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How should you tap into **Silicon Valley?**

Not by sticking a toe in the water. Get your management team aligned and then commit.

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The roughly 1,800-square-mile area commonly known as Silicon Valley, southeast of San Francisco Bay, is home to just three million people—slightly less than 1 percent of the US population. Yet the Valley, seat of several world-class universities and numerous cutting-edge enterprises, has become an economic and innovation powerhouse whose importance is hugely disproportionate to its small physical size. If it were a country, it would rank among the world's 50 largest economies, larger than those of Hungary, Vietnam, and New Zealand, among others. In 2013, Silicon Valley generated over 12 percent of US patent registrations and produced about 11 percent of new US-company IPOs, and the greater Bay Area attracted almost 40 percent of US venture-capital (VC) investment.[1] More than a few ideas hatched in the Bay Area have paid off handsomely. Thirty-two of the 50 private start-ups with valuations at or exceeding $1 billion are based there. This is not a new phenomenon, of course. Bay Area enterprises have been creating new markets and disrupting a wide swath of industries for decades.

As companies everywhere strive to stay ahead of the digital revolution, the payoff from engaging with Silicon Valley can be substantial. BMW, which first arrived there almost 20 years ago, linked up with Apple to become the first carmaker to integrate the iPod into its vehicles—an initiative that likely would not have been possible without a physical presence in the area. BMW's development of its i3 electric vehicle also benefited from collaboration with other Valley companies.[2]

No silver bullet

But for every success, companies launch many haphazard "Valley initiatives" that yield little and end in disappointment. Consider, for example, the Bay Area networking offices beloved of many outsiders. These attempts to get a foot in the door typically involve establishing a small outpost charged with responsibility for networking with VC funds, leading area businesses, and promising Valley start-ups. Many companies find it difficult to make this model work. Even if employees in these offices can identify winning ideas—no sure thing, of course—their potential tends to get watered down or lost as the news is passed back to corporate headquarters and up the chain of command. Often, opportunities are squandered, and frustrated employees at the satellite office leave to join some fast-growing Valley employer.

Companies that set up their own venture-capital funds or corporate investment arms often report disappointing results, too. In the Bay Area, after all, money is generally less important than good connections; well-established entrepreneurs and VCs there tend to stick together and pick winners cooperatively. Even corporate-backed entities flush with money struggle to embed themselves in the local network. Intel Capital—launched by one of the Valley's original corporate pillars—is a notable exception, but many more fail to make meaningful contributions to their corporate parents or don't follow a coherent corporate strategy in training their sights on target companies. For many big businesses looking in from the outside, creating a venture fund is a difficult way to channel the Valley's entrepreneurial spirit and generate fresh ideas.

A practical playbook

In our experience, there are three proven ways to engage with Silicon Valley and tap into its zeitgeist.

The innovation boot camp

One option is a visit to Silicon Valley, typically for a few days and often undertaken by an organization's board or highest executives. Consider it an innovation boot camp. The goal is to immerse company leaders in the Valley's entrepreneurial approach, which can be an invaluable means of galvanizing members of a top team to act.

The board of a large North American bank, for example, recently visited Silicon Valley because that institution, like other financial players—and indeed like companies in many other industries—was beginning to foresee a future in which unprecedented technological change would disrupt its business model. What the board found most valuable from its boot-camp experience wasn't learning about specific digital platforms or uncovering new fintech systems but getting to know the culture of innovation and grasping the importance of accelerating the bank's digitization program. The board's perspective shifted as it considered how the Valley's companies approach challenges entrepreneurially, with an eye to industry transformation; what kind of talent these companies require; and how the bank's model had to become more customer focused. Indeed, one board member described the experience as the bank's "highest ROI project"; another said, "We saw more change and urgency introduced in the board in the last two days than in the entire last two years." Other companies we know have benefited similarly, using visits to Silicon Valley to help craft a digital strategy and develop valuable relationships with senior Bay Area executives.

Targeted strategic partnerships

Properly executed, partnerships with a Silicon Valley enterprise can hit the sweet spot, especially for companies that sense a closing window of time before technology disrupts their core business. Broadly, these combinations tend to take one of two forms. In the first, two large companies—one in Silicon Valley, the other based elsewhere—agree to collaborate on a new technology. Such combinations between local and nonlocal giants can succeed. For example, the initiative between Google and the Swiss pharmaceutical company Novartis to develop contact lenses that can, among other uses, monitor the glucose levels of diabetes patients is showing early progress. Yet the "partnership of equals" approach can encounter significant barriers; two large enterprises often find it difficult to work together and frequently get bogged down in logistics.

By contrast, large non-Valley companies that partner with Valley-based start-ups tend to move quickly: the smaller, more nimble company pilots leading-edge ideas and technologies, while the big-branded partner helps refine and scale the product. Done properly—with C-level strategic urgency on both sides—these can be win–win partnerships. Case in point: the arrangement between the major hotel chain Four Seasons and start-up Medallia, developer of a digital platform that captures customer feedback and helps manage customer experiences across properties. The relationship not only helped make the smaller company an industry leader but also enabled the large hotelier to become world class at anticipating its guests' needs.

Bigger bets

More ambitious but potentially fruitful endeavors include opening technology centers in Silicon Valley and using acquisitions to access local talent and cultivate a more innovative culture away from legacy operations. These initiatives immerse companies in Silicon Valley's culture more fully than "toe in the water" networking offices do and have more credibility. A classic example is GE's San Ramon–based Software Center, which the company launched in 2012 after concluding that the Internet of Things would significantly affect several of its core businesses and that it still had time to build an IoT capability from the ground up. GE attracted local talent from industry leaders and start-ups alike and made substantial investments to achieve the needed scale. Currently, annual revenues generated by the initiative have reached about $1 billion annually—and are growing.

Walmart's experience is another example. After several false starts, and under pressure from large Internet retailers, its e-commerce business relocated to Silicon Valley, where it has become one of the three largest e-commerce enterprises in the United States, with more than two thousand employees.

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Ultimately, Silicon Valley's sauce is no secret. Its ecosystem benefits from a highly educated workforce and a critical mass of excellence drawn from across the globe—in 2011, college graduates born outside the United States held 60 percent of the area's science and engineering jobs. This talent can thrive in a culture where personal networks run deep, noncompete agreements are restricted, disruption is celebrated, and failure is considered a rite of passage.

The three models we've highlighted for tapping into that ecosystem are points on a spectrum. The applicability of any of these models depends on how well aligned a top-management team is about the challenges on the horizon, the time a company has before they become real, and their potential impact. GE's big bet on the Internet of Things, for example, reflected the strong alignment of its management team, as well as an understanding of the coming disruption and a belief that the company had enough time to act itself. For others, the ship may already have sailed, leaving them no choice but to buy their way in or to go in a different direction entirely. The key for most companies in a rapidly digitizing world is to take stock of what Silicon Valley has to offer for their own circumstances and then to chart a course accordingly.

[1] See *2015 Silicon Valley Index*, Silicon Valley Institute for Regional Studies, February 2015, jointventure.org.

[2] Rachael King and Steven Rosenbush, "Mining Silicon Valley's culture," *Wall Street Journal*, July 24, 2013, wsj.com.

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