

Silicon Beach Shows Promise, Not Profits

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16-20 minutes

Modeled after Silicon Valley in the Santa Clara Valley near San Francisco, [Silicon Beach](#) is a cluster of technology and software development firms that spans a three-mile stretch from Venice Beach to Santa Monica. Although there has been a tech presence in the LA area for decades, this presence dramatically increased after the economic collapse of 2008 when unemployment in Silicon Valley [enticed](#) many in the tech industry—including some of the original creators of a then-ailing [MySpace](#)—to pursue their own startup ventures. Lured by cheaper rent, better weather, beach access, and closer proximity to entertainment companies, today over 800 startups call Silicon Beach home. Moreover, as startup fever increases in the area, new tech-based companies have spilled over into surrounding cities, including Hollywood, [Pasadena](#), and Culver City, bringing the number of start-ups in the region to over [2000](#). The area has even attracted heavyweights like Microsoft, Facebook, and Google, all of which have set up shops along the southern coast. Together these firms focus on digital games, video, social and creative apps, and e-commerce.

However, as a young cluster, Silicon Beach has yet to launch a single breakout success story. As such, it currently represents a growing tech bubble built on eyeballs, not direct spending, and depends on a workforce and investor class structured by risk. On top of that, the relationship between the technology and entertainment industries remains fraught. Although Silicon Beach represents the potential for a union between technology and entertainment, the experiment might also prove to be incompatible with Hollywood interests.

Here are 4 reasons why Silicon Beach is a place to watch.

1. Silicon Beach is well supported by a network of venture capitalists, incubators, startups, and coworking spaces.
2. Local government support and potential synergy with the entertainment industry maintain hype around Silicon Beach.
3. Many women have notably risen to power in Silicon Beach, overcoming the sexism endemic to the tech industry.
4. Silicon Beach has not lived up to the hype yet, but there are a number of notable successes that bode well for the future.

1. Silicon Beach is well supported by a network of venture capitalists, incubators, startups, and coworking spaces.

The central hubs of Silicon Beach are the high-profile [incubators](#) and coworking spaces in the area, including Launchpad, Amplify, Science, Inc., and MuckerLab. Incubators invest in startups and help them build their projects by offering financing, office space, and mentorship, generally in exchange for a percentage of the fledgling company. While some incubators run

their own office spaces, others operate through dedicated [coworking](#) space holding companies.

Coworking spaces are large office setups with wall-less, open floor plans populated by desks and shared by multiple startup companies. Depending on the needs of the individual startup, coworking spaces offer daily, weekly, monthly, or extended access to facilities. Lower tier memberships offer first-come-first-served open work spaces, a mailing address, and meeting rooms, while higher tiers can include dedicated desk space, discounts on community events, and priority reservations on conference facilities. The highest, most expensive tiers offer closed-off offices for more privacy.



Some of the most popular coworking spaces in Silicon Beach include Real Office Centers (ROC), Coloft, General Assembly, Blankspaces and WeWorks Labs, all of which invest substantial money in startup spaces in hopes of discovering the next successful tech company. For instance, ROC spent \$4 million

renovating its offices to include amenities like conference rooms, a coffee bar, and stylish furniture, features that are indispensable to crafting an aura of cool that the tech industry consciously cultivates. The ROC location features around 200 offices and can accommodate 150 small companies.

Proponents of coworking spaces [suggest](#) open floor plans encourage creative thinking and collaboration. The logic suggests that allowing like-minded, intelligent entrepreneurs to interact with their neighbors increases problem-solving and overall morale. Ultimately, supporters argue such spaces spur the coveted concept of “innovation.” These shared spaces are welcome in a digital economy where many freelancers and startup employees work from home and can feel isolated from others in the same position. Likewise, these spaces provide creative labor with a much needed barrier between work and home life, a separation that is blurred, at best, for many in the creative industries.

However, critics of coworking spaces [suggest](#) such setups may contribute to the ongoing neoliberal project of deregulating the digital economy, a project that encourages creative labor to trade in job security for the promise of creative autonomy. Under such a critique, coworking spaces provide the basic means of production while encouraging and naturalizing entrepreneurial risk. Silicon Beach is fueled by a young, eager, and educated generation of would-be entrepreneurs, people who see the digital economy, with its promise of self-management and potential riches, as their ticket to success. This is a generation

of workers, argues Gina Neff in her book [Venture Labor](#), who understand personal and financial risk as “tightly linked to what it means to be successful, creative, and in control of one’s career.” Silicon Beach, in particular, benefits from the fact that many of these young dreamers are recruited locally from a variety of nearby [educational institutions](#), including CalTech, Loyola Marymount University, USC, and UCLA.

Despite a strong investment community, Silicon Beach currently [lacks](#) an equivalent to Sand Hill Road, a stretch of land where over 60 venture capitalist firms have clustered in Silicon Valley. Instead, startups in Silicon Beach have to rely on the incubator coworking spaces to attract venture capital firms (VCs) and “angel investors” who enjoy the access to a variety of companies in one central location. Firms like Tech Coast Angels and Tomorrow Ventures provide essential operating funds to both incubators and individual startups. Some investors hold open office hours at these coworking locations to offer advice to interested startups. Others hold weekly conferences for entrepreneurs interested in growing their company or securing more funding. In either case, the structure of Silicon Beach invites young tech-savvy entrepreneurs and hungry investors to enter into partnerships that ultimately place the majority of the risk on the young workers, knowing that as one group fails, another steps up to try their hand at the lottery of the digital economy.

2. Local government support and the potential synergy with the entertainment industry maintain hype around Silicon Beach.

A Kauffman Foundation [study](#) found that LA had the highest levels of new business creation for the country between the years of 2009 and 2011, precisely the years following the mortgage crisis when Silicon Beach started to gain notoriety and rapidly expand. And in 2012, the [Startup Genome](#) project ranked LA as number three in the world for startup ecosystems (behind Silicon Valley and Tel Aviv) based on factors including the number of startups, funding, company performances, and support infrastructures.

This success has led the LA Mayor's Council on Innovation and Industry to believe that tech may be the future of the city's [economic growth](#). In an effort to guide the continued expansion of Silicon Beach, the Council released a [report](#) recommending tax breaks for new technology firms and investment incentives for VCs. Tax breaks for digital and media industries are a contentious issue at the moment, however, with [contradictory evidence](#) as to their effectiveness. Nonetheless, Mayor Garcetti continues to support the digital economy in LA, recently [hosting](#) a crowded #TechLA Conference at City Hall.



In addition to lobbying for these advantageous policies, the startup community also supports itself through promotional events. Started in 2012 with an attendance of over 3000 people, the annual [Silicon Beach Fest](#) aims to foster and grow LA's technology scene. The annual [event](#) features pitch-making competitions, panels, networking opportunities with colleagues and investors, and an expo floor for new gadgets and digital services.

Central to the hype fueling the annual Beach Fest events is the potential for synergy between the [entertainment](#) and technology industries, which historically have tended to [differ](#) along the fault lines of language, office protocols, and business strategy. Today every entertainment company in LA necessarily has to have an app of its own, and many celebrities are hopping on the tech bandwagon to promote their personal brand. In this mutually beneficial arrangement, technology companies prosper from acquiring entertainment content that makes their services and platforms more appealing, and content companies diversify their

distribution networks to reach new audiences and stay relevant in an era of digital disruption.

Despite the hype, the union between entertainment and tech has been slow-going. Only a handful of companies have emerged, most of which are buoyed by their connections with notable stars. For example, the celebrity-driven retail website [BeachMint](#) has connections to Ashley and Mary-Kate Olsen, Jessica Simpson, and other stars. Kim Kardashian partially funds and promotes another e-commerce site called Shoe Dazzle. Hollywood talent firm CAA founded app developer Moonshark, a company that creates apps that use the voices of celebrities the agency represents. Additionally, one of Silicon Beach's early successful ventures, the short video creation app Viddy (now known as [Supernova](#)) promoted its app by having Linkin Park, Snoop Dogg and other celebrities experiment with it while on tour.

Digital video production and distribution companies in or near Silicon Beach have also leveraged their proximity to Hollywood. Co-owned by major media corporations News Corp., Disney, and Comcast/NBCUniversal, [Hulu](#) represents one of the most established media companies in Silicon Beach. Perhaps the better example is Maker Studios, located in Culver City. Starting as a coalition of successful YouTube video creators, Maker Studios grew to become a [multi-channel](#) digital video network empire. As a result, Disney swooped in to [purchase](#) the short-form digital video startup, expanding its operations and funding. Another notable video producer in the area is the rapidly growing New York-based BuzzFeed, which [opened](#) an office in

West Hollywood in 2012 to expand its digital video production. Dubbed BuzzFeed Motion Pictures, the company has already tapped notable industry producers and talent in hopes of creating digital video content with Hollywood production values, thus marrying the best elements of technology and entertainment. However, with Microsoft's own Santa Monica based Xbox Entertainment Studios calling it [quits](#) in 2014, the success of such an experiment has yet to be proven.

3. Many women have notably risen to power in Silicon Beach, overcoming the sexism endemic to the tech industry.

Gender-minded critics have recognized Silicon Valley as a cliquey ["boys' club"](#) that can be difficult for women to access and thrive within. Silicon Valley's long-standing gender problems have most recently been covered in the book [Innovating Women: The Changing Face of Technology](#).

Silicon Beach is another story. In fact, [women](#) have founded several dozen startup firms in the area, creating a new tech environment that welcomes and encourages women. These entrepreneurs use their previous expertise in sectors like retail, entertainment, advertising, and media to build digital companies that often target other women.

Founded by 29-year-old Sophia Amoruso, [Nasty Gal](#) is one of the fastest-growing companies in the country and moved from San Francisco to LA in 2011. Former child star Soleil Moon Frye (Punky Brewster) founded Moonfrye, a company that develops apps that help families be creative together. These are just a

few of the dozens of other [startups](#) founded and run by women in Silicon Beach and the surrounding LA area.

These companies do not just operate independently but also actively support each other through an informal sisterhood that has formed amongst women working in Silicon Beach. In an effort to encourage each other and attract more women into the fold, the community holds occasional events that highlight women in the local tech contingent. In May 2013, for example, the Broads Circle program held [Women of Silicon Beach](#), a small conference that featured 11 leading female entrepreneurs from companies like Nasty Gal and Demand Media as discussion leaders. Such communities foster provide support and inspiration for other women to enter into and help lead Silicon Beach.

Accordingly, Silicon Beach has the potential to disrupt the tech world's typical boys' club, and the sexist hiring and promotional practices it exhibits, and become a place where a significant amount of companies are operated by and friendly toward women.

Despite notable gains for women, urgent questions remain regarding the location's larger diversity efforts in an industry that notoriously consists of white and, to a large extent, East and South Asian workers. In Silicon Valley, for example, African-Americans and Hispanics make up a mere [28 percent](#) of the professionalized workforce in Silicon Valley while these two groups are grossly over-represented in support services, such

as custodial and security duties. Although such statistics are not available for Silicon Beach, one senses that African-Americans and Hispanics are similarly underrepresented.

4. There are a number of promising companies, but Silicon Beach has yet to prove its long-term sustainability.

Whereas Silicon Valley can claim to be the birthplace of Facebook, Google, and Twitter, Silicon Beach has yet to find its first blockbuster success story, the one shining example that will help secure the sustainability of the sector. Such successes do a lot to attract more investors, talent, and government support, further improving the likelihood of future hits and strengthening the region as a whole.



Several [startups](#) are arguably close to reaching that bar. [Snapchat](#) is one of the most cited examples of a company on the verge of sustainable stardom. Snapchat works like Instagram but allows users to set a self-destruct timer of up to 10 seconds on the images users send each other. Whereas Instagram users post about 60 million pictures per day, Snapchat users share over 400 million pictures. The app also boasts over 26 million US users. Like other apps with millions of eyeballs, Snapchat is moving into sponsored advertisements in order to generate revenue, recently [partnering](#) with Universal

Studios to promote the horror film *Ouija*. Tech behemoths like Facebook and Tencent have expressed interest in buying the company, with valuations ranging between \$2.4 to \$4 billion. Other [examples](#) of potential hit apps include Supernova, Instacan.vas, and Mogreet, while companies like the digital video producer Maker Studios and the virtual reality company Oculus Rift have each been snapped up by Disney and Facebook, respectively, for serious cash.

Potentially hindering the success of current and future startups are the consequences of Silicon Beach's increased popularity. For instance, while rent in the area was initially cheaper than comparable spaces elsewhere, the mass migration of companies to the three-mile stretch has [inflated](#) the [property market](#) and increased competition for positions within incubators.

Nevertheless, interest remains high in 2014, as the first 6 months of the year saw startups raise over \$620 million, 80 percent higher than the same period in the previous year. Yet despite the number of startups and increased investor interest, Silicon Beach remains more a product of [hype](#) than of profitability, a point not lost on its critics. Regardless of how many app downloads a startup racks up or whether a company is acquired for billions of dollars, few of the companies in Silicon Beach have produced actual profits, creating a value bubble that is poised to pop if the region cannot produce sustainable business plans. Presently, the situation seems eerily similar to the dot-com bubble that decimated Silicon Alley in New York at the end of the nineties. As a result, Silicon Beach remains an

idea built on the backs of its starry-eyed workforce, a location structured by risk but propelled by the allure of untapped potential.