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Funds in search of good news

By LARISA BRASS

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After negative news surrounding local attempts to start venture capital funds that have ultimately gone bust, Southern Appalachian Fund Assistant Manager Grady Vanderhoofven said his fund is working to generate good headlines for a change.

The \$12.5 million fund has so far made four investments totaling \$1.3 million in three Tennessee companies. According to the fund, those investments have helped attract an additional \$1.7 million in venture funding for the companies and created 50 jobs in Tennessee as well as 20 other positions in neighboring states.

So far, however, the Southern Appalachian Fund's efforts have been concentrated outside the Knoxville area.

Southern Appalachian, a private-venture fund created through the Small Business Administration's New Markets Venture Capital program, was set up to target companies in low-income regions throughout Tennessee and Kentucky and Appalachian counties in Georgia, Alabama and Mississippi.

The fund was established by Technology 2020 in Oak Ridge and the Kentucky Highlands Investment Corp. in London, Ky.

The fund has invested in two Chattanooga companies - online furniture store Smart Furniture, which sells products used for storage, and Tricycle, a technology-based carpet sample firm. Smart Furniture's CEO, Stephen Culp, recently was featured on the cover of Inc. magazine.

Southern Appalachian has also invested in eBay seller NuMarkets of Etowah.

Vanderhoofven said the Southern Appalachian Fund is seriously looking at a couple of tech companies in the Knoxville/Oak Ridge area and plans to make three or four investments locally by the end of next year.

But he didn't apologize for not immediately doing local deals because good investments can't be forced, he said.

Vanderhoofven said he's come to realize that previous local venture funds suffered from the notion that venture capital was the only ingredient needed for local tech firms to succeed.

"It was naive to think that if we've got \$20 million, \$30 million, \$50 million, we'll get the next Silicon Valley," he said.

In truth, venture capital is the solution for only a handful of companies, he said. Others grow best through acquisition, traditional financing or self-funding through company revenues, he said.

And what's the bottom line? There simply aren't enough companies in the area today to support an East Tennessee-only venture fund.

Vanderhoofven said Southern Appalachian wants to make investments in a total of 10 to 12 companies by the end of next year.

One problem the fund has encountered with local investing, he said, is that companies seeking financing often aren't located in low-income areas that qualify for investment. Low-income tracts typically include downtown and rural areas, but not the higher income regions of West Knoxville and Oak Ridge, where new businesses typically plant themselves.

He said the possibility exists that future companies might be willing to relocate downtown to receive funding, but he's not ready to make any announcements.

Vanderhoofven said he likes the efforts of city and county officials in Chattanooga, who have aggressively sought funding for local start-ups and worked hard to make investments happen.

"I am so impressed by (Chattanooga Mayor) Bob Corker, (Hamilton County Mayor) Claude Ramsey and the chamber of commerce," he said. "I hope that Knoxville will be as aggressive as Chattanooga has been" in attracting investment and encouraging high tech start-ups to stay and grow there.

Referring to the region's new JobsNow! initiative, aimed at creating 35,000 jobs within five years, Vanderhoofven said he hopes local officials recognize the need to include high tech, entrepreneurial companies in its job creation efforts, although the payoff might not be seen immediately.

"I think we need 'Jobs Later'," he said.

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