



The Two Californias of Venture Investing

Idea rich and resource rich: support them both with the right ecosystem.

Jim Armstrong [Clearstone Venture Partners] | POSTED: 04.27.04

Although Sand Hill Road falls within the same state lines as Santa Monica, from a VC's perspective, they are worlds apart.

Silicon Valley has a unique place in the world of venture investing, as it is located within a confined radius in Northern California. Working out of Clearstone's Menlo Park office, we can literally walk out the front door and find all the ingredients—entrepreneurs, sophisticated capital partners, management/sales and engineering talent, and most importantly, an understanding of the patterns and challenges that create or deny success for the fledgling technology company. The flow of credible entrepreneurial ideas is rich, and new companies emerge almost daily. Trusted relationships have been built around successful patterns of learning how to get these companies to sustainability.

Travel about 400 miles south to the Los Angeles basin, and you'll find things are the same yet different. The area is teeming with talented technical innovators of every sort. Top engineering programs at Caltech, UCLA, USC, UCSD, UCI, and UCSB, and active technology leaders and contributors such as Raytheon, TRW, Boeing, and JPL provide Southern California unmatched technical talent. Great technology companies have been built in Southern California, especially in the chip arena, including Vitesse, Qualcomm, Broadcom, Conexant, and QLogic. However, the company creation business is quite different from technology creation.

Silicon Valley is just one part of California's startup picture. According to the State of California's [Commerce & Economic Development Program](#), Southern California is home to 37% of high-tech businesses in the state, and it produces \$57 billion or 36.5% of California high-tech goods and services. This region has become a center for information technology, multimedia, and medical equipment.

San Diego produces another \$13 billion or 8.2% of high-tech output for the state, and it has 9% of high-tech businesses in the state, including world leaders in wireless communications and biotechnology.

New ideas for companies are born daily in Southern California—though over a wider area and much lower intensity, as compared to Silicon Valley's concentrated environment. It's the point at which a venture firm decides to fund a company that the differences become clear. Here are just some of the ways it's different for investors in the Southland:

The region compared to Northern California has decidedly fewer serial entrepreneurs

who have done it before. Every venture person enjoys working with the serial entrepreneur, and I believe the serial entrepreneur is the most important person in Silicon Valley. Just as in Northern California, when you come across a serial entrepreneur in Southern California, you really want to provide resources and support to this innovator.

Because entrepreneurs typically have less experience building scalable companies—and rather than trying to build the next Oracle or Cisco, companies tend to be acquired earlier in their life cycle—the real issue is the skill of matching technologies to markets and understanding what it takes to market, sell, and scale a company. This process is a domain of understanding all its own; it is its own profession. It is different from what is learned in larger organizations and certainly different from domain expertise gained around sectors, such as storage, networking, software, or security.

This is where the venture capitalist can help, and in our Southern California investments, we work hard to surround the team with the right ecosystem and role models to pattern-match and help them make better decisions as they grow the company. More than any other area—including money—this is the value a VC really provides.

A good venture investor should be constantly presenting the management with healthy doses of *ambition* and the tools and resources to achieve those ambitions.

Also, the vast geography of Southern California means there are no areas of congregation or natural networking in the capital or entrepreneurial communities; you really have to work at it. The exception worth mentioning is San Diego, which under the leadership of local tech leading companies, venture funds, and service providers, has achieved a robust, energetic, and productive ecosystem. Across Southern California, there are really five markets: West Valley, Pasadena and east, West Los Angeles, Orange County, and San Diego. As a result of the spread-out geography, talent pools for building management, sales, and engineering teams are more disbursed and spread across this vast region.

Because of this, the venture work is different: venture investors who work with Southern California startups have to be more open to funding neophyte companies. Management teams don't come prebuilt, and distributed teams across the geography are becoming more common. We always have to roll up our sleeves and put in extra time in the first year or years of a company in order to complete management teams and build investment syndicates.

While Clearstone annually invests over half of its dollars in the entrepreneur-rich Northern California region, we are also an active leader in the Southern California region. Active investing in both regions highlights the differences on a daily basis. In Southern California, the rewards can be great for the investor who is willing to take on the extra challenges and risks. Clearstone has been fortunate to have built a number of significant and sustainable companies in the region from the Series A investment, including Overture (Pasadena, \$1 billion in revenues) and United Online (Westlake, \$1 billion in market cap, \$250 million in revenues).

You can really make a difference in the Southern California market, but be aware of what your challenges will be.

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