



The Valley: Networking

Before social networking software, the real world: Thickets of relationships keep Silicon Valley on the competitive edge.

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Silicon Valley is full of people like Drew Lanza. A Stanford University graduate, engineer, serial entrepreneur, and now venture capitalist, the 59-year-old Palo Alto native seems to know everybody in the hollow of land between the eastern foothills of the Santa Cruz mountains and the San Francisco Bay.

He helped hook up Bandel Carano, a venture capitalist with Oak Investment Partners, with Rick Aversano, a seasoned startup executive. The former funded the latter's business idea, which became Qtera, an optical-networking company bought by **Nortel Networks** scarcely two years later for \$3.25 billion.

Similar stories abound in Silicon Valley, which still soaks up more than a third of all venture capital in the United States and incubates more startups than any other region. The narrow stretch of land between San Francisco and San Jose has given birth to some of the biggest names in technology, from **Hewlett-Packard** to **Intel** to **Oracle** to **Apple Computer** to **Sun Microsystems**, many of which spawned startups of their own.

Intertwined with Technology

The area is not only full of young technology companies, it's also replete with people who, like Mr. Lanza, act as catalysts, connecting those who need money, employees, managers, accountants, lawyers, and business partners with the people and companies most likely to fit the bill.

As old hands know, their connections, coupled with the rapid-fire job-hopping and furious pace of information exchange that characterizes the valley, are key to the region's economic success and its dominance in creating innovative technology companies. And that's on top of a culture that lionizes entrepreneurs.

It's not just a matter of knowing venture capitalists knowing other venture capitalists, it's knowing the whole cross-section of players—engineers, lawyers, accountants, researchers, and CEOs of often dozens of companies.

"It's one of the hidden secrets of the success of Silicon Valley," says Heidi Roizen, a managing director at Mobius Venture Capital in Palo Alto.

"The fabric of our whole community is so intertwined with technology and entrepreneurship and innovation," she says. "The valley is so steeply concentrated in technology jobs that you get to know people from competing companies because you go to the same church or your kids play on the same soccer team or you live next door to each other."

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Mr. Lanza, for instance, grew up down the street from Bill Edwards, one of the Valley's earliest venture capitalists, and Tim Draper, who became a third-generation VC in 1985 when he started his own firm 27 years after his grandfather founded the first VC firm on the West Coast.

"I always lived within three miles of Stanford," says Mr. Lanza, a partner at Menlo Park-based Morgenthaler Ventures. "I can specifically relate a couple of times when deals have been a combination of someone from the technology arena and someone I knew in high school."

The Alumni Advantage

Some of the most economically relevant ties in the region are those forged by technophiles who worked together at the same company.

Example: PayPal co-founder Max Levchin, who left the online-payments company after it went public and then was sold to eBay in 2002, formed his own business incubator, MRL Ventures, which has already sparked at least three startups. He runs one, an online photo-sharing service called Slide, and another, online networking and reviews site Yelp, is run by former PayPal engineering vice president Jeremy Stoppelman (See [Q&A: Jeremy Stoppelman](#)).

"It's become quite a strong alumni network," says Mr. Stoppelman, who notes that Mr. Levchin himself provided the company's initial financing as well as introductions to venture capitalists before Wellesley, Massachusetts-based Bessemer Venture Partners invested \$5 million in November.

Mr. Stoppelman got help hiring engineers and preparing his venture-funding proposal from Keith Rabois, another former PayPal employee who is now an executive at social-networking site LinkedIn. He also used his connections from PayPal days with LinkedIn CEO Reid Hoffman and newly minted venture capitalist Peter Thiel to cement relationships with venture capitalists.

"The better connected you are in the valley's social network the easier it is to get things done," says Mr. Stoppelman.

That's one reason so many startups accept venture funding. CafePress, a Foster City, California-based online marketplace for customized products such as T-shirts and coffee mugs, was already profitable in early 2005 when Sequoia Capital made an investment, according to vice president of product development Mehdi Maghsoodnia.

But more important than the money was having partner Doug Leone on the firm's board, he says. "When we want to approach a potential business partner, the first thing we do is ask our board members," says Mr. Maghsoodnia, explaining how introductions are arranged.

As CafePress grew, executives needed advice on designing a data processing system for larger volumes of orders. Another Sequoia partner provided just the introduction they needed. That was to online shoe retailer Zappos.com, which willingly shared its expertise, according to Mr. Maghsoodnia.

Fostering Entrepreneurial Experimentation

Venture capital firms often become crucial nodes between companies, since many of their partners have worked at technology companies, and have not only the technical and operating expertise to grasp what pioneering startups are doing and where they fit in the marketplace, but also the relationships with other engineers and programmers and executives who can be useful to their portfolio companies, according to academic researchers.

"The advantage of the kinds of networks [Silicon Valley] has and the overlay between industrial and legal and venture capital and university networks, where all those networks feed into one another—that's fairly unique," says Mark Granovetter, a Stanford sociologist spearheading a research project aimed at tracking and mapping the relationships between key players in Silicon Valley. "Regions that don't have all this reciprocity back and forth find it difficult to stay at the cutting edge."

Many other regions—including the Boston area, Silicon Valley's biggest U.S. competitor—are dominated by "insular, secretive, inward-looking firms, universities, banks, and research institutions that hinder the social networking and open information exchange that support multiple entrepreneurial experiments in Silicon Valley," says AnnaLee Saxenian, a professor at the University of California, Berkeley, and author of *Regional Advantage*, an examination of the differences between Boston and Silicon Valley.

Ms. Saxenian quotes one Silicon Valley entrepreneur saying he "got commitments for \$2.5 million in 20 minutes from three people over lunch who saw me write the business plan on the back of a napkin. They believed in me. In Boston, you can't do that. It's much more formal."

Not everyone agrees that such speedy decisions are restricted to Silicon Valley, though. "That's silly hogwash," says David Skok, a general partner at Matrix Partners in Waltham, Massachusetts, the heart of Boston's technology corridor. "We fund people here very, very quickly."

In the fall of 2004, he says, Matrix pumped \$5.2 million into Veveo.tv, a company aiming to deliver television to consumers over broadband connections, and \$4.25 million into Aylus Networks, a developer of technology that would enable the delivery of video over wireless communications equipment.

"They were situations where we had a person we knew and respected highly, and they came in and explained they wanted to start a new business in a general area, and we liked the general area enough to say, 'We'll back you,'" says Mr. Skok.

The VC Honor Code

Still, dense networks accelerate decision-making in Silicon Valley, where venture capitalists say they can vet entrepreneurs, check whether there's a market for their business ideas, and even find potential customers with a series of phone calls to the right people.

"People do all these favors for one another and provide all this information for one another in ways that are priceless," says Mr. Granovetter. "If you tried to buy that information, you couldn't."

The process allows venture capitalists to move quickly, backing a company right when the market calls for it—a huge advantage in a world of constant change.

Trust is the other component. "There's a code of honor among venture capitalists," says Ms. Roizen. "If you know something bad about somebody you don't let a friend put a bunch of money into that person."

The connections forged in a small community reinforce that network of trust. "There's no substitute for personal contact," she adds. "The strength of knowing someone because your kids are on the same soccer team is different than what you get through business relationships."

And in Silicon Valley, that kind of trust keeps getting repaid—many times and millions of dollars over.

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