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Forbes Magazine

The Global Startup

Monday November 15, 4:23 pm ET

By Erika Brown

Tech entrepreneurs and venture capitalists are creating multinationals before they even make a nickel.

In late September 110 entrepreneurs and venture capitalists from 17 cities flew in for Jerusalem Venture Partners' annual meeting, at the Cafe Gray overlooking Manhattan's Central Park. Businesspeople from Amsterdam, Milan and Singapore sat across from folks from Tel Aviv, Tokyo and Zurich as they sipped coffee and listened to a lecture about the perils and opportunities of China's tech markets. Between presentations JVP founder Erel Margalit darted from table to table shaking hands, bowing and kissing cheeks, interrupting conversations held in Chinese, Hebrew and heavily accented English.

ADVERTISEMENT Such is the life of the modern venture capitalist. It used to be more parochial: enterprises in Silicon Valley or Boston launched with hometown money and nearby employees. After five years or so someone would think about sending a sales guy to London or Tokyo.

These days fledglings go global before they've even made their first sale. Three out of every four investments Margalit makes are multinational. JVP's latest project, Double Fusion, is building software that inserts 3-D ads into online videogames. Its technology and entrepreneurs are from Israel, its funding is from the U.S. and Jerusalem, and its chief executive is Indian. JVP's partners in Asia will take its executives on a tour of China, Korea and Japan later this year to meet with game developers and ad agencies.

VCs who once bragged about never driving more than half an hour to visit a portfolio company are jetting to Australia for optical engineers, Israel for security whizzes, India and Kazakhstan for brute software coding, South Korea for online gaming and Japan for graphics chips. For growth across the board China is the place to go. IT spending there is expected to hit \$48 billion by 2008, a twofold increase, and grow three times as fast as in the U.S. Its mobile phone users are increasing at 25% a year. One of every three cell phones and eight of every ten DVD players in the world are made in China. Shanghai produces 40% of the world's semiconductors. India's communications minister has set a target of up to 250 million telephones by 2007, with what one VC estimates to be a \$30 billion investment in the necessary infrastructure.

"VCs in Silicon Valley used to pride themselves on being local," says Margalit, who has \$680 million under management. "That was well and good when the U.S. was the mecca for technology, but today the leading markets are China, Japan, Korea, Taiwan. Entrepreneurs need to talk to the people who are determining where the world is going, and they can't do that if everyone around the table is American."

A few venture and private equity firms such as WaldenVC, Worldview Technology Partners and Warburg Pincus have been investing in Asia for years--and Apax Partners has long straddled the Atlantic--but the jet-setting ranks are swelling. DCM-Doll Capital Management's David Chao boasts that 40% of his portfolio companies' revenue is derived outside the U.S.

Norwest Venture Partners' Promod Haque, who sits atop FORBES' Midas List of tech dealmakers, says he won't even consider investing in an entrepreneur unless that person has worked out an international strategy. In June Haque and his partners took executives from eight portfolio companies on a two-week business-building mission to his native India. One of Norwest's companies, Virtela Communications, initiated five new deals on that trip.

A global view is required just to keep pace with foreign firms quick to copy an idea. Yahoo faces serious competition by indigenous copycats in countries such as Korea. Ebay has been scrambling to buy up imitators in Korea and elsewhere. Along with other VCs, Benchmark Capital invested \$13million in online networking outfit Friendster in 2003. William Gurley, a Benchmark general partner, now counts at least three Chinese imitators. "You can't plan U.S. success first and then go global ten years from now. They're all reading the tech business magazines and VentureWire. They know what you're building before you get there," he says.

Silicon Valley Bank, famed as a lender to young U.S. companies, opened offices in London and Bangalore in September. Next year SVB plans to move into China and Israel. The bank is going abroad to get an edge over its U.S. competition, but it isn't lending in Asia--its staff is there to make introductions for entrepreneurs to potential customers, investors and partners. "Venture capital is a global industry. We are going to see more cross-border companies being funded," says Ash Lilani, head of global sales and marketing at SVB, "and the earlier you get to know startups, the deeper the relationships."

Consultancies are seeing a nice boost as well. Kenneth DeWoskin, head of business development for PricewaterhouseCoopers Transaction Services in China, says demand for advice on how to do business in Asia has been so taxing that he has doubled the size of his corps to 6,000 in the last 24 months. He plans to add another 1,000 employees in China next year. "The first thing I tell entrepreneurs is, 'Keep your bags packed at all times,'" says DeWoskin.

Since the 43-year-old Erel Margalit founded Jerusalem Venture Partners in Jerusalem 11 years ago, he's added staff in London, New York City, Shanghai and Tokyo. His downtown Manhattan office has a nap room for weary executives flying in on red-eyes. The firm has set up a high-speed data network that allows partners and portfolio companies to access secure information from an office, airport or hotel room. Every Monday morning all of the JVP offices jump into a video conference to swap ideas.

During a partner meeting early last year Hiroshi Ikegaya, JVP's partner in Japan, alerted his colleagues to a hankering by Asian consumer electronics firms for a chip that could transmit video wirelessly within the home. One of Ikegaya's partners knew some engineers in the Israeli military who were using such a technology. Margalit recruited an Indian executive from Texas Instruments to run the operation out of Los Altos, Calif. Along with Benchmark Capital, Gemini Israeli Venture Funds and Genesis Campus, JVP invested \$12 million in the new company, dubbed Adimos, in July 2003.

Since then Ikegaya introduced Adimos' chief executive, Sandeep Kumar, to Mitsui & Co., a giant Japanese distributor that also invests in JVP's funds. Kumar also called a contact at Toshiba Corp. Now Adimos is working with Toshiba and Mitsui to develop a wireless videochip that will suit their needs. The chip will be embedded in TVs to receive music, pictures and movies from PCs, set-top boxes and the Internet.

Celltick Technologies, which sells software for broadcasting information to cell phones, is based in London and has operations in Herzliya, Israel and sales and development in Beijing and Bangalore. Founded in 2000 just before the U.S. telecom crash, Celltick tried courting European carriers but was told it had already spent too much on 3G infrastructure. To survive, the company began looking into underdeveloped regions such as India and China. In November 2001 Chief Executive Yossi Wellingstein slashed his staff from 60 to 28. Anyone who wasn't willing to travel got cut.

Celltick has signed up carriers in China, India, Russia, Sri Lanka, Brazil and even two countries in Africa. Hutchison Telecom's 1.5 million Indian mobile users get their cricket scores by phone through Celltick software. Says Wellingstein, "We travel to wherever the projects are. No matter how short you are on cash, you never skimp on travel."

Risks will always abound. In China red tape and issues about piracy and intellectual property are obstacles. In India there is a 20% turnover rate at most IT-outsourcing shops and driving to their gated corporate campuses requires navigating streets jammed with beggars, cows and elephants. An engineer for Lumenaré Networks was sitting on a bench outside his office in Noida, in the northern state of Uttar Pradesh. His cell phone rang, and when he picked it up, a monkey leapt at him and bit his hand in an attempt to grab the phone. Not something that Lumenaré's venture backers at Sevin Rosen Funds in Silicon Valley ever had to worry about before.

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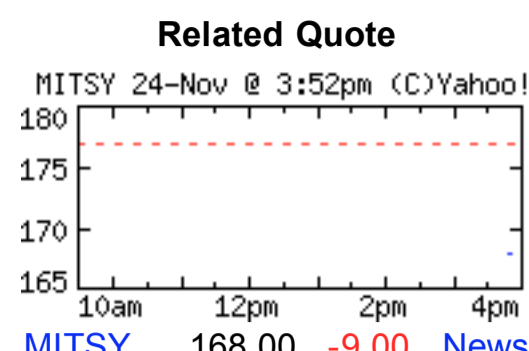
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