforts that we're all putting in here may ultimately create an entrepreneurial environment where stock option aren't something that people are unfamiliar with.

Samson: It really is imbedded in the corporate culture. For instance, I worked for Johnson & Johnson, an old-school bricks-and-mortar company out of New Jersey. J&J grew to be what it is because of the resources it had — whether it be a factory, a patent that they purchased or a process that they had internally. That old business model is people-independent: If somebody left Step 3 in the process, they would supplant that with another individual. Now, the culture that's actually going on in California places a lot of importance on the people: where the intellectual property is not the patent that you have today, but the knowledge and ability to create new ideas. And you have to reward that.