

**INNOVATION**

# Incubating Silicon Valley-style Ideas in the Middle East

Dec 14, 2010

📍 Latin America, Middle East & Africa, North America

---



In 1994, an enterprising University of Baghdad student by the name of Rabah Shihab created a computer game. Building a platform and a game for the Commodore Amiga, a personal computer once popular with gamers and "demo scene" artists, was hard enough for the amateur programmer. Doing so in the midst of the United Nations' sanctions against Iraq presented many more obstacles.

Shihab owned one computer with a single floppy disk. "We had no hard drive [or] monitor," he recalls. But he and a few friends had the essential ingredients that often lead to success for high-tech start-ups: A good idea and passion to follow through. The "Babylonian Twins" game was born at a time when Shihab, then a computer engineering student, was prohibited from shipping a copy of his program outside his home country. He kept it on a disk for 17 years while moving from Jordan to Dubai, and ultimately to the tree-lined mountains of North Vancouver, British Columbia.

Now 37, Shihab never forgot about the game. In 2009, while working for Oracle in Canada, he reassembled his Iraqi team to build the program for iPhones and iPads. Within a year, Shihab quit Oracle, left his family in Canada and moved to Silicon Valley. There, he found a community of like-minded dreamers in a sleek building near a suburban green space in Sunnyvale, California.

The Iraqi immigrant had landed at Plug and Play Tech Center, a start-up incubator. Since its launch in 2006, Plug and Play has helped more than 250 start-ups by breaking down the barriers facing most nascent entrepreneurs — getting access to capital and business acumen.

The firm rents space to entrepreneurs starting at US\$500 a month, and provides them with access to not only investors, industry experts and mentors, but also office equipment and a communal atmosphere to foster high-tech ideas.

Plug and Play is among a growing number of tech-oriented incubators — or accelerators — including The Founder Institute, Y Combinator and Hacker Dojo, that help cultivate innovative enterprises. The incubators take over the "grunt work" from entrepreneurs so they can focus on building products," says Vivek Mehra, a venture capitalist at August Capital in Menlo Park, California, who co-founded Cobalt Networks in 1996. In return, incubators often demand as much as a 70% stake in the start-up. David Hsu, a professor of management at Wharton, also embraces the incubator system. "We can have more experiments and add value and see if an idea has commercial potential before paying a fixed rent and hiring dedicated administrative staff."

But while optimism courses through the digital veins of Silicon Valley, its transference to other parts of the world is difficult to measure. "Let's face it, there are talented and passionate people everywhere in the world," says Alex Mehr, a co-founder of online dating website Zoosk, which Plug and Play helped nurture. "The only thing special about Silicon Valley is a network of like-minded people, who understand that you can transform the world. With a little bit of capital, a little bit of support, you can take these ideas and create world-changing things like Facebook. But talent is not unique in Silicon Valley. It's just the ecosystem isn't elsewhere."

Some might argue that face-to-face communication between entrepreneurs is less important in the age of the Internet, but "the opposite is the case," maintains Christopher Clay, 26, co-founder of Metalab, a non-profit start-up center in Vienna, Austria. "There is nothing more powerful than getting ambitious people in a room together because they inspire each other and the atmosphere is really important."

### **Matchmaker, Matchmaker**

The initial aim of Plug and Play was to make money by renting space to eager innovators. Once the research and development headquarters for the semiconductor unit of Philips, Plug and Play's flagship building has been redesigned to project a gleaming, 21<sup>st</sup> century image. To emphasize its outward-looking focus, the lobby is draped with flags as if it were the stage of an Olympics opening ceremony, with banners from Brazil, Canada, Germany, Spain, Turkey and other nations.

The man behind the idea, Saeed Amidi, can be found at his desk on an upper-floor office. A dark-haired Iranian-American, Amidi, 50, welcomes guests with the ease of a concierge. "He's the person who matches people up," says Zoosk's Mehr, an Iranian immigrant. "Name any VC fund and he has a connection there. He becomes friends with entrepreneurs, VCs and angel investors, and he becomes an enabler."

Amidi's story is as old as the original entrepreneur. He became a Silicon Valley kingmaker without being tech savvy or groomed by America's leading business schools. His family ran successful businesses in Iran until fleeing after the Islamic revolution and started over after arriving in California in 1979. While a Menlo College student, he built a bottled-water distribution business as part of a group of family-run enterprises. Among their businesses, the Amidis owned an office building where they sold Persian rugs and rented space.

The rug store has become the stuff of high-tech legend. Located in trendy Palo Alto, the building at 165 University Ave. put the Amidis in physical proximity to many of the brains behind the dotcom boom of the 1990s. The avenue of cafes, bookstores and clothing boutiques lies just a few miles from the epicenter of venture capitalists in Menlo Park. It proved to be the perfect matrix to plug into Silicon Valley's high-tech energy.

Amidi met technology pioneer Andy Rubin when the co-founder of mobile platform company Danger bought a carpet from the family in the 1990s. Even more fortuitous was renting office space to some of the world's technology darlings during their early days: Google, Logitech and PayPal. Always looking for an opportunity, the family invested in PayPal. When PayPal was sold to eBay for US\$1.5 billion in 2002, the Amidis reaped millions. Equally important, they viewed technology investment as their future.

"It is a movie script, except the players are real and the reward is better than winning something at the box office," says Amidi. "I don't understand how the digital bits travel and how they resolve problems. But I do understand that you need to have a product that people need. You need to have a solution that people are willing to pay for. You have to have a team that can deliver this product and experience. That is very similar to the real business I was doing all my life."

The concept of nurturing infant businesses is hardly new. Since the 1950s, local communities and chambers of commerce have provided funds, training and office space to help launch new businesses. Universities, too, have had a hand in incubating. At Wharton's Venture Initiation Program, the way Raphael Amit, a professor of entrepreneurship, sees it, rather than taking equity in a start-up, "Our reward is allowing students to link experience to the practice."

What's more, the success of incubators and similar arrangements has inspired a number of non-profits, such as San Francisco-based Kiva, which provides microloans to entrepreneurs in some of the poorest countries.

With or without incubators, entrepreneurs also now have a range of funding to access. In the Silicon Valley lexicon, there are angel investors, super angels and traditional venture capital funds. Although there is no hard-and-fast rule, angel investors usually generate between US\$25,000 and US\$250,000; super angels US\$250,000 and US\$500,000; and venture capitalists US\$500,000 and up. According to Jonathan Ebinger, a partner at Blue Run Ventures in Menlo Park, the division of funding encourages enterprise by giving small companies a fighting chance. "We feel there is an opportunity for more of a safer place to innovate [rather] than worrying about performance milestones for investors" by enabling access to funding that doesn't come with onerous covenants attached such as the conditions that might be included in a bank loan, he notes.

## **Developing the Middle East**

Amidi is accustomed to working with people across the globe. One day in September at his office, he welcomed four representatives of Keflavik Airport Development Corporation, a state-owned Icelandic project that is developing a former NATO defense area into a modern city. As the visitors presented their project, Amidi interrupted them. "Do you speak English?" he asked, referring to Iceland's populace. The four politely nodded that their compatriots do. After 45 minutes, Amidi got to the essence of the meeting with a sharp, "How could we help you?"

The four paused, seemingly unprepared for the Indy-car pace of Silicon Valley business dealings. Amidi suggested the Icelanders consider sending a couple of entrepreneurs to Plug and Play to launch a pilot project. Throughout the hour-long meeting, he offered other advice, suggestions and encouragement. As they bid their adieus, the Icelanders presented Amidi with a few ounces of ash from Eyjafjallajokull, a memento of the volcano that erupted last spring.

On another day, a board on Amidi's office wall was filled with notes for plans to provide assistance to tech entrepreneurs in Egypt, Jordan, Lebanon, Malaysia and Turkey. He has a personal interest in the economic development of the Middle East. "There is a great, young, energetic population in the Middle East that is embracing technology," Amidi notes. He hopes to one day to have Plug and Play centers in Amman, Beirut and Cairo. He has joined TechWadi, a Silicon Valley-based non-profit promoting entrepreneurship and innovation in the Middle East and North Africa. Under the auspices of TechWadi, Plug and Play held a two-day conference in October in Cairo. In between speakers presenting their Silicon Valley experiences, the conference also connected 30 hopeful Egyptian entrepreneurs with investors. Indeed, President

Barack Obama views such connections as a vehicle to deepen U.S. ties with Muslim-majority countries — in July, the U.S. State Department launched its E-Mentor Corps initiative, a sort of modern-day economic Peace Corps.

Amid its oil-based economic riches, the Middle East has a strong tradition of merchants and farmers, and it now has a burgeoning population of youth comfortable with technology. But Middle Eastern entrepreneurs must find investors willing to try something new in a culture that favors slow change. Wharton's Amit says deeply ingrained cultural issues are perhaps the biggest challenge for start-ups in many regions. "Most companies don't make it," he notes. "In America, if you fail, it's a good thing, because the perception is that the next time, you will have the experience to do it better. But in certain cultures, if you fail, you are branded a loser for the rest of your life," leaving many would-be entrepreneurs adverse to risk-taking.

Jordan provides one of the best models for the Middle East, having recognized the importance of the Internet in the mid-1990s. One of the first signs of how open Jordanians are to tech start-ups came in 1996 when Imad Ayoub, co-founder of the locally owned online service NETS, created a web-based forum for residents to get in touch with senior government officials. He is now CEO of Cyberia Group in Riyadh, a broadband Internet provider for Jordan, Lebanon and Saudi Arabia. He also has deep roots in Silicon Valley, earning undergraduate and graduate degrees at Santa Clara University and working at Santa Clara-based Gould AMI Electronics and National Semiconductors.

Among the inspiring Middle Eastern tech enterprises is Maktoob.com, which started in 1998 to provide a free e-mail service with Arabic support. When the Jordanian company morphed into the Arab world's largest online media company, Yahoo saw the site as its window into an untapped market and purchased it last year for a reported US\$85 million. The transaction "sparked the interest and willingness to take risks" among Arab investors, according to Ayoub. "I am a believer that entrepreneurship happens anywhere regardless of the available facilities and logistics," he says. "If there is a will, the entrepreneur will find the way. When we started NETS [in 1994], there were no licensing, regulations or facilities to run our business, yet we made it."

### **'Everybody Risks Something'**

Shihab, the Iraqi immigrant in the midst of launching his company in California, is circumspect about whether Silicon Valley's start-up culture can be replicated elsewhere. "All the big companies are here; all the success stories are," he says. "You cannot easily create the same risk mentality and vision."

One early September evening, Shihab was at Hacker Dojo in Mountain View, California. Teams of commercial web application start-ups congregated in its workaday community center-like space with a cold, concrete floor. They placed laptops on long, plywood tables underneath a blossom of yellow, blue and red Styrofoam water tubes shaped into an oversized flower. The cadre of entrepreneurs, almost exclusively young men, waited for two-dozen investors to step into their sphere.

If an apt metaphor could describe the methodology of starting up a business in Silicon Valley, it would be fishing. The entrepreneurs dangled their bait in front of venture capitalists looking for potentially lucrative morsels. Plug and Play sponsors similar mixers, while also using a more organic approach — high rollers often stroll through its offices just to see what innovators are up to.

Wharton's Hsu makes the point that the manner in which connections are made is less important than the spirit emanating from incubators. "I went into this area because I see the potential for improving the human condition," he notes. "It is the heart of the capitalistic engine."

Shihab perhaps hasn't reflected on the broader implications of what he is trying to accomplish. He simply wants his company, Cosmos Interactive Incorporated, to gain a toehold in the mobile and social media apps marketplace. He's still waiting for seed money while self-marketing his game on the Internet. He says the biggest benefit for him of joining an incubator has been tapping into the network of entrepreneurs and adjusting expectations. But he is considering leaving Plug and Play for the no-frills of Hacker Dojo, where rent is cheaper. Shihab likes the vibe there. "It's more like individuals with small budgets, more willing to take risks. Everybody is risking something but there are more revolutionary ideas [at Hacker Dojo]," he says.

That could have described Plug and Play in its early days. It launched with a radical notion of making money from cash-strapped entrepreneurs who were "bootstrapping" their companies. Now Amidi has become a major player in Silicon Valley where his stamp of approval can lead to multimillion-dollar deals. However, Amidi doesn't view his tech hatchery as an end point. The high-tech matchmaker cannot predict where this philosophy will lead, but like a hungry, young entrepreneur, he's not afraid to follow the path. "I feel like we're at the beginning of a huge revolution," he says.