

Silicon Valley Goes to the Beach



Just add water Silicon Beach entrepreneur Tracy DiNunzio, whose Santa Monica, Calif.–based startup is actually located a few blocks from the sand JUCO for TIME

Powered by video and fed by stars, a startup boom in west Los Angeles is giving California a second high-tech mecca

The second-floor office of Tradesy, a 16-month-old online consignment shop, has all the requisite trappings of a digital startup. Inside an open, loftlike space, seven 20-somethings work at a central pod of desks near an L-shaped kitchen stocked with free snacks and drinks. Employees' dogs scamper beneath their feet while a team of programmers, eyes glued to computer screens, huddles in a separate room.

But there is a giveaway clue that Tradesy isn't based in Silicon Valley or one of the dozens of other tech hubs that have taken root from Austin to Omaha: a deck off the kitchen is piled with surfboards. From there, the Pacific Ocean and the wide white-sand beach of Santa Monica, Calif., is about 300 yards away—easy walking distance when the waves are breaking.

“We have two things we hold dear here,” says Tradesy co-founder and CEO Tracy DiNunzio, 35. “Catered food delivered for all meals and being close to the ocean.”

Such is life in Silicon Beach, a stretch of roughly four miles from Venice to Santa Monica that has become the heart of Los Angeles' fast-growing tech scene. Thanks in part to Hollywood's proximity and a climate that sells itself, there are some 800 startups in the area that have attracted about \$1.3 billion in venture capital since 2011, according to a report from PricewaterhouseCoopers and the National Venture Capital Association. Silicon Beach's ranks include social-media companies like Whisper and Snapchat, which reportedly turned down a \$3 billion acquisition offer from Facebook in 2013. And that's not the only attention the area has drawn from its namesake 400 miles to the north. Google occupies 100,000 sq. ft. of Venice office space, including some in the iconic Frank Gehry–designed Binoculars Building. Facebook opened an office in nearby Playa Vista in 2012.

All this has helped turn a patch of sun-soaked coast better known for beachfront promenading into an unexpected model of growth for the new digital economy. A 2012 report from the business-data organization Compass ranked L.A. as the third

largest tech ecosystem in the world, behind only Silicon Valley and Tel Aviv. And as startups multiply along the Pacific Coast Highway, developers have scrambled to meet the surging demand for housing and office space and the increasingly high prices they command.

Silicon Valley still dwarfs all other domestic tech sectors—Internet companies in and around Palo Alto drew \$3 billion in venture capital last year alone—but the explosive growth of Silicon Beach is the latest sign that some of the features that lured tech companies to Northern California are beginning to be replicated elsewhere. Innovations in open-source software and cloud storage make launching a tech company anywhere easier and cheaper than ever.

“There’s all this stuff I can take off the shelf that used to require hundreds and hundreds of people,” says Michael Heyward, the 26-year-old CEO of Whisper, an app that allows users to post anonymous messages on a social network. The company, which just leased a 14,000-sq.-ft. Venice home once owned by Anjelica Huston, raised more than \$20 million in venture capital last year. “I think great companies can get funded anywhere,” says Heyward. “Silicon Valley does not have a monopoly on good ideas.”

Entrepreneurs across the U.S. are putting that notion to the test, launching startups in the mountains of Provo, Utah, and the Midwestern plains. Being outside the Bay Area echo chamber, they say, helps keep them in touch with the broader culture. And if that perspective comes with a bike ride to work along the Venice Beach boardwalk, who’s to complain?

The Video Economy

Of course, Los Angeles is a company town too. The difference is that far from being an obstacle, the entertainment business presents an opportunity for local startups. “Everybody in Hollywood has an app,” says Adam Lilling, a venture capitalist and a

co-founder of Launchpad LA, which provides workspace and mentorship to early-stage tech companies. “The app is the new script.”

Indeed, for celebrities, a tech venture is the latest must-have accessory. Actress Jessica Alba co-founded one of Silicon Beach’s hottest e-commerce businesses, the Honest Co., which sells eco-friendly baby and household products. BeachMint, another Santa Monica–based e-commerce startup, has partnered with actresses Kate Bosworth and Mary-Kate and Ashley Olsen to design and curate some of its fashion offerings. JustFab and ShoeDazzle, two L.A.-based e-commerce sites that hawk shoes and accessories, recently merged. JustFab’s president is celebrity fashion executive Kimora Lee Simmons, and ShoeDazzle was co-founded by Kim Kardashian.

Hollywood’s technical expertise is also providing the talent for another growth sector: digital video content and production. Dana Settle, a founding partner at the venture-capital fund Greycroft Partners, says video-related startups in Silicon Beach allow innovators trained in television and movie production to have “the chance to be creative on their own terms.” One company in Settle’s portfolio is Maker Studios, a production house based in Culver City, just east of Venice, that makes custom YouTube videos for clients. BuzzFeed, the venture-capital-backed new-media outlet, opened an office in West Hollywood in 2012 to grow the company’s online-video arm. And Amazon, Netflix and YouTube have recently moved into large production and office spaces on the west side of L.A., in part to make video content outside the traditional network-television system.

“There will be very meaningful new companies built around video, and it’s more likely they will be built in L.A. than anywhere else,” says Nate Redmond, managing partner of Rustic Canyon, a venture-capital fund based in Santa Monica.

North vs. South

Of all the new technology companies in Silicon Beach, the best known may be Snapchat, the 2½-year-old Venice-based photo-sharing app that claims to transmit some 400 million messages a day.

Evan Spiegel, the company's 23-year-old CEO, says working outside Silicon Valley helps him stay attuned to emerging trends and fickle consumer preferences—which, in Snapchat's case, translated into a product built around the desire to give the younger generation of digital natives more anonymity online. Photos sent via Snapchat self-destruct after a certain period of time.

“Being here and hearing about lots of things besides technology helps inspire us to make things,” says Spiegel. “Snapchat really responds to the emotional components of communication.” It's a sentiment DiNunzio, the Tradesy CEO, shares. “I love San Francisco, but living there doesn't give you a sense of what average people are doing with technology,” she says.

And while not everyone in West L.A. might qualify as “average,” it's logical that many Silicon Beach companies target the mass market. In L.A., startups with products designed for consumers outnumber those marketed to other businesses by a ratio of 4 to 1. In Silicon Valley, which is loaded with software companies, the ratio is 1 to 2. “Silicon Valley is kind of insular, self-referential and inward-looking,” says Jeremy Liew, a partner at Lightspeed Venture Partners, a fund that has invested in Whisper and Snapchat. “It's not in touch with the mass market and Middle America.”

Although mainstream culture may be more accessible outside Silicon Valley, most of the money needed to produce new technology products still lives there. Lightspeed is based in Menlo Park, near other major venture funds. DiNunzio says she regularly travels to the Bay Area to meet with potential investors and recruit the talent needed to transform her startup into a large and profitable enterprise. “It

takes a smaller technical team to launch a product,” says Greycroft’s Settle. “But it will always take a massive technical effort to launch a business.”

SEE MORE SOLUTIONS AT time.com/solutionsforamerica