



## **High-tech connection: From Silicon Valley to Silicon Wadi**

*High-tech ties between Palo Alto and Israel are growing, with no end in sight*

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On occasion, businessman Eric Benhamou forgets where he is.

Sitting under a row of clocks labeled "Palo Alto," "Paris" and "Tel Aviv" at his Cowper Street office, the long-time investor in Israeli businesses often conducts video conference calls. While speaking with executives abroad, Benhamou's sense of place wavers, he said.

The conference rooms look the same, the entrepreneurs are equally passionate on either side of the ocean, and the time slips by.

"Sometimes I forget which continent I am in because it really feels culturally very similar," he said.

Never more so than right now, according to observers in Silicon Valley and Israel.

As the Middle Eastern nation's high-tech economy grows -- developing a venture-capital engine resembling the United States' and a crop of business-minded young technologists - - the exchange between here and there is growing.

At least 25 Israeli startups moved to the Bay Area from 2006 to late 2007, according to a count by the San Francisco Business Times.

The Israeli consulate estimates about 40,000 natives are living on Valley soil.

Israelis come to Silicon Valley seeking access to investors and America's mighty, 300-million-consumer marketplace.

In return, they bring technical expertise often honed during military service and the "I can do it better" attitude many Israelis say is inherent to their culture.



Palo Alto's downtown is brimming with the influx. Around the corner from Benhamou is the Hamilton Avenue office of Metacafe, a video-sharing Web site founded by Eyal Hertzog in Tel Aviv, where he still keeps a research office.

A stone's throw away on University Avenue is another Israeli tech startup, ConteXtream, funded by Benhamou's firm, Benhamou Global Ventures.

Farther afield, a trip to the park in Sunnyvale -- where Israelis have settled since the 1980s -- means being surrounded by families speaking Hebrew, according to Amit Porat, who moved with her husband to Palo Alto last year. (*See sidebar.*)

Investors and entrepreneurs on both sides of the Atlantic say the startup culture of the Internet era has fueled an already-fruitful exchange. Palo Alto, particularly downtown, is a strategic place to do business within Silicon Valley. And ties between the city and Israel's high-tech sector are bound to strengthen, they said, as creativity and money continue to flow back and forth across the world.

On a typically sunny Thursday, venture capitalist Ron Berman checks in with a Web 2.0 startup he's funding, calling on Liad Agmon, CEO of Delver. The two have offices near one another, not far from Benchmark Capital and Sun Microsystems.

Down the block is the shiny cube of Microsoft's new research and development center. Earlier this year, Berman and Agmon shared coffee at Caffé del Doge with other entrepreneurs in downtown Palo Alto.

But the two don't work in Silicon Valley. They work in Silicon Wadi.

A nickname spun off from the Arabic word for desert, Silicon Wadis have popped up all over Israel. The term refers to industrial parks where powerhouses such as Intel manufacture chips. Venture-capital firms and startups also cluster in such "wadis," such as where Berman and Agmon work.

Their offices are in Herzliya Pituach, a suburb about 20 minutes north of Tel Aviv by car. At the city's heart is a business district where high-rises sit baking in the glaring sun. Israeli venture-capital firms stack one atop another; Berman jokes he can peer into Agmon's office and watch him work.

The cluster of talent and money is more than a little reminiscent of another pocket of innovation halfway around the world. The resemblance moved one venture capitalist, Daniel Cohen of Gemini Israel Funds, to write a popular blog entry comparing Menlo Park's venture-capital nexus Sand Hill Road to Herzliya Pituach's main street.

The verdict?

The Israeli locale has better nightlife and more startups that haven't been driven out (yet) by high rents, Cohen concluded.

But just 20 years ago, there was no Israeli Sand Hill Road.

Going back 40 years, there was barely a high-tech industry, according to former Defense Minister Moshe Arens. But threatened by hostile neighbors and unable to rely on weapons from abroad, the nation focused on defense, he said, speaking at a recent conference in Tel Aviv.

Military research and intelligence, in turn, led to a population of engineers and technologists. After armed service, some began to manufacture products commercially and others turned to academia and further research, Arens said.

In the 1980s, Intel began recruiting Israeli engineers, many of whom immigrated to Sunnyvale and established a still-strong Israeli outpost there.

But it took until the late 1980s and 1990s, which ushered in a series of high-profile international partnerships and mergers, for the world to become aware of Israel's technology expertise, according to Benhamou, an American with Israeli family.

A key moment was 3Com's 1994 acquisition of Israeli NiceCom, a data networking service, according to Benhamou, 3Com's then-CEO.

NiceCom's assets were purely intellectual property -- rather than finished products -- so the purchase sent a worldwide message of confidence in Israeli ability, he said.

In 1993, the Israeli government created a venture-capital fund called Yozma for its homegrown talent, pumping in \$20 million, according to the Israel Venture Association.

Today, Israel -- a country of seven million people -- has more per-capita venture funding than the United States, according to a study from the Israel Venture Capital Research Center.

In 2007, venture investment in Israeli firms was \$1.7 billion; in the U.S., a nation roughly 43 times as populous, venture investment totaled \$30.3 billion, the firm stated in a 2008 report. (Silicon Valley still leads the pack, with \$10.8 billion in investments for about three million people in 2007, according to the National Venture Capital Association.)

And Israeli investment is picking up these days, in the wake of sluggish years after the dot-com bust. About \$1.08 billion in venture capital has been raised so far this year -- up 27 percent from last year, the research firm announced recently.

Silicon Valley Bank, a flagship funder, opened a Tel Aviv office this January.

Meanwhile, the military continues to turn out talented graduates. Hertzog, the entrepreneur who opened up U.S. offices on Cowper Street in 2007, smiles quietly when asked what he did for the military's intelligence unit. He can't tell, of course.

But he can say how it helped him: "It really upgraded me as a professional. You gain hardcore experience and creativity. They give you a task and say, 'Just complete it.' You need to figure out good ways to do it."

Now, Metacafe nets more than 1.5 million daily visitors.

Hertzog, 33, reflected that such responsibility isn't a typical teenage experience: "It's rare at age 18 to get a lot of important tasks."

For all of Israel's cash and intellectual capital, it still needs the United States.

Israel is a small country -- a sliver-sized market for a firm seeking to go big.

And although the nation's venture industry is growing, it has less money, and -- some say -- less-seasoned talent than the U.S.

So when players in the Israeli high-tech world seek additional funding, business expansion or marketing know-how, they often turn to Silicon Valley, according to observers on both sides of the world.

When Berman and Agmon shared a cup of joe in downtown Palo Alto this spring, it was part of a visit both men call necessary to surviving and thriving in the high-tech world.

While his countrymen may know their way around semiconductors and computer chips, the diffuse, unpredictable Internet market is trickier, Berman said.

"With the Web, it's a totally different story. We have no clue what Americans are going to consume," he said.

Internet success is still largely a guessing game -- but Americans are better at playing it, he said. Traveling to Palo Alto is also important for networking and meeting industry colleagues, he added.

Many Israeli firms, such as Metacafe and ConteXtream, open a so-called front office for marketing and networking in the Valley, while keeping a back office for research and development in one of the Silicon Wadis.

Gadi Behar runs **Silicom Ventures**, a Los Altos-based group of angel investors he started for Israeli friends interested in funding technology. A 30-year Valley resident, he's watched the population of Israelis blossom. He said the interdependency has strengthened since the 1990s.

"The market is here and the technology is coming from there. It looks like one needs the other," he said.

With such strategic importance to a Valley storefront, Agmon is planning to open up a local office for Delver, his network-based recommendation Web site, he said. And as of late July, Berman left his post at Carmel Ventures and arrived in the Bay Area for graduate school.

While subtle, the Israeli presence in Palo Alto is not hard to detect.

Start with coffee, Hertzog said: Countrymen flock to Caffe del Doge on University Avenue for the espresso in, well, genuine espresso proportions.

"Israelis don't drink coffee out of buckets," he said.

Palo Alto's downtown is particularly strategic for business, according to dealmakers.

The lively cafes and pedestrian-friendly venues help attract employees, Hertzog said.

"They love working in downtown Palo Alto. It's a big advantage," he said.

One of his main funders, Accel Partners, is nearby on University, he pointed out.

And Benhamou said he often conducts meetings downstairs from his office at Il Fornaio restaurant. (A popular spot, the restaurant's most prestigious seats were diagrammed in The Wall Street Journal's "Power Tables" column last year.)

As a testament to the Israeli affection for cafe-based networking, Hebrew is easily overheard at watering holes such as University Avenue Cafe and Coupa Cafe.

As with any meeting of cultures, however, translation is required. "Shalom" is straightforward -- business exchanges less so.

Americans are infamous for a culture of politeness, while Israelis are known for speaking plainly, even bluntly, observers say.

Berman's office devised an informal system for decoding painstakingly friendly American e-mails, he said.

If the writer calls an idea "interesting," it's a nice brush-off indicating the reader will probably never hear from him or her again, Berman said. "Very interesting" indicates

middling chances of a second discussion. "Exciting" means it looks good and the two may do business. And finally, "when can we meet again" means just what it sounds like, he said.

An apt metaphor is the "hamburger" -- Americans couch their real point, the meat of what they want to say, between, pleasant, light greetings and sign-offs, he said.

The cultural decoding is a two-way street, though.

While straightforward Israelis can be puzzled by wordy politeness, the upfront Israeli attitude sometimes strikes others as brusque or impolite, Berman said. Hertzog called it a sign of authenticity -- blunt, yes, but also a sign people aren't trying to sell a constructed image of themselves.

The cultural differences are more fodder for affectionate jokes than a business impediment, however.

Efforts are underway to make sure that ties between Israel and Silicon Valley continue to grow.

The CEOs of 15 promising Israeli Web startups -- Agmon among them -- were flown to the Bay Area in February as part of the IsraelWebTour, hosted by the Cupertino-based California Israel Chamber of Commerce (CICC).

This year's tour, the third, was sponsored by Google and Yahoo, among others, and exposed the young entrepreneurs to Valley heavyweights. The chamber's goal is to link Israeli startups with U.S. funding and resources, and connect U.S. firms with Israeli innovation, according to its Web site.

Eytan Elterman directs community affairs at the Israeli Consulate, which partnered with the chamber to host the tour. He said it was no-brainer matchmaking.

"One of the biggest exports that Israel can offer is technology and Web 2.0 in particular, which is a direct overlap with what is happening in Silicon Valley," he said.

Behar's firm, Silicom Ventures, hosted a conference in June meant to bring a crop of Israeli startups directly into sight of the Valley's big funders.

The International Investment Summit, held in Tel Aviv, lined up companies ranging from G.ho.st, an Israeli-Palestinian collaboration aiming to create a free online computer, to Nano Vibronix, a firm using ultrasound to develop disposable medical devices. And Behar invited so-called angel investors and venture-capital firms to the Hotel Intercontinental to come have a peek.

Of course, Palo Alto denizens were present. Benhamou spoke about his top 10 lessons for CEOs. Amos Barzilay of Walden International, a venture-capital firm with an office on Lytton Avenue, gave a talk on how to net funding. The room was so full of Israeli listeners -- and a few Americans -- that it became standing-room-only, and people crouched on the floor, scribbling notes.

Following in the tradition of the Silicon Valley-Silicon Wadi connection, some of those entrepreneurs may soon wind up in Palo Alto, perhaps at a downtown cafe, pitching ideas and planning partnerships.