

VENTURE MARKET SOUTH 1997 KEYNOTE

These remarks are somewhat dated now, but the fundamental principles remain the same.



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Stephen Fleming, then a general partner at Alliance Technology Ventures, was asked to give the keynote speech at this conference, the first of an annual series sponsored by Red Herring in Atlanta from 1997 through 2001.

TECHNOLOGY IN THE SOUTH

Stephen Fleming

23 February 1997

I've been asked to talk about the strength of the technology market in the South. Some remarkable things are happening in the region, and both Tycho* and I will talk about some of those in a minute. But first I thought it might be useful to take a look at some history.

Contrary to popular belief, the South hasn't always been a rural backwater that rejected technology.

Since the days of Eli Whitney and Robert Fulton, the South has been built on technology.

The Old South was built on the cotton gin and the steamboat. Both were invented in the first decades of the 19th century. Both were critical to the economy of the region. And although both seem a bit old-fashioned now, they were the highest of high-tech in their day.

The New South has been built around the three A's: the Automobile, the Airplane, and Air Conditioning. All three were invented in the first decades of the 20th century. And the region hasn't been the same since. You can stand on certain streetcorners, in Boston, or New York, and squint a little, and make believe that it's a hundred years ago. Not so in Atlanta, or any of the other cities of the New South. Too much has changed. And those changes have been driven by the force of invention.

So, for almost 200 years, neither the Old nor the New South could have existed without some fundamental core technologies. And the South of the 21st century will continue to be built on the work of scientists, inventors, and engineers.

Atlanta, in particular, has always been dependent on the newest technologies. Many of you know that the city got its start as a railroad terminus in the 1850s. The city grew dramatically after World War II, when the city leadership chose to invest in a new airport -- Hartsfield -- rather than a new train station. That broke Atlanta out of the pack of sleepy Southern cities like Birmingham, Memphis, and Charlotte. We've never looked back since. And for forty years, when someone in the South dies... whether he's going to Hell, or going to Heaven, he's sure to change planes in Atlanta!

In the Sixties, a bit of politicking brought three interstate highways

together just a quarter mile south of the Capitol Dome. The traffic jams are horrible, but it certainly caused a boom in the economy, as Atlanta became the logical distribution center for a quarter of the country.

And, of course, the boom in financial and other white-collar jobs that started in the 1970s positively requires air-conditioning. If you don't believe me, I invite you to come back in August and shut the A/C off in your car!

Now, today, Atlanta is experiencing a new boom in telecommunications and electronic commerce. If you haven't heard it already, someone this week is bound to point out that Atlanta has four times more optical fiber in the ground than New York City. Once again, we expect to ride a new wave, to keep generating jobs and keep driving our economy. And every time, you can trace the city's growth to a new application of technology.

Interestingly enough, all these technologies we've just mentioned were developed by backyard tinkerers -- hackers! And, actually, this pattern was true across the U.S. throughout most of the 20th century.

It's remarkable when you look at the record: Steamboats, locomotives, automobiles, airplanes, radio electronics, even the earliest personal computers... individual inventors made significant advances. Just to take one example: down in Apalachicola, John Gorrie wasn't working for General Motors when he invented the air conditioner! He was working for himself, trying to solve a problem. In today's language, he was a hacker!

Now, I'm a native Southerner -- on both sides, back as many generations as we can count. My father was a shade tree mechanic back in the 1930s. With a high school education and some machine tools, he could experiment with new suspensions, and new compression ratios. He had a lot of fun. My older brother was a ham radio hobbyist in the 1960s. With a Lafayette Electronics catalog, he could build a new transmitter better than anything he could buy off the shelf. Radio manufacturers paid attention, since they saw the ham radio community as being a "farm team" for their engineers. For both my dad and my brother, the line between hobbyist and professional was a lot fuzzier. They enjoyed pushing the limits of the technologies they had available. Purely and simply, they were hackers! And I'm proud to come from a long line of hackers. It's a good Southern tradition.

And for most of this century, all across the board, serious middle-class amateurs -- hackers! -- could find themselves pushing the state of the art. To take perhaps the most famous example: Two bicycle mechanics in the backwater of Dayton, Ohio, could invent the first successful airplane, when scientists in Washington, and New York, and Paris, had all failed. (By the way, the Wright Brothers are honorary Southerners, since they chose to conduct their flight tests in North Carolina. :-)

However, the serious amateur began to have serious problems in the late 1970s. The subset of hackers that played around with computers discovered the incredible freedom you get when you have your own microprocessor, your own disk storage, and your own RAM on your desktop. The PC became the power behind the glamorous growth industries of the 1980s... microelectronics and software.

As the PC became more important, development of new core technology became incredibly capital intensive. No shade tree mechanic, no matter how bright, is going to improve the state of the art of disk drives. It requires a level of resources that are simply beyond him. In the same way, Intel spends over a billion dollars every time it decides to build a new microprocessor fab. Only the largest organizations are able to deploy this kind of capital.

But this level of capital investment meant that digital electronics took over the world. Shade tree mechanics can't work on today's cars, since everything is controlled by on-board microprocessors. Shortwave radios have been reduced to a couple of chips; ham operators still exist, but Lafayette Electronics doesn't.

So, through microelectronics, fundamental technology took a 20-year detour away from the tradition of the lone hacker. Those individuals truly interested in pushing the envelope became concentrated into Silicon Valley, and Route 128, with a branch office in Austin, Texas.

Those regions reached "critical mass": Organizations large and small -- even while competing -- helped each other push back barriers to computing. Service businesses sprung up to ease the path between idea and product. Even the popular stereotype of the computer hacker -- solitary, living on pizza, with no social skills -- needs to have a Fry's Electronics down the street. The new "digital culture" took root in these regions. If you wanted to have an impact, you had to be there.

Many of you in the audience have come from those regions; you understand just how successful the last twenty years have been.

But now, at the end of the century, we may also have come to the end of the detour.

Twenty years of Moore's Law has led to astonishing amounts of computing power being available to individuals. Later this year, you will be able to buy a 500-MHz Macintosh with 10 gigabytes of disk space and 100 megs of RAM**... for less than a used Ford Escort. If our backyard mechanic could afford a car, our basement hacker can afford extraordinary computing power.

Now, I don't believe you can ever have "enough" computing power... but, surely, we can have "enough" for many useful purposes! So, today, the focus has shifted. Instead being driven by local computing power, the driver is the power of communications in all its glory -- including, of course, the Internet.

While still obeying Moore's Law, we're entering the era of Metcalfe's Law. That's named after Bob Metcalfe, the inventor of Ethernet and the founder of 3Com. He says "The value of a network grows as the square of the number of people or devices connected to the network." In the last two years, the Internet has crossed a magic threshold of value, and is proceeding straight up along this growth curve.

I don't need to tell you in the audience the sorts of business opportunities this has created. But it's a funny thing. As predicted for years in science fiction, the Internet explodes the tyranny of geography. They say that, on the Internet, no one knows you're a dog. Well, no one knows you're a Southerner, either!

A Web surfer doesn't care where you're located. He just cares that you have a fast server, a high-bandwidth pipe to the Net, and a site that's worth his time.

Our lonely basement hacker can't compete with Intel on microprocessors... but he can compete against the whole world with a new Java applet!

So it's a great time to be developing advanced technology in the South. Last year, my partner and I reviewed over 400 technology business plans from Georgia and the Southeast. We only did four deals, but each of them is top-quality... good enough to bring in syndicate partners from California

and Boston.

There were quite a few more that we didn't do, but that were good enough to get funded... and quite a few of these brought in out-of-town dollars as well. All these developers have chosen to build their high-tech businesses here, in the South, while taking advantage of modern technology to connect with suppliers, customers, and the rest of the world.

And, while at the forefront of technology, our local hackers can enjoy: a great house, a low cost of living, low taxes, a business-friendly environment, and a great quality of life. It's not a bad deal.

Now, for our visitors from elsewhere in the country, please keep in mind that this is not a zero-sum game Silicon Valley doesn't need to lose in order for the South to win. We believe we have some unique strengths, but our success won't take place in a vacuum. Just as the rising tide floats all boats, we believe that the new digital economy will flourish everywhere, not just in traditional high-tech strongholds.

Now, how does all this relate to venture investing? You need three things to build successful startups: brains, guts, and money. The South has plenty of brains -- a few hometown Rebels like me, and the smarter Bostonians who decided to quit shoveling snow and move down here! We used to call these folks carpetbaggers... now we just say that it's "evolution in action"... :-)

Guts have never been a problem for Southerners: From 1776, then through the War of the Yankee Aggression, and on down to the present day. Some folks say that Southerners like Robert E. Lee had more guts than sense. I won't deny it, but I will note that it was a darned close-run thing.

And as for money... well, that's what this conference is all about.

People say there's not enough venture money in the South. I tell those people that, for the right deal, investors from anywhere are willing to catch an airplane. I think the size of this audience proves my point.

Now, admittedly, lots of those out-of-town investors want a local lead. That's especially true in early-stage investing. It's important that the CEO has someone close by to use as a sounding board... and as an external eye on the business.

But now, more than ever before, there are early-stage firms in the South that are qualified and interested in acting as that local lead. Several of them are co-sponsors of this conference. And if I can be permitted to blow my own horn for just a moment... My partner and I are raising a new fund this year, and we really like syndicating deals with outside investors!

All the market studies -- Price Waterhouse, Coopers & Lybrand, Venture Economics -- show that there is plenty of investment happening in the South. For the last two years, we've been ranked third behind Silicon Valley and New England. Considering the history of success in those two areas, third isn't so bad!

We may not have achieved critical mass yet, but we're darned close. So, if you wish you could have been investing in California tech firms in the mid-1970s, well: Welcome South, Brother! There's plenty of room!

I've tried to give a little historical perspective on what it means to be a Southerner, and how technology got us to where we are today.

Next we're going to listen to Tycho Howle, founder and CEO of Harbinger, tell us about his company and why he believes the South is, and has been,

a great place to build a technology enterprise. But in closing:

Many of y'all in the audience are investors from all over the country -- and some from overseas. I welcome you to the South, I welcome you to Atlanta, and I believe you're about to see two days' worth of truly impressive Southern entrepreneurs. Thanks for being here, and I hope that this is the first of many visits for each of you. Have a great conference!

* Tycho Howle, founder of Harbinger and later nuBridges, was also a speaker at the conference.

** How things have changed...

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