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Silicon Beach: Real or high-tech hype?

A wave of start-ups struggles to create identity in L.A.

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Diego Berdakin



(Brian van der Brug, Los Angeles Times / December 6, 2011)

Diego Berdakin, president of BeachMint in Santa Monica, runs e-commerce websites with celebrity wares. "There is no \$30-billion behemoth technology company that's emerged recently, and that's where you're seeing people aim their sights."

By Andrea Chang and David Sarno Los Angeles Times

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The Los Angeles tech scene has buzz, glitzy backers and even a catchy nickname: Silicon Beach.

Tech boosters are stumping for a Silicon Valley contender down south, and conference halls and bars are brimming with entrepreneurs looking to join a growing community that includes a huge new [Google](#) campus in Venice and a wave of Internet start-ups.

"We've been investing in this area since 1999, and we've never seen a level of activity higher than it is today," said venture capitalist Nate Redmond of Rustic Canyon Partners in Santa Monica. "Anecdotally, almost all things tech are doing well."

Young Internet-based businesses such as TrueCar and Riot Games have been expanding their workforces and their offices. And a new crop of start-up incubators is advising and funding young entrepreneurs.

Events for L.A.'s tech scene are filling up the calendar too, with mixers, conferences and all-night "hackathons" regularly drawing hundreds of participants looking to network and recruit.

But getting Silicon Beach out of the shadow cast from up north is proving difficult.

For starters, industry insiders are divided over the Silicon Beach moniker, which — aside from its accidental evocation of silicone — also forces a comparison between L.A. and the much more established technology hub in the Bay Area.

Entrepreneur Sam Friedman believes the name suggests a "poor man's Silicon Valley."

The co-founder and chief executive of Parking in Motion, a Santa Monica-based start-up whose mobile app helps users find available parking spaces, says L.A. should come up with its own tech identity.

Engineers continue to flock to the Bay Area for jobs, causing a shortage of talent in the Southland. Entrepreneurs complain that the region's research universities aren't doing enough to encourage graduates to pursue start-ups. Despite the cluster of companies in Santa Monica, the region still faces geographical challenges, with tech companies spread out over a vast area that includes the Westside, downtown Los Angeles, Hollywood, Pasadena, Calabasas and Irvine.

And venture capital funding is still tough to come by and is dwarfed by the amount of investment occurring in the Bay Area and other large metropolitan areas.

In the first three quarters of 2011, L.A.'s \$298.6 million in tech investments was less than one-tenth of that raised by Bay Area start-ups, and about one-quarter of what firms raised in New York, according to a report by [PricewaterhouseCoopers](#) and the National Venture Capital Assn. based on data from [Thomson Reuters](#). And while start-up money in those other regions is climbing past pre-recession levels, tech funding in L.A. has been slower to bounce back, with investments this year on pace to decline from 2010, the MoneyTree report said.

"L.A. is one of the most undiscovered tech hubs in the country," said Mark Suster, a partner at leading venture capital firm GRP Partners. Although GRP has "doubled down on L.A." in recent years, "you still have to pull teeth to get Silicon Valley venture capitalists to get on a Southwest flight down to L.A."

Also hampering the region's efforts to win a spot on the U.S. technology map is its lack of a homegrown tech powerhouse. Silicon Valley's numerous all-stars include Google, Apple and [Facebook](#), while Seattle has [Amazon](#) and [Microsoft](#). Chicago has daily deals giant [Groupon](#); Washington, D.C., has rival [LivingSocial](#). And New York has gained ground with Internet companies that include Tumblr and [Foursquare](#).

But L.A. has struggled to field its own contender, with nearly all of its companies either mid-size players or, more often, in the very early stages of development. That's set off a start-up frenzy among entrepreneurs hoping to create the next "monster hit," said Diego Berdakin, president of BeachMint, a Santa Monica company that operates e-commerce websites with products designed by celebrities.

"There is no \$30-billion behemoth technology company that's emerged recently, and that's where you're seeing people aim their sights. They want to build the new Groupon, the new Amazon," said Berdakin, 26. "I think that attitude is very pervasive."

Southland developers and investors think they stand a good chance. They say the current tech scene in L.A. has moved past the first-generation stage, with many serial entrepreneurs now on their second, third or fourth ventures. That's brought a breadth of experience and expertise to the area and paved the way for new start-ups to form.

Although traditional venture capital funding has been inconsistent, especially from firms outside Southern

California, first-round investments for Internet-specific start-ups are outperforming the rest of the tech space in L.A. County, with \$90.7 million, or 26 deals, completed so far this year, compared with \$63.6 million, or 20 deals, in all of 2010, the MoneyTree report said.

And a new breed of micro venture capitalists, seed funds and angel investors is stepping up to funnel money into tech firms.

Former [MySpace](#) Chief Executive Mike Jones last month started Science, a Santa Monica tech studio that develops and funds start-up companies and guides already-established firms. Accelerator programs such as the newly founded MuckerLab and upStart.LA are also trying to help young entrepreneurs hit the ground running by providing them with mentoring, resources and capital.

"There's a support system in Silicon Valley that doesn't exist here, which is what we're trying to change," said Erik Rannala, who moved from the Bay Area in September to start MuckerLab. "Silicon Valley is always going to be Silicon Valley, but that doesn't mean L.A. can't be a really great tech market. It really is on the cusp."

Indeed, with the Internet now an established and ubiquitous tool, developers say the timing is right for L.A. to rise in the tech ranks. With its ties to Hollywood, the Southland holds a special appeal for companies looking to create original content for consumers and provide digital advertising and social networking services to the entertainment and media industry.

So not surprisingly, many of the region's most promising or successful companies are dot-com-focused and uniquely L.A. Maker Studios in Culver City and Machinima in West Hollywood are two of the area's most prominent creators of premium online video content, producing and distributing videos on [YouTube](#) channels for millions of viewers.

Other firms are tapping into e-commerce, such as BeachMint, which has raised more than \$43 million in capital so far. The company last month launched its fourth site, ShoeMint, which sold out its entire inventory of women's shoes in its first weekend. Another successful e-commerce site is downtown L.A.-based HauteLook, an online "flash sale" marketplace where members can buy designer goods at deep discounts during a limited time period. HauteLook was acquired by [Nordstrom Inc.](#) in March for as much as \$270 million in stock.

Techies in the Santa Monica area are downplaying the allure of the beach lifestyle, not wanting to give Silicon Beach a superficial image, but privately say the quality of life played a major role in persuading them to start companies there. The region's famously laid-back atmosphere and outdoor activities, restaurants and cultural offerings have been a selling point, they say. Other pluses include the nicer weather and relatively reasonable cost of living compared with San Francisco or New York.

And for free-thinking, creative-minded entrepreneurs, the young and undefined vibe in Silicon Beach has been a nice break from the more intense atmosphere in Northern California, they say.

"In Silicon Valley, it's more homogenous. Everyone works in tech, everyone's sort of a geek," MuckerLab co-founder Rannala said. "It is a bit of a bubble, and people start to think alike in terms of ideas."

Whether Silicon Beach will ever become a tech epicenter remains to be seen, but for now, developers are embracing its potential.

"It's not a zero-sum game," said Jason Nazar, chief executive and co-founder of Docstoc.com, a 5-year-old Santa Monica company that helps small businesses get started. Nazar, 33, has been one of the main boosters of the emerging L.A. tech scene, organizing networking parties and other events with the goal of transforming a once-scattered band of companies into a tightly knit community. He's hoping the growing network of firms will bring more start-ups and investment to the area.

In an early tech market, that sort of trickle-down effect would benefit everyone, said Sanjay Sharma, who

heads strategy and business development at Machinima.

"That ethos of entrepreneurship and culture isn't as prevalent here," he said, "and now I think that's hopefully at a tipping point."