

With Silicon Valley outposts, Samsung draws line in the sand

February 22 2013, by Chris O'brien

Samsung Electronics Co.'s and Apple Inc.'s battle to dominate the world's smartphone markets has mostly been waged from their respective sides of the Pacific. Now the South Korean tech giant is storming rival Apple's backyard, launching an aggressive expansion into California's Silicon Valley.

Samsung has opened a new innovation center in Menlo Park. A research and development lab is planned for San Jose. A startup incubator is cooking in Palo Alto. And then there is its most audacious undertaking: erecting a massive new semiconductor campus with a distinctive design destined to compete with Apple's proposed spaceship-like campus for the title of Silicon Valley's most distinctive architectural landmark.

The move by Samsung to broaden its footprint in Silicon Valley signals an escalation of its rivalry with Apple, as the two companies compete more directly for the same employees, investments and innovations. Beyond getting in a rival's face, Samsung believes its Silicon Valley expansions are needed to inject more entrepreneurial DNA into the bloodstream of a company known more as an innovation follower than leader.

"This is the epicenter of disruptive forces," said Young Sohn, Samsung's chief strategy officer, who is now based in Silicon Valley. "And I want to make sure we're part of those disruptions."

The relationship between Samsung and Apple is complex, to put it

mildly. Samsung has long been one of Apple's main suppliers of components. Samsung has maintained a modest outpost in Silicon Valley for years that included its U.S. semiconductor headquarters, a small R&D lab and a venture capital office.

But in recent years, that partnership became strained as Samsung launched a line of new smartphones, led by the Galaxy, that run on Google's Android operating system. Those phones have made Samsung the world's leading seller of smartphones, though Apple remains No. 1 in the U.S.

Samsung's insurgency has raised anxiety among investors and analysts on Wall Street that the sun is setting on Apple's golden age. Apple has fought back by suing Samsung in courts around the world, contending the company's phones were iPhone rip-offs that violated a number of patents.

Still, the legal and marketing warfare hasn't slowed Samsung, nor dimmed its ambitions. The company wants to more than double its annual revenue to about \$400 billion in the next few years, a target that would put it side by side with the world's largest companies, Exxon Mobil Corp. and Wal-Mart Stores Inc.

To do that, Samsung's leaders believe they must fundamentally transform the company's culture and strategies.

For all its success, the company still lags behind Apple in the perception of which is the more innovative company. Samsung is trying to shed its reputation for being a company that succeeds through a strategy of what Tim Bajarin of Creative Strategies calls "fast following." That is, watching others pioneer new technologies and markets, and then rushing in behind.

"The reason they're doing what they are doing now is that Samsung is in a position of market strength," Bajarin said. "They now are beginning to do the R&D, which will allow them to control their destiny instead of relying on other people to make breakthroughs. But to get the kind of growth they'd like, they have to make the transition from being an innovation follower to an innovation leader."

To make that shift, Samsung wants to shed an insular culture that has focused on developing most technologies and products internally. The company is throwing open the doors, and extending its hand, by partnering and investing in startups, supporting other innovators and becoming a more active buyer of other companies.

In other words, it wants to do the things that are the lifeblood of Silicon Valley's biggest companies.

"Much of our innovation in the past was done in Korea," Sohn said. "We have to reach out to global hot spots. How we tap into global innovation efforts will dictate our success."

Working with Samsung has not always been easy. Samsung makes a greater variety of products than Apple, including appliances and TVs. That size and complexity, combined with its concentration in South Korea, has made the company hard for the valley's entrepreneurs and would-be partners to understand and navigate.

Sohn hopes the company's larger presence in Silicon Valley will breed familiarity and help demystify it. Certainly in the coming years, there will be no shortage of places where the valley's entrepreneurs and engineers can rub shoulders with Samsung.

The scope of Samsung's expansion plans, while massive, hasn't received tremendous buzz in part because they have dribbled out in bits and

pieces. But as Samsung has released more details in recent weeks, the ambition of its intentions has come into sharper focus. The expansion plans include:

- A startup incubator in downtown Palo Alto, just a couple of miles from the Stanford University campus. Although the company has confirmed the project, it has released no details.

- A major expansion of its R&D center, known as Samsung Information Systems America, into two six-story buildings under construction in San Jose.

- The opening of the Samsung Strategy and [Innovation Center](#) on the valley's famed Sand Hill Road, the heart of the region's venture capital industry. The center will be run by Sohn and will house a group of research fellows while providing a place for the company's various product divisions to partner with local entrepreneurs and researchers.

- Increased venture capital investment through Samsung Ventures, which has offices in San Jose and is already one of the largest corporate venture funds in the world, with \$1 billion in assets. Sohn said the company plans to ramp up investments in the United States, where it already targets 80 percent of its funding. It's also creating a new \$100-million early stage fund.

- A new \$300 million campus for its U.S. semiconductor headquarters boasting a remarkable, open-air design that promises to rival Apple's new campus and Facebook Inc.'s Frank Gehry-designed expansion for the region's most eye-catching high-tech building.

The semiconductor campus was significant enough that California Gov. Jerry Brown singled it out for praise in his State of the State speech last month. Brown thanked the state's economic development team for

persuading Samsung to expand its San Jose center, rather than moving it elsewhere. These efforts are part of a larger strategy by Samsung to establish R&D centers in entrepreneurial centers around the globe. But it's clear that the centerpiece will be Silicon Valley, where Samsung will grow from a few hundred employees to "several thousand" by 2020, Sohn said.

With Apple and Google engaged in their own furious expansions in Silicon Valley, the region's concentration of talent makes it crucial that any serious competitor like Samsung be in the valley if it wants to compete for those workers.

"Samsung has to be here because everything happens here in Silicon Valley," said Carolina Milanesi, vice president of research for consumer technologies and markets at Gartner Inc.

Sohn said Samsung hopes to show would-be partners the potential advantages of working with the company. And it intends to use its [Silicon Valley](#) base to scour the country for ideas and talent.

One of the best examples of that new approach can be seen in its recent backing of OpenX, a Pasadena, Calif., digital ad exchange.

In January, OpenX announced it had raised \$22.5 million in venture capital in a round led by Samsung Ventures. The investment is an example of how a company known best for its hardware is trying to move deeper into software and services.

"It's been one of our most significant investments to date," said Brannon Lacey of Samsung Ventures.

In the case of OpenX, however, the investment was also the culmination of a relationship, rather than just the start of one. In April, Samsung

partnered with OpenX to run its new digital advertising service. After months of working together, Samsung decided to make the investment.

OpenX Chief Executive Tim Cadogan said Samsung has been impressive with its eagerness to listen and learn, and work with his company. Although U.S. entrepreneurs may be unfamiliar with Samsung, he expects that to change quickly. Cadogan said Samsung's size and its ability to quickly distribute new technologies around the globe is going to make the company an attractive ally for startups.

"They're going to get a lot of attention," Cadogan said. "There's a lot of interest in what they're trying to do. We're very pleased to be an early symbol of that new strategy."

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Citation: With Silicon Valley outposts, Samsung draws line in the sand (2013, February 22)
retrieved 27 April 2024 from

<https://phys.org/news/2013-02-silicon-valley-outposts-samsung-line.html>

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