

Tucson Citizen

GROWING PAINS

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Financing, telecommunication and worker retention problems are major roadblocks for Tucson's burgeoning software industry.

Everything is not perfect in Tucson cyberspace.

Sure, you've got the sunshine, the great weather, all the computer students at local colleges and a burgeoning software industry to lean on for support.

Approximately 4,800 people are employed directly by software companies in the Old Pueblo, according to Tucson's Center for Software Excellence, which handles software economic development issues.

That number jumps to nearly 7,000 if you include related software jobs at other companies as well as support services such as Aspect Teleservices, Intuit or America Online. Those three companies alone account for 850 jobs and are all newcomers to Tucson in the last 18 months.

Tim Yopp, president of the center and Palo Verde Software, said employment at software companies here likely has doubled in the last five years. Of the top 20 software development firms, employment rose from 2,461 at the end of '93 to 2,779 this month – or 12.9 percent. That's twice the overall Tucson job growth rate, which was about 6.4 percent in '94.

But because of the growth, the industry is being forced to face some problems, including competitive wages, telecommunications capabilities and financing.

Marvin Kaplan, an IBM senior programmer and vice president of the center, said Tucson is one of the few places in the country where software programmers are willing to work for lower wages than they might make elsewhere. Wages typically are a third less than what is offered in California.

“That’s a problem in that you cannot keep good talent here that graduates from the University of Arizona. It becomes a training ground and then they move on to California,’ Kaplan said. “It’s also a benefit in that it keeps companies coming here where they can find college students, graduates and retired people who are drawn here by the climate more than anything else.’

David Pingry, head of the Management Information Systems Department at the UA business college, said the growth in the industry is beginning to tell on that.

“That pool of skilled people who’ve wanted to stay here because they like it is drying up,’ Pingry said. “And, so, local companies are going to have to pay higher wages to keep people here. They’re also going to have to start competing with entry-level wages our students are being offered out of town.’

Services prompted by fiber optics in telephone lines is another problematic issue for the industry here.

Brad Feder, president of RightFax of Tucson, said that in Arizona, Tucson gets overlooked for such things as Caller ID or ISDN – integrated services digital networks – which would allow small businesses to route calls much easier as well as send data transmissions over the same telephone.

Both are important to software companies such as RightFax, which has developed a computer networking fax system used across the country.

Feder acknowledged that some of the telecommunications services, which allow businesses to cut their costs and put them on more of an even footing with larger companies, are now being brought by US West to Tucson. But delays have been frustrating, he said.

And Kaplan said Tucson always has played second fiddle to Phoenix.

“Phoenix is like the hub, and Tucson is like a wart to the telephone company,’ said Kaplan. “Every technological advance has to come in, though, if we’re to grow.’

George Favela, US West’s Tucson area operations manager, said his company had been “beefing up the circuitry’ over the last 12 months to handle increased demand from new companies and the continually expanding population.

And both of the services Feder and Kaplan mentioned will be fully functional in Tucson by midsummer, he added. In fact, ISDN is available now to some degree.

He also argued that ISDN services are not more advanced in Phoenix than here. But those will grow quicker here the more demand is shown for it. To date, however, demand has not been that strong, Favela said.

“A lot of these software companies are very telecommunications intensive and we’ve had to increase our calling volume capabilities. We will continue to work extra hard to accommodate what is going on in the community,” Favela said, “but the demand is barely showing itself for some of these things.”

The scarcity of financing for growing software companies continues to hamper the local industry’s growth.

“It is frustrating,” said Kim Sheridan, chairman of Avalon Software. “There aren’t banks in Arizona that are very comfortable and understand the issues related to software. That’s not just endemic to Arizona, though. When I was in Ohio, there was the same problem.”

Feder added that now that RightFax is “fairly successful,” the banks are knocking on his door.

Still, Avalon, which makes software systems for manufacturing, distribution and automotive applications, turned to a group of foreign investors last year to promote its expansion.

Bill Clay, Bank One senior vice president in charge of wholesale loans, said software companies have a “legitimate” complaint. But, from the banks’ perspective, it’s an issue of risk and who should take those risks.

“These companies are generally undercapitalized and have insufficient equity to grow – a balance sheet that you can lend against as collateral,” Clay said. “You are then going from banker’s risk to entrepreneurial risk, which is usually an investor’s risk.”

And since software technology changes so quickly, he added, that risk should be borne by investors until software companies reach a level where they have more hard collateral.

“We could make a substantial loan against what is the perceived value and then in very short order have it become obsolete and have no value and we’d have no way to get repaid,” said Clay.

Yopp said that is an issue of intellectual value that other areas of the country have dealt with already. The center plans to bring in some California banking officers accustomed to lending to software companies to break the ice with local banking

officials.

“Software, just like any other industry, needs financing to grow,’ Yopp said. “And in California and Massachusetts and other high-tech areas, you’ll find lending institutions that even specialize in high-tech growth. But it’s going to be a long haul because now most of the banks are run outside of Tucson.’

Center for Software Excellence pipeline to jobs

By CARLOS DAVID MOGOLLÓN

Assistant Business Editor

Matthew Hauer, a recent computer programming graduate of the University of Arizona, was there.

So was Bob Brodie, a former project manager for Avalon Software, who was laid off a month ago.

Both were looking for jobs at a recent breakfast for the Center for Software Excellence, which has organized the software business cluster in Tucson. The clusters allow businesses to advance their industry locally.

Tim Yopp, president of the center and Palo Verde Software, said the two job seekers likely would both be offered positions by some Old Pueblo company.

“If you look at the development of software in Tucson, there’s a lot more jobs involved now than are directly in optics,’ he said. “And Tucson is known as Optics Valley.’

He also said there is crossover with other clusters such as optics, aerospace, biomedical and envirotechnology simply because of the all-pervasiveness of the computer in today’s business world.

While no Tucson company is emerging as a future Microsoft, there is a great deal of specialization.

For instance, Breault Research creates software for optics companies and Yopp’s company specializes in medical testing software.

At each meeting, small job fairs are held in a corner of the Doubletree Hotel conference room. At one meeting last year, two companies – Avalon Software and Riedel Software Productions – announced they had 67 job openings.

And even though some companies, such as Avalon, Artisoft and IBM, have been

cutting lately, Yopp said, "There's a lot of growth happening right now within software in Tucson.'

Marv Kaplan, who co-founded the Center for Software Excellence with Yopp in late 1992 and is senior programmer at IBM Storage Systems Division, said, "I think, over the last 12 months or so, we've gotten more software related companies coming to Tucson than in the prior 15 years.'

He counts among those software support companies such as Aspect Teleservices and Intuit, as well as Atlantic Computers, which has subcontracts with Hughes Missile Systems Co. – a company that has its own software development arm.

A new directory of software companies in Tucson will be released soon listing 158 companies.

But, said Yopp, that number jumps to between 200 and 300 when tabulating those companies related to the software industry but not directly in development.

And he's not sure how many maverick computer jockeys are out there in their homes surfing the Internet and developing new programs on their own.

Yopp noted that the center's monthly breakfasts have fostered more of a sense of community among the local software industry, resulting in several joint ventures here.

This kind of cooperation was what the Greater Tucson Strategic Partnership for Economic Development envisioned, said Robert Gonzales, president of the Greater Tucson Economic Council.

Will Shakespeare, a corporate accounts representative of Microsoft in Phoenix, was highly complimentary as well.

"I think the Center for Software Excellence here has figured out a formula that is badly needed in other cities, Phoenix being one of them,' Shakespeare said. "It's certainly catching the nation's eye.'

CENTER DEVELOPS TIES AMONG LOCAL COMPANIES

The Tucson Center for Software Excellence is successful because it is low brow rather than high brow, said Marv Kaplan, co-founder of the center.

Its focus is on networking. Rather than bringing in major corporate speakers from outside, the meetings stress local company profiles and news that members can

use.

For instance, featured at this month's meeting were:

- * Brown & Bain, an intellectual property rights law firm with offices in Tucson that is working to make sure software companies can protect and profit from their ideas.
- * Lovitt & Touché, a Tucson insurance firm hoping to put together a group insurance package for members.
- * Wettstein Bolchalk, which offered ideas to improve marketing based on a major project it is doing to help Sunquest Information Systems increase the number of hospital clients of its clinical information systems.
- * And MindPlay, an educational software development firm that came to Tucson in 1989 and has had 42 percent sales growth in the past year. The business, which is run by sisters Judy Bliss and Joyce Serido, focuses on making gender sensitive, multisensory and more entertaining software to keep "kids on the edge of their seats" while learning. It employs 18 people.

Some of the major successes of the cluster in the past year included organizing Software Process Improvement Networks (SPIN) for local companies to share ideas, said Tim Yopp, president of the center and Palo Verde Software.

One SPIN group is creating better quality software code in a shorter time.

Another SPIN group being created is in multimedia software and includes companies and individuals specializing in graphic arts, the recording industry and computer programmers that may specialize in games. And it includes companies in several aspects of the film industry.

"We're just trying to provide them an area to exchange information so that everything isn't just in California," Yopp said. "It lets people know there are people in Tucson who can do it for less."

The Center for Software Excellence also formed a higher education committee that came out with a report released in November outlining how UA and Pima Community College and the local software industry could work together more cooperatively. That involves changing some curriculum focuses and expanding internships and cooperative ventures and projects between students and local companies.

And it has started a volunteer collection and distribution service to allow

companies to donate their old software and hardware for distribution to schools and non-profit organizations.

The Center for Software Excellence also is working with the state optics and envirotechnology clusters as part of a U.S. Department of Commerce grant to increase exports. A meeting is scheduled later this spring focusing on the North American Free Trade Agreement and expanded opportunities in Mexico under that program.

“I really think that there are lots of areas in the country where software is doing very well – Seattle, Austin and Boston as well as Silicon Valley,’ Yopp said. “The only thing we can do is provide a resource to encourage the growth of Tucson companies and be another area that sees substantial growth in the economy through software. But I don’t think we’ll ever be the Silicon Valley.’

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