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## Back to the Garage: How Economic Turmoil Breeds Innovation

By Daniel Roth 11.24.08



*Photo: Mauricio Alejo*

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been better.

In July 1993, Tom Siebel launched Siebel Systems, which made software for managing corporate sales staffs. The US economy was faltering, and the market for his product was new and untested. In other words, the timing couldn't have

The [tech veteran](#) picked up some inexpensive, underworked software engineers, secured office space in run-down East Palo Alto—at 11 cents a square foot—and bought office equipment at auctions held by the

companies failing all around him. His own desk was a folding table. By the time he had [his first release](#) ready in 1995, he had spent less than \$1 million on overhead and had an offering that none of the other major software companies could challenge. Investors made Siebel's [June 1996 IPO](#)—debuting just as the stock market was picking up steam—one of the year's top performers. Tom Siebel soon became one of the richest people in the US. "It was a great way to start a company," he says.

With the world's economies apparently snowballing into a deep recession, it feels uncomfortably Pollyannish to see signs of hope. But for the bravest inventors and entrepreneurs, conditions are ideal to pounce on a business opportunity. In periods of economic turmoil, people are hungry and work cheap, and entrenched companies often concentrate on in-house cost-cutting instead of exploring new markets, which can explode with the next turn of the business cycle. When VCs from Foundation Capital met with their nervous investors recently, the partners advised them to stay the course rather than follow their peers into the bunkers. "Our strongest companies have the potential to be whales when the market opens up," partner Paul Holland told the group. "This is the crucible that forges great companies."

The most memorable crucible in modern history is, of course, the Great Depression. During that era, several firms made huge bets that changed their fortunes and those of the country: Du Pont told one of its star scientists, [Wallace Carothers](#), to set aside basic research and pursue potentially profitable innovation. What he came up with was nylon, the first synthetic fabric, revolutionizing the way Americans parachuted, carpeted, and panty-hosed. As IBM's rivals cut R&D, founder Thomas Watson built a [new research center](#). Douglas Aircraft debuted the [DC-3](#), which within four years was carrying 90 percent of commercial airline passengers. A slew of competing inventors created television.

"The wonderful growth of the post-World War II period was due largely to the tremendous backlog of innovation developed in the late years of the Great Depression," says [Rick Szostak](#), an economics and technology historian at the University of Alberta.

This doesn't mean that big new ideas emerge *because* of turmoil—in fact, the data shows no relationship between major breakthroughs and economic conditions. But the benefit of a global money drought is that competition tends to vaporize. And for some, the stress of tough times has an amazing way of concentrating the mind on the way forward. Bill Hewlett of HP committed to building the pocket calculator—at the time, a supposedly impossible task—during the 1969-70 recession; the 2001 dotcom-led downturn presented the perfect launching pad not just for risk-taking, fresh-thinking startups like discount airline JetBlue and blogging juggernaut Six Apart, but also for Apple's iPod-fueled resurgence.

This recession (depression? you decide) will be no different. Many tech investments made in the past few years will pay off no matter what's going on with the business cycle. That's likely to mean game-changing innovation in clean tech and biotech—two of the biggest venture lures of late—with all the supporting and copycat companies that follow.

One person who thinks that now is the time to go all-in: Tom Siebel. He [sold Siebel Systems to Oracle](#) in 2005 and has since been working on personal projects. But a few months ago he started collecting résumés and locating office space in Silicon Valley for a new startup. It's still under wraps, so he's shy about the details. But he's excited about the market conditions.

"It's the same thing," he says. "There are lots of really good people and space around, and all of the traditional people who build companies are sitting this out because they think the market's bad and it's going to get worse." In other words, the timing couldn't be better.

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