



The Phoenix Project

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Contact: Christopher M. Kelly
(509) 483-2320
cmk@tipperary-press.com

Summary

The Phoenix Project will kick-start Spokane's University District by combining in a single location all the elements needed for creativity to thrive. It would be like Seattle's Pike Place Market on the ground floor with a mini-Silicon Valley on the floors above.

The Phoenix Project will become a place where founders of new businesses rub shoulders on a daily basis with experts who can help their businesses grow to a global scale; a place where they can share ideas and work together with artists, writers, filmmakers, craftspeople, and musicians; a place where movie lovers and music lovers will mingle with visitors from around the region and around the world at a new, permanent farmers' market and an international marketplace featuring fledgling restaurants and shops that market the region's goods. Students, faculty, and staff of area universities will be a big part of the mix, as company founders, interns, new employees, advisors, and customers.

The need for such a project is clear: the region significantly underperforms its potential in new-business and job creation. According to the Washington Technology Center's Index of Innovation and Technology, even Bellingham has more private investment activity than Spokane. With only four times the population of Spokane County, King County produces eight times as many technology startups. That means we need to double our startup creation *just to stay in the game*. We need to make a proactive effort to jumpstart new-business creation, not only in technology, but in all sectors of our regional economy. The Phoenix Project can jump-start this activity at a low cost, using proven techniques derived from rapidly growing economies around the world.

The projected location is the classic Jensen-Byrd warehouse, in the heart of the proposed University District, just two blocks from the new convention center. The building contains 185,000 square feet of heated, sprinklered, and electrified open-plan space.

To become the best, we must learn from the best. The Phoenix Project builds on the legacy of earlier, proven Spokane catalysts like Second City and the original farmers' market, but also incorporates other successful ideas from some of the most thriving economies in the world, including Silicon Valley, Tokyo, Vienna, Boston, Paris, Los Angeles, San Francisco, Austin, and Seattle. Our advantage is that, because we are starting from a small base, we can put all these catalysts in one place, maximizing the serendipity needed to generate new ideas and creative ways of implementing them.

Many popular initiatives in Spokane are in search of a home, and the Phoenix Project has room for them all:

- A high-speed GigaPoP combined with an internationally competitive Meet-Me Room to turn Spokane into an Internet mecca, building on existing, underutilized assets.
- A demonstration center for regional technologies working together, including vendors like Vivato, ReliOn, Purcell Systems, World Wide Packets, and 180 Communications.
- A year-round farmers' market and international marketplace with low fees in a stable location.
- A location to develop commercial applications of research from WSU, PNNL, and other area research institutions.
- A source for student jobs in the University District and a *de facto* student-activity center for the University District.
- Expanded studios for KPBX, including an auditorium for live productions, and offices for Spokane Public Radio.
- A sound stage and post-production facilities for a large, local movie production company.
- A multi-screen art-film theater.

Other initiatives that will find a home in the Phoenix Project include:

- Acres of inexpensive space for entrepreneurs to gestate their ideas, develop their business plans, and build their startups, surrounded by those whose mission is to develop new businesses, including attorneys, accountants, bankers, venture funds, and non-profits. Nearly everything a startup needs can be made available in the building, including light manufacturing, shared large-scale shipping and receiving, and other shared services, as well as room to grow.
- Rapid deployment of new startups, emulating Silicon Valley's dense network of relationships, which allows a startup founder to potentially put together an entire team, funding package, and office space in a matter of hours.
- A writers' grotto similar to the successful San Francisco institution, where space is shared by writers, artists, and filmmakers.
- Artists' lofts and craftmakers' workshops, including public demonstrations of such activities as glassblowing and woodcarving to attract tourists and convention-goers.

- A cluster of support services for creative projects, including a recording studio, digital video editing suite, sound stage for film production, music and dramatic rehearsal space, and informal performance space.
- A cluster of support services for startups, professionals, and the University District as a whole, including day care, copy shop, computer technicians and networking specialists, graphic designers, and more.

None of these initiatives are new ideas, and all of them have been successfully proven elsewhere. The results are impressive:

- The Meet Me Room in Los Angeles' One Wilshire turned an area in steep decline into one of the most valuable locations in the city. Imagine Spokane's own GigaPoP reinvigorating the east end of downtown as well as the University District and surrounding neighborhoods, activating the entire region from the Cascades to the Great Plains as the most wired region in the country, and linking regional universities directly to the world's most advanced research networks.
- Vienna's year-round Naschmarkt draws both tourists and locals to an outstanding mix of farmers' booths and retail stalls, as does Seattle's Pike Place Market, which gave birth to Starbucks and Spokane-funded Sur la Table. What businesses will our farmers' market give birth to?
- Tokyo's Akihabara electronics market provided the materials that a tiny startup later called Sony needed to create its first product. Would we like a Sony to grow here?
- Tourists as well as residents are drawn to gathering places. The modern-art *horologe* near the Pompidou Center in Paris and the classic glockenspiels of cities like Vienna and Munich draw crowds as their animated figures act out stories from history or fable. Imagine convention-goers tramping over to see a giant clock whirring to life on the hour as the figure of a local tribesman spears a salmon by the falls, a miner digs for gold in the Coeur d'Alenes, and farmers square-dance after the harvest. Or to see something unlike anything else in the world--a cutting-edge holographic glockenspiel created by local holography expert Steve McGrew and local game developer Cyan Worlds.
- Place Beaubourg in Paris is filled with a sense of celebration, as jugglers, poets, musicians, fire-eaters, and street actors entertain spontaneous crowds. These kinds of

performers can be easily accommodated indoors and out at the Phoenix Project.

- Informal jam sessions beginning 30 years ago in the bar of the general store in Luckenbach, Texas, a tiny hamlet outside Austin, spurred the city's thriving downtown music scene, which grew lock-step with its startup sector. The Phoenix Project can be our little Luckenbach.

The Jensen-Byrd building is sitting there empty, ready to go, and available at a potentially low cost for a period of up to 55 years. The low cost allows us to experiment, to encourage new ideas to blossom in such profusion that the inevitable failures will be seen as merely lessons on the road to success. As one business leaves, another takes its place. The Phoenix Project impact will go far beyond the University District, creating jobs at all levels of the pay scale, securing Spokane's future as one of the most connected cities in the world and the source of startups exploiting the benefits of connectivity, creating businesses that will fill the empty buildings and vacant lots of the city and that will build new factories and campuses in the valley, and perhaps even generate a "Spokane Scene" in music and the arts that attracts creative people from around the world. The only obstacle to bringing all these sources of opportunity and fun to fruition is our own imagination and willpower.

The benefits are clear. And they are not limited to impacts within the scope of the project itself. By driving Spokane's status as a Tier 1 city in Internet connectivity, combined with the new vibrancy in the University District and the spinout of successful startups into the broader community, the fully-implemented Phoenix Project will lay the groundwork to:

- Increase office occupancy rates downtown and near the eMAN fiber-optic loop around the city.
- Fill up other retail, industrial, and commercial space as startups expand.
- Increase sales at other local enterprises, including manufacturing, entertainment, lodging, and support services.
- Improve returns for owners of office and commercial space.
- Lower data storage and distribution costs.
- Increase regional Internet accessibility.
- Increase the attractiveness of the region for large-scale, data-intensive industries of the future.
- Increase jobs at all pay scales.
- Increase the average wage.

- Decrease poverty as more jobs become available.
- Decrease homelessness as more people earn livable wages and can afford housing.
- Increase the local tax base, making more funds available for better libraries, public safety, schools, roads, and other infrastructure.
- Decrease property taxes as a percentage of household income.
- Increase the percentage of the population with college and post-graduate degrees and raise the region's rankings in lists of top cities for entrepreneurship and creativity.
- Foster WSU's efforts to become a truly world-class research university and to support other regional colleges and universities.

Why the Jensen-Byrd Building?

The building contains massive amounts of potential office space; warehouse space; high-ceiling, large floor-plate open space; loading bays; adjacent parking; proximity to Downtown, SIRTl, and the Riverpoint Campus; all of which make it ideal for nurturing a variety of startups that will be addressing national and international markets. A company can develop products, perform limited manufacturing, begin shipping and receiving, all within the same space, and all while surrounded by other companies developing their own businesses. This ferment is less likely to occur or will take substantially longer if the startups are spread all over the region.

In addition, the retail-oriented businesses of the international marketplace will benefit from the massive amounts of foot-traffic possible when located an easy walk from downtown, the University District, Gonzaga, and new housing in nearby neighborhoods—and from the proposed light-rail stop, which will potentially carry people to the project from as far away as Coeur d'Alene. An isolated location on the West Plains or near Liberty Lake, for example, would be unlikely to provide the same benefits.

The major, national, multigigabit fiber lines that pass near the Jensen-Byrd building are another incentive to locate the project there. The location in the University District has symbiotic benefits for the project and district that won't happen if it's located elsewhere, including connectivity to downtown and the community, access to the fiber trunk lines for the GigaPoP and Meet-Me Room, the large amounts of space available nearby for telecom uses, and the community economic zone (CEZ) benefits to startups.

What's the point of putting all these various activities in one place? As explained below, creativity thrives on diversity—of ideas, of people, and of opportunity. Some of these activities are merely “fun.” Why link serious economic development efforts with such frivolity? Ask Jim Fleming, founder of GenPrime, who needs rehearsal space for his band to practice. People are more productive when they can have fun. “Empirical research has found a significant relationship between fun and productivity under the perspective of ‘subjective well-being,’” writes Jim Kouzes, former chairman of the Tom Peters Group.

Project Overview

The Spokane region has all the tools needed to start and build growth businesses with a national or international market. We have the money, we have the wisdom, we have the expertise, and we have the quality of life to attract the best engineers and managers and other experts. Likewise we have all the cultural diversity and resources necessary to build a thriving creative community. If this is so, then why have we been unable to develop the next hit business like Google or the next hot musician like Alicia Keyes?

What we lack is a **dense network of relationships** that allows anyone, even college kids like Google's Sergei Brin and Larry Page, to find the people who can take an idea like mapping the Internet and help turn it into a business that grows from two employees to five thousand in a few years, and from zero computer servers to 100 thousand, and from zero customers to hundreds of millions. We lack the dense network of relationships that can put our future Brins and Pages in touch with a local computer maker willing to build them 100 thousand cheap, low-powered servers, helping two businesses grow off one idea.

This is the kind of network that has made **Silicon Valley** thrive through repeated booms and busts in the technology business. Proximity is less important in Silicon Valley because the network is so well established, but even there, the bulk of venture capital funds are located on one stretch of **Sand Hill Road** and a high proportion of startups begin life near **University Avenue** in Palo Alto, just blocks from the famous garage where Hewlett and Packard developed their first product.

We also lack the critical mass for our **creative community** to explode, even though we have a vibrant music scene and a thriving literary and arts community. Part of that critical mass involves linking creative people with creative *business* people. Seattle's grunge movement would not have gone far without indie labels like Sub Pop Records. **Pike Place Market** brings together

craftspeople and farmers with each other and their customers under the banner, “Meet the Producer,” as Spokane’s own **Second City** once did. The **Sundance Institute** has introduced would-be auteurs to the business of film, livening up sleepy Park City in the summer and drawing new visitors during the post-New Year’s slump at ski resorts. The **Writers’ Grotto** in San Francisco brings together writers and filmmakers to share tips and referrals. The same ferment can happen here.

The Phoenix Project is a way to create our own **Silicon Valley in a Box**, putting all the tools and resources a startup would need in one place, shortcutting the development and funding process, and facilitating the development of our own dense network of relationships. By **combining startup space with cultural and creative space**, also in one place, we can jumpstart creative enterprises, building a home for writers and artists and filmmakers. Spokane has done that before in Second City, which also led to several successful local retail, arts, and restaurant businesses and at least one purely local retailer that developed a national market.

The Phoenix Project will serve as a catalyst for the growth of startups and as a center for creative development. The projected location is the old Jensen-Byrd warehouse complex at 131 E. Main, which contains a total of 4.25 acres of floor space. (The building’s owner, WSU, has issued a request for proposals to develop the space, along with several acres of adjacent land.) The upper floors of the six-story central building would be dedicated to dirt-cheap **startup space** and **professional services** focused on the startup market. The startups would all target national or international markets. The ground floor and basement would be dedicated to the **center for creative development**, with space for a **public market** (including a farmer’s market in-season), an **international marketplace** (including startup restaurants), and **support services** for the building’s startups, which would also serve the region. Services would include everything from a copy shop and computer technicians to a recording studio, rehearsal space, and a digital video editing suite. **Anchor tenants** would possibly include several area institutions that are currently seeking or considering seeking inexpensive space: the public market, KPBX, and a Magic Lantern-type art-film theater. A true **GigaPoP** Internet node and **meet-me room**, with exceptionally high-speed processing and routing capacity, would provide the region’s colleges and universities and allied technology businesses direct access for the first time to the Internet2 (Abilene), National LambdaRail, and other high-speed government and private networks for development of next-generation technologies. These facilities would also promote peer-to-peer networking between Spokane’s five backbone fiber pipes, which currently pass through

the city but are not locally accessible. With its new Tier 1 status, the entire region will become a primary location for advanced research, a boon to both higher education and the economy. As these technologies are tested and implemented, regional consumers, businesses, and employees will be the first to reap the benefits.

The Phoenix Project is not intended to be a permanent home for its startup tenants (except for some in the creative center). By providing low-cost space, supporting services, professional advice, and a cool location all in one package, the Project will nurture the startups only until they either succeed and move to a new home, or fail and open up their space for new startups. As in Silicon Valley, the most successful generator of new businesses in history, failure must be an option for many of the startups, just as falling down is an adjunct to learning to walk. The Project as a whole will still succeed by concentrating its resources where they will be most effective.

Startups and those professionals who work with them in close proximity will be able to bounce ideas off each other and learn from each other's mistakes. Space will be available to any qualifying company meeting minimal criteria and willing to pay the rent because even the most astute analyst cannot predict all the winners in advance. But additional support will be given to selected companies through a set of programs for which those companies compete.

Catalyst Programs

Several overlapping catalyst programs are necessary to accelerate the formation and rapid growth of new businesses, which is a major objective of the Phoenix Project:

- The Entrepreneur in Residence Program
- The Catalyst Seed Fund
- The Catalyst Early Stage Capital Fund
- The Business Generator
- A-Teams
- Synergistic Development

These programs will most likely operate independently of the Phoenix Project, but are literally the catalysts that can turn a good idea into a national success story.

The first three initiatives will add to the region's funding pie, focusing on opportunities that are too early in development to attract the attention of large-scale funds. These startups frequently have difficulty attracting adequate funding locally, not because

they don't have good ideas, but because they are startups. By definition, startups would be unlikely to qualify for bank financing or to interest a local, later-stage fund looking for a guaranteed return on each investment. Other investors may lack the expertise and connections that can expedite a startup's growth into globally competitive markets or the time to provide hands-on guidance.

The second three initiatives provide access for this expertise. Existing Spokane-area programs, such as Connect Northwest, EWU's Center for Entrepreneurial Activities, Gonzaga's Hogan Entrepreneurial Leadership Program, WSU's Center for Entrepreneurial Studies, and Whitworth's School of Global Commerce and Management, add to the pool of expertise.

Funding Programs

If our regional economy is to grow at a reasonable rate, we must provide our startups with the support and guidance necessary for them to prosper in highly competitive markets. They should not have to waste valuable development time raising cash in small increments over many years, as is nearly always the case here. Bootstrapping may work in some cases, but usually leads to scrawny, undercapitalized, and uncompetitive startups that either starve to death or fail to thrive. Expectations that companies can succeed with initial funding of \$50,000 are unrealistic in a world where competitors receive seed funding in the millions and just one electrical engineering or computer science expert can command \$100,000 in annual salary and benefits.

While it is not necessarily difficult for a startup to find \$50,000 in investment capital locally, it is extremely difficult to find more than that, unless a company has an extensive track record, at which point a local late-stage venture fund may be interested in the company. But how do we get companies to the point at which a later-stage fund would be interested in investing? We need to nurture high-potential startups with as much as \$5 million each to allow them to grow to the point where they can attract interest from larger funds.

Some suggest that because venture funds in Silicon Valley, Seattle, Boston, and other areas have raised billions of dollars, there's no need for local venture capital. Money will simply flow to companies with good ideas. This is wishful thinking: barely half a dozen companies in the region have received significant venture funding in the last ten years. Experience shows that co-location of companies with capital is far more likely to produce positive results. Chong-Moon Lee, William F. Miller, et al. put it very succinctly in their book, *The Silicon Valley Edge: A Habitat for Innovation and Entrepreneurship*: "an important requisite of the

region's success is a venture capital industry that understands high-tech and knows how to structure deals and portfolios so that successes more than make up for failures. Venture capitalists and angel investors often do much more than simply supply funds for new firms, however. These backers, many of whom have experience in running high-tech firms, often coach founders who lack important kinds of know-how and need advice."

The venture industry, venture capitalists, angels, and mentors are not flying in from a thousand miles away to offer their money and advice—they're right there in Silicon Valley. For our economy to grow, we need to develop our own indigenous venture capital industry. Peter Drucker reinforces this point of view. He sees capital formation as critical to innovation and economic growth: "Innovation in Schumpeter's famous phrase is also 'creative destruction.' It makes obsolete yesterday's capital equipment and capital investment. The more an economy progresses, the more capital formation it will therefore need. ...Thus, capital formation and productivity are needed to maintain the wealth-producing capacity of the economy and, above all, to maintain today's jobs and to create tomorrow's jobs."

The Phoenix Project can be home to a three-stage funding process designed expressly to speed startups to their maximum ramp. In this alternative to the less-effective status quo, a business at each stage of early growth will have support available as soon as they are ready to enter the next stage of development. (This process is based on a proven model, explained briefly below, and in detail in "Harvesting the Secrets of Silicon Valley," in the Case Studies section of this proposal.)

The Entrepreneur in Residence Program

Certain highly qualified individuals will be given a grant to allow them to work full-time for up to three months developing the business plan for a company of their own choosing, which, if approved by the Catalyst Fund, will be created in the Phoenix Project building.

The Catalyst Seed Fund

For businesses that have developed a viable plan, a valid product, or a strong team, and merit further development work, the Seed Fund will syndicate with private investors and angel groups to provide up to \$500,000 to get the company off the ground.

The Catalyst Early Stage Capital Fund

For businesses that have proven their concept, the Early Stage Capital Fund will provide enough cash to allow the company to

begin marketing its product or refining it to the point that larger funds will be interested in taking the company to its next stage of growth. Investments will range from roughly \$2 million to \$5 million. This fund is not intended to serve as a perpetual source of capital for startups, but to allow the funded companies to rapidly grow large enough to attract outside capital.

Business Generator

The Phoenix Project's main goal is the creation of new businesses. While passive and late-stage investors wait around for great ideas to show up on their doorstep, the Phoenix Project is designed to short-circuit the process of business creation. Most of the startups in the startup center will either be existing businesses hoping to accelerate their growth through the developing network, or businesses going through the traditional startup stages, but if there are opportunities to create new businesses from scratch to take advantage of certain regional strengths, people, and raw materials, we will find a way to make those businesses happen, on the model of venture capital fund Kleiner Perkins Caufield & Byers.

Few if any venture capital funds have been more successful than Kleiner Perkins. One difference is that KPCB has never waited around for great investment opportunities to come their way. They seek out opportunities, and if they don't find them, they create them.

Shortly after joining KPCB in 1976, for example, partner Brook Byers was encouraged by Eugene Kleiner to take a leave of absence to found Hybritech, which went public in 1981 and was bought by Lilly for \$400 million in 1986. Vinod Khosla, co-founder of Sun Microsystems and now a partner at KPCB, has developed several companies from scratch through the fund.

KPCB started small, with an initial \$8.5 million fund, but that has led to companies like Amazon.com and Google that collectively employ 300,000 people, with annual sales over \$100 billion, and a public market value of more than \$160 billion. In other words, KPCB-funded companies employ 50 percent more people than are employed in all of Spokane County. For comparison, Avista is by many measures the Spokane region's largest company, public or private. KPCB has generated companies with employment equivalent to 150 Avistas, revenues equivalent to 90 Avistas, and market capitalization equivalent to 180 Avistas. All this from one venture fund. In just 30 years.

Likewise in Spokane, Avista itself has created several successful startups, including Itron, which spawned Itronix and Servatron; Avista Labs (now ReliOn); and Avista Advantage.

Clearly the business generator model can work locally. It just hasn't been tried outside of Avista.

The A-Team

Startups are almost universally lacking something: they may be missing team members with critical expertise; they may have a great idea but a poor plan to realize it; or they may be inventors with a great product but no business skills. Meanwhile there are executives experienced with fast growth who no longer have to work but who crave a challenge. The A-Team concept puts these two together.

The startups need high-level help to have high-level success, but they don't necessarily need someone to stick around for the long haul. The executives on the A-Teams are willing to commit six to twelve months to getting a new business up and running, and then take a break or move on to a new startup as new hires take their place.

Shared Services

Projecting the image of a larger company can work wonders in getting beneficial treatment by vendors and raising the confidence of potential customers. But few startups can afford to support a full-time receptionist, switchboard, and voicemail, or the expense of an attractive lobby and meeting rooms. Business tools like high-speed printers and faxes can be expensive, especially if they're only used occasionally.

In addition, while a startup's founders should be free to focus on its core mission, someone has to distribute the paychecks, organize routine training sessions, and manage employee benefits. Someone has to order office supplies, keep the coffee fresh, call the copier repair technician, and so on.

The Catalyst program will provide shared facilities and handle non-core requirements like these with full-time employees and outsourcing, allowing startup management to spend their valuable time on the most important needs of their businesses. One means to accomplish part of this goal is to team with the Allied Industries group, which already provides many of these services to area businesses.

Synergies

The building, the programs, and the tenants would form a kind of business garden that seeds and nurtures growing businesses. Many of these companies will find their first customers in the building, helping them beta-test their products before release and

later bringing in their first revenues. This can jump-start the success of all the startups. Kleiner Perkins uses this model.

For example, five separate businesses could collaborate to further Spokane's growth as a media center. A Magic Lantern-style theater could be built in the massive east wing of the building (which would also hold the international market and dining area), attracting movie lovers to the project. Next door, a video store would offer the same movie lovers every video ever produced, because upstairs, in the startup space, a Netflix-like business would be renting all those titles to movie lovers around the country via the Internet. Spokane would be the only city in the world to have a video store where you could select and take home any of 100,000 titles, while everyone else has to wait for their selections to arrive in the mail. This selection would be impossible without the Netflix-type startup, while the local availability of titles would not be possible without the video store. As the Netflix-type startup develops its order-processing and fulfillment capabilities, another startup could be developing and testing technologies for on-line delivery of digital content, using gigabit access to the regional NoaNet through the building's basement GigaPoP. The same technology could be used right now for a startup focused on digital delivery of music, which makes up only 6 percent of the music market and has vast room for growth, even with a large number of competitors. Other supporting businesses that might grow in this media-business fermentation include a recording studio, digital-video and digital-audio editing suites, a sound stage, and local PR, advertising, and production companies that could use these services.

Another example of synergy would be a thin-client computer company, developing low-cost systems designed to be used in corporate or educational networks. The keyboard and mouse could be manufactured by locally-headquartered Key Tronic. The motherboard could be initially manufactured by a local contract manufacturer, and in volume by overseas plants affiliated with local representatives such as MERI. Assembly could be completed in a new, local factory. Packaging could be provided by Sonderen Packaging. This is the Dell model, which has been notably helpful to the economy of Austin, Texas.

Examples of Services and Tenants

The Phoenix Project would serve not only its own tenants, but also the University District and the surrounding community, in several ways. The project's services, like the copy shop and day-care facility, will be open to anyone. The project's professionals will have clients throughout the community. And, of course, the

International Marketplace, the art-film theater, and other retail organizations will attract tourists, as well as students, faculty, staff, and community residents. The project also directly addresses several goals of the Downtown Plan, including mixed-use development, business retention and recruitment, Terabyte Triangle and telecom development, wealth-generating economic development activity, downtown public market, and the rebirth of Spokane's Second City. (For exact references and more analysis of the Downtown Plan, see "Downtown Plan Benefits," below.)

The Phoenix Project will provide:

- dirt-cheap, raw space for startups
- higher-quality space for professionals and support services
- a full range of services available for startups
- superlative Internet access with private peering available
- ground-floor space for approved retail, service, and entertainment businesses
- web-hosting/co-locating service providers with national aspirations, linked to the GigaPoP and meet-me room

Examples follow, showing what kinds of people, organizations, and services will bring the Phoenix Project to life.

Support Services for Startups

These services, which in and of themselves may also be new businesses creating new jobs, make it possible for startups to focus on what they do best--developing a product or service for a national or international market. By sharing these facilities and services, startups will have access to support functions characteristic of a much larger company:

- fulfillment service with ordertaking and processing capabilities for mail-order and e-commerce businesses
- shared warehouse space
- shipping and receiving support
- cool reception area with receptionist
- voice mail
- teleconferencing capability
- conference rooms
- game room for blowing off steam
- copiers
- faxes
- gigabit ethernet access

Potential Entertainment and Retail

These businesses will serve not only people who work in the Phoenix Project and students, faculty, and staff from the University District, but are a bridge to the community and region. Many will be startups themselves, testing new ideas in a low-cost, low-risk environment. This is the Second City aspect of the project.

- Farmer's market
- An international marketplace
- Cafes and restaurants with shared facilities, such as Russian, Indian, Greek, Japanese yakisoba, Chinese dumplings, Neapolitan pizza--options that may not be available otherwise
- Art-film theater with at least four screens
- Public radio station with auditorium for live shows
- Electronic component suppliers
- Trader Joe's or something similar
- Shops: niche books, beads, posters, ethnic markets (e.g. Asian, Russian, Indian)
- Downstairs speakeasy

Other potential community-oriented retail tenants include:

- day care
- copy shop
- dry cleaner
- gym/health club
- computer manufacturing/repair
- test laboratories for electronic equipment

Potential Technology Startups

Not all startups will focus on technology, but many will, and others will use technologies in the service of other nontechnology markets. Ideally, many startups with synergistic or symbiotic relationships will be developed together, serving as testbeds and initial customers for each other's products. Some possibilities:

- AJAX developers
- niche websites and web services (ala locally-founded Docent and SAAInteractive.com)
- Linux software distributor
- Linux windows overlay developer
- Linux support provider
- blade server manufacturer

- web consulting companies focusing on high-volume, rapid-scaling technologies
- power-plant optimization software company
- hardware development companies (early stage)
- web-support services (tools, images, templates, blog hosting)
- web-distributed software companies (ASPs similar to Salesforce.com and Maplewood Software)
- Internet communities (like gamerZunion.com)
- e-commerce companies
- content companies
- embedded systems developers
- data-mining software
- RFID data analysis company
- 3-D animation and modeling
- web backup and recovery

Other Startups

Nontechnology startups would build on local or regional areas of expertise, often using computer technology in a supporting role. The agriculture, metal products, and wood products sectors need products and services that improve their performance, provide added value for their own products, improve sales and distribution of existing products, and so on. Completely new nonelectronic technologies based on research at WSU, UI, MSU, UM, and PNNL will also produce new products reaching new markets. Possibilities include:

- wood products company support services
- agricultural support services
- mining and geological support services, such as 3-D modeling
- engineered lumber design and manufacturing
- wood products applications, including doors, windows, and modular construction for a national market
- distribution software
- construction management software
- energy software
- power-company services
- health-care software
- travel internet site
- music internet site
- DVD mail-order/e-commerce business
- Buckler Bicycle Works
- metal products

Other Space

The Phoenix Project can also serve the community by creating spaces that promote local products, musicians, artists, and craftspeople, as well as supporting nearby institutions. Ideas include:

- Technology Showcase for product demonstrations (e.g. from Itronix, ReliOn, Purcell, World Wide Packets)
- Presentation space/auditorium
- Rehearsal space
- Gift and craft center
- Mike Phalen's design center
- Artists' lofts (if it works and is allowed by code)
- SIRTI overflow

Professional Tenants

To maximize interaction between professional advisers, support services, and startups, it's important to have them all located in the project. These advisers are self-selected in the sense that they choose to work with startups as opposed to traditional businesses, so co-locating is beneficial to them, as well. However, it's likely that they will have customers and clients from throughout the community, which will add to the region's dense network of relationships. Potential professional tenants include:

- attorneys
- accountants
- bookkeepers
- computer and networking technicians
- writers
- designers
- web developers
- advertising firms
- PR and marketing firms
- think tanks, ala Institute for the Future, Rocky Mountain Institute
- human resources consultants
- executive recruiters
- law offices with expertise in intellectual property and startups, including branches of national firms like Wilson Sonsini
- one or more bank branch/loan offices specializing in startup support--from Silicon Valley Bank if not a local bank
- design firms
- business consultants

- translators and interpreters

Entrepreneurial Support

Many nonprofit and governmental organizations provide support to startups and growing companies. Some of them may choose to locate in the project; others may open a small satellite office to give them better access to potential clients located there, or simply to be part of the entrepreneurial mix.

- AHANA
- SNEDA
- NWBDA
- Angel groups
- Venture capital fund offices and branch offices
- Bank loan offices
- EFGN
- Connect Northwest

Creative Tenants

The Phoenix Project will be home to many kinds of creative activities, both to provide inexpensive space for art to grow and to provide the opportunity for mutual benefit between the startups and the artists. For example, writers and artists may be able to supplement their income writing and designing marketing materials.

- Sound stage for film & television production
- Spokane Public Radio (KPBX & KSFC)
- Potters
- Jewelry makers
- Painters
- Sculptors
- Writers' grotto
- Musicians' rehearsal space
- Dramatic rehearsal space
- Recording studio
- Film/video/DVD editing facility
- T-shirt maker
- Graphic designers
- Advertising agencies
- Public relations agencies
- Foreign language center
- International radio station

Infrastructure

Although the original building itself will be somewhat rustic, with raw brick walls and wooden floors and ceilings, the technology infrastructure will be state-of-the art. The project can even be used to showcase technologies developed in the region (or by startups within the project itself).

- Wireless antennas to complete wireless downtown and extend the HotZone to the east and north.
- GigaPoP to serve as backup to Seattle's GigaPoP
- Peer-to-peer Meet Me Room for Spokane's five broadband trunk lines, offering quintuple redundancy to tenants
- Double-redundant power supply
- ReliOn fuel cell backup power
- Two large freight-capable elevators plus an additional passenger elevator
- Full sprinkler system (existing)
- Heating (existing in all areas except former steel warehouse)
- Air conditioning (existing on top floor)
- Emergency fire doors in tower

Additional Development

The Request for Proposals issued by WSU includes several acres of additional land adjacent to the Jensen-Byrd complex. This land is apparently included as an inducement for those interested in the Jensen-Byrd complex to include new construction as part of their proposal. This new construction can be developed as traditional Class A office space for unaffiliated businesses and organizations, or as higher-quality space for later-stage businesses, perhaps in combination with conventional retail and apartments for students who want to live on-campus. Condominium and town-house construction is unlikely because the entire project could revert to WSU in as little as 20 years and in any case is to be handed over at no cost to WSU in 55 years, making ownership of any unit a difficult proposition.

Downtown Plan Benefits

The Phoenix Project addresses many elements of the Downtown Plan for mixed-use facilities and economic development goals. It is almost as though the project were developed with the goals of the Downtown Plan in mind. The project will be the Mother of All Mixed-Use Facilities, making possible the other benefits described below: promoting business

retention and recruitment, housing core infrastructure for the Terabyte Triangle, activating neighborhood and citywide economic development resources, and providing space for a downtown farmer's market and what the Downtown Plan calls "the rebirth of Second City."

Mixed Use

Chapter IV, Section 1 defines Mixed Use this way: "The development of multiple uses on neighboring properties, on a single site, or within one structure is encouraged throughout Downtown as denoted by the hatched areas on the land use map. Specifically, residential and/or office uses are encouraged over and adjacent to street level retail space. Creating a mix of residential, office, and commercial uses will foster a pedestrian-friendly, **transit accessible** urban environment and turn Downtown into an active place, day and night."

The Phoenix Project will serve as an anchor to the east end of downtown and a bridge to the University District, combining R&D, office, commercial, and light-manufacturing space within a single facility. Residential space could be accommodated in adjacent new construction, if necessary. The project is within a block of projected stops for the downtown streetcar and the light-rail line to the valley.

Business Retention and Recruitment

Chapter IV, Section 2.3 proposes "a technical assistance program for business retention and development." This is one of four priority Economic Development Program elements. "The program will target a broad range of business types and sizes, from large, established companies to small, start-up operations in all business sectors, including retail, office, high-tech, arts, entertainment, etc." Clearly the Phoenix Project's emphasis on a mixture of creative uses with a public market, professional services, neighborhood services, and startup space addresses this objective directly.

The Downtown Plan proposes the following actions to achieve these goals: "Identify funding sources and implement a program for entrepreneurial assistance, such as loan and grant programs, marketing assistance, and business incubators. (Immediate time-frame.)" The Entrepreneur-in-Residence program, Catalyst Seed Fund, Catalyst Early-Stage Capital Fund, Business Generator, A-Teams, and synergy strategy would achieve all these goals in the immediate time-frame.

Terabyte Triangle

Chapter IV, Section 2.5 proposes “a high-tech business cluster in the Terabyte Triangle (the area roughly bounded by Riverpoint Higher Education Park to the east, Browne’s Addition to the west, and the Arena district to the north) through a structured and sustained marketing program.” This is also one of four priority Economic Development Program elements. “The Terabyte Triangle will be a specialized zone where businesses have access to high-speed, cost-effective Internet connections. Complete the installation of required infrastructure and encourage property owners to connect their buildings to the high-tech network.”

By including both the proposed GigaPoP and a Meet-Me Room, bringing true multi-gigabit access to the entire region, the Phoenix Project exceeds the vision proposed in the first action item for this objective: “Complete telecommunications infrastructure installment. (Immediate time-frame.)” The building already exists with available space within a short distance of all the major data pipelines through the area, along with the Spokane eMAN and a spur from NoaNet. Money has been granted to establish a GigaPoP in Spokane. It just needs a home. The high rooftop of the Jensen-Byrd building allows for immediate expansion of the Downtown HotZone into the University District, Gonzaga University, Logan Neighborhood, and East Central Neighborhood. The proposed Technology Showcase allows local equipment makers, software developers, and service providers to highlight their products working together in the same location, promoting cross-platform sales demonstrations, building the entire sector together rather than segregating the sales efforts of Terabyte Triangle technology companies.

The second action item encourages the City to “Work with real estate industry to attract new businesses. (Ongoing.)” and sees sources of funding that “include EDC, Riverpoint Higher Education Park, Focus 21, DSP, Private property owners (e.g. WSU Foundation), Real estate industry, and NWBDA.” By partnering with the Phoenix Project, all these investors will be able to leverage the effectiveness of their investments through collaboration, synergy, and higher visibility, not just locally, but also globally, carried to the world by tourists and convention-goers who visit the Phoenix Project for entertainment and encounter the technology as well.

City Economic Development Function

Another of the four priority Economic Development Program elements is discussed in Chapter IV, Section 2.8. This objective of the Downtown Plan would seem to indicate the strong desire of the City to help implement the Phoenix Project as aggressively as possible: “Create an economic development function in the City to coordinate economic development programs such as land assembly, business incubators, marketing and financial assistance. The City economic development staff would work with other Downtown and development organizations such as DSP, the Chamber of Commerce, and EDC to recruit new businesses to the City of Spokane as a whole.” The Phoenix Project would move the city quickly toward achieving this goal.

Neighborhood Economic Development

Chapter IV, Section 2.9 charges the city to “Provide targeted neighborhood economic development funding for wealth-generating activity consistent with Neighborhood Plans.” The proposed actions: “Focus on wealth-generating economic development activity. Identify project specific actions (e.g., business incubators, affordable housing, job development). (1-5 year time-frame.)”

Being located across the river from Logan Neighborhood and within East Central Neighborhood, the Phoenix Project can contribute to this goal as well--the main objective of the project, after all, is “wealth-generating economic development activity.” Although neighborhood development is not a specific goal of the Phoenix Project, it can certainly be a direct contributor to such development. For example, EWU is proposing a small-business incubator for the East Central Neighborhood, which can be located in a portion of the Phoenix Project. The participants in this incubator can benefit from the services and professionals located in the project, along with the other startups that have more national aspirations.

Logan Neighborhood anticipates a District Center around the intersection of Trent and Hamilton, whose new mixed-use buildings could be filled, in part, by graduates of the Phoenix Project. Likewise, ethnic restaurants that test their concept in the Phoenix Project may graduate to larger facilities in the proposed International District just across the Ponte Vecchio-like bridge over the light-rail line and railroad tracks, also located in the East

Central Neighborhood. In fact, companies graduating from the Phoenix Project will be likely to relocate throughout the city.

Downtown Public Market

Chapter IV, Section 2.12 specifies that the creation of “an open-air public market on a Downtown site that would support residential uses and attract visitors from across the City and County. The market could be seasonal, weekly, and/or daily, depending on the demand.” The Phoenix Project is a logical home for this market, which works in symbiosis with the other elements of the project. Space is available for year-round use, just like at the Pike Place Market in Seattle, in a funky old industrial building, just like the Pike Place Market, and can expand into open-air space during the spring and summer months. The market will be within walking distance of a growing number of residential units in the East End of downtown and proposed developments along East Sprague, as well as students and other residents of the University District and adjacent neighborhoods.

These are the action items proposed by the Downtown Plan: “Identify potential tenants and facility needs. Select and lease site. Operate market. The market may be weekly and seasonal at first and expanded if demand exists. (1-5 year time-frame.)” The Phoenix Project is committed to taking these actions to ensure that a full-scale public market is on-line in the city in the shortest possible time-frame. Assistance from the City’s economic development department, EDC, Chamber of Commerce, DSP, and other organizations would be welcome and essential to its success. Considering the success of the Pike Place Market, which ramps up for Christmas season just as the fresh foods season comes to an end, and serves midwinter convention visitors and skiers until local crops are again available, it seems reasonable to hypothesize that a similar, if smaller-scale, success will happen here.

The Downtown Plan identified the following possible sources of funding: “Community fundraising, foundations, operating fees, market revenues, microenterprise loan fund (NWBDA, SNEDA).” Early analysis shows that the public market section of the Phoenix Project can operate profitably out of revenues, like the Pike Place Market (assuming a warehouse-equivalent lease rate from WSU). If these other sources of funds would help get the market in operation faster, so much the better.

A seasonal market has been proposed for the Post Street Bridge, which could expand the market locally for fresh produce. Because of the potential Post Street market’s proximity to the West Central neighborhood, residents in western downtown, and the new Summit Site development, it’s likely that both markets could

flourish. It's also been proposed that a year-round public market be built near the Spokane Falls, an extremely attractive location with a lot of historical resonance. Such a permanent market would require expensive new construction, however, and would most likely take several years to come to fruition. Because of the higher-cost space, it would most likely be geared toward higher-end vendors and customers, unless a multimillion-dollar grant can be obtained. (Portland, Maine built a tremendous new facility using such a grant.) In the meantime, the Phoenix Project can house a farmers market immediately and inexpensively. Even if a new public market is eventually built by the Falls, it may be that the two markets address different needs and can both thrive. If necessary, the flexible space in the Phoenix Project can be put to other uses.

In the short term, there is no alternative, large-scale, public market space that can be made available quickly as a long-term home for existing farmer's market tenants and the other uses projected for the Phoenix Project public market space. This space will not only make fresh fruits and vegetables and other locally produced products more easily available to consumers, but will also promote the growth of existing producers and development of new ones, including truck farms in Spokane's Latah Creek neighborhood, who will be able to generate larger returns by selling directly to consumers. In addition, the market could work synergistically with WSU's small farm program, which promotes small-scale agricultural development in the region and value-added co-ops and businesses such as packaged- and frozen-food makers.

Rebirth of Spokane's Second City

Chapter IV, Section 7.3 of the Downtown Plan proposed turning the Metro Block by the Fox Theater into a rebirth of Spokane's Second City. "The creativity and dynamic energy of the renovation program will make the Metro Block a major anchor within the Davenport Arts District and further enhance the character of the Downtown retail core." Second City was unfortunately not reborn in that location, although The Big Easy and other entertainment venues were built there. The Arts District is doing phenomenally well without the original Metro Block plan. Reviving the Second City concept, though, and housing those activities in the Phoenix Project, would begin the revival of a second large area on the eastern fringe of Downtown.

As the Downtown Plan puts it: "This site will be a creative business incubator attracting artists, writers and designers in addition to high-tech businesses in the technology industry." In fact, by being co-located with the GigaPoP and Meet-Me Room,

smack in the middle of the University District, along the proposed streetcar line down Main Street, across the street from SIRTl's new Technology Center, and filled with the personnel infrastructure aimed at helping develop and grow startups, the Phoenix Project is the ideal location to achieve this objective in the shortest time.

Perspective

Spokane's heritage as a trading and cultural center extends back into the mists of time. During the spring and fall salmon runs, Spokane Falls hosted thousands of visitors arriving to fish and trade. The Spokanes, Coeur d'Alenes, and other early residents served as middlemen, using dried salmon as the medium of exchange for buffalo hides that were only available from east of the Rockies. They traded the buffalo hides for shells, wood-carvings, and other goods from west of the Cascades. The Spokane Falls, which were the end of the line for spawning salmon every summer, served as an early convention center and trade-show location. Tribal historian Pauline Flett tells the story of strange, white-skinned men named Lewis and Clark who arrived at a Nez Perce village in what is now central Idaho and asked why there were no men around. "They're all up at the Spokane Falls, fishing," they were told.

Lewis and Clark were followed by David Thompson, who established the Spokane House in 1810 as the region became a major source for furs. A city began to grow by the late 19th century, its economy based on a tripod of wood products, agriculture, and mining, powered by water and then by electricity. The city's fortuitous geography led all the northern railroads to pass through it, gathering windows and doors and furniture to ship east and west, along with flour and crackers and cookies and tons of silver, lead, tin, and zinc. Grand Rapids, Michigan, was in a tizzy, fearing that Spokane would overtake them as the nation's furniture capital. It was a well justified fear, since Spokane was already producing half the nation's windows and doors. Gold and silver rushes brought miners with dreams of pulling money out of the ground and farmers and lumbermen who dreamed of supplying the food and buildings for the miners and the now-established city of Spokane.

The new city was on the cutting edge of technology, installing electric streetlights in 1885, shortly after New York City and before older and larger cities in the West. Hydraulic and hydroelectric power ran mills carving lumber, grinding grain, smelting and processing metal. These three industries, wood

products, agriculture, and mining, grew and shipped their products to the world via five transcontinental railroads. Factories for automobiles, aircraft, farm equipment, and boats set up shop here. The city was poised to rival Denver as the major city of the inland West, making whatever people wanted: beer, bicycles, boots, books, cigars, clothing, cookies, crackers, flour, lumber, packaged meat and poultry, milk and ice cream, wooden matches, refined oil products, steel, nails, bolts, screws, and even motion pictures. Much of what was made in the highly touted “manufacturing center of the Great Northwest” was sold outside of the region, bringing home dollars that were invested in further economic growth. Spokane also became the natural distribution center for the region stretching from the Cascades to the Great Plains. The city’s population grew from 36,848 in 1900 to 104,402 in 1910. It was during these booming years that Marshall-Wells (eventually known as Jensen-Byrd) built its huge hardware-distribution facility in the tangle of railroad yards on Main Avenue east of downtown. Massive investment, much of it from New York, Boston, and Amsterdam, brought irrigation to the Spokane Valley and drove railroad spurs to the mining camps and lumber and farm towns throughout the region.

The End of the Boom

Spokane had the arrogance of youth, producing the Northwest’s very-first major exposition in 1890, just a year after a colossal fire that had destroyed the city’s core. Portland and Seattle would not host their first world’s fairs until 1905 and 1909. In 1920, Spokane introduced “the greatest exposition of out-of-door life in the United States,” recognizing the city’s location amid a plethora of natural wonders that were being preserved by a series of national and state parks.

The railroads, the mines, the lumber camps, and the farms and ranches drew people from all over the world, turning the city into a melting pot that included Chinese, Japanese, African-Americans, Russians, Germans, Poles, Czechs, Finns, Irish, Scots, Italians, French, Cornishmen, Basques, and Greeks, as well as Salish speakers.

Capital flowed in from New York, Philadelphia, Montreal, London, and Amsterdam. Herman A. Van Valkenberg raised today’s equivalent of \$218 million from investors in Holland to fund companies here. Spokane’s products found a worldwide market. Flour from the Centennial Mills went around the Horn all the way to England.

And then something happened. The details are unimportant, but the results are clear. Young dreamers like Henry J. Kaiser found

themselves fleeing town to make their fortunes elsewhere. While the smaller and more isolated city of Boise built five Fortune 500-size companies (Albertson's, Morrison-Knudsen/Washington Group, Boise Cascade, JR Simplot, and most recently Micron Technology), Spokane built none. Spokane's largest employer until its recent implosion was none other than Henry J's Kaiser Aluminum--founded in California, along with chemical, cement, construction, and automobile companies, to name just a few of over 100 companies he started.

It seemed as if preservation of wealth had become more important than creation of wealth. Protection of each slice of the meager economic pie had become more important than growing the pie. Opportunity was just the name of a nearby township and a hope for dreamers. Vision was something to be corrected by Tom E. Day Optician.

Investment capital became scarce (with the odd exception of the most risky investments of all, speculative mining stocks). This led directly to a long period of stagnation. After a proposal in the 1920s by the Spokane Chamber of Commerce to raise just \$175,000 to underwrite factories in the then-prospering farm-equipment industry was dropped, once-prosperous manufacturers like the Spokane Harvester Works either collapsed or moved to more welcoming cities. These factories, which also made other machines such as automatic track-layers, were positioned to take advantage of the transition from horse-drawn equipment to diesel and internal combustion engines, which could also have been manufactured locally and would have easily powered trucks used initially for farm-to-market purposes and then for interstate trucking and railroad use. But all this potential was squandered. Nearly the entire industry disappeared.

A New Hope

The economy plugged along, supported by its tripod, while people complained of a brain drain. As the 1960s turned into the 1970s, a new hope began to grow as Expo '74 brought the world to Spokane's door. John Van Der Zee wrote about it in the New York Times:

Such a scene--a torrent of fishable, perhaps drinkable, mountain water pouring through a city of nearly 200,000 people--seems foreign, Swiss, perhaps. The river is to Expo '74 what striking architecture has been to some of the famous world's fairs in the past. It is Expo's thematic realization, its most spectacular show and its greatest achievement.

The time seemed ripe for a transition from a parochial, regional hub riding on century-old laurels to a visionary community making a virtue of its oddly European flair. New thinkers arrived with every planeload, including a young architect, partial to bow ties, named Bill McDonough, who took Expo's theme--"Celebrating Tomorrow's Fresh New Environment"--to heart. (The quote from Chief Seattle emblazoned on the wall of the US Pavilion had an equal impact: "The Earth does not belong to Man; Man belongs to the Earth.") Thirty years later, McDonough is in charge of a multibillion-dollar project to turn Ford's massive River Rouge facility into a haven for wildlife where cars are also built. At the fair, McDonough participated in a series of symposia and special events that covered energy, population, agriculture, health, human settlements, resource management, recycling, municipal ecology, women and the environment, solid waste management, environmental law, and environmental education. Nobel laureate Wassily Leontief was on the advisory committee. And yet local leaders were scarce at these events.

For six months, Spokane was home to performers from around the world recruited by Mike Kobluk, a former member of the Chad Mitchell Trio, which had given John Denver his start. He filled countless stages with whirling dervishes, Jamaican steel-drum bands, world-class symphonies, ballets, Bob Hope, Ella Fitzgerald--and John Denver. The Folklife Festival, organized by an import from the Smithsonian Institution named Bob Glatzer, found everything from a traditional Chinese fighting kite maker to a Makah Indian carving a 40-foot ocean-going canoe. For six months, Spokane was an international city filled with educational, scientific, and cultural opportunities that could have formed the basis for creative renaissance.

Through its own efforts, the city had blazed a glorious trail to opportunity, but soon lost sight of it in the aftermath of the fair. Visions of hosting the regional headquarters of the National Park Service and making the Spokane Falls and river gorge into a national monument drifted away. The creative renaissance was lost just as the city's grand old schools were torn down, replaced by squat, dingy, cookie-cutter factories for learning whose only color was in a quickly fading rainbow painted on the side.

The fair's only legacy was physical: a beautiful park along the river where railroad yards had once been. The city's goals had been met. The goals did not include being a scientific, cultural, or technological mecca. The city went back to its tripod and continued on its risk-averse, slow, but steady course.

By the end of the 1970s Spokane reverted to its self-image as an isolated backwater where nothing ever happened, which was still a great place to raise kids.

It was hard for those kids to believe that Spokane's early days had been a time of ferment, filled with cross-pollination of cultures, including not just Anglo-American settlers from back East and the local tribes, but also Chinese, Japanese, German, Italian, Irish, and other immigrants. Freed slaves and their descendants migrated here after the Civil War seeking the opportunity to build their lives and businesses in peace. In fact, nearly everyone, including many of the American Indians, came here from somewhere else, bringing with them new ways of thinking and doing. Almost anything you could think of was made right here, including cars and airplanes and movies. The city had been nationally recognized for its creativity and fast economic growth.

The Root of the Problem

That early boom had ended by the 1930s. The best silver mines had been claimed. The founders of the major businesses had died or retired. Few of them had created public companies that would survive in the long term. Their risk-averse survivors leaned toward T-bills and property ownership in their investment portfolios, generally uninterested in running a business or funding startup companies that might fail--not a bad strategy, but not a strategy that would build the region's economy. Over the next half-century, the economy stagnated while other, similar areas, including Boise and Colorado Springs, boomed. Every major Spokane bank and manufacturing business was sold to outside interests. Major airlines that had once used Spokane as a minor hub were inclined to make Spokane a flyover city, or at best a feeder to their hubs elsewhere. Meanwhile Denver, Kansas City, Phoenix, and even Reno established their own airlines to ensure easy access to other markets. Safeway moved its northwest regional headquarters to Seattle. Hardly anyone noticed. A locally initiated venture fund was finally established, but it cautiously set investment criteria so strict that no local startup was likely to be funded until it was already successful. The problem was not so much with the fund's devotion to prudent choices as with the lack of significant alternative sources of funding. Promising opportunities died on the vine.

During the Internet boom of the late 1990s, hope began to rise once more, only to be dashed during the ensuing bust. The lesson could have been learned that one out of a handful of local startups had managed to be sold for over \$300 million (in a possibly premature deal that may have left hundreds of millions more on the table)--beating the track records of the best venture capitalists in terms of successes per attempts--but it was overlooked in an

obsession with the other setbacks: hundreds of employees at other companies were laid off with the sense that there was nothing we could do about it.

A New New Hope

But now the tide has turned. More and more people, some who moved here from elsewhere, some who went away and came back, and others who never left, are starting to see a positive future where an expanding pie gives bigger and bigger slices to everyone, even the poorest of the poor. New tools are being developed to help new businesses start and grow, and the toolbox is beginning to fill. People are conversing in new languages once rarely heard here: Russian, Japanese, Chinese, Spanish, Hebrew, Hindi and Urdu. Immigrants from countries like Morocco, Thailand, Peru, and Brazil are making their homes here, joining newcomers from six continents. Our worldwide legacy lives on as far away as the Kingdom of Tonga, where a German expatriate advisor to the King immediately knows what's memorable about the home of a visitor: "Ah yes, Expo '74!"

So we have momentum: a plethora of organizations have been formed or modified their missions to help startups. Technet's bootcamp series, initiated with the help of EFGN, is now being collaboratively recast by three university entrepreneurship programs--none of which existed five years ago. SIRTI is barely ten years old. Technet's Catalyst awards, the Chamber's Agora Awards, and Launchpad's Entrepreneur of the Year Award all recognize startups that are building the economy of the future. WSU and UI are actively hoping to license technologies developed by their faculty and staff, and all the area colleges are beginning to collaborate more closely with the Pacific Northwest National Laboratory, a hotbed of research and patent production. AHANA is working to build minority businesses. The EDC's mission has been modified to allow it to work with Spokane-based companies, which had been prohibited before. SNEDA, NWBDA, the SBIR and WTC programs, and other government-funded organizations provide potential sources of cash for startups. Connect Northwest is setting out to build networks between startups and service providers, helping company founders polish their business plans and possibly find funding.

The Phoenix Project promises to put these various people together and add new tools to the toolbox, so that our region's natural creativity can thrive.

Overcoming Obstacles to Economic Growth

John Gardner, in his classic analysis *Self-Renewal*, emphasizes the importance of a society open to change and risk-taking. “*In the ever-renewing society what matures is a system or framework within which continuous innovation, renewal and rebirth can occur.*” (italics his) He compares an ever-renewing society to a “total garden” or “ecological system,” the creation of which is the essential goal of the Phoenix Project.

The excessively cautious nature of our region, by preventing beneficial changes, is counterproductive. It tends to preserve the very things we wish to avoid: low wages, underemployment, and stagnation. We can't overcome these problems by sitting still and pretending they'll go away. Peter Drucker pointed this out in *Landmarks of Tomorrow*, as Gardner explains: “in a world buffeted by change, faced daily with new threats to its safety, the only way to conserve is by innovating. The only stability possible is stability in motion.”

Spokane has difficulty energizing its economy for four primary reasons:

- 1) **Fear of failure** stymies risk-capital investments.
- 2) **Lack of available management skills and funding** to recruit national-caliber management holds back fast-growing companies.
- 3) **An underdeveloped network of business relationships** handicaps the growth and vision of startups.
- 4) **The “invented-here” syndrome** creates an anti-local bias: if it's a local product, person, or service, it must not be any good.

These four factors have tended to contribute to a vicious cycle that makes startups hard to get off the ground. For example, Purcell Systems and LineSoft both had to go to San Francisco for large-scale funding to pursue growth strategies. Once they had funding available, they were able to attract management candidates to take them to the next level. Both companies reported difficulty in pursuing funding, sales, and partnerships locally. (On the plus side, both companies found it easy to recruit highly qualified employees.)

Sources of Success

The means for overcoming these obstacles is both simple and daunting. Much can be accomplished through the various activities and facilities of the Phoenix Project. Ultimately a track record of success will lead to high-growth role models, which will inspire

future rounds of entrepreneurs, as has happened in Silicon Valley and other areas.

1) **Eliminate the fear of failure. A startup's ability to overcome obstacles and ultimately provide a successful exit will raise the comfort level of local investors.** Ironically, the easiest way to raise this local comfort level is to attract extra-regional investment first. The dilemma is that capital from outside the area is generally reluctant to invest without a vote of confidence from local investors. It is possible to raise local investor confidence in a startup's management by providing a means for startups to share expertise. Most startups don't need a full-time CEO, CFO, marketing director, and other executives, but by having strong candidates on board from the outset, a company provides reassurance to investors that it can handle strong growth.

2) **Raise investor confidence with strategic use of a set of A-Teams, or shared executives,** who can temporarily fill the gaps in a startup's management, making it easier for startups to ramp faster while attracting both local and extra-regional investment. These executives will call on a national and even international network of contacts to help them find both funding and candidates to fill positions in a fast-growing company.

3) Although it will take some time to form a dense network of relationships throughout Spokane's regional economy, **a smaller network located in close proximity, preferably in one large building, will jump-start the growth of startups also located in that building.** In a sense, we can create a Silicon Valley in a box, with all the components necessary for successful growth located in the box with the startups. Startup founders at different stages of growth will be able to bounce ideas off each other, gain insight into solutions of mutual problems, and rub shoulders with professionals and other partners, creating new nodes in our network.

4) **A concentration of professionals with a national or international track record of success will draw attention to the quality of resources available locally.** As success begets success, local firms will develop a national reputation, attracting more professionals to advise and staff newer generations of startups.

The Need for Serendipity

“The society interested in continuous renewal will strive to be a hospitable environment for the release of creativity,” writes John

Gardner. Creativity, whether in business or the arts, is enhanced by “the receptivity of individuals to the sights, sounds, events and ideas that impinge on them.... Men or women with the gift of originality manage to keep a **freshness of perception**, an unspoiled awareness.”

The Phoenix Project, with its collection of things to do, places to go, people to meet, and businesses to visit, will provide countless opportunities for **serendipitous encounters**. At lunch or dinner in the International Marketplace, waiting in line for a movie, watching the glassblowers or woodcarvers, or shopping for fresh, locally grown and prepared foods, those who need help (founders and other startup employees) will be able to bump into those who can help (potential funders and advisers), and all of them will bump into people from throughout the community. New ideas and suggestions will quickly gravitate to the place where they can do the most good. In Silicon Valley, this happens spontaneously because everyone--engineers, creatives, professors, scientists, attorneys, accountants, marketeers, and so on--knows each other or knows someone who knows someone. In Spokane, this is more difficult. Businesses in traditional industries can get the help they need, but startups find it tough to locate those who understand their business and can provide worthwhile advice. By putting startups, and many of those with experience and the desire to work with startups, together in the Phoenix Project, we can eliminate this difficulty.

The Need for Large Numbers of Startups

In a relatively small economy like Spokane's, the most likely way to develop nationally competitive companies is to foster the largest number of potentially successful companies possible, while accepting that many will ultimately fail to thrive. (This does not mean throwing money at any startup, but it does mean funding as many startups as possible whose business plans show a strong likelihood of success.) The low-cost space, dense network of relationships, and sources of funding and advice in the Phoenix Project will further maximize the success rate, while reducing the cost of failure.

The fact is that nobody knows which companies will ultimately succeed in a big way. It's a truism that out of a portfolio of ten venture-funded companies, only one will be a home run like Google, two will be moderately successful like Packet Engines or Coldwater Creek, three will become profitable, and four will either fail, or fail to provide a positive return. Suppose the region starts only one company in national markets each year. The odds are that only one of them, at best, would succeed after ten years. The odds

of regional success are far higher if Spokane were to start 10 venture-funded companies each year. Using the rule of thumb, 10 startups would yield 1 home run and 2 successes each year, as opposed to one or even zero successes by limiting our number of startups. Over 10 years, we could expect as many as 10 home runs and 20 successes, providing an enormous return on the community's investment in time and money. This is what has made the economies of cities like Boise and Colorado Springs successful.

To understand how this would affect the regional economy, consider that 30 Coldwater Creek-sized companies--without even a single Google-like home run among them--would have a \$36 billion stock-market capitalization and \$18 billion in annual sales, and employ about 60,000 people. That would be a nice boost to our regional economy. Creating a single Google would be almost as nice in many ways; Google today has a \$120 billion market cap, revenues of \$5 billion, and 4,000 employees. (For those who say a Google-sized business could never be created here, consider that Wal-Mart was created in Bentonville, Arkansas, which has a population of 24,000. Wal-Mart has a current market cap of \$202 billion, revenues of \$280 billion, 12,000 employees in Bentonville, and 1.7 million employees worldwide.)

The Danger of Picking Winners

There seems to be a desire here to have a single agency or group pick the winners and focus on them. This could be a mistake. Harvard competitiveness expert Michael Porter and others point out that centralized direction of an economy tends to be unsuccessful. For example, every industry targeted by Japan's highly touted Ministry for International Trade and Industry (MITI) failed, while other industries where internal competition flourished, including automobiles and consumer electronics, produced strong global competitors. Our target should be maximizing the number of startups with a national or international market, regardless of their industry, and fostering their ability to compete on the global stage.

The Phoenix Project will naturally vet applicants for startup space, but within broad bounds: the company's product or service should have a large and growing national or international market, the idea should be feasible even if not fully fleshed out, the company should have some kind of unique competitive advantage and the potential for barriers to entry in their subset of the market, and it should be possible for the company to attract management and staff who can help the company fulfill its potential, if they are not already part of the team. The large amount of available space

and frequent review of company results allows room for successes to thrive and a means to boot out clear failures, making room for new startups. Catalyst-funded ventures would receive additional assistance.

SOURCES: John Fahey, *The Inland Empire: The Unfolding years, 1879-1929*; William T. Youngs, *The Fair and the Falls*; William Stimson, *A View of the Falls: An Illustrated History of Spokane*; World Book Encyclopedia, 1965 edition; personal experience; Michael Porter, interview with Charlie Rose; Pauline Flett; Peter Drucker, *Landmarks of Tomorrow*; John W. Gardner, *Self-Renewal: The Individual and the Innovative Society*.

Learning from Success: Case Studies

All of the proposed projects to be housed in the Phoenix Project have been successfully proven in other implementations. These case studies explain in greater detail what they are and how they work.

1. Building a High-Bandwidth Mecca

In Silicon Valley, people seek out and fund the ideas they hope will be the next Google. Although such role models are rare here, it helps to understand what a Google would mean to the region. Google, founded just seven years ago, has close to \$5 billion in revenue, over 4,000 employees, most of whom work at its headquarters, and a market capitalization of over \$120 billion.

Salary.com estimates that around 1,000 Google employees have become millionaires (not counting a few billionaires). The Wall Street Journal reported that the area has encountered one problem: finding enough multimillion-dollar homes in the well-off town of Atherton to meet demand from 29-year-old Google millionaires. Clearly the spinoff benefits of developing rapidly growing global businesses can be quite high.

What kind of infrastructure does a Google need? Google processes 80 *billion* searches a day. That averages to about a million searches a second. This requires humongous data pipes to take the search requests in and feed the search results out. Other giant web businesses, like Amazon, Yahoo, eBay, iTunes, and Expedia, need similarly massive bandwidth and ultrafast data switches that connect them with their customers. Altogether, these businesses employ tens of thousands of people and have brought hundreds of billions of dollars of venture capital, stock-market value, paychecks, and dividends to their home regions. It's no

accident that these businesses are located in cities that have the robust digital infrastructure needed to support global connectivity.

Spokane's Digital Infrastructure

Can Spokane play in the Google arena? Do we even have the bandwidth to support such data-intensive activities? The surprising answer to both questions is yes, if we solve a few nagging problems. Spokane happens to have five Internet backbones passing through its city limits, with enough potential bandwidth to serve many a Google. Unfortunately, we can't access all of that bandwidth directly, and the backbones don't connect with each other here, impeding development of data-intensive businesses and delaying handoff of data from one carrier to another. In addition, we don't have the kinds of ultrafast switches locally that would optimize Internet access for such data-intensive businesses.

The situation is like having five bullet-train lines passing through town without a station. The only way to get onto these bullet trains is to take a creaky stagecoach on dusty roads to a station in Seattle, Portland, or Salt Lake City first. The local stage lines have limited capacity and often limited speed, even though multi-gigabit railroads are passing right through town. For us to build a Google, we need to have a station here in town--a Union Station where all the backbones can share traffic. Spokane fought to be a railroad center in the 19th century, which drove much of our economic progress in the 20th century. We have to take action now to become equally important for the economy of the 21st century.

The solution is to combine a GigaPoP with a Meet-Me Room, and tie them into the regional fiber-optic network known as NoaNet. The Phoenix Project has plenty of room for both a Meet-Me Room and a GigaPoP, with traffic managed by a mainframe-sized network router capable of handling trillions of simultaneous transactions per second. This new, virtually unlimited access to massive bandwidth would help solidify Spokane's position as one of the most wired cities in the world, attracting new organizations that need such bandwidth for their own uses, for business, for research, for testing. Spokane cannot easily grow a Google or a Yahoo or an eBay (with their thousands of high-paid employees) unless we provide Google-sized Internet access. Likewise, the region's universities cannot compete with other, more connected universities in research on the future of the Internet--research that can spin off startups and high-paying jobs--without Google-sized Internet access.

Why is this kind of connectivity so important? Doesn't all the data travel at the speed of light, no matter where it comes from?

Not in actual practice. According to the Progressive Policy Institute, “congestion at network hubs and junctions makes places with high levels of capacity better positioned to be home to companies that distribute large amounts of data via the Internet. If the ‘pipes’ are not big enough relative to the amount of data going through them, data transmission speeds will slow.” Our pipes are world-class; we just can’t hook up to them yet. In practice, it’s as if they didn’t exist. This isn’t a problem for most consumers and small businesses, but “it can be an issue for companies, especially companies that are hosting and transiting large amounts of data. As a result, having a high capacity of Internet backbone in a metropolitan area relative to demand is a competitive advantage.”

A Little Internet Background

The Internet was initially set up to distribute information, broken up into small chunks of data called packets, through a widely decentralized network. As the Internet became commercialized, it became more centralized, focused around a smattering of cities that had large numbers of users, using a limited number of long-distance backbones to carry data. The growing traffic began clogging up the Internet’s major hubs and switches. Users in cities like Spokane essentially have to send their data hundreds of miles to the hubs, where it’s switched and sent on to the recipient--even if the message is only going across town. In the hubs--known as Tier 1 cities--the backbone operators established direct connections between the backbones. This private peering essentially allows each backbone to bypass the public Internet to gain direct access to customers of other backbones. Peering is far more cost-effective than transit, the current alternative available here, which requires smaller service providers to lease an access pipe connecting to a larger backbone provider, which then connects the smaller provider to all its dozens of peering partners, giving the ISP indirect access to the entire Internet.

Spokane can achieve Tier 1 connectivity, with direct access to multiple Internet backbones, a level few cities have achieved. But to do so, we have to make it possible for all of the backbones passing through here to set up private peering arrangements with each other and with customers in the region. As private peering arrangements increase, more service providers and businesses see value in creating their own peering arrangements here, creating a virtuous circle in the growth of bandwidth capacity, accessibility, and use.

What Is a GigaPoP?

A GigaPoP is not the largest-sized soft drink at ZipTrip, but an Internet Point of Presence with true gigabit access. The major Internet backbones operate at gigabit speeds, but local access is usually a thousand times slower. Faster access speeds lead to faster response times for businesses that use large amounts of bandwidth. For example, HDTV requires OC42 (2.5 gigabit) speeds for transmission. With direct gigabit access to the Internet, the region can become a center for testing and development of valuable new technologies such as HDTV video-on-demand, medical informatics, and any other high-bandwidth applications. By having such access already in place during the development phase of these technologies, we also position residents in the region to be first to take advantage of the latest advances as soon as they become commercially available, maintaining our advantage over other regions.

The initial planning for a GigaPoP is now underway. It will help invigorate the completion of VPNet, which proposes linking all regional research institutions and universities with high-bandwidth fiber to promote both distance learning and research collaboration. The first links of this network have already been established. The GigaPoP will enhance the ability of VPNet to provide real-time research sharing, real-time remote classes, real-time monitoring of experiments, and research on new networking or security technologies.

What Is a Meet-Me Room?

A Meet-Me Room sounds like a place for blind dates to find each other, but it's actually a place for data to find a shorter route to its destination. As the Internet clogs up, there is more demand for new transfer points where private backbones can share data without its having to pass through the existing nodes.

The Internet uses what's called "hot-potato routing," which means data packets directed from one service provider to another must be handed off at the earliest opportunity. Currently data from Spokane (and anywhere in the region) must travel slowly to distant cities before it can be handed off. This leads to delay in the time it takes outgoing data to reach its destination, potential lost packets that must be retransmitted, and other problems that can be ameliorated with a regional Meet-Me Room located in Spokane. What we're talking about is a carrier-neutral Network Access Point (NAP) similar to a Metropolitan Access Exchange like MAE-West in San Jose and MAE-East in Washington, DC.

A meet-me-room that not only supports current demand, but also anticipates market trends, encourages startups developing new

technologies and services like storage-area networking, network security, remote security monitoring, content networking, and voice-over-IP (VoIP). Growth for such startups can be fast and impressive. Vonage was a pioneer in VoIP, yet the company is only three years old. It attracted over \$400 million in venture capital and already employs 1,500. Skype sold to eBay only 18 months after its inception for \$4 billion. Imagine what those figures would mean in the Spokane economy. But a Vonage or Skype could not be built here without access to vast data pipes.

The Phoenix Project Meet Me Room can enhance the power of national service providers, regional businesses, universities, government agencies, and other organizations. It would provide at least a dozen major benefits to the Spokane region:

- 1) Tier 1 status enables Spokane to become the primary backup location for the geologically unstable region west of the Cascades, including not only Seattle, but also Vancouver, BC and Portland. This status becomes a major selling point for the EDC and a valuable asset to recruiting outside venture capital to the region for the creation of startups that focus on either advanced Internet technologies or bandwidth-intensive services.
- 2) Two million underserved subscribers between the Cascades and the Great Plains will become available for gigabit Internet access. By aggregating this mass of customers, Spokane positions itself as a switching center on par with Seattle, Portland, Salt Lake City, Denver, and Minneapolis.
- 3) Access prices for volume users will drop substantially.
- 4) Backbone providers would have a private peer-to-peer node that will help to avoid congestion in the public Internet. This would also be useful to their customers who lease private bandwidth, which is not carried over the public Internet.
- 5) Underutilized buildings located near Spokane's Metropolitan Area Network (eMAN) will become valuable properties for telecom users, including high-bandwidth businesses like computer animators, 3-D modelers, and back-office data analysts and data warehouses. The eMAN encompasses much of the city.
- 6) Newly connected, at-home workers, using regional gigabit access for data, voice, and video, by virtue of no/low overhead, will be competitive with overseas call centers and back-office operations.

- 7) Universities, businesses, and new, private research institutions similar to SRI or Rand Corporation would have direct access to multi-gigabit backbones, rather than transmitting through creaky stage lines first.
- 8) Regional universities would, for the first time, have the highest-speed direct access to the Internet2/Abilene and other research networks.
- 9) Terabyte data files from the National Institutes of Health, Department of Defense, US Geological Survey, and other federal research facilities will be accessible on a real-time basis.
- 10) The supercomputer at the Pacific Northwest National Laboratory will be accessible to regional research institutions on a real-time basis.
- 11) Data servers like Akamai will be able to build server farms here, putting them closer to over 500 thousand local users and two million regional users for serving web pages, improving web response speed.
- 12) Spokane telecom startups like World Wide Packets and Vivato can test their high-speed equipment on the highest-speed backbones and regional networks to assess real-world performance.

Although the GigaPoP and the Meet-Me Room would be located in Spokane, the largest-scale benefits will be made possible by making Spokane the Internet hub of a broader region--and much of the work has already been done.

NoaNet--Spokane's Third Unique Competitive Advantage

The GigaPop, which is under development and needs a home, will be our first competitive advantage. The Meet-Me Room will add to that advantage, positioning Spokane as the premier backup switching center for geologically unstable Seattle, Portland, and Vancouver, BC, capable of routing trans-Pacific traffic as well as regional traffic in the event of a catastrophe.

But Spokane has a third, unique competitive advantage. Spokane is at the center of a web of regional fiber-optic lines known as NoaNet. NoaNet brings gigabit capacity along BPA lines to rural communities throughout eastern Washington, northern Idaho, eastern Oregon, and western Montana. Relatively inexpensive extensions can interconnect with another two million Canadian users ranging from Hope on the slope of the Cascades to Medicine Hat in the Rockies, and north to Calgary and Edmonton.

NoaNet is perhaps the largest carrier-independent regional fiber network in the world. This fiber is basically empty, but can serve as a real-world proprietary testbed for any bandwidth-intensive purpose, like the downloading of movies over the Internet, telemedicine, distance learning, and research collaboration. Via NoaNet, even Sandpoint could grow a Google to add to its success with Coldwater Creek. This makes the Spokane region the most ideal location in the United States to develop, test, and roll out all these technologies of the future--if we maximize the potential of our central location in the NoaNet web.

NoaNet also makes possible virtual office buildings, allowing people to work as efficiently from home as from an office, expanding the pool of available workers, and bringing higher-income jobs to rural communities. Offshoring this kind of work has expenses that are often underreported, including the cost of building new, air-conditioned office space for sensitive electronic equipment in hot, humid climates; providing backup power to allow operation through frequent failures of the electric grid; and rapidly rising salaries for the still-limited number of well-educated employees. Although offshoring will still be somewhat cheaper, the ultimate cost difference is not as great as many believe, and the potential for disruption of service is greater. With a strong Internet infrastructure, our region can become and remain globally competitive from a strictly cost-centric perspective in the near and medium term.

Technology Showcase

In addition to providing world-class access and turning Spokane into a Tier One community, siting the GigaPoP and Meet-Me Room in the Phoenix Project will benefit regional businesses by allowing them to showcase their technologies in one location, cross-selling complete packages to visitors from around the world. For example:

- ReliOn's fuel cells can supply backup power.
- Genesis Fueltech and Innovatek fuel reformers can generate hydrogen from Avista natural gas for use by the fuel cells.
- Vivato switches located on the roof can expand the HotZone into the University District, the Gonzaga campus, and the Logan and East Central Neighborhoods.
- Purcell Systems cabinets can protect the communications gear.
- World Wide Packets can test applications of their gigabit Ethernet optical switches in an interface between eMAN

fiber lines and Avista's end-user powerlines, potentially bringing gigabit access to every Avista customer without having to rewire their homes and offices.

- Itronix computers can demonstrate network testing capabilities and wireless applications.
- Itron meter reading equipment can demonstrate remote sensing and automatic wireless updating of information.
- Schweitzer Engineering Labs digital power-management technologies can oversee local power circuits.
- GamerZunion can both develop their technology for aggregating players of massively multi-user online games, and showcase their technology to visiting game companies, who might also take an interest in products or services from other businesses, like World Wide Packets and IT-Lifeline.

In addition to helping existing businesses, such a leading-edge digital infrastructure will make it possible for Spokane to be home to startups developing technologies of the future, such as femto-second pulse lasers that can transmit as many as 15,000 channels at 1GHz speeds per fiber, or digital distribution of movies for projection in theaters around the country.

Everything that has been discussed so far has been proven in other areas. The Westin Hotel in Seattle is home to the Pacific Northwest GigaPoP, where the University of Washington connects to the Internet. The Pittock Internet Hotel in Portland connects the Oregon universities to the Pacific Northwest GigaPoP as well as providing peer-to-peer connections for dozens of providers. Los Angeles is home to a building that, like the Phoenix Project, reinvigorated a depressed area through world-class fiber access. This example is discussed in detail below.

Success is infrastructure-dependent, and Spokane has infrastructure that would make many larger cities envious. The key is putting it all together.

Case Study: King Kong and the Fountain of Data

Wilshire Boulevard stretches west from downtown Los Angeles through an area called Koreatown, which became famous as a symbol of urban decay during the 1992 Rodney King riots. Once noted for its luxury apartment buildings and then for back-office skyscrapers, it had declined into a "modern high-rise ghost town." The rioters could have thrown rocks through most of the floors of a typical office building without hitting a thing. A fiber-

optic loop laid optimistically during the 1980s to carry phone traffic appeared to be a big white elephant.

Then the World Wide Web arrived. Everything that seemed worthless turned the ghost town into a real-estate goldmine.

One Wilshire soared 30 mostly empty stories above downtown LA. Its biggest claim to fame was that, after the AT&T breakup, alternative long-distance provider MCI had brought its own fiber lines into the building and mounted a microwave transmitter on the roof pointed at Pacific Bell's central switching office 3000 feet away, where its calls could be linked into PacBell's network. This had encouraged other alternative telephone service providers to pull fiber into the building as well, expanding the menu of options for interconnections between users. The building was well situated when Internet use began exploding. The benefits began in One Wilshire and spread to all the buildings on the once-worthless fiber loop.

"As fiber technology grew in capacity, One Wilshire became not only a staging ground for connecting to the local system, it became a peer-to-peer connection point," says historian Kazys Varnelis. "In the fourth floor Meet Me Room, telcos are allowed to run interconnects directly between each other without charge. The result is a dramatic cost savings for the companies that results in the highest per-square-foot rents on the North American continent. Because space in the meet-me-room is at such a premium, telcos run conduit either to other floors of One Wilshire or to adjacent structures known as telecom hotels or telco hotels. Over a dozen nearby buildings now act as telco hotels, providing space to telephone and Internet companies seeking to be near the fountain of data at One Wilshire. Tenant-owned cooling units on the roof indicate the presence of telecoms: nobody trusts the building's owner to cool their equipment.

"The result, in Los Angeles, has been a local revival of the formerly moribund downtown real estate market. In the space of two years recently, one such building's occupancy rose from 30% to 91%. This has been somewhat controversial as a highly-publicized down side of these telco hotels is that circuitry and equipment do not demand a substantial employee presence. Nevertheless, there may be a benefit to this stealth occupation of the city. While they add to property values and hence tax rolls in the area, thereby allowing needed repairs to the hard infrastructure, telco hotels do not increase congestion on the streets. Moreover, Jack Kyser, the chief economist for the Los Angeles Economic Development Corporation suggests that access to this massive infrastructure will lead companies--especially multimedia entertainment companies--reliant on high-capacity digital networks to move in."

The Phoenix Project offers a way to bring the same kind of benefits to downtown Spokane and to all the underutilized buildings along our own mostly unused city-wide fiber-optic loop. The GigaPoP will allow world-class connections to the rest of the Internet, while the meet-me room will allow peer-to-peer interconnects without charge to providers. The resulting massive bandwidth and switching capacity will turn Spokane into a Tier 1 city on par digitally with places like Seattle and, of course, Los Angeles.

With this infrastructure in place and centrally located, a high-powered computer animation company could set up shop here and create graphics used in commercials or movies for customers around the world. After all, Peter Jackson did the same thing for remote New Zealand, where he developed all of the infrastructure necessary to create the *Lord of the Rings* trilogy and the current blockbuster, *King Kong*.

Likewise, other central neighborhoods like Logan and East Central can participate in the revival, just as Koreatown did in Los Angeles. Spokane's existing Metropolitan Area Network turns much of the city into valuable telecom-accessible property linked by the loop to the world-class connectivity in the Phoenix Project.

SOURCES:

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2. Meet Me at the Casbah

Public markets have a long tradition of building local economies, wherever they're found. The Pike Place Market in Seattle produced a mega-business called Starbucks and other national successes like Sur la Table. Liddicoat's in Palo Alto gave birth to the Mrs. Fields cookie empire.

Likewise, Spokane's own Second City served as a catalyst for dozens of local firms and added to the region's intellectual ferment by providing new and unusual entertainment venues (including space for KPBX and the city's first art-film theater). Several companies succeeded and continued to grow after the demise of

Second City; at least one business, called Rings & Things, developed a worldwide market.

A public market is not just an economic development tool, though. It becomes a gathering place, a home for small businesses, a tourist attraction, and a source of serendipitous interactions. This is true wherever such markets are found, from Europe and Asia to the Americas and Africa. In the 1938 movie *Algiers*, Charles Boyer tells Hedy Lamarr, “Meet me at the Casbah,” sending her through a warren of souks and alleys filled with exotic goods and exotic people. The Phoenix Project can be home to our own **Casbah**, including an **international marketplace** that entices locals and tourists alike. Every tenant would sell products they make themselves or to which they add some value. These businesses would not necessarily have a national or global market, but would add to the intellectual ferment of the region.

In addition, space is available for a permanent **farmer’s market** that would be open during the growing season. This market would be a smaller version of Vienna’s Naschmarkt or Les Halles in Paris. In a true symbiotic relationship, startup restaurants in the Casbah could buy their fresh foods directly from the farmers in the market.

Entertaining Atmosphere

The Casbah will provide an entertaining atmosphere for customers, while showcasing the products of local craftspeople, including potters, glassblowers, woodcarvers, and flower arrangers, as well as importers of similar crafts from around the world, and a **United Nations of cuisine**. For the first time in Spokane there will be a single place where people from other countries will be able to feel at home, carrying on conversations in their native languages and enjoying their native foods, and sharing all this with their American friends. When startups seek to recruit new employees born in India or Japan or Brazil, the recruits will see **Spokane as the international city** it truly is, perhaps enjoying a performance by a visiting singer of *norteros* from Mexico or a capella musicians from South Africa, who may themselves be preparing for a recording session in the Phoenix Project’s recording studios. Spokane Public Radio will record live performances of many of these acts in their glass-walled **performance hall**, entertaining not only the studio audience and those watching from the international marketplace, but also perhaps NPR listeners from around the country. The artists and writers in the project will be able to absorb and share the influences of the various cultures in their own work, expanding its

universality the way areas like Tribeca and Soho have in New York.

Visitors will not only be able to buy goods, but watch artisans making paper, needleworkers embroidering scarves, bakers kneading dough, leatherworkers making saddles and handbags, soapmakers, weavers, candlemakers, craft printers, even a Chinese fighting-kite maker. An area set aside for a permanent **folk-life festival**, drawing on the resources of the Museum of Arts and Culture and its cooperative arrangement with the Smithsonian, can bring history and culture to life, featuring Polynesians carving ocean-going canoes, a Norwegian fisherman building a wooden boat, members of local tribes extracting dyes from plants; children and parents can hear ghost stories, tall tales, tribal legends about Coyote and the creation of the Spokane Falls, work songs, drinking songs, love songs, children's game songs; while nearby farmers are selling carrots and cabbages grown on their own land and glassblowers are twirling glowing strands of molten glass and local bands are performing live at the KPBX auditorium for a national radio show, showcasing Spokane as a center for rising musical talent.

International visitors, foreign residents, and native film buffs will be drawn to the **multi-screen art-film theater** and adjacent **mega-video and music store**, which can supply as many as 100,000 video and DVD titles through their affiliation with a Netflix-type startup founded upstairs in the Catalyst startup space. Many of them will be joined before or after the movie in **The Cavern**, located in the rock-walled basement of the Phoenix Project. The Cavern will introduce many people to new musical acts on its stage, just as the original Cavern in Liverpool introduced the world to the Mersey Beat scene, one of whose bands became known as the Beatles.

Minimizing Risk, Maximizing Reward

The Casbah will provide dirt-cheap space and shared facilities to lower the cost of starting small businesses, while generating large amounts of foot-traffic to maximize the opportunities for success. Vendors could rent space to sell goods from all over the world, making international employees recruited to Spokane feel more at home. The marketplace would also encourage the low-risk startup of international restaurants, using shared kitchen and dining space to minimize the risks of failure. As of now Spokane has only one Russian or Ukrainian restaurant, for example, yet we have 20 thousand Russian and Ukrainian residents. By allowing low, short-term rent and providing shared facilities, such new dining concepts can be inexpensively tested. If it succeeds, a restaurant can grow

within the Phoenix Project until it chooses to find its own home. If it fails, the equipment can be used for another experiment. Startup restaurants will be able to learn from each other's successes and mistakes, rather than floundering alone in the cruel world. The restaurants could collectively support yet another startup, a delivery service that would be cost-prohibitive for individual vendors. Employees from the upstairs startup and professional space and other Phoenix Project businesses will form a first-level core of customers for the restaurants, which will also draw from the crowds visiting the Casbah, guests of the Convention Center, and the under-served region east of Downtown.

Case Study: American Alley and Akihabara

One of the most successful parts of Tokyo today is the area near the Ueno railroad station. Its success began after World War II with two black markets. One was called Ameya Yokochō, or American Alley (Ameyoko for short). The American occupiers called it the Ueno PX, because you could find anything you wanted there, frequently liberated from the Americans. Even today, the food stalls outsell the food department of the giant Matsuzakaya department store close by. It was regarded by the Occupation after the war as a black market, but it was more of an unregulated market because each stall owner or renter could sell whatever they wanted without having to go through the complicated Japanese distribution system.

The other market was in Akihabara, a few blocks from Ameyoko. You could find anything there--tubes, resistors, cables, wire. It was heaven to the students of a nearby electrical engineering college. It also contributed to the growth of a tiny startup that became one of the world's largest companies.

A Startup Fairy Tale

The keys to a successful manufacturing startup are well known: a solid business plan, attractive offices to impress customers, solid funding, and smart people to execute the plan. The most important part of the plan should identify a large and growing market with high barriers to entry that will allow the company to grow to a huge size in a short period of time. The plan must define exactly what the first product will be and lay out the exact distribution channel for it. Once the company gets its seed funding, it should focus on that product and that market to the exclusion of all others. It's that attention to the plan that will bring success.

So Tokyo Telecommunications Engineering Corporation should have failed quickly. The handful of smart, young engineers had no plan at all. They sat around for weeks in the half-gutted

hulk of a department store surrounded by the postwar ashes of Tokyo brainstorming for any idea that could make money, like creating a mini-golf course that would provide a bit of cheer to the burned-out city, or making sweet bean-paste cakes. They had scrounged together \$500 to fund these dreams. They failed at one idea after another, including an electric rice cooker that either scorched the rice or left it wet and mushy.



Without any money, they had to make their own equipment, building soldering irons and screwdrivers “from motorcycle springs fished out of the war ruins,” according to the company’s website. “They constructed their own electrical coils and substituted telephone cables for electrical wiring in their trial products.”

Their first big success was an electric heating pad stitched together by their wives. By trial and error, they discovered a distribution channel through tiny vendors in the city’s street markets, like Ameyoko.

It was months before someone proposed a product that had anything to do with telecommunications, but it was a good one for a news-starved country: a shortwave adapter for regular radios which used just one vacuum tube. The big electronics companies were hoarding their precious supplies of parts, so the only place a tiny startup could find the tubes was the black market in Akihabara, a few blocks from Ameyoko. The company scrounged together the parts, assembled the shortwave adapters in their scruffy quarters, and began to grow.

What has happened since those days? Tokyo Telecommunications Engineering Company simplified its name to Sony, and Akihabara has become the most famous electronics shopping area in the world.

The moral of the story: sometimes all you need is a good team, dirt-cheap space, freedom to fail, a little money, and a lot of imagination. And maybe a public market.

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Case Study: Spokane’s Second City

Spokane’s creative sector began a renaissance in 1972 in a wacky and ramshackle place called Second City, which served as a catalyst for dozens of local firms and added to the region’s intellectual ferment by providing new and unusual entertainment venues (including space for KPBX and an art-film theater).

Located in a rambling set of buildings between First Avenue and the Northern Pacific viaduct (now BNSF), Second City was considered too far from the action ever to succeed, especially considering that it seemed to be run by a preponderance of long-haired hippie types who knew nothing about business and smelled like incense.

To everyone's surprise, Second City was profitable from the start. Spokane loved the collection of unusual retail shops, galleries, restaurants, and kiosks of artists and craftspeople. It was like having our own Pike Place Market. Moreland's Café thrived and metamorphosed into Moreland's Restaurant. Rings & Things grew from a little collection of, well, rings and things, into a consolidator for thousands of small manufacturers of rings, beads, and craft materials, and introduced a growing mail-order catalog. Children's Corner bookshop enchanted the children of the city. The Human Race, co-founded by Olympic marathoner Don Kardong, shod the intrepid few runners who showed up for a new, little race called Bloomsday. The New Bijou Theater gave a new generation of movie fans their first chance to see Humphrey Bogart hide the letters of transit in Sam's piano and Buck Rogers save Earth from the evil designs of Ming the Magnificent.

The secret to Second City's success was its dirt-cheap rent, which required tenants to build their own walls and clean their own floors. "The nice thing about it is that it allowed somebody with an idea but not much money to get started. It was a pretty effective situation," said Don Kardong. While some succeeded and some failed, the project as a whole thrived.

But Second City was not destined to last. The block was bulldozed in 1980 to make way for an 18-story bank headquarters and a parking lot. (The bank eventually left Spokane for Sacramento and then St. Paul.)

Second City was profitable up to the very end, and its legacy continues. Children's Corner is still enchanting Spokane's next generations from a new location in River Park Square. The Human Race is still fitting runners with shoes for the now enormous Bloomsday race. And Rings & Things is now an \$8 million mail order and Internet business.

Sources:

Personal experience; Russ Nobbs, Rings & Things; Billie Moreland and Steve Simmons, Moreland's Restaurant; Spokane Journal of Business.

Case Study: Pike Place Public Market

In the late 1960s, Seattle's far-seeing visionaries pressed for the demolition of a ramshackle set of old buildings on the outskirts

of downtown. In their place they saw shiny new skyscrapers and a giant parking garage. What could be better than something new that also came with *more parking!*

These visionaries were not alone in their desire to move their city into a glorious future free of such obsolete relics. Around the same time, civic leaders in San Francisco gleefully looked forward to the day they could rip out those old rattletrap cable cars that impeded the smooth flow of traffic and were a menace to civic order.

Fortunately backward-thinking Seattle residents voted in a landslide to save the Pike Place Market, making it possible for a little coffee house located there to grow into a company so huge that its \$17 billion market cap alone is worth the value of dozens of skyscrapers, even at Seattle's generous real estate valuations. That company is called Starbuck's and their little coffee houses can now be found around the world. A purveyor of cookware at the market, Sur la Table, drew the interest of Spokane's own venture capital company, which threw \$5 million into the pot to help grow another Seattle business. Sur la Table's annual sales exceed \$75 million. Every day, winter and summer, between 20,000 and 40,000 people wander through that ramshackle set of old buildings, generating well over \$60 million in annual revenues. And Seattle is still home to the Pike Place Market, one of the most famous tourist attractions in the world.

Clearly those visionaries seeking the destruction of the Pike Place Market overlooked its value as a generator of new businesses, as a tourist destination, and as an income generator for low-income people, including Hmong tribesman fleeing the turmoil in Vietnam who now make their living growing flowers and selling them at the market. Not to mention 377 street performers.

More than 100 farmers and 220 craftspeople ply their wares at the market's 175 daystall tables and 25 uncovered outside spaces, bringing in over \$770,000 in fees to the market. (Proceeds from sales all go to the vendors.) Each table is 4 feet wide. While craftspeople can only rent one table, farmers are allowed two and sometimes three tables, so the actual number of vendors on any particular day can vary.

Craftspeople pay \$35 for an annual or off-season permit, plus a daily fee ranging from \$5 for Monday to Thursday during the depths of Seattle's gloomy winter to a high of \$30 for a Saturday during the summer. During the Christmas selling season from October to December, the Saturday fee is \$30, as well. All vendors must have a city business license and a state tax number.

The fish-tossers and produce shops and curiosity vendors are among the 210 permanent tenants (including non-retail office

space), who generate over \$5 million in revenue for the market. The market as a whole generates \$62 million in retail sales per year from 62 specialty foods purveyors, 67 eateries, and 100 shops (on par with the revenues from Spokane's River Park Square).

The 9-acre project consists of several buildings in addition to the old market building famous for fish-tossing. Some private buildings are included in the preservation area, but 80% are owned and operated by the Pike Place Market Preservation & Development Authority (PDA), a "quasi-corporate" non-profit organization that can make use of government bonding authority to raise funds for improvements. The PDA is not tax-supported. Earnings from its property management activities are plowed back into the project.

The PDA is chartered to retain the traditional character of the market and its charm, but also to help the surrounding community by offering jobs for low-income people and providing outlets for those involved in arts and crafts. Over \$25,000 worth of coupons are issued to low-income neighbors for the purchase of fresh foods at the market.

The PDA staff is overseen by the PDA Council with four members appointed by the mayor, four elected by the "Market Constituency," and four appointed by the PDA council itself. Members serve four-year terms.

Sources:

Sue Gilbert Mooers, Communications Specialist, Pike Place Market PDA; Pike Place Market PDA 2002 Annual Report; Pike Place Market website, <http://www.pikeplacemarket.org>.

Case Study: Faneuil Hall Marketplace

Once upon a time, there was a seedy set of old warehouses on the fringe of downtown Boston where only an architect named Ben Thompson saw a "fun-filled shopping and entertainment mecca." He found a kindred spirit in James Rouse, who made a fortune developing suburban malls but in his heart loved the city. "It just seemed obvious that there was a human yearning for something like that in the heart of the city," he said. He envisioned "couples strolling hand in hand, looking at shop windows, touching displays of brightly colored fruits and vegetables on sidewalk carts, listening to a band concert in a green park; children tugging at balloons; the scents of seafood, spices, and hot concoctions enticing people into restaurants; people coming to buy, to eat, just to be there at the center of their community." But even Rouse had a hard time convincing others at his company that they could make a

success of a place swarming with rats, where garbage floated in basements filled with water seeping from Boston Harbor. Lenders were, of course, even more skeptical, but a consortium of 11 banks finally took a chance, spurred by the desire to clean up the area in time for Boston's 1976 bicentennial celebration.

Rouse discovered that although even potential tenants were afraid to commit to long-term leases, when he offered European-style pushcarts for a weekly rental fee, they snapped them up. So although the market was not fully leased at the grand opening, the "combination of entertainment, unusual shopping, and festive atmosphere" attracted 100,000 visitors on its first day. More people visited the center that first year than went to Disneyland. Sales per square foot were 50 percent higher than at Rouse's highly successful suburban malls the first year, and twice as high the second year.

Rouse attributed the marketplace's success to its focus on small specialty shops run by their owners. A leasing rep said, "We were determined to try to make sure this place was no tourist trap." Rouse's biographer wrote that merchants were expected to offer food, flowers, and eclectic crafts that weren't wrapped in plastic. For this work and his efforts to address the problems of central cities, Rouse was awarded the Presidential Medal of Freedom in 1995.

Sources:

Charles Garfield, *Peak Performers* (1985); Nancy E. Cohen, *America's Marketplace: The History of Shopping Centers* (2002); *BusinessWeek*, July 23, 1984; *Forbes*, May 9, 1983; *Fortune*, March 23, 1981.

3. Coalescing Creative People

Mihaly Csikszentmihalyi, in his groundbreaking study of creativity, points out that "centers of creativity tend to be at the intersection of different cultures, where beliefs, lifestyles, and knowledge mingle and allow individuals to see new combinations of ideas with greater ease." Likewise, "creative individuals tend to gravitate toward centers of vital activity, where their work has a chance of succeeding." By concentrating a large number of Spokane's creative people in one place, the Phoenix Project can establish the critical mass necessary for an explosion of creativity and its concomitant rewards.

Sir Peter Hall has written that creative cities are "magnets for the immigration of talent, as well as generators of the wealth that could employ that talent." He points out that the first Internet boom

“was created by classic Schumpeterian ‘new men’, who fitted the classic definition of entrepreneurship given by one such entrepreneur, [former Spokane resident] Henry J. Kaiser: ‘Find a need and fill it.’”

Case Study: The Writers’ Grotto

Writers are reputedly solitary creatures, but that’s only because writing is a solitary profession. They still crave companionship, if not staff meetings. When an opportunity arises to share cheap office space with other writers, they’re eager to sign on. As Ethan Watters, author of *Urban Tribes*, puts it: “By joining forces with several like-minded independent professionals to get a shared office space, you can create a sense of camaraderie without compromising the goals or vision of your own work.”

In 1994, Watters joined with two buddies, Po Bronson and Ethan Canin, who were beginning to make their mark as writers. They got together and rented a flat in an old Victorian in San Francisco with space for six cubbyholes where they could write and rub shoulders and learn from each other. They didn’t know where they would find three more writers to share the rent, but word trickled out and by 1996 they needed more space. The new location had room for nine writers. Two of the original group dropped out because rents had skyrocketed, but within a few months the new, bigger Grotto had filled up. After three more years they moved to a former dog and cat hospital. All 22 spaces were quickly filled and are being shared by 35 writers and filmmakers. When members are away their spaces are rented by the week or the month to others who need temporary space, so no office is vacant for long.

Camaraderie

The chance for camaraderie is enough to keep the writers’ stamina up. As Po Bronson puts it: “The beauty of the Grotto is, when I have a bad day, at least I went to the office. A bad day working at home is a sad and lonely thing, and if a few bad days land in a row then an editing job starts to sound pretty appealing.” He never did have to take an editing job. Even the funky quality of the space is appealing: “My office is one of two in an old dog kennel. The floor is sloped; they used to spray the dogs down and let the water drain out the door. I step out that door onto the roof of the parking garage, which is painted gunboat gray, and the sun shines so bright, and I squint, and I see people congregating for lunch with their take-out tuna melt sandwiches and leftover Indian samosas. Do I join them? No. I turn around and go back to write. Somehow, them just being there ... or coming in at nine in the

morning, having dropped my baby off at his Montessori school, hearing the clicking of keyboards – Oh! That’s what I do! I write! Go write! They make it possible. They remind me who I am.”

The writers share work, referrals, and advice and since founding the Grotto, the three buddies have grown into national literary figures. Watters has become noted for coining the term “urban tribes.” Po Bronson wrote the number one bestseller *What Should I Do with My Life?* Two of Ethan Canin’s novels have been turned into movies. Their shared wisdom has bred more success among other writers and filmmakers in the Grotto.

Connecting and Celebrating Successes

The Writers’ Grotto has become a stop for writers passing through the city on book tours and home to writerly events that are open to the public. Many writers in the Grotto also teach and run events at other locations. When a member gets published, there’s an open party at the Grotto, connecting the writers to the community and celebrating their successes.

Spokane is already home to a popular literary festival called Get Lit! whose success has made Seattle and Portland’s literary communities jealous. The region is home to several small publishing houses and university presses, and Eastern Washington University’s creative writing department is developing a nationwide reputation. Auntie’s Bookstore has become a regular stop on major author tours. Locating the Writers’ Grotto North in the Phoenix Project will give local authors and independent filmmakers an inexpensive place to set up shop and enhance our region’s attractiveness for this creative sector. The proximity to a video editing suite and a recording studio for spoken-word productions will also attract writers and filmmakers to the project. Not to mention the opportunity to get Indian samosas and tuna melt sandwiches downstairs in the International Marketplace....

Case Study: The Sundance Institute

COMING SOON!

Increasing the Level of Excitement

Every time a new group or organization opens in the Phoenix Project, we can hold a celebration, whether it’s the Writers’ Grotto, the Artists’ Atelier, the International Marketplace, the Farmer’s Market, the art-film theater, the Catalyst startup center, or something else. Individual groups can celebrate their own successes: a company’s first sale, a writer’s new book release, an

artist's opportunity for a gallery opening in New York. These private successes are rarely publicly celebrated, giving our region the sense that little is going on. The net result will be an ongoing sense of excitement, which will help build our region's momentum.

The Media Project

Spokane's strength as a center of film, audio, and video production is growing, but there are no film, audio, or video production programs at local schools. The Media Project would be a multi-media program to develop new talent in these areas, and in podcasting and production and digital rendering. The goal is to strengthen our area production facilities by training a new generation of artists and producers to staff groups like Cyan Worlds and North by Northwest.

Facilities will be shared by many users. For example, the sound stage area will be designed to be quickly converted from one application to another, so that it can accommodate everything from movie interiors to small-scale music groups to large orchestras, and in some cases include an audience. KPBX can use the facility until its more-permanent auditorium is built.

Donated or reduced-price equipment will be encouraged so that students will have state-of-the-art training using, for example ProTools for audio, and Avid or Final Cut Pro for video and off-line film. Celluloid film-editing may also be taught, on the model of San Francisco's Film Arts Foundation.

The sound stage could be another demonstration area for applications of John Saylor's modular steel and foam construction method for moveable partitions and sound baffles. For example, the sound stage could be easily reconfigured for various uses, and the large doors inexpensively insulated against sound penetration when not in use. Imagine floor-to-ceiling walls on wheels that can create a larger or smaller space next to the control room or separate film uses from audio uses for more-or-less simultaneous activities.

The KPBX Auditorium

The local public radio station needs a facility that will hold an audience of 70 or more for live-performance recordings. They may be able to use the Media Project facility until their fundraising is complete, at which point they would like to build their own auditorium. The KPBX Auditorium would most likely be built in the Public Market Wing. One design concept would have a removeable glass wall that opens both visually and physically into the market area to allow larger audiences to enjoy productions that don't require sound isolation, and would open a view into the

auditorium from the market during those that do. The control room would be shared by the KPBX studios in Building C.

Sources: Discussion with Po Bronson; Ethan Watters, “How to Build a Grotto” at <http://www.jasonroberts.net/grotto/build.html>; <http://www.pobronson.com>; <http://www.sfgrotto.org>; Mihaly Csikszentmihalyi, *Creativity: Flow and the Psychology of Discovery and Invention*; Sir Peter Hall, “Creative Cities and Economic Development,” *Urban Studies*, Vol. 37, No. 4, pp. 639-649, 2000;

4. Harvesting the Secrets of Silicon Valley

Why has Silicon Valley been so successful? “It is ironic, in light of traditional theories of industrial location, that a relatively high-cost location like Silicon Valley was the more attractive location for both startups and the business units of technology companies headquartered elsewhere,” writes Annalee Saxenian in her book, *Regional Advantage*.

One secret to the region’s success is its tolerance of failure. “Failure was viewed as an opportunity for learning.” An executive recruiter told her, “Everybody knows that some of the best presidents in the Valley are people that have stumbled.” George Gilder sums up the point: “Unless failure is possible, no learning is possible.... If you don’t tolerate failure, you can’t permit success. The successful people have a lot more failures than the failures do.”

Another secret is the region’s dense network of relationships and its continuous adaptation to new economic conditions. “The region’s networks of personal relationships and culture of open exchange facilitated this process of adjustment and learning.” Nothing is static. Bill Joy, co-founder of Sun Microsystems, says that “High technology obeys the iron law of revolution: the more you change, the more you have to change...you have to be willing to accept the fact that **in this game the rules keep changing.**” You can’t move ahead by sitting still.

Yet another secret is the region’s emphasis on collaboration, even among competitors. For example, the venture capital fund Kleiner Perkins Caufield and Byers “imitated Japanese corporate models and created a *zaibatsu* fund that allowed them to remain intimately involved with the older firms in their portfolio and to promote cross-investment by member firms. The idea was to create a network that would strengthen each individual venture as well as the collective.”

Case Study: The Sand Hill Road Network

Sand Hill Road in Menlo Park, California, is now home to more than 40 venture capital firms. “You can be in Tokyo and if you tell the Japanese you work on Sand Hill Road, they’ll know exactly where you are,” says Reid Dennis, a founding partner of Institutional Venture Partners. Why did they cluster there? The address offered a central location midway between the airports in San Francisco and San Jose and a few miles from the center of Stanford University and its Stanford Research Park, but so did other locations, like University Avenue and Page Mill Road in Palo Alto, which also offered more to do (like restaurants and movie theaters) than the sylvan setting on the hill.

The fact is, Sand Hill Road would not have happened without the vision of a developer who saw the chance to put people together in a single location that offered the potential for collegial dealmaking, proximity to support services, a handy restaurant where people could discuss deals under relaxed conditions, and the unintended side-effect of creating a kind of brand image. Steve Spurlock of Benchmark Capital agrees with the last point: “The address implied you were with a crowd of investors people consider worth talking to.”

Tearing Down the Walls

The cluster was the brainchild of Thomas Ford, who built the first group of offices at 3000 Sand Hill Road in 1969, and “created an environment of tearing down all the walls of doing business,” according to William Del Biaggio III, founder of Sand Hill Capital. Neal Douglas, former partner with New Enterprise Associates and later founder of AT&T Ventures put it succinctly: “I don’t think there is any more to it than crossing people’s paths and having opportunities to talk about things.”

The clustered location encouraged collegiality. As recently as the 1980s, venture capital funds were small and had to work together to invest in promising startups. A large number of small

“I don’t think there is any more to it than crossing people’s paths and having opportunities to talk about things.” *Neal Douglas, AT&T Ventures*

funds had many eyes to scan potential startups. Once a good prospect was identified, they would pool their small funds together to provide enough cash to accelerate the growth of the company. Four to six firms were often required to complete a deal. Many syndications were consummated over lunch at The Sun Deck, a restaurant in the center of the complex--and the only restaurant within two miles.

Proximity and Connections

George Pavlov of the Mayfield Fund believes that proximity made it easy for all the people involved in a deal to interact easily. “Lawyers, bankers, investment bankers--Goldman Sachs, Merrill Lynch, Silicon Valley Bank, to name a few--all have offices here [on Sand Hill Road] as well.”

Out of this collegiality sprang companies like Sun Microsystems, Apple Computer, and Cisco Systems. An entrepreneur might pitch to one firm and later that day have commitments for funding from several firms, although the funding dance usually takes much longer.

Sand Hill Road is tightly woven into Silicon Valley’s dense network of relationships. Even a couple of college dropouts with a good idea can plug into that network. The Two Steves, Jobs and Wozniak, are probably the most famous example. Apple Computer’s first significant investment (beyond the proceeds from the sale of Jobs’ VW van and Wozniak’s programmable calculator) was a \$250,000 loan guarantee from a marketing guy named Mike Markkula. Markkula had retired at age 33 with a very small but comfortable fortune after the Intel IPO. Markkula was not a venture capitalist. He had never heard of Steve Jobs and Steve Jobs had never heard of him.

But when Jobs saw some advertisements for a then-little company called Intel that looked more like car ads than semiconductor ads, he called the company to find out who did them. Intel put him in touch with Regis McKenna, whose agency was handling both the PR and ads for Intel. McKenna was intrigued enough with Jobs’ idea for a personal computer that he referred him to Don Valentine of Sequoia Venture Capital. Jobs was a college dropout living at home with his parents in a nondescript neighborhood of Mountain View. Valentine drove up to the garage in his Mercedes and was instantly on guard when he saw two kids in ratty jeans with a hand-made computer built into a wooden box. Even though Valentine chose not to invest in those scruffy “renegades from the human race,” he put Steve Jobs in touch with Markkula. Markkula had always wanted a computer that could fit on his desktop, and demonstrated their little Apple I to the board of Intel, impressing Arthur Rock, the Patriarch of Venture Capital, who had provided seed funding for Intel, among other companies. Markkula also knew Hank Smith of Venrock, the Rockefeller family’s venture capital arm back in New York, which decided to invest. By this time, even Don Valentine wanted in. And Regis McKenna became Apple’s first advertising agency.

Building a Dense Network of Relationships

Without the dense network of relationships, it’s doubtful that Apple Computer would have survived past the wooden box stage.

This part of the network was established by people who had all been directly involved with one company, Intel. In a sense, they had all worked in one module of the network, and when they left, plugged into other modules, but kept their old links. Many of them had first worked together at a module called Shockley Semiconductor, which spawned another module called Fairchild Semiconductor, which spawned the module called Intel.

Spokane has a shortage of such modules, and they're often disconnected from each other. The existing modules are slowly being connected to form a larger network, but we will find success faster if we can jumpstart that network. The Phoenix Project is one way to create a large module quickly, by putting a whole bunch of little modules together in one big box. Successful companies will move out of the box and bring their connections with them, the way the founders of Shockley Semiconductor and Fairchild are linked to nearly every startup in Silicon Valley over the last 50 years. Even when startups fail, the founders bring their links with them to their next company.

Many Small Funds

Silicon Valley's venture capital funds were surprisingly small as recently as 1990. Thirty years ago in 1975, Institutional Venture Partners raised what was then considered an astoundingly large fund--its \$19 million was half of all capital raised in the United States by private venture capital partnerships that year. No others had more than \$10 million under management. Now firms often have billions of dollars under management. This excess of capital makes it ineffective for large funds to look at small deals (under \$3 million, for example). Startups needing seed capital (up to \$3 million, for example) often find it through angel groups and wealthy private investors.

In recent years, as the funds exploded in size and the network of dealmakers expanded into the thousands, some funds have found that a location on Sand Hill Road itself is not as important as it once was. (Although lack of available space and peak monthly rents topping \$22 a square foot probably contributed to that conclusion.)

Promod Haque of Norwest Venture Partners complains of isolation on Sand Hill--there's just not much to do there. Norwest relocated to University Avenue in downtown Palo Alto, a few miles away across the Stanford campus, where monthly rents are down in the mid-teens. Jay Hoag, co-founder and general partner of Technology Crossover Ventures, also thinks University Avenue offers more vibrancy. Accel Partners and Oak Investment Partners are among the other firms that have found a home in downtown Palo Alto. But collegiality still seems important: few firms have

located far down the valley in the sprawl of San Jose, where monthly rents are only \$2 to \$8 a square foot.

Steve Bird, general partner at Palo Alto-based Focus Ventures, sees the early clustering as a kind of brand-building. “It was a smaller, less well known industry then and Sand Hill lent a certain credibility.” Bird told a reporter he “misses the industry's early collegial feel and bumping into colleagues on the way to work or home, but says that's not found at any address today.”

The Phoenix Project is one way to replicate the collegial feel of early Sand Hill Road, promote brand awareness of Spokane as a startup capital, and incorporate the sense of vibrancy newer venture funds look for as they choose a business address. It's possible, and even practicable, for Spokane to emulate the Sand Hill Road of yore with a group of small funds, each scouting their own prospects, which collaborate on deals to build companies to the point that larger, outside funds, or even Spokane's own Northwest Venture Associates, would consider investing in them. The payoff could be large. Arthur Rock's \$57,600 second-round investment in Apple became worth \$21.8 million at the IPO less than three years later for a 387x return. Jobs had traded in his VW van for \$256.4 million and Woz his calculator for \$135 million.

Sources: Personal experience, *Infinite Loop* by Michael Malone, the Silicon Valley/San Jose Business Journal and the San Francisco Business Journal.

Case Study: Building Companies

The myth is that Silicon Valley entrepreneurs develop their business plans on a cocktail napkin while waiting for dinner, then go down to Sand Hill Road and find all the venture capitalists eager to invest in their great idea. More often the idea starts with a couple of people in a garage who get help from a lot of other people who think they have a great idea. This is how Apple and Hewlett-Packard grew. Or somebody comes up with the idea at work and their company encourages them to pursue it after business hours. This is how a programmer named Sandra Kurtzig built her company, ASK Computing. HP even donated time on the company's mainframes to develop the software, back in the days when computer time was an extremely valuable commodity. They knew her software would sell their computers, but they also wanted to help an employee make her own success.

Another approach, which is often overlooked outside the Valley, is that a venture fund will actively create a company from scratch or from just the kernel of an idea. They bring not only money, but also expertise and a vast rolodex, putting together all the components that are likely to make the company thrive. Kleiner Perkins Caufield and Byers has used this approach, in part, on the way to becoming one of the world's most successful venture funds.

KPCB and Hands-On Investment

According to Fortune Magazine, Eugene Kleiner and Tom Perkins raised the first mega-fund, all of \$8.5 million, in 1972. (In today's dollars that would be \$33 million.) Five years later, Frank Caufield and Brook Byers joined the firm, which became known as KPCB. From that seed sprang companies that now employ over 300,000 people, have annual sales in excess of \$100 billion and carry a public market value in excess of \$160 billion. This is just one venture fund, but how they accomplished so much from such humble beginnings is worth exploring.

According to Kleiner, other venture capitalists at the time "were really risk-taking bankers," investing money but not much else. "Our feeling was that, sure companies need money, but they needed more than that--they needed help in getting started, in how to staff the company and plan the business, et cetera."

So Kleiner and Perkins started a venture fund that would work closely with the startups—to "create companies and grow them.... Some people have ideas and not a business, so some may use angel money to do some experiments and to write a good business plan, and then they go to a venture capitalist. At Kleiner Perkins we used to incubate some companies; there were people

who had good ideas, but didn't have a business. We'd give them an office and we'd give them a salary and we told them to write a business plan. We would do this for three or four months or so, and this gave us a chance to observe people and to see whether we could work with them. Some succeeded and others left us in three months. *In general the whole idea was very successful.*" [Italics added.]

Even the partners were encouraged to get into the act. Soon after 32-year-old Brook Byers had joined the firm, he wanted to invest in a startup that planned to make something called monoclonal antibodies. It was basically the first biotechnology firm. But Byers would have to take a leave of absence to start and run the company. He was afraid his career would be over if the company failed.

Byers asked Kleiner what he should do. At 54, Kleiner was "the benevolent, wise father figure. He was just a calm, wise person." Kleiner told him, "You should be taking these risks. What do you want to be? Do you want to be someone who invests with others your whole career or invest in something you initiated where you are the entrepreneur?"

Byers' risk paid off for everybody: Hybritech went public in 1981 and was bought by Lilly for \$400 million in 1986.

So not only did KPCB help people with good ideas build their businesses, the firm also encouraged its own partners to become entrepreneurs. The success stories include Robert Swanson, who founded Genentech (2005 market cap: \$98.81 billion), and James Treybig, who founded Tandem (acquired by Compaq for \$3 billion, and now part of HP).

Tom Perkins attributes much of KPCB's success to the Silicon Valley environment. "A lot of things are in place here. You've got universities that are feeding out ideas more than anywhere else. You've got realtors who understand how it all works and are willing to speculate and gamble with small companies where they won't elsewhere. And then, most important, you've got the entrepreneurs," who are really aspirational role models. "The point is, there's almost nobody in Silicon Valley who doesn't know somebody else that's made a million dollars. At least!" Perkins, who grew up in Chicago, could be talking about Spokane when he says "there is almost nobody in Chicago who knows anybody that has ever come remotely close to making a million dollars. And that's all the difference. Out here, they know it can be done. In Chicago, it doesn't even occur to them."

Spinoff Benefits of an Entrepreneurial Culture

A common objection to efforts aimed at creating high-growth companies in the Spokane region is that the money would be better

spent helping the poor. How does it help the poor, we are asked, even if these new companies do create millionaires and give jobs to college-educated people? Newly arriving engineers and managers are probably already relatively well-off. They'll just drive up housing prices when they move here from out of the area.

The surprising thing is that a rising tide truly can lift all boats, creating thousands of supporting jobs in manufacturing, prototyping, building maintenance, landscaping, and infrastructure construction and maintenance. Someone has to build new buildings and new roads and light-rail lines. Restaurants, theaters, banks, entertainment venues, dry cleaners, toy stores, sporting-goods stores, grocery stores, and shops of all kinds also grow and hire more employees. And all this forms a virtuous circle, with each new large-scale success creating numerous small-scale successes, benefiting local government activities as well. According to *The Economist*, "Silicon Valley's entrepreneurial activity creates huge extra demand for goods and services. Local municipalities have grown rich on the increasing amounts of property and sales taxes collected. So schools, community colleges, roads, parks and welfare services have all improved, redoubling the region's attraction."

So the payoff is region-wide. But we don't build this economy by continuing to analyze what's wrong with our existing situation, or by sitting around waiting for people to show up with the perfect team and perfect business plan and a five-year record of profits. We need to follow the model of the people who have already done it. Kim Smith, CEO of New Schools Ventures, a spinoff of KPCB founded by Brook Byers and wunder-VC John Doerr, says her firm does provide hands-on assistance to the companies that already have an on-going business or arrive at their doorstep with a completed business plan and a strong team. But that's not enough. "We also incubate ventures when something needs to happen and hasn't evolved naturally. That means we have investments over the life cycles of organizations—i.e., some incubation, some early stage, some start-up, and some scale-up based on a strategic use of capital."

John Doerr, whom Cisco Systems CEO John Chambers calls "the best VC in the world," should have some idea of what works and what doesn't. His successes include Sun Microsystems, Compaq, Lotus, Intuit, Genentech, Millenium Pharmaceuticals, Netscape, Amazon.com, and Google. Maybe that's why nobody remembers the flops.

Floyd Kvamme, partner emeritus of KPCB, co-founder of National Semiconductor and former VP of Sales and Marketing of Apple Computer, confirms Doerr's perspective. "In a very real sense, my job is to help people's dreams flourish. I don't think you

can be successful in the venture capital business if you say, 'You've got to be kidding, you're crazy, that's never going to happen, get real.' Those are expressions that just don't exist here in Silicon Valley. You have to be realistic about certain things (like running out of money), but it's important to say 'Terrific idea. How do we implement this?' You might come to the conclusion that the idea is not practical, but at least you're not pouring sand and water on a spark. Enthusiasm is a very, very big part of what makes Silicon Valley work. And in my life here in Silicon Valley, believing in the unbelievable has worked out pretty well."

MORE TO COME:

Innovation Petri Dish

Stages of Development

imagining, incubating, demonstrating, promoting,
sustaining

Phoenix Project can encourage first four.

How Spokane Can Benefit from the VC Overhang

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Case Study: University Avenue

Just a few decades ago, not much was happening in downtown Palo Alto. It was a place where the sidewalks rolled up

at five o'clock and everyone went home. Stanford students found little reason to make the mile-long trek across the arboretum to town. Even the faculty who lived a few blocks away in Professorville rarely visited except to buy nails at the hardware store or foam at the famous House of Foam. There wasn't much else to do.

And because not much was happening, rents were relatively cheap. And because rents were cheap and Stanford was a 15-minute walk away, startups chose to locate there. And because startups chose to locate there, restaurants began to open. Things began to happen on University Avenue. St. Michael's Alley, a coffeehouse with a new gadget called an espresso machine, began wiring the electrical engineers and computer scientists who would create the Internet. Obscure performers like Joan Baez and the Grateful Dead began to draw crowds, who could browse through newspapers from around the world as they drank their high-powered coffee drinks. Moviegoers could watch old movies and foreign movies while lounging on beanbag chairs and old couches at the low-budget Festival Theater, one of a dozen downtown screens showing everything from mainstream to avant-garde films. The New Varsity Theater switched between midnight showings of the Rocky Horror Picture Show and a slate of entertainers who became famous on the local Windham Hill record label.

Would-be restaurateurs tried out their concepts in a funky place called Liddicoat's, which had been built in 1923 as a public meeting hall and community center. Behind the mission-style façade lay a deep and narrow food palace, filled with various vendors, including a tiny Japanese lady who learned French cuisine as the official chef of the American Embassy in Tokyo, exiles from Saddam Hussein barbecue and Japanese tempura fish. The most famous tenant of all was a 20-year-old named Debbie Fields. She opened Mrs. Fields Chocolate Chippery in 1977, which grew from one little store to a worldwide chain and frozen food empire.

University Bank, a new bank willing to take a chance on startups, built its headquarters a block away. Other banks became willing to take a chance on startups. Venture funds began opening offices on University Avenue. Empty storefronts vanished, replaced by more restaurants and shops. Formerly empty one-story buildings were replaced by fully

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leased two- and three-story buildings. A block away, seed fund Garage.com built its first offices in an old Victorian boarding house, and were joined by a dozen other venture funds nearby. Apartment buildings and condos began to rise nearby because people now wanted to live where nobody would ever want to live. Street musicians began to play. In what seemed to be a sudden change, the streets were full all day and late into the night. Restaurants were open after 9 p.m. even on weekdays, feeding hungry startup founders taking a break from the next Google or Yahoo. On a walk down the street, you could bump into a friend who could introduce you to a venture capitalist he was going to lunch with, who could bump into an engineering professor and a marketing expert on his way back to the office, who could find two brilliant students and three other people you need to start your company. With just a good idea and part of the startup team, you could literally put together a company in an afternoon. This didn't happen all the time, but the entire startup creation phase was vastly truncated because of proximity to the right people and the right tools.

That's what the Phoenix Project hopes to accomplish: To combine Sand Hill Road with University Avenue. To create a Silicon-Valley-in-a-box where everyone and everything that can help a business grow, including restaurants and shops and fun things for founders to do to blow off steam, including students and accountants and attorneys and funders and bankers, are all together, rubbing shoulders and making connections every day. That's what makes explosive growth possible.

Synergy, Symbiosis, and Serendipity

In an ecosystem, synergy allows two different organisms to thrive together in ways that would be impossible separately. That means that if one organism lives far away from another organism, synergy is difficult or impossible. The organisms need to be near each other, or living in symbiosis.

In a region like Silicon Valley, symbiosis and synergy can take place on a broader geographic scale because of a dense network of relationships that have developed over the years. The networks here are undeveloped. Startups often hit roadblocks and dead-ends.

The Phoenix Project creates symbiosis by putting startups, and the elements they need to grow, all under one roof. This allows synergy to take place, as one company discovers customers, suppliers, and advisors living in the same environment, just a few steps away.

The close proximity encourages serendipity, the accidental discovery of useful connections. For example, a company marketing Linux operating systems could find a valuable partner in another company that makes Linux-based computers, and both their businesses could grow by partnering with a third company that is developing Linux-based application software.

An Example of Synergy

Several groups are currently looking for a way to create a true art-film theater in a new space. An entire multi-screen art theater could be built within the cavernous east wing of the Phoenix Project. The theater can join with area high schools, colleges, and universities to promote programs of classic and foreign films that are keyed to class curricula, and with cultural groups to promote foreign-language films.

Now imagine that adjacent to the art theater is a video store that offers every title available anywhere. No city on earth has a video store like this, which would give creative people one more reason to locate in Spokane.

How can this happen? A NetFlix-type startup could be built in the startup facility. NetFlix is a web-based video rental service delivering movies by mail throughout the United States. Their goal is to make every title ever made available by mail, and eventually by downloading. Competition is limited.

The online video service can work with area companies like World Wide Packets, 180 Communications, and Vivato to develop and test true video on demand over the web, while perfecting its

order taking, customer service, and fulfillment skills with the mail-based system.

That's synergy.

Potential Startups

Through news of successful venture-capital placements and efforts like EFGN's forums, Technet's Catalyst Awards, and LaunchPad to showcase local growth businesses, the idea that a globally competitive startup can actually begin and grow in the Spokane region has begun to take hold. Nevertheless, many in the business community are skeptical that the local economy will ever be competitive with cities like Austin, Colorado Springs, or even Boise, let alone Silicon Valley.

The fact is that Spokane is an ideal location for many types of startups, perhaps better than many of these competitive cities. A new marketing campaign is focusing on our quality of life, using the slogan "Near Nature, Near Perfect," and the ability to live near lakes and rivers and mountains in an area with four distinct seasons and unparalleled summer weather is a valuable enticement to individuals. There are few places on earth where a recent college graduate can work downtown, have lunch by a roaring waterfall, and ride a few blocks from the office to go mountain biking on natural trails after work. In winter, those same trails can be used for cross-country skiing, and the closest downhill ski area is a half hour from downtown. If we use our conservation futures fund wisely, those who relocate here will be able to find a permanent ring of natural areas surrounding the urban area.

In addition, according to the arch-conservative Tax Freedom Foundation, Washington State ranks very competitively in its tax burden, better than Idaho, and with no income tax can be seen as an ideal location for highly paid recruits from income-tax states like California, Oregon, and Idaho to work in.

For the foreseeable future, traffic will not be a significant problem here, and as more compact development occurs near the downtown core, it will never be a problem for people locating there. Likewise, it is still possible to reach the countryside in just a few minutes from most places in the city. This is an attraction that sprawling cities like Dallas and Los Angeles—and even smaller places like Colorado Springs—are unable to offer.

Another powerful incentive for startups to grow here is the cost of living. Recent graduates locating in Silicon Valley find themselves unable to afford to live on their own. Studio apartments start at \$1500 a month. Small tract houses sell for \$750,000 in second-rate neighborhoods and well over a million in the more

desirable locations. (Big houses are even more expensive.) The high cost forces many people to share houses with several other roommates, which can be fun, but even then their share of the rent might range from \$1,000 to \$2,000 a month--and they probably have to share a bathroom for that. A recent college graduate paid a competitive wage at a startup here could save enough in a few months for a down payment on a whole house just a few minutes from work.

These are all good reasons for recruits to move here, but what kinds of startups would attract them? Some kinds of startups that require massive amounts of funding and proximity to world-class research institutions, like many biotech firms, may not be short-term prospects for this area, but others are a natural fit. The following list offers some possibilities, along with brief explanations of why they would be good candidates to start and grow here.

Frozen Indian Food Collaborative

The Palouse is the pea and lentil capital of the world. Likewise, the region is a primary grower of soft white wheat. One of the biggest markets for these products is South Asia, where the wheat is used to make flatbreads and the peas and lentils are used for cooking traditional Indian foods. In addition, our region is a major grower of potatoes and cauliflower and lamb. Altogether we grow most of the ingredients needed for Indian food. It only makes sense that our region introduce the first nationally branded frozen Indian foods.

Products with added value bring more net income to a region. By taking these raw materials which are mainly exported at commodity rates and using frozen food and grocery distribution expertise already available locally (e.g. A.C. LaRocca frozen pizza, URM), we can add extra value by turning them into branded frozen meals in an as-yet untapped niche. Just as the Minneapolis founder of Chung King, the first nationally branded Chinese food, later introduced Michelina's frozen Italian dinners, this business could be the beginning of many other startups that take regionally grown foods and combine them into branded prepared foods sold nationally at a premium.

This industry would not only support our regional farmers, but also flour mills, factory workers in food-processing plants, regional freight haulers, railroads and trucking companies, bakeries, cooling-equipment makers and maintenance businesses, distribution businesses, advertising agencies, PR firms, call centers--and not least, small towns serving the now more-prosperous farmers and frozen-food factory workers. The pool of

federal and state tax credits, subsidies, and low-interest loans intended to spur investment in rural and low-income areas will help get these enterprises off the ground.

Lentilini

WSU food researchers have developed a process to create extruded lentil paste and proposed a line of puffed lentil snacks. The same technology can be used to produce a kind of lentil spaghetti that can address several different markets. It's high-fiber, high-protein, and gluten-free, allowing people on doctor-prescribed diets for celiac disease and other gluten intolerances to enjoy spaghetti once more. Lentilini could also be marketed to the general public as a "healthy spaghetti" for those adhering to strict low-carbohydrate diets. Large-scale production could be performed locally at Pasta USA, which serves the western United States from its plant in Hillyard.

Products from Wheat and Grass Straw

WSU scientists have developed a complete method of turning this farm waste into wood substitutes that can be used for decking, siding, and other non-structural uses. A prototype production line has already proved the product's feasibility. Everything is in place for a startup with a marketing plan to set up a full manufacturing line and distribute the product to the construction industry and home centers, perhaps in partnership with Potlatch, the large, locally headquartered wood-products company.

Cell-Phone Game Developer

This is one of those industries where the playing field is currently broad and level. The American market is just beginning to grow. Global sales are anticipated to grow from \$500 million in 2003 to \$7 billion in 2007. Because of memory limits and screen size, the games have to be simple, and are easily programmed. The games tend to be downloaded from cellphone providers and are billed through phone bills, so the headaches of inventory, distribution, and accounts receivable are essentially eliminated. It's as close to a cash business as you can get. A company with a handful of programmers who develop a popular game could easily find itself one of the top developers in the industry, and cash for expansion would be available almost as soon as users pay their

cellphone bills. Because the cost of development is slight, the cost of failure at this point is minimal. Because of the high potential cash flow, the opportunities for self-funded growth are high. There is no essential advantage for a startup in the cell-phone game market to be located in any particular region. The proximity to Cyan and its expertise in graphics, interactivity, and multiplayer game development is a particular asset for this region.

Textbook Publisher

The Great Northwest has a strong base of institutions of higher education, ranging from community colleges to Ph.D.-granting universities. Many professors are nationally recognized. Others are unquestionably experts in their fields. Few have authored textbooks. In addition, the universities and the region as a whole are filled with writers, English and journalism professors, and others who could work as full-time or part-time editors. The college textbook industry remains a highly profitable niche, with a 20% net profit margin--after the costs of author royalties, printing, distribution, bookstore discounts, returns, and so forth. Author advances are relatively small, lowering upfront product development costs. Competition is relatively limited as the industry has consolidated over the last 10 years, and yet size is not an advantage in this market because most textbook adoptions are done on a school-by-school or even professor-by-professor basis. One company, Course Technologies, Inc. (CTI), started up in Boston in the early 1990's with venture funding, using recent area graduates as editors and writers from around the country to develop a series of modular textbooks that could be reconfigured as needed to meet different markets. It was profitable nearly from the outset, and before the end of the decade was sold to International Thompson, making its founders millionaires. There is room for similar companies to start and grow. We have the resources to grow them here.

Modular Housing

The newest trend in high-end home construction uses either rapidly assembled wall sections or fully built modules to lower on-site construction cost. As a city with its own wood products and building materials companies, including door and window manufacturers and a unique steel-and-foam wall section builder, Spokane is ideally positioned to move into this sector and perhaps dominate it, in the Northwest if not nationally.

These are not trailer homes or even glorified trailer homes. They will look exactly like classic Craftsman-style homes or modern, architect-designed homes and small office projects. They are fully competitive with stick-built houses, but allow faster and more solid construction of building units. Using computer technology, designs can be as sophisticated as anything built from scratch. They are ideal for infill housing as well as for greenfield developments. Currently our inner-city neighborhoods are being invaded by cheap, tacky, out-of-character new construction on vacant lots that could instead be filled with inexpensive but beautiful new homes that match the character of the neighborhood, increasing the attractiveness of the city rather than destroying it.

This is a company or set of companies that will eventually have their own production facilities in the area to help accommodate fast growth that may occur in the region at a reasonable cost without compromising design and construction quality. Since modular housing can be built year-round, it would also reduce seasonal layoffs in the construction industry. Local builders can use modular units for some or all of their projects, so their businesses won't be financially impacted, other than to allow faster revenue growth than might be accommodated solely by using stick-built methods.

Local suppliers like Window Products Inc., Huntwood Cabinets, John Saylor's wall system, and smaller woodworking businesses could partner with a startup like this and ship their products regionally and later nationally. Regional trucking companies could be contracted to move the modules and materials. Regional construction companies could install utilities and infrastructure, build foundations, and assemble the modules.

Building Overview

The complex is located a block south of Trent midway between SIRT I and Division at 131 E. Main Avenue. The new SIRT I wet labs are located across the street and the proposed WSU library will also be adjacent to the building.

The complex consists of 184,000 square feet of former warehouse space, or 4.25 acres under one roof. The entire building is fully sprinklered and fully electrified and lit. An existing alarm is installed and monitored for fire and security.

The central section, built in 1910, is a six-story brick building with 18,500 square feet per floor. Only the top floor, which served as Jensen-Byrd's showroom, is currently air-conditioned, with a large wall-mounted unit. A larger, roof-mounted system may be inoperable. The sixth floor also has plastered walls and posts and

could easily be adapted for Class B office space. The first two floors are directly connected to an attached two-story building with 16,400 square feet per floor. All the floors are heated with a combination of gas-fired forced air and gas-fired steam radiators. Ceiling-mounted electric outlets are located roughly every 10 feet, but in many locations are used to plug in ceiling-mounted fluorescent light fixtures. The floors in the six-story building are mostly finished in hardwood. The floors in the two-story building are wood plank. All the floors have good views of the mountains, the South Hill, or the river. The top three floors have views of Downtown. Train lovers also have a good view of the BNSF viaduct.

All the floors have high ceilings, with beam heights from 8 feet to 11 feet. The lowest ceiling height is 9'8".

Multiple telephone lines run to the sixth floor. Phone lines are also installed on the first floor. Presumably conduit is available for phone lines to other floors, if necessary. There are seven loading bays in the two-story building and a working conveyor belt from the full basement, which is naturally cool year-round. There is one express passenger elevator that stops only at the first, fifth and sixth floors. Two freight elevators serve the six-story building (which is essentially connected to the two-story building). Another freight elevator was removed from the two-story building. The opening could be used for a new elevator, a grand staircase, or an escalator.

The East Wing, built in 1946, consists of 16,800 square feet resembling an airplane hangar 60 feet wide and 280 feet long. The ceiling height is 31 feet and the height to the trusses is 21 feet. Three extremely large wooden doors allow excellent access from the front, depending on the use. One large door opens to the north, where an abandoned rail line once ran. This property is owned by the City and might be used as parking. The East Wing also has another large door on the east end, although it would be limited to pedestrian access because of the raised WSU parking lot just outside. This building is uninsulated, but the enormous open space allows for all kinds of opportunities. For example, an art-film theater like the Magic Lantern could be built inside, adjacent to an international video store associated with a web-based video rental business. There's also room for a collection of foreign food restaurants and a public radio auditorium.

A 225-foot-long shed roughly 30 feet wide runs alongside the East Wing. The shed is fully roofed. Fiberglass panels in the south wall allow some light. This section would make an ideal location for a permanent farmer's market with roughly 44 10'x10' booths.

The West Wing, built in 1973, is a fully-insulated steel-frame building with no plumbing, but forced-air gas heating. It has 5,800

square feet (50 feet wide and 120 feet long). The floor is concrete. There are a couple of large garage doors providing access. The insulation provides enough sound-proofing that the building could be used as a sound stage for videotaping and filming, and as rehearsal space for bands and other musical groups, and for recording orchestral performances or movie soundtracks. This building could be replaced with a full-scale Hollywood-style soundstage of 14,000 to 16,000 square feet, with 40-foot ceilings.

There are restrooms on the first, fifth, and sixth floors.

There is very little parking directly associated with the building, but it's surrounded by underutilized parking lots and vacant lots owned by WSU and the WSU Foundation. These spaces can be leased for \$100 per year. The strip behind the building measures roughly 30 feet by 677 feet and could accommodate as many as 70 cars parallel-parked on either side or in angle parking. The city apparently owns this land, and would have to grant permission for parking there. A large, currently unpaved lot in front of the West Wing could hold another 300 or so cars. Toe-in parking along Main Street might accommodate 20 cars, leaving room for access to the loading bays. The total adjacent parking would accommodate 120 cars. In the winter, the shed could be used for covered parking for maybe 10-20 cars, but that would be unavailable during the farmer's market season.

Fortunately, the vacant lot in front of the building, which is included in the lease, measures roughly 280 feet by 200 feet and could hold maybe 220 more cars.

The WSU lot immediately to the east holds 29 cars and hundreds more beyond. It's possible that WSU would be willing for the foreseeable future to allow employees in the project to buy permits to park in these lots.