Why VC Matters

And what Cities can do to attract it

9/30/16, Amsterdam, Luke Heine
Who I Am / Why Here

Heine@college.harvard.edu
Presentation Goals

Describe VC’s Spatial Nature

How VC can loosen domestic capital

Describe how cities act as clusters to maximize chances

Give successful case studies of VC/Cluster attempts

Describe what’s to be avoided

Recommendations
VC’s Spatial Nature

%50 in 3 clusters

Social ties more important than prestige of other firms in rounds (Wuebeker, et al)

A standard deviation increase in the number of venture capital offices in an area is associated with a 49.7% investments increase in that area (Chen)

De Luna, Gilfix, Huang, Heine
VC networks vary dramatically

“In general I’d say we were open [to investing in the Netherlands], but it’s really hard to invest series a pre traction in a country where I have no relevant network... just leaves us completely without a net if things don’t go according to plan”- Head Partner at a US VC firm
That Said…
Buy Local Study – Chen et al.

3 Cluster Study

Why are Firms Outperforming?

Found that firms in clusters were more successful because of the investments outside of it.

Good News for younger cities

De Luna, Gilfix, Huang, Heine
Cities are in different Stages
Cities Vary in VC Stage

<table>
<thead>
<tr>
<th>Punnett Square of City Classifications.</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Domestic Investment Funding</td>
</tr>
<tr>
<td>Seattle</td>
</tr>
<tr>
<td>Salt Lake City</td>
</tr>
<tr>
<td>Austin</td>
</tr>
<tr>
<td>San Francisco</td>
</tr>
<tr>
<td>Boston</td>
</tr>
<tr>
<td>Low Domestic Investment Funding</td>
</tr>
<tr>
<td>Chicago</td>
</tr>
<tr>
<td>Minneapolis</td>
</tr>
<tr>
<td>Washington DC</td>
</tr>
<tr>
<td>London</td>
</tr>
<tr>
<td>New York City</td>
</tr>
<tr>
<td>Low Domestic Company Funding</td>
</tr>
<tr>
<td>High Domestic Company Funding</td>
</tr>
</tbody>
</table>
What role does VC have in forming clusters?
Virtuous Cycle

Lesser studied impact
VC Can Legitimize Risk

Investment legitimizes new behavior (Chen)

Imitated by those with local power and capital (Chen)

Investments in smaller, newer cities outside funding centers can have dramatic, cascading effects (Henry Chen a, et al. 2009, Petkova et al. 2016).
Silicon Valley Example (Below was pre-investment)
Investment’s Role

Arthur Rock from NYC encouraged Fairchild Semiconductors

Shifted capital from established funding center to an unknown area.

Later Dan Tolkowsky visits Israel from Palo Alto (Engel and del-Palacio 2011).
Rippling Effects

“The next day, we visited four prominent San Francisco families that afternoon and by that evening we had raised a million dollars.

I couldn't imagine doing that in New York, Boston, or Philadelphia… But here in California, our investors are only one generation removed from the risk takers who had created the capital in the first place. (Hambrecht 1984).”
What Causes Investments
Most important is to have great startups

“Anything that policy makers do that increases the number of successful venture-backed investments in a region will also increase the probability of a venture offices (Chen)”
What Can Cities Do?
Despite many possible locations, why did Biotech clusters form in only a couple cities?
Anchor Tenants Connected the Community

Legitimacy to connect diverse participants fostering growth (Padgett, Powell).

Does not compete nor dictate to other organizations that inhabit the community (Padgett, Powell).

VC, Universities, Governments, and Non-Profits can all serve as anchor tenants.
But In Real Life...
BioTech: Bay Area

Bay Area

1990: n=79 (40)

1996: n=131 (70)

2002: n=139 (77)
BioTech: San Diego

San Diego

1990: n=40 (16)
1996: n=66 (27)
2002: n=65 (33)

- DBFs
- Financial Institutions
- Government Institutes
- Pharma Corporations
- Public Research Organizations
- Biomed Suppliers
- R&D
- Finance
- Commercialization
- Licensing

n = all nodes
number in brackets = connected nodes
What Doesn’t Work
Failed Attempts

Weak local ties or cooperation

A focus only on external ties left cities internally without the necessary internal structure (Sacco 2013)

Non-Adaptive City Strategies (Austin 2003 turnaround)

Classist Policies Drive Urban Unrest (Sacco 2013)

Over-Engineered Top Down Approach (Sacco 2013)
What Can You Do?
Suggestion 1: Have Excellence Locally Accessible

Prerequisite - have the people that can make this work.

How do we get the people that can do in Amsterdam? find them?

Amsterdam already has many programs in place to get individuals to the city – are they working?
Suggestion 1. Ed Hub + Intern Pairing
Suggestion 1. VC Fellows
Suggestion 2: Connect Local Diverse Groups

“As the connective tissue among participants grows, standards develop; even those not involved in their creation aspire to them, and through careers and mobility they transform local standards into more public goals.” (Padget)
Suggestion 2: Engineering Slacks
Suggestion 2: Encourage Private Empowerment
Suggestion 2: Elected Community Membership
Suggestion 3: Maximize Local Information Sharing

Development gaps are not caused by financial shortages but of the Experience and Expertise that allow individuals to turn life long goals into reality (Sacco 2013, Sen 1999)
Suggestion 3: Open Legal Hours, Skills (VC Portfolio Companies/ Cross - mentorship)
Suggestion 3: Starter Packs / DutchTech Resources

Learn to ship software like a pro

There's no substitute for hands-on experience, but for most students, real world tools can be cost prohibitive. That's why we created the GitHub Student Developer Pack with some of our partners and friends: to give students free access to the best developer tools in one place so they can learn by doing.

Get your pack

THE TOOLS

ATOM

A hackable text editor for the 21st Century

DETAILS Open Source by GitHub, free for everyone
Suggestion 3: Open Office Week/Office Crawl

Open Studios, Night 2

Open Studios (formerly Studio Tours) is a two-night event during which guests meet the designers and creators behind some of the city’s most admired products, designs and brands. Open

Wednesday
June 8th
6-9p
San Francisco

Buy Tickets

Register on Eventbrite
Suggestion 4: Connect With Legitimizing Capital

Legitimized VC can free up domestic capital

Legitimizing foreign investment
Suggestion 4: Local Lead ~ Foreign Collab?

A Dutch VC Early Access

Larger Financial Backing by US

Sourcing Benefit for Dutch VC

Connect on a firm and individual basis?
Suggestion 4: Incentivize Breadth over Depth

A first-time incentive?

An incentive to open an office?

Maximize Information Flow
Suggestion 5: Product Differentiation, Market Focus

Porter 2003, Sacco 2013

Though promiscuous, could Amsterdam VC own the DAP section?

Differentiation and Market - US/Asia Distinctions

Drives new innovation – Scaling technology, HD video, Internet user ship – will drive AR/VR

Higher barriers of entry display different monetization strategies and technology advancement

“Keep Austin Weird” – coupling economic growth with cultural investments
Presentation Goals

Describe Spatial Nature of VC and how it travels
Describe why VC culturally matters
Describe what brings VC to cities
Describe how cities can act as clusters to maximize chances
Give successful case studies of VC/Cluster attempts
Describe what’s to be avoided
For possible further research

Analyze the Netherland’s domestic funding environ

Identify anchor tenants through network analysis - who, what are they doing

Classify which state Amsterdam is in based off domestic capital

Detail the various government programs

Spin up a site detailing the academic work