

Annual Silicon Valley study says local government must become key catalyst in driving region's growth

Will location – specifically, Silicon Valley – continue to matter as the Internet economy becomes increasingly global? The answer is “yes,” according to Internet Cluster Analysis 2000, the second annual study analyzing Silicon Valley's role in the Internet economy. However, to maintain the region's position as the hub of the Web economy, Silicon Valley's local governments must become more proactive and innovative in efforts to attract, retain and nurture Internet businesses.

The study, performed for Joint Venture: Silicon Valley Network by the Silicon Valley office of global management consulting firm A.T. Kearney, includes results from a survey of more than 100 Internet executives around the nation. The key findings:

Proactive government has emerged as a significant new Internet cluster characteristic. In addition to the five key attributes that surfaced last year as essential to attracting high-tech businesses to a particular region (talent, pillar companies, universities, capital, and support services), this year, government surfaced as a significant new cluster characteristic, cited by 63 percent of Internet executives surveyed.

Internet clusters overseas offer compelling location alternatives. This year's study reports that non-U.S. Internet clusters have become increasingly attractive as local, state and national governments around the world are devising innovative ways to attract both emerging and established Internet businesses. These initiatives include workforce development programs, simplified tax laws, financial investment incentives,

building technology parks and incubators, and direct financial support for technology companies. And, as the appeal of international clusters increases, top U.S. Internet companies are expanding their operations overseas: Today, 59 percent have operations in Europe, 43 percent in Asia, 19 percent in Latin American and 7 percent in Africa.

“As the World Wide Web gets wider, Silicon Valley must adopt a global perspective,” said Ruben Barrales, president and chief executive officer of Joint Venture. “Business, education, government and community leaders must work together to ensure that Silicon Valley continues to wield global influence without compromising the natural beauty and vibrant community of our region.”

“Silicon Valley’s local governments need to remove the barriers that stand in the way of implementing change,” said Ben Smith, vice president in A.T. Kearney’s Silicon Valley office. “We’re at a critical turning point, where we must move beyond the planning stage and actually begin implementing growth initiatives that will deliver the best environment for companies and residents alike.”

Among the study’s other key findings:

Thirty percent of Silicon Valley Internet companies would consider relocating. Top choices for new locations were Austin, the Pacific Northwest, and Washington, D.C.

Talent continues to be an important factor, but has less influence on location choice. Although finding and retaining talent continues to be the number one challenge facing Internet companies, 58 percent of executives surveyed this year said talent was key when

choosing a new location -- a significant drop from last year, when 86 percent cited talent as the most important factor.

Increased merger and acquisition activity has expanded Internet companies' reach into other clusters. The dramatic surge in "M&A" activity over the last few years has enabled Internet companies to increase their geographic reach to access more talent and capitalize on growth opportunities in potentially lower-cost regions. In fact, 84 percent of Internet M&A deals involved companies from different geographic regions.

More capital is flowing overseas. Although the U.S. still gets the bulk of private venture dollars, other countries, particularly in Europe and Asia, are beginning to benefit from a vastly increased cash flow. Last year, venture capital investments in European tech companies topped \$7 billion and were close to \$9 billion in Asia. At the same time, financial markets similar to NASDAQ in other countries are a major source of capital for international Internet companies. For example, Germany's Neuer Markt and the UK's TechMARK are an important liquidity tool for Internet start ups overseas.

Internet Cluster Analysis 2000 and its implications for Silicon Valley will be discussed today in Palo Alto, Calif., by a panel of high-level officials from government and the high-tech industry, including Debra L. Dunn, vice president, strategy and corporate operations for Hewlett-Packard; Dan L. Eilers, general partner at Vanguard Venture Partners; and Rosemary Stasek, Mayor of Mountain View, among others.

In addition, Joint Venture will sponsor four roundtable meetings next month in San Mateo, Santa Clara and Alameda Counties, which will address how public and private sectors can work together more effectively to address the region's growth issues. More details will be provided during the Internet Cluster Analysis 2000 event.

Joint Venture: Silicon Valley Network (www.jointventure.org) is a civic incubator working to ensure that all people in our region have opportunity to succeed in the new economy. Joint Venture introduced to Silicon Valley a model of regional collaboration

that is now being replicated across the United States and around the globe. A non-profit organization, Joint Venture is supported by investors representing government, community organizations and industry.

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