

# San Jose



Capital  
Of  
Silicon Valley



Economic Development Strategy

# OVERVIEW

- Basics: What Matters
- Facts: San Jose's Changing Economy
- Driving Industries: Trends & Realities
- Business/People Serving: Trends & Realities
- Economic Strategy

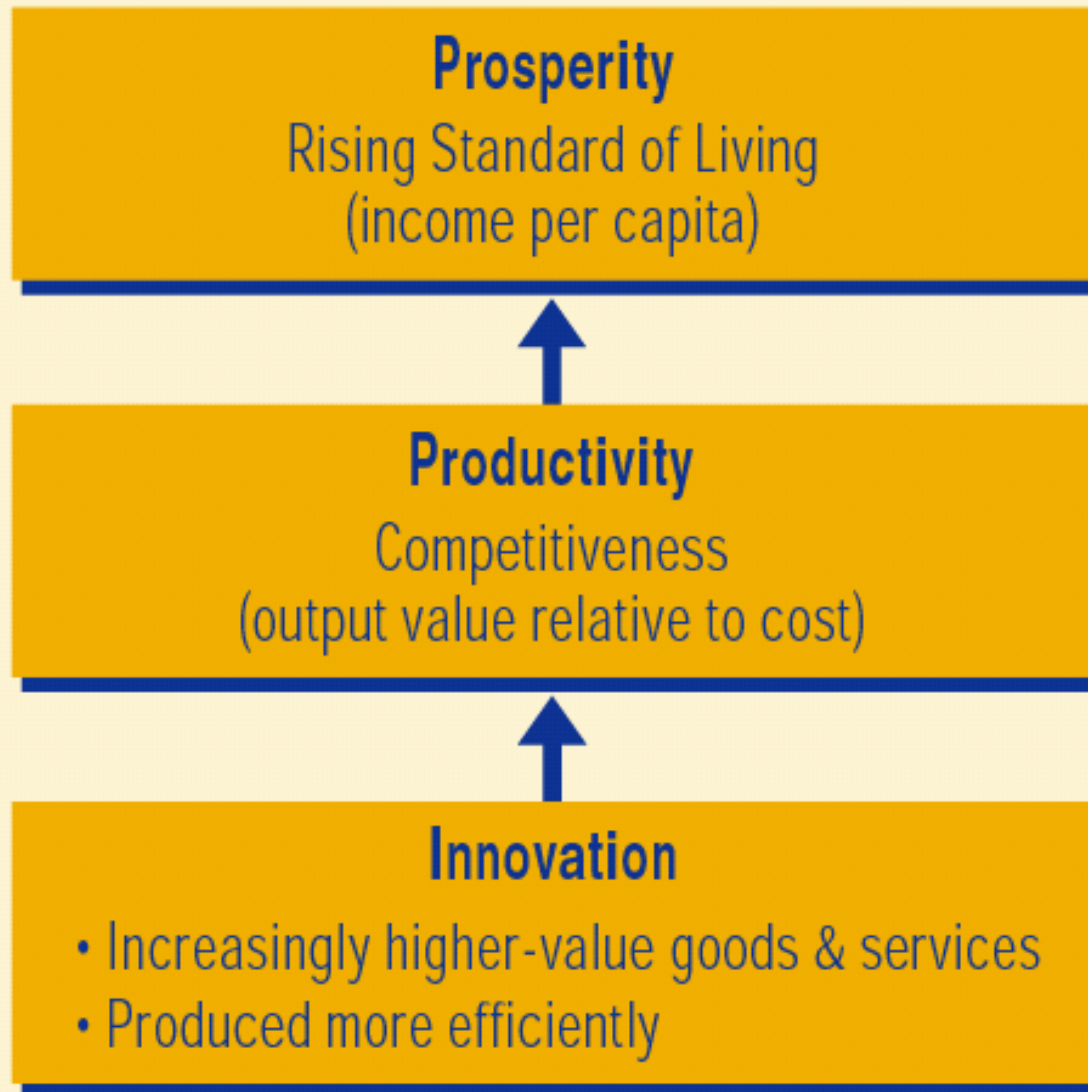
# OUTREACH FOR ECONOMIC STRATEGY



# VITAL CYCLE OF SUCCESS



# OUR PROSPERITY DEPENDS ON PRODUCTIVITY & INNOVATION



*Productivity depends on innovation to drive value up and drive costs down.*

# OUTWARD-ORIENTED INDUSTRIES DRIVE THE REST OF THE ECONOMY

Domestic and Global Markets

New \$  
Products/Services

Driving Industries  
(Outward Oriented)

\$

Products/Services

Business-Support and People-Serving Industries

\$

Products/Services

Community Success Factors

Exceptional Workforce  
Habitat for Innovation

World-Class Place  
Efficient Business Environment

Collaborative Leadership

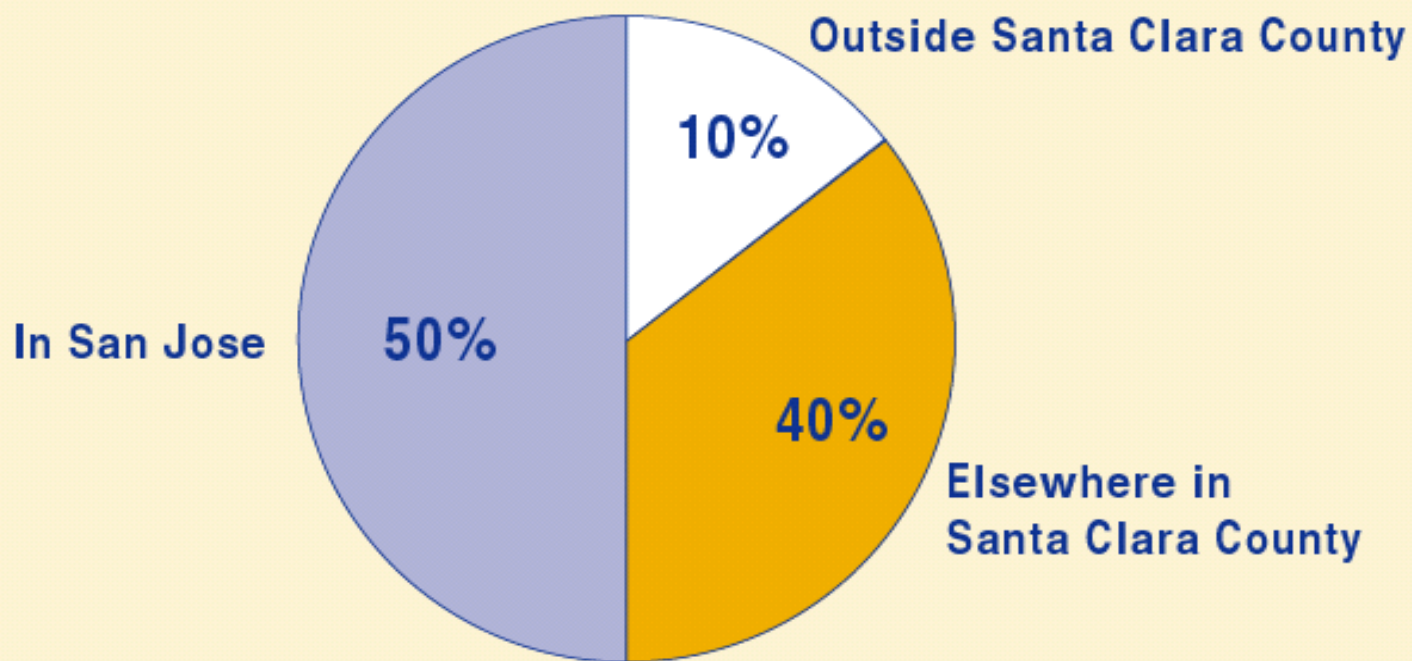
*Because they bring outside dollars into the community, Driving Industries are the engines of the economy. Without healthy Driving Industries, the rest of the economy cannot prosper.*

# SAN JOSE IS 40% OF SILICON VALLEY'S POPULATION, AND ONE-THIRD OF ITS JOB BASE

	Silicon Valley Total	San Jose Total
Jobs	1.1 mil	355,000
Population	2.3 mil	925,000



# HALF OF SAN JOSE RESIDENTS WORK IN SAN JOSE



*Where San Jose Residents Work*

# SUCCESS FACTORS FROM THE COMMUNITY

## WORLD CLASS PLACE

Variety of quality neighborhoods, housing  
Vibrant downtown and commercial centers  
Outdoor recreation and environmental quality  
Distinctive arts, culture and entertainment  
Compelling community identity

## EXCEPTIONAL WORKFORCE

Technical, entrepreneurial, & creative talent  
Educated, learning-oriented people  
Higher education and training opportunities  
Civic infrastructure for economic participation and well-being  
Quality pre-K through 12

## COLLABORATIVE LEADERSHIP

Cross-sector team  
Openness to new ideas and people  
Long-term stewardship  
Vigilance about competition  
Regional Collaboration

## HABITAT FOR INNOVATION

Innovation assets and networks  
Entrepreneurial vitality  
Anchor, headquarters companies  
Policies and initiatives that enable evolution of economic base  
Support for small business, self-employed

## EFFICIENT BUSINESS ENVIRONMENT

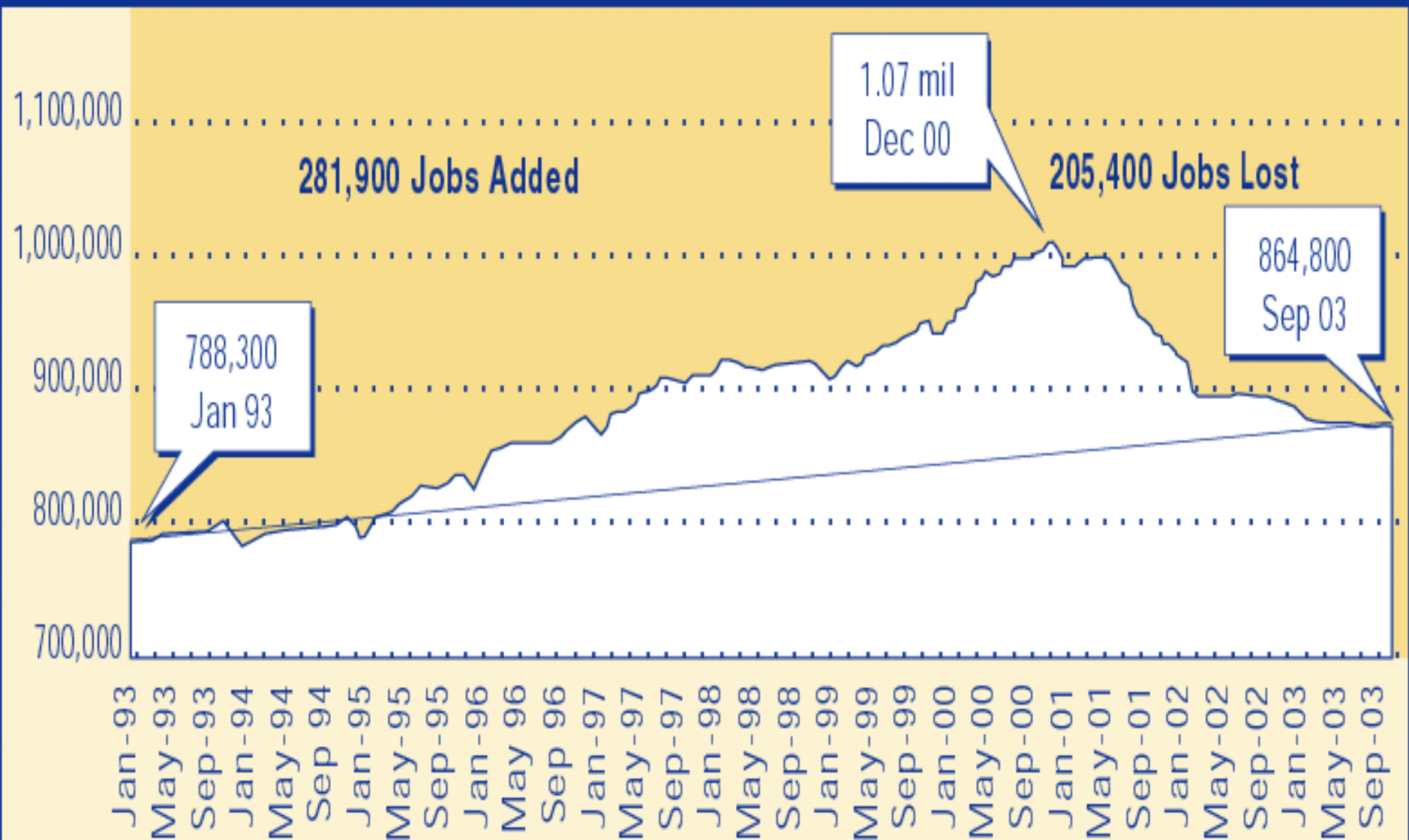
Timely, transparent regulatory procedures  
First-rate public infrastructure and services  
Appropriate land and facilities  
Responsive, capable government  
Public finance system aligned with service demand

# HOW LOCAL GOVERNMENT AFFECTS THE ECONOMY

- 1. Adopts Policies to Shape the Qualities of the Community*
- 2. Determines How Land Is Used and Facilities Are Developed*
- 3. Provides Local Infrastructure to Ensure Business Efficiency and Investment*
- 4. Spends Money on Capital Projects and Public Services*
- 5. Supports Development of the Local Workforce*
- 6. Supports Innovation and Entrepreneurship*
- 7. Establishes Policies to Align Business and Community Goals*
- 8. Communicates the Community's Assets, Advantages, and Aspirations*
- 9. Provides Leadership for Long-Term Economic Success*

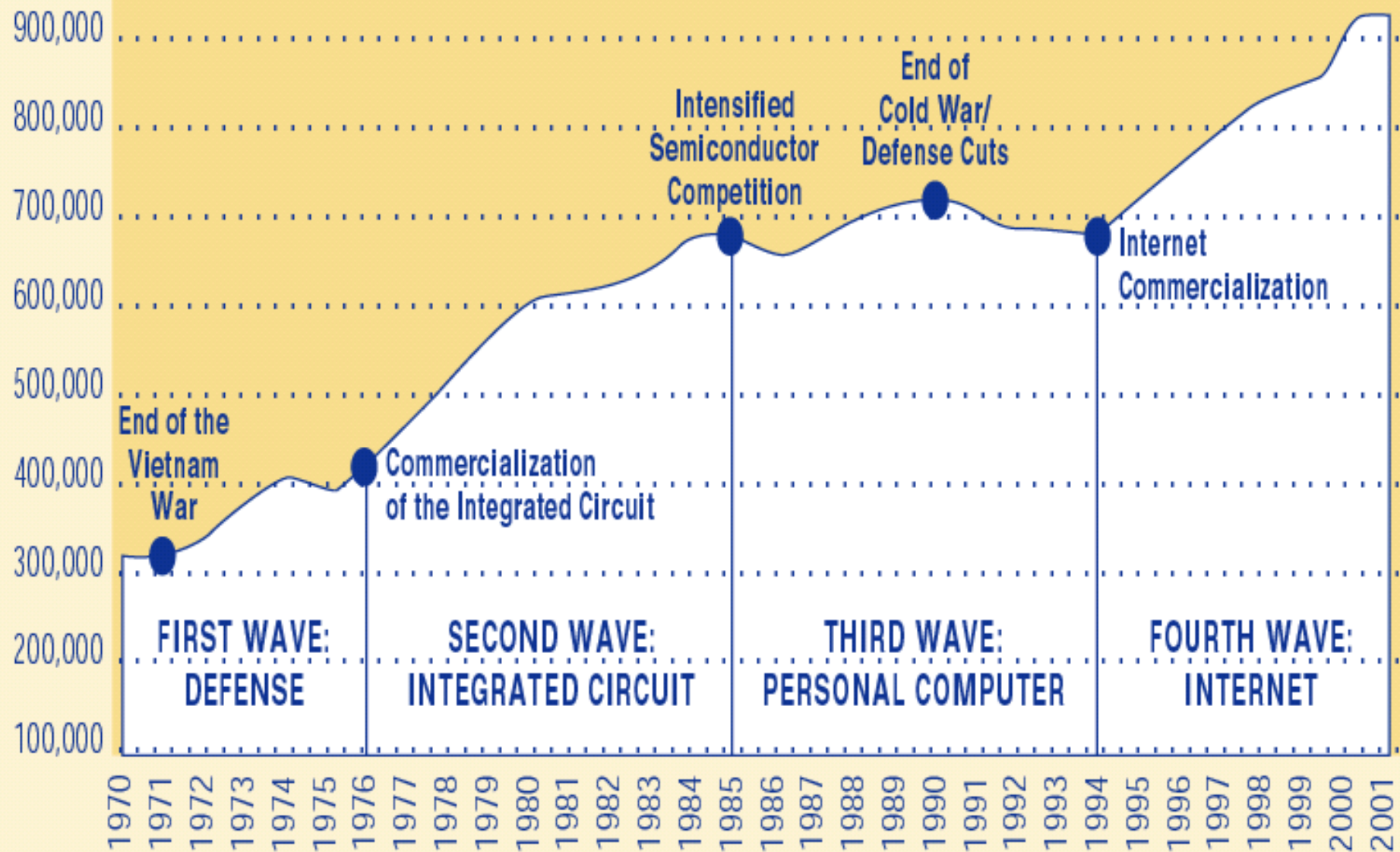
## II. Facts: San Jose's Changing Economy

# JOBS GREW THROUGH A BOOM-BUST PATTERN



*Job Growth in Santa Clara County*

# REGION'S EMPLOYMENT GREW THROUGH FOUR WAVES OF INNOVATION

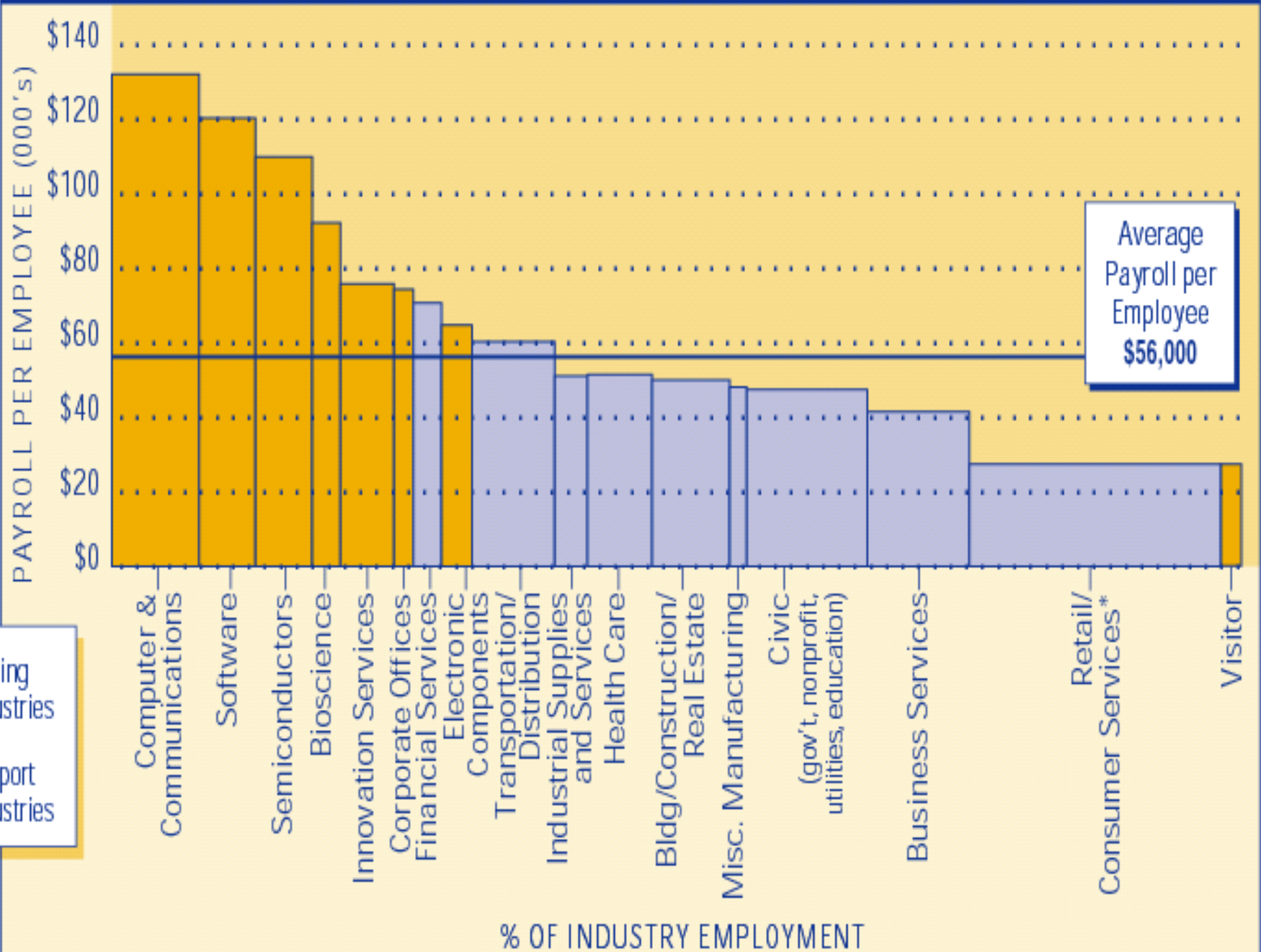


*Santa Clara County Employment*

*Cyclical adjustment:* Industries lay off workers during a recession when a lull occurs in demand, and they rehire workers when business activity picks up.

*Structural adjustment:* Industries eliminate jobs permanently, forcing workers to seek employment in new positions or in other sectors.

# EMPLOYMENT DISTRIBUTION BY AVERAGE PAYROLL PER EMPLOYEE



## 30% OF EMPLOYMENT IS IN SMALL FIRMS; 15% IN LARGE FIRMS

	Small		Medium		Large
	<10	10-35	35-100	100-1000	1000+
Share of Workers	12%	18%	21%	34%	15%
Share of Companies	70%	19%	7%	3%	1%
Number of Workers	43,810	63,580	74,960	120,290	52,930
Number of Companies	13,070	3,440	1,320	540	20

*Distribution of Employment And Businesses by Company Size*

## AVERAGE FIRM SIZE FOR SAN JOSE INDUSTRIES

Computer & Communications	278	Business Services	19
Semiconductors	93	Miscellaneous Manufacturing	17
Electronic Components	79	Software	17
Corporate Offices	75	Health Care	14
Bioscience	72	Retail/Consumer Services	14
Visitor	48	Bldg/Construction/Real Estate	11
Transportation/Distribution	22	Innovation Services	10
Industrial Supplies and Services	22	Financial Services	10

## 25 FIRMS HAVE 1,000+ EMPLOYEES IN SAN JOSE

Adobe Systems

eBay Inc

MMC Technology

Albertson's

E-Tek Dynamics

Novellus

Altera Corporation

Flextronics International

Rosendin Electric

American Airlines

Fry's Electronics

Safeway

Atmel Corporation

IBM Corp

San Jose Mercury News

Brocade Communication

Infineon Technologies

Sanmina Corp

Cadence Design System

KLA-Tencor

Therma

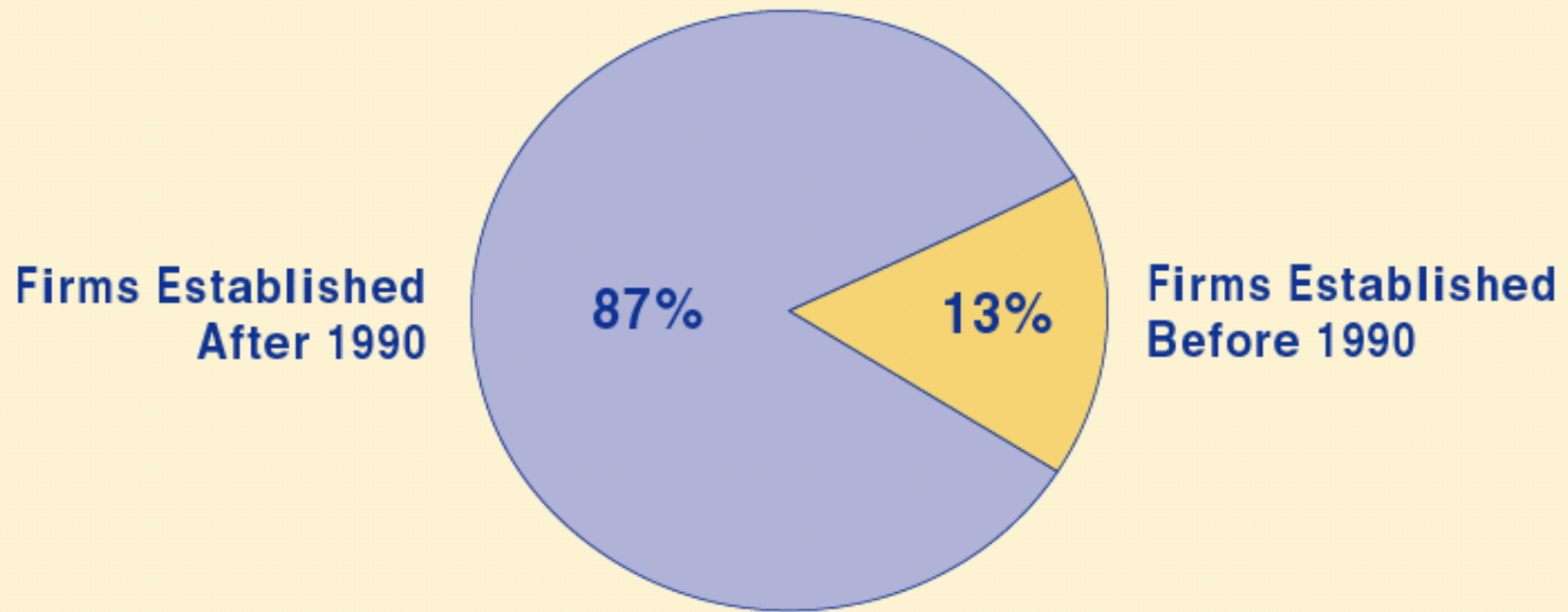
Cisco Systems

Lockheed Martin

Xilinx

Cypress Semiconductor

# YOUNG FIRMS ACCOUNTED FOR MOST JOB GROWTH IN 1990s



*Share of Silicon Valley Job Creation 1990–2001*

### III. Driving Industries: Trends & Realities

# SAN JOSE'S DRIVING INDUSTRIES

Industry	Employment (2002)
Communications/Computing	28,668
Semiconductors/Equipment	17,937
Software	17,812
Innovation Services	17,504
Electronic Components	9,738
Bioscience	8,016
Corporate Offices	6,341
Visitor	6,398
<b>Driving Industries Combined</b>	<b>112,413</b> <b>(32% of total employment)</b>

# DRIVING INDUSTRIES: TRENDS & REALITIES

1. “Creative Destruction” Is the Norm.
2. Today’s Business Model Is Truly Global.
3. Companies Constantly Question Our Community’s Value-Cost Proposition.
4. Technical Talent Is the #1 Requirement; Housing Costs Is the #1 Deterrent.
5. Workplace Requirements Are Changing: Cleaner, Vertical, Small Scale.
6. New Waves of Innovation Are Possible.

# “CREATIVE DESTRUCTION” IS THE NORM

## Creative...

- 87% of the region’s job growth in the 1990s came from firms that did not even exist before 1990.
- Of the 40 largest tech companies in Silicon Valley today, more than half did not even exist in 1982.

## Destruction...

- Almost 46% of firms that started in the 1990s were out of business by age ten years.
- Only 4 of the 40 largest tech companies in Silicon Valley today were on the Top 40 list in 1982.

# THERE IS NO MONOPOLY ON TALENT AND INNOVATION

Washington D.C.

Boston

Minneapolis

Atlanta

Phoenix

Seattle

Austin

San Diego

Portland

Raleigh-Durham

Denver

Sacramento

Salt Lake



Dublin

Budapest  
Prague

Israel

Moscow

Beijing  
Shanghai  
Shenzhen

Guang Zhou  
Hong Kong

Bangalore  
Bombay  
Hyderabad  
Chennai  
Pune

Hsinchu

Manila

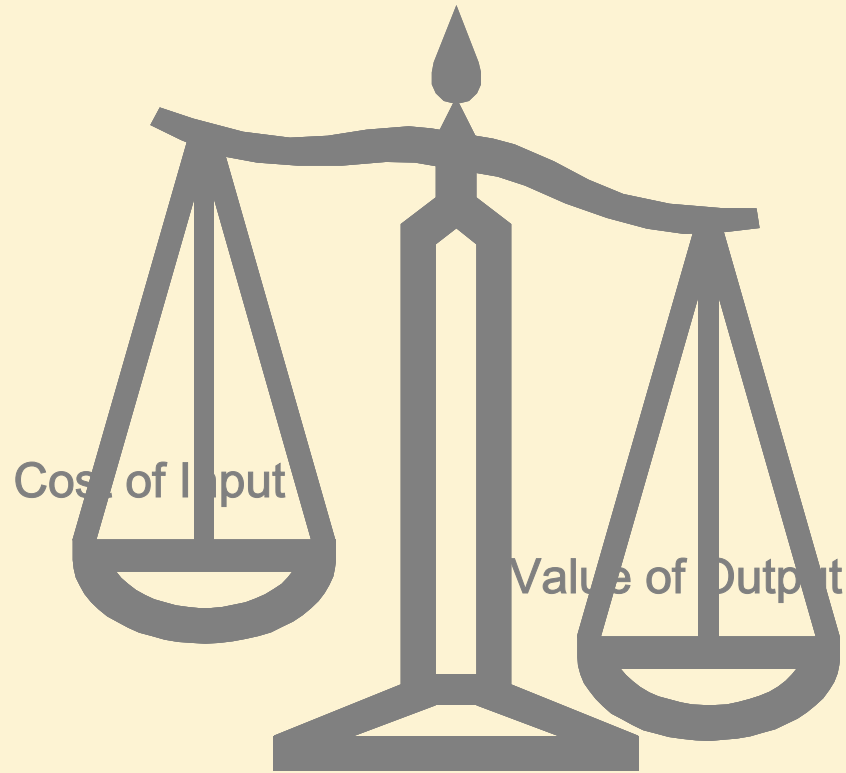


*Other Regions with Concentrations of Technical Talent*

# GLOBAL BUSINESS MODEL: 2003+

Business Function	San Jose/SV Role	Other Regions Internationally
<b>Strategy/Leadership</b>	<ul style="list-style-type: none"> <li>Start-Up</li> <li>Headquarters</li> </ul>	
<b>R&amp;D</b>	<ul style="list-style-type: none"> <li>R&amp;D leadership/project mgmt.</li> <li>Cutting-edge, creative R&amp;D</li> <li>Front-end design/architecture</li> <li>Prototype development/ engineering</li> </ul>	<ul style="list-style-type: none"> <li>Well defined, routine R&amp;D/engineering</li> <li>Software development</li> <li>Chip design centers</li> </ul>
<b>Manufacturing</b>	<ul style="list-style-type: none"> <li>Sophisticated light assembly</li> <li>Prototyping linked to engineering</li> <li>Internal "boutique" fabs</li> </ul>	<ul style="list-style-type: none"> <li>Routine production, assembly, test</li> <li>Electronic systems, subassemblies</li> <li>Contract chip foundries</li> <li>Chip test/program</li> </ul>
<b>Marketing &amp; Sales</b>	<ul style="list-style-type: none"> <li>Marketing/sales leadership</li> <li>High-end customer care</li> <li>Face-to-face interaction with local HQ</li> </ul>	<ul style="list-style-type: none"> <li>Telemarketing/Internet marketing</li> <li>Regional marketing/sales/distribution close to customers</li> </ul>
<b>Customer Support/ Business Operations</b>	<ul style="list-style-type: none"> <li>Operations suppliers/services outsourced locally</li> </ul>	<ul style="list-style-type: none"> <li>Business back office</li> <li>Customer support</li> <li>Technical support</li> <li>Routine HR/finance/admin</li> </ul>

# PRODUCTIVITY-COST BALANCE IS QUESTIONED



Because they have other location options, companies will constantly re-evaluate San Jose/SV's value proposition. To stay competitive as a community, we must provide productivity advantages that outweigh our cost disadvantages.

# COMPANIES SEE CHANGING WORK ENVIRONMENT, PROMPTED BY STRUCTURAL CHANGE

## Today: Industrial Campus

- One- or two-story buildings

- Single use: work

- Light rail underused

## Tomorrow: Innovation Community

- More efficient use of land  
(mid- and high-rise workplaces)

- Multiple, more integrated uses:
  - Workplace amenities: restaurants, child care, "dailies" shopping
  - Speciality housing for young engineers nearby

- Tiered density from transit corridor

# NEW WAVES ARE POSSIBLE

- “Build Out” of the Internet, especially mobile and wireless Internet access
- Software middleware and enterprise applications
- Bioscience
- Convergence of information technology and biotechnology
- Nanotechnology
- Convergence of information technology and art/design/media

## IV. Business/People Serving: Trends & Realities

# SAN JOSE'S BUSINESS-SUPPORT AND PEOPLE-SERVING INDUSTRIES

Industry	Employment (2002)
Retail/Consumer Services	77,934
Civic (gov't, nonprofit, utilities, education)	36,391
Business Services	32,932
Distribution/Transportation	26,051
Construction/Real Estate	24,420
Health Care	20,227
Industrial Supplies and Services	9,302
Financial Services	9,092
Miscellaneous Manufacturing	5,621
Agriculture/Other	962
<b>All Combined</b>	<b>242,932</b> <b>(68% of total employment)</b>

# SUPPORT INDUSTRIES: TRENDS & REALITIES

1. Support Industries Are Challenged to Increase Productivity, Remain Viable.
2. Health Care Can Play a Stronger Role as Job Generator.
3. Real Estate Development Industry Struggles to Be Agile and Adaptable.
4. Small Businesses Seek Support and Opportunity
5. San Jose's Full Retail Potential Remains Untapped.

# PERCEPTIONS OF SILICON VALLEY

## Advantages

Geographic concentration of technology companies

Venture capital

Technology innovation and entrepreneurship

Breadth and depth of technology expertise

Global "best and brightest," experienced talent

Research institutions

## Concerns

High labor costs because of high housing costs

Traffic congestion, and incomplete transit network

California-specific regulatory costs

Unstable, expensive energy supply

# PERCEPTIONS OF SAN JOSE

Advantages/Assets	Concerns
Population and housing center	K-12 system
Vacant land, lower-lease rates	Unclear community identity
Ethnic diversity	Incomplete Broadband Coverage
San Jose State University	Energy costs relative to Santa Clara
International Airport	Tech orientation of government
City Center/culture & entertainment	Slow, unpredictable development process
Light rail	

# V. Economic Strategy

# VISION FOR SAN JOSE

As the **Capital of Silicon Valley**, and the largest city in the world's leading regional for innovation

San Jose is...

- **A Global Gateway**, a cosmopolitan, international city for leading businesses and talent from around the world
- **A Creative Community** that pioneers innovation within and across technology and business, culture and society
- **An Entrepreneurial Environment**, where people from all walks of life pursue and realize their entrepreneurial dreams
- **A Tech-Savvy City** that uses and showcases technology to improve daily life
- **A Place of Opportunity**, where residents find a range of rewarding employment opportunities and support to participate in the economy
- **America's Most Livable Big City**, with diverse and distinctive qualities of life!

# 15 STRATEGIC INITIATIVES

## Global Gateway

1. Build a World-Class Airport Facility and Air Services.
2. Forge Connections to Innovation Regions Globally for Mutual Economic Benefit.

## Creative Community

3. *Develop Strategic Partnerships with San Jose State and Other Universities to Drive Innovation and Economic Impact.*
4. *Evolve and Position Downtown as a Unique Creative and Cultural Center of Silicon Valley.*

## Entrepreneurial Environment

5. *Support Start-Up and Growth of Local Businesses, in Tech as well as Non-tech Fields.*
6. Improve Speed, Consistency, and Predictability of the Development Review Process, and Reduce Costs of Operating in San Jose.

## Tech-Savvy City

7. Make San Jose a Tech-Savvy City; Lead the Way in Using Technology to Improve Daily Life.

# 15 STRATEGIC INITIATIVES

## Place of Opportunity

8. *Diversify San Jose's Economic Base and Preserve/Create Middle-Income Jobs.*
9. Prepare Residents to Participate in the Region's Economic Opportunity, from K-12 to Lifelong learning.

## America's Most Livable Big City

10. Continue Emphasis on Developing New Housing, including New Housing Types in a Variety of Neighborhood Settings.
11. Revise Key Land Use and Transportation Policies to Reflect the New Realities of the San Jose Economy.
12. Encourage Sporting Teams, Events, and Facilities, Professional as well as Amateur.
13. Develop Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Livability.

## Capital of Silicon Valley

14. Communicate a Compelling, Consistent Community Identity for San Jose.
15. Engage Private-Sector Leadership for San Jose's Economic Strategy.

# IMPLEMENTATION PRINCIPLES

## Perspective we have...

- Economic development is a *Citywide business*.
- Economic development and quality of life are *interdependent priorities*.
- *Employers are customers*, just like residents.
- Each City staff member is an *Ambassador* for the entire City.

## What we do

- Support efforts of private-sector employers to *increase productivity*—to add more value or to reduce costs.
- Create *unique competitive advantages* for San Jose.

## How we do it...

- *Be in relationship* with San Jose industries for ongoing learning.
- *Collaborate* within and outside the City organization to address shared challenges and access expertise and resources.
- Be *speedy, agile, and adaptable*.
- Focus on a few priority actions, and finish what you start.
- *Be open* to new opportunities that emerge aligned with our economic vision.