

WHAT SETS L.A.'S DIGITAL DOMAIN APART

THE COUNTRY IS FULL OF AREAS WITH THE "SILICON" NICKNAME. ASK INVESTORS, COMPANY HEADS, AND OTHER INFLUENTIALS WHAT MAKES OUR TECH SECTOR SPECIAL AND THEY'LL SUM IT UP THIS WAY: CREATIVITY

BY BRANDON R. REYNOLDS

to Maker Studios, an online child of Hollywood that manufactures shows and stars mostly for, yes, YouTube. YouTube, meanwhile, has its own production machine a few miles west, next to a 12-acre complex Google bought in Playa Vista to enlarge its already noteworthy footprint in Silicon Beach, that loose brand we've stamped onto L.A.'s emergent tech sector.

Locally grown success stories include Hulu, Dollar Shave Club (sold to Unilever for \$1 billion last year), online car dealmaker TrueCar, gaming enterprises Activision and Riot Games, the twin-turbo hookup engines Tinder and Grindr, LegalZoom, Jessica Alba's Honest Company, buzzy virtual reality projects, and less headline-sexy but more business-sexy entities like online security firm TeleSign.

The billions of dollars in play and the cultural sway of tech have attracted the entertainment industry. Disney bought Maker Studios for north of half a billion dollars in 2014. Lionsgate, Warner Bros., and DreamWorks are looking at YouTube and its stars for future projects. Comedians like Reggie Watts are using VR to digitize the stand-up stage. In all sorts of ways the boundaries between L.A. industries are blurring. Video game studios borrow elements of filmmaking for their releases; Hollywood makes movies out of said games, borrowing back its techniques as we all hurtle toward a media singularity.

That glowing point on the horizon? It's probably Venice's Snapchat, which will reportedly go public sometime this spring as the more grown-up-sounding Snap Inc., a possibly \$25 billion debut from a company that represents the stylishness, moving images, and fleeting newness that are in the region's blood. At a more fundamental level Snapchat is like other members of the L.A. tech sector in that it embodies content, 

THE BUTTERFLY

effect is hard at work: In the summer of 2015, a rat drags a slice of pizza down a flight of stairs into a New York City subway station, step by careful step. Somewhere in Los Angeles, a company profits. This is not gentle wings begetting hurricanes. The rat and the pizza and the subway may have been in New York, but their images—the very soul of what became the popular #PizzaRat meme—floats in the IP heaven of L.A.'s Jukin Media, right beside Chewbacca Mom, a guy getting kicked in the head by a train conductor, and other collective memories as valuable as they are shareable.

Jukin scours YouTube for feel-good clips—cat videos, baby ducks eating soup, the dramatic but minor physical calamities that have populated *America's Funniest Home Videos* for a generation. Then for a fee of hundreds or thousands of dollars split between the people who filmed them and the company, Jukin licenses the material to build viral videos that it pushes to morning TV talk shows and publishing outfits like Hearst. "We're looking for a particular piece of content, these magic moments that people are creating," founder Jonathan Skogmo tells me. Jukin groups thematically similar clips on its YouTube channels (its "verticals") and puts them together as TV shows that are aired internationally. Jukin focuses on universal content because it's the most likely to go viral—and to be repackageable. From licensing to talk shows or commercial producers and selling to international cable distributors, Jukin squeezes every possible dollar from each clip. "How many ways can we skin that cat video?" Skogmo says, a summation that sounds to me like something he says often, which is fine and right for a decent bit of branding.

Skogmo got the idea for Jukin in 2005, when he was working at a TV show called *Country Fried Home Videos*. Going through piles of mailed VHS tapes in search of what wasn't quite yet known as "content," he realized that it might be easier to mine such things online. After discovering a trove of crotch-hits and the like at a young site named YouTube, Skogmo was inspired to launch a business in his apartment in 2009 that eventually became Jukin, located these days in a neighborhood near Culver City—less than a mile from the Beats HQ and a five-minute walk



UP TO CODE
THE HANGAR IN WHICH HOWARD HUGHES HOUSED THAT FAMOUS PLANE, THE SPRUCE GOOSE, IS PART OF THE CAMPUS THAT GOOGLE IS BUILDING OUT IN PLAYA VISTA

commerce, and communication—what entrepreneur-financier Mark Suster refers to as the “three things you do on the internet. We buy stuff. We want to be entertained...and we want to reach out and touch other humans.” Suster is a general partner at Upfront Ventures, the biggest and oldest venture capital firm in the city. What really unites these companies is how they’re converting information into experience. That’s very Hollywood. That’s very L.A. Can you see it? It’s a log line on a movie poster: “Information IS Experience.” Starring everybody with a smartphone.

Suster sees the potential. He sees how tech and Hollywood will merge. “You have to accept that the future of the internet is a video platform,” he says. “That’s why the rise of video on Facebook. That’s why Twitter is investing so much in video. That’s why the rise of Snapchat. If you accept video is the future of the internet, then you have to accept that Los Angeles is going to be one of the core centers of the internet in the future, and I think that’s why Silicon Valley VC has spent so much time in Los Angeles.”



LIKE THAT RAT, the history of the internet belongs in part to L.A. The first internet transmission was sent from UCLA to Stanford in 1969, and the companies that hatched the semiconductor industry, Fairchild and Intel, began with a Caltech grad named Gordon Moore. But those two corporations began in Northern California, putting the silicon in Silicon Valley.

Bill Gross is the creator of Idealab, a business devoted to starting start-ups. Gross points to the essential distinction between Up There and Down Here: Silicon Valley was founded on the infrastructure of the internet—the semiconductors, the routers, the hardware. L.A. has its history of aerospace and science resources, but it wasn’t responsible for making tech’s stuff. Gross, like Moore, came up at Caltech; he sold a couple of businesses in the ’80s and ’90s, including one that allowed search engines to monetize clicks, which Yahoo bought for \$1.6 billion and which is part of the model that generates 90 percent of the revenues for Yahoo and other search giants like Google. Idealab has given life to 150 companies, 90 of which have survived; the first was Citysearch, a Yelp precursor Gross drummed up while trying to vet barbershops on a wedding trip to New York. It’s managed to hang on since 1995.

The L.A. tech sector was a lonely place for a while. E-commerce platforms like Ticketmaster launched and the video gaming industry exploded during those early days, but then something came on the scene that promised to put L.A.’s finest



REFRESHING PAWS SANTA MONICA'S DOGVACAY, WHERE EMPLOYEES' PETS ARE PART OF THE DECOR

products into your pocket. “The iPhone, which was apps and entertainment. Those both activated core talent in L.A.,” says Gross. Since then, “mobile” has become an essential part of modern life. “When you have 3 billion people spending 300 minutes a day doing something, what are we going to do? How they spend their time with that device, with that system—that’s what L.A. minds are good at figuring out,” he says. “That’s what the entertainment industry and these technical industries are great at figuring out.”

You see it in Maker Studios, which produces and distributes short personality-driven clips that owe as much to the self-focus of reality television as to the interactivity of social media. It’s what the kids are watching. (It’s what the kids are being.) Yahoo, Facebook, and Google have set up L.A. outposts not because they ran out of room Up There (though real estate is cheaper a few hundred miles below San Francisco) but because they want to tap into the talent Down Here.

That is what Suster has seen coming our way in his nearly 20 years as an entrepreneur and, since joining Upfront in 2007, an investor. Silver haired and sharp featured, he is as composed and businesslike as you’d expect a partner in a firm managing a billion dollars from its Santa Monica offices to be. So it’s delightful to hear him go off on how much he hates the “Silicon Beach” moniker. “It’s just dumb,” he says. “We don’t need a moniker. We’re Los Angeles. We’re the second-largest city in the country.”

One can get lost in all the places that have riffed on Silicon Valley: New York has Silicon Alley; Portland, the Silicon Forest; Phoenix, the Silicon Desert; San Jose and Austin both claim Silicon Gulch, while Philadelphia lays claim to Silicon Valley Forge and Virginia fans itself on the digital veranda of Silicon Plantation. Suster thinks “Silicon Beach” is not only a cliché but a misnomer. Where is everybody? “I’d say disproportionately they’re in Santa Monica right now and maybe a little bit in Venice, but you have a huge community of start-ups in Culver City,” he tells me. “Playa Vista is where everybody’s going once they acquire scale. You have a huge, growing community in downtown Los Angeles, and they’re building the commercial real estate to support that. Tech is all over the city, “but in the early stage there’s probably a little more activity in Santa Monica than anywhere else.”

Indeed, the start-ups do gather along the shore before washing inland—hundreds of companies, from Gigmor, a “LinkedIn for musicians” in Santa Monica, south to “Uber for trucking” Cargomatic near the Venice fishing pier, then running out south-east along Abbot Kinney and down Lincoln, picking up again in clusters in El Segundo, Manhattan Beach, Hermosa, Redondo. Everything: video sites, data storage, record keeping, wine disruptors, marketing solutions, commerce sites, agile software, fixed-gear bicycles, bespoke pornography, mobility, and a bunch of other potential Ubers for something not yet



SO YOU WANT TO LAUNCH A HOT NEW START-UP?

A USER-FRIENDLY GUIDE TO KNOWING WHAT YOU’RE TALKING ABOUT

STEP 1: DEVELOP A GAME PLAN

> Get yourself to a Venice coffee shop, stat. Overpriced pour-overs are a natural catalyst for business plan creation. Ignore the woman loudly discussing her friend’s company’s underwhelming **initial public offering (IPO)** on Bluetooth.

You’re not there yet. Speaking of which, is the brightness of your MacBook Air turned down? You don’t want that guy to your right who’s working on a basic **wireframe** outline for a Web site to steal your ideas. (Actually, now that you look around, is anyone *not* working on an app in this place?)

STEP 2: SEEK GUIDANCE

> At a certain point you may have to decide whether a shorter-term **accelerator** or a lengthier **incubator** program is right for your growing start-up. (Avoid the rookie mistake of using these terms interchangeably.)

Both can give advice—and some of that pesky funding. But things can get sticky when a mentor has different ideas from you about how to change the way users **interface** with the app.

STEP 3: PUT THE “FUN” IN FUNDING

> You want to gain more visibility through **search engine optimization (SEO)**. Discussing your strategy in downward dog isn’t a prerequisite, but you’ve got to get that risk-friendly **venture capital** somehow if you want to avoid **bootstrapping**. Sometimes **angel** investors are best approached in their natural habitat—a dimly lit \$30 yoga class. *Namaste.*

STEP 4: BETHE UNICORN OF YOUR DREAMS

> If by “**unicorn**” you mean “a start-up with a stock market **valuation** of more than \$1 billion.” See? It’s easy.
> JULIA HERBST

dominated. The wave curves northeast from Santa Monica along Sunset Boulevard, spilling down Wilshire and along the 101 into the San Fernando Valley, pooling in the ancient industrial spaces of downtown and perpetually renewing in the technological reservoir of Pasadena. Eleven hundred start-ups—1,600 companies total when you consider investors, consultants, incubators, and accelerators.



THE GEOGRAPHIC SPREAD of L.A.'s tech sector means less communication among the various nodes than you might observe Up There, but this may be better for the culture: It prevents a certain insular mind-set that can run rampant in the Bay Area. To be fair, it's pretty geographically spread out Up There, too, but Up There is a monoculture. Business, civics, nightlife, and cost of living orbit the massively powerful tech industry. Tech employees (coders, marketers, and others) sort of work for one ur-corp. Everybody pays well, offers ridiculous benefits, and installs free cafés on odd-numbered floors. Up There people carry different badges and step off at different BART stops, but they're always going to work at Tech.

Engineers provide the programming backbone of businesses that live on Web and mobile. Despite the "Silicon" spin-offs around the country, Silicon Valley has been their Hollywood—the primary driver and the place with the most sex appeal. The Bay Area flaunts its abundance; in case of failure, there are always other places in town to go, and they generally pay better than Down Here.

The irony is that many of the engineers receive their training in L.A. "We graduate more engineers than anywhere else in the country," says Suster, "and we have more top-25 engineering universities in our greater vicinity than anywhere else in the country." Local companies want to hire local engineers, but some founders tell me that they are frustrated by the northward suck of talent to better-paying, more prestigious jobs Up There.

Watch what'll happen, though: The more businesses that originate in L.A., the safer the bet to stay in L.A. as their growing numbers make fertile ground for more businesses to form, and so on. It's predicted to become a self-reinforcing system fed not just by the city's engineers but by film schools at USC and UCLA that pump out a generation of filmmakers and producers who grew up on the Web (really, on the mobile Web) and who mint the new coin of the realm: video clips, the value of which is entirely determined by their shareability.

By most accounts L.A.'s tech sector will remain much smaller than the north's. In a February 2016 Citylab report, urban studies theorist Richard Florida ranked the L.A.-Long Beach-Santa Ana area fifth in terms of venture capital investment, at nearly \$1.7 billion. San Francisco (which Florida distinguishes from Silicon Valley) tops the list with almost \$8.5 billion, followed by Silicon Valley's \$4.9 billion. Taken together, the Up There sphere commands 40 percent of the venture capital in the United States; Los Angeles has 5 percent of the pie. It may be no less comforting to read that while New York, D.C., Seattle, Boston, Chicago, Raleigh-Durham, and Austin tend to show up on the various lists ranking America's top tech cities, L.A. does only some of the time.

The relative lack of funding in L.A. tech does have an upside. "I think companies here have to be much wiser," Idealab's Bill Gross



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says. "When you start out with a little bit less capital, you're scrappier, you're more inventive, and you're forced to respond to your audience better...because you have to pay attention to them." Fewer resources restrict the profligate spending that has made Up There worthy of both admiration and parody.

Anton Reut, chief operating officer of El Segundo e-commerce site Onestop Internet, puts it another way: "L.A. is about revenue. That's what the entrepreneurs drive to. That's what they think about. In San Francisco it's the opposite.... Revenue comes later." Twelve years old—ancient by tech standards—Onestop was a small dot-com that found a niche handling online sales for clothing lines too busy to worry about the internet. You have Onestop to thank in part for the spread of high-end denim and the Von Dutch brand (think trucker hats and Ashton Kutcher).

It was among the first to connect L.A. trendsetting to a consumer audience. "The DNA of this market was ad-tech and e-commerce," says Brian Garrett of Crosscut Ventures. Garrett points to things like "pre-bubble highfliers" (big spenders who imagined Web 1.0 would last forever) and "click arbitrage" (middlemen for online ad sales) as a way of explaining L.A.'s fiscal conservatism. "We've bred a culture here that's avoided raising capital just to raise capital."

Jim Andelman of Rincon Venture Partners says that after the dot-com crash, the cloud made it easier for new businesses to get

off the ground. Companies like Twilio and Amazon Web Services take care of IT infrastructure so you don't have to worry about where to put servers and an army of programmers. "It has to a large degree democratized start-ups. Back when I started 15 years ago it was a scarce skill set," he says. Now "the value shifts to satisfying customer needs."



DOGVACAY IS THE start-up you wish you'd thought of. As adorable as it is lucrative, it's a pet-sitting service that finds and vets sitters. Its Santa Monica offices are, not surprisingly, full of employees' dogs. They wander around the high-ceilinged, open-plan space with the same brisk but unhurried purpose of the hundred or so humans at computers or in meetings in the Chow Chow Room. These dogs have places to go, though knee-high swinging doors foil their attempts to wander too widely. "Our product is not just a mobile app or a Web site," says Aaron Hirschhorn, founder and CEO. "It's end to end," meaning the branding, the customer service, the entire operation is in-house. Its estimated revenue is \$70 million. So it is that DogVacay controls and mediates the relationships between dog owners and dog sitters and, most likely, dogs, using Twitter and Snapchat to post pics and gifs and links to DogVacay blog posts about taking

pets glamping. (Most of the terms in the preceding sentence did not exist, say, five years ago.)

In a similar way Onestop handles branding for companies on social and has a studio to shoot Instagram-worthy pics. "It's not just, here's five views of a shoe," says Reut.

Everything is becoming interactive. Even doorbells. James Siminoff made finding out who's at the front door an experience with Ring, a wireless doorbell that connects to your smartphone. "These doorbells are really information-gathering devices that function obviously as your old doorbell did, but they're also much more, with motion detection and the cloud services," he says. "They allow you to really see, monitor, and be actionable about what's happening in your neighborhood, and that can help reduce crime in the neighborhood if you have enough of them there."

Ring doesn't want to be a noisemaker and Onestop doesn't want to be a catalog and DogVacay doesn't want to be a kennel. Their business strategies are ascendant in tech and in media generally. Ventures like Dollar Shave Club (grooming), Honest (beauty products), and Thrive Market (groceries) want to build communities; social media interaction lets them understand their customers well enough to suggest they may even know them a little bit. They require a different relationship with customers—not as money spenders but as audience members and as participants.

Nobody gets this better than an outfit that was in Silicon Beach before the "Silicon" arrived. At advertising giant Deutsch, which moved into Playa Vista in 1998, the place is littered with artifacts of successful

"IF YOU ACCEPT VIDEO IS THE FUTURE OF THE INTERNET, THEN YOU HAVE TO ACCEPT THAT LOS ANGELES IS GOING TO BE ONE OF THE CORE CENTERS OF THE INTERNET IN THE FUTURE."

campaigns for Taco Bell and Volkswagen—like that time when all the guys named Ronald McDonald ate tacos or when that Darth Vader kid used the Force to fire up the Jetta. Walking through the offices—open plan, of course, with a dog or three lolling on the poured-concrete floor—kindles an "Oh yeah" feeling of light nostalgia for moments in our shared consumer lives. It's all pleasant, which suggests Deutsch is doing its job.

I sit in the glass-walled office of Mike Sheldon, who opened Deutsch's L.A. office in the late '90s. He's looking neater than usual (he says) in a crisp button-up. Chief technology officer Pam Scheideler, a former head of production at Google Creative Lab, is casually dressed. Both are breezy and fluent as they pull data points out of I don't know where. We talk about how companies must keep growing to stay afloat. With the DogVacays of the world handling their own branding, Deutsch, too, has to adapt to keep up. Not merely TV ads but also events; also gamified Web sites; also, when Deutsch's 48,000-square-foot production space, Steelhead, opens, music videos or commercials or whatever anyone with a need wants to use it for. Deutsch puts together



ARRIVAL
AN AMPHITHEATER AT CENTRAL PARK IN PLAYA VISTA, WHICH HAS BECOME HOME TO MULTIPLE TECH FIRMS AND MORE THAN 10,000 RESIDENTS SINCE 2000

the whole brand for a musician, say, tweets and all.

“The bar now is shareability,” says Sheldon.

“What people are looking for is engagement, Scheideler adds. “And brands love engagement because it’s longer interaction, it builds loyalty, it pushes them. Again, there’s a lot of marketing science, and the more people engaged with the brands, the more likely they are to feel affinity for that.”

“Because it’s a constant interaction rather than ‘I need to buy a car at five or ten years?’” I ask.

“Well, and we care so much more about brand behavior,” says Sheldon. “Particularly if you’re younger, you care about how they treat the environment and people and how they give back and how they source.”

“Those Gen Zers, they really care,” says Scheideler. “They care so much.” We nod, knowing but not really.

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EN ZERS HELPED make Snapchat the success that it is. If the company’s public debut goes as planned, it will produce billionaires and millionaires who, if other successful IPOs are any indication, will go off to birth their own projects in the area with hopes of mimicking Snapchat’s story. A social network, news service, fashion-forward camera company, and above all an Experience, the company arose only in 2011, offering users the ability to send photos and videos designed to evaporate—the very antithesis of the internet’s desire to hoard everything forever. Founder Evan Spiegel’s simple concept turned out to have surprising depth and nuance in the way it enabled users to communicate. Snapchat has also gone on to create a potentially sophisticated form of many-eyed, crowd-sourced news in its Live Stories. In this way the app has transformed from being a notorious teen peep show to being a notorious teen peep show with *content*. Even the NFL Channel has a Snapchat presence.

And unlike other social media companies, Snapchat released an actual product with its Spectacles, stylish glasses that film and upload ten-second clips of whatever the user’s looking at to his or her feed. Besides being universally celebrated since they came out in November—in sharp contrast to the dramatic misfire that was the nerdcentric Google Glass—Spectacles push us farther down the path to becoming walking, talking content. Everything information. Everything shareable.

And we’re back to YouTube. There’s content that *ends up* on YouTube (that’s the stuff Jukin devours) and content *made for* YouTube. Maker Studios is the latter. So is Defy Media, which, with its youth-focused channels, is a lot like any TV network. By using social media, says Defy Media CTO Chris Poe, you “cast a wider net and get more people watching your programming. It’s a more comprehensive play.... Developing the brand is the focus.”

SILICON MILESTONES

First time the name “Silicon Beach” was used

> In '83, *PC Magazine* reported that it was being applied to Boca Raton, Florida, where IBM developed the PC. A year later Silicon Beach Software launched in San Diego.

First time it was applied to L.A.

> Possibly in a '96 *L.A. Times Magazine* piece by Mary Melton (now editor of this magazine).

First tech arrival in Playa Vista

> The wetlands once owned by Howard Hughes went through years of legal fisticuffs before NorCal video game maker Entertainment Arts landed an outpost here in 2000.

First tech arrival in Santa Monica

> Activision, in 1979.

First major dot-com flameout in the area

> Established in '97, eToys burned brightly before declaring bankruptcy in 2001 and being sold.

First Venice property owned by Snapchat

> It bought a 2,600-square-foot bungalow on the boardwalk in early 2013, relocating months later. Today Snapchat leases more than 120,000 square feet in the area.

Which has led to a proliferation of digital outlets. Santa Monica-based Whipclip loves TV and converts traditional broadcast into easily digestible online form. Whipclip contracts with networks and uses its tech to break down episodes into shareable clips, which are sent to the news media for reviews and anywhere else people want to share. Whipclip then produces its own content around that content. Jeremy Reed, Whipclip’s head of programming, says, “The idea is if you’re interested in TV and you want to be part of that large fandom conversation, that’s who we are. We want to create content around that.” So they make shows for people who love shows. Other companies have their own specializations. Tastemade is an online network for foodies. Machinima is for gamers and related geekdom. Mitú is, says cofounder and president Beatriz Acevedo, rolling out “content that is an authentic reflection of who Latino youth in America are.” On and on, an entertainment culture based on Hollywood but aimed at direct interaction with audiences, using better analytics. How will it improve upon the network model, even as cable TV’s mounds of unwatched channels push it toward obsolescence? “We guide our development process by analyzing all the insights that we get from every single piece of content that we publish,” says Acevedo. “What do people share most and why?”

Consider the range of content coming out of L.A.’s media hothouses: on the one hand, Jukin Media’s “Goat Makes Weird Noises”; on the other, Surgerytheater’s “How to Perform an Aortic Root Replacement.” Born from Hollywood, these “multichannel networks” combine data, user control, monetization, and a democratized form of entertainment that can be as basic as someone opening a package. YouTube has thousands of these unboxing videos, their creators doing a product striptease as they luxuriate in the unveiling. It’s a glimpse of a person having an intimate relationship with a brand. It’s consumer voyeurism.

One especially popular kind of unboxing video involves Loot Crate. Loot Crate is a purveyor of “mystery boxes,” surprises from the worlds of comics and gaming shipped monthly from its downtown headquarters to 650,000 subscribers in 35 countries. When you break down what’s in the boxes—special collectibles, making-ofs, a magazine explaining the monthly haul—it seems interesting, but not necessarily the kind of interesting that landed the entity at the top of *Inc.* magazine’s list of fastest-growing companies last year. The secret of Loot Crate’s corporate value is in the look on those YouTubed faces. What specific thing is in the boxes doesn’t ultimately matter; the product is the experience. And we’re back to content, back to storytelling, back to Los Angeles. “If you only have 16 waking hours, you’re only gonna spend it with companies and content that produce compelling stuff,” says cofounder Chris Davis. “Things that are commoditized and transactional are fading. Things that invest in the experience will win.”