

URL: <https://stvp.stanford.edu/blog/videos/silicon-valley-the-capital-of-venture-capital>

How did Silicon Valley come to own the tech industry? BusinessWeek's Spencer Ante offers a historical perspective on the Valley's success positioning and usurping of the East Coast's market dominance. Ante credits a number of factors for the shift westward, including Frederick Terman, a greater acceptance of ethnic diversity, and abundant higher education. Venture firms that arose in the 1960's and 1970's, including Kleiner Perkins and Sequoia Capital, are still among the nation's most successful today.



## Transcript

One of the key questions I ask in my book and I think this one of the key questions of everything if you look at the history of our economy.. Why did Silicon Valley take over leadership of the technology industry in the 1970's? I'm just going to read one little more brief thing from that.. Today, many financiers and entrepreneurs assume the west coast always dominated the VC business.. They simply don't realize the industry was pioneered by ARD and a few other firms in the northeast.. The rise of the west was far from predestined and was not even obvious to the industry's movers and shakers more than 30 years ago.. So why did Silicon Valley take over? Part of the answer, I argue, is in geography and history.. In pre World War II America, the northeast enjoyed regional advantage based on its technological and financial superiority.. If you think about it, MIT was the tip science and technology university.. Harvard business school was the leader in business education and New York was obviously the financial capital of the world.. So you put all those ingredients together, it goes a long way towards explaining why the northeast was the leader in entrepreneurial technology..

Also, after World War II, the regional advantage was increased because Boston became the epicenter of military research and development.. Other than the Manhattan Project I would argue, MIT ran the two most important government research labs of the mid 20th century.. One was the Radiation Lab which invented radar, and the other was the Lincoln Lab founded in 1951 with funding from DoD and that was the lab that actually gave birth to Digital Equipment Corporation because Ken Olsen was an engineer at the Lincoln Lab who developed the technology for the computer while working for the government.. But in the 1960's, the west coast began to take over the tech industry, hospitable climate and a greater acceptance of ethnic diversity certainly gave the west an edge in attracting creative talent.. Higher education was the key, though.. The University of California and California Institute of Technology by then had gained a reputation for innovative research in science and engineering.. Much of the credit for the creation of the Valley though goes to Frederick Terman, the provost and professor of engineering.. So you had world-class universities, you had a budding commercial track record with companies like Hewlett Packard and Ampex that were coming out of the Valley at that time.. The region was poised to take over the tech industry.. All it needed was what? Money..

You need money to get to grow a business.. In 1958, William Draper co-founded Draper, Gaither & Anderson, that was the first west coast venture firm with prominence, but he retired only eight years.. Then another person you've probably heard of, Arthur Rock, set up his own firm in 1961.. They did great, they made a lot of money but they dissolved their partnership.. One of the great things they did was found Intel and it's a funny story says Rock, "I got a call from Robert Noyce one day in 1968.. He said, 'Gee, maybe Gordon and I want to leave Fairchild Semiconductor and go into a business for ourselves.' We talked about it for a while.. I asked him how much money they needed.. They said \$2.5 million." Given the sterling reputation of Noyce and Gordon Moore, Rock was able to easily raise \$2.5 million, he also wrote their business plan.. People knew Noyce, people knew Moore, but they were anxious to invest but they dissolved their partnership.. So if the west coast was going to really take over the VC and tech industry, it needed a bigger pool of capital and venture firms..

Well what happened? All these firms started popping up in the late 60's and early 70's.. Gib Myers, part of the Mayfield Fund, co-founded in '69, said the entire VC community at that time, "would meet at the Mark Hopkins Hotel for lunch." It was about 20 people, it was very small.. Then in the early 70's the movement I argued reached critical mass when all these partnerships sprouted up.. Besides Mayfield there was Sutter Hill Ventures, there was Institutional Ventures and Associates, started in 1970.. And I would say among all these firms that sprouted out there were two in particular that distinguished

themselves from the pack.. Who were they? Kleiner Perkins I think was one of them.. They raised their first venture fund.. So the first venture fund was \$3.5 million in 1946.. How big was Kleiner Perkins first venture fund? \$100 million? \$15 million? \$8 million.. So it's like 30 years later and they only raised a fund that was twice as big as the first one..

So there's still not a lot of money coming into venture capital.. The creation of KP represented the culmination of 20 years of Silicon Valley evolution.. Illuminating the importance of the region's deep-rooted networks.. Eugene Kleiner was an alumnus of Fairchild which was the mother of all Silicon Valley spin offs, and Tom Perkins was a HP executive which was the first tech start-up.. The second firm I would argue is Sequoia Capital and I actually just came from Sequoia Capital where I met Mike Moritz today and they're still going strong.. Sequoia was founded in 1972 by Don Valentine who was actually a New Yorker, he's a Yonkers native, graduate of Fordham.. Caught the California bug, ended up working for a number of successful firms like Fairchild.. Don Valentine said, "It was clear to me while I was living in the right part of the world, I never had to cross the Mississippi because of the microprocessor revolution." Sequoia under Don Valentine realized the game changing nature of the microprocessor and he funded a whole string of companies that capitalized on that.. The two most prominent ones were Apple Computer and Atari, which created the video game industry...