

Hollywood is giving tech startups the star treatment

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Japanese technology entrepreneur Ken Fukazawa was in San Francisco in March when his geeky friends told him about something awesome coming up in Los Angeles.

Walt Disney Co. was opening its doors to selected startups for a summer of intensive mentoring. Fukazawa couldn't think of anything better to help his company grow than the brand that he had fallen in love with as a child. His three-person company, Tyffon, moved into Disney offices in June, ready to improve a suite of apps that add spooky animations to photos.

Funding, ideas and workers are flowing into the Los Angeles region at record levels as thousands of entrepreneurs across a broad range of industries leverage the Internet to reshape how people shop, chat, watch and play.

But over the last three years, Hollywood's embrace of startups such as Tyffon has become the most powerful magnet attracting technology entrepreneurs to set up here. In fact, Southern California is now the nation's fastest-growing hub for startups. The entertainment industry, with its mad rush into digital distribution and its reservoirs of cash, creative talent and glamour is the key driver.

Netflix Inc., Pandora Media Inc., Amazon.com Inc., Google Inc. and others upended how content-makers do business, and now entertainment industry leaders are turning to startups to help them ride the waves of

change.

"Anyone in a traditional business is getting a wake-up call," said Michael Yanover, head of business development at talent manager Creative Artists Agency. "You better lean in to the latest technology trend or you're going to be dead in the water."

The tension in Hollywood is driving demand, showering money and fostering confidence in Silicon Beach and other geographical startup centers in the region.

After the crash course at Disney, Fukazawa can no longer imagine moving Tyffon back to Tokyo. Los Angeles' balance of highly skilled programmers and content creators is perfect for Tyffon, which has seen 30 million downloads of its apps in two years.

"Gaming, entertainment, film, agencies - it's all here," said Fukazawa, who received advice from Disney Chief Executive Bob Iger and other top brass. "It's best for us to do business here."

Companies focused on online video, virtual reality, crowdfunding, gaming and online marketing or shopping are among those finding Los Angeles attractive because of the access to entertainment, advertising and fashion expertise.

Southern California saw the fastest rate of startup creation of any major U.S. region in the first half of 2014, according to data collected from AngelList by Upfront Ventures, the region's most active venture capital firm with more than \$100 million invested in the last three years.

Combined, Los Angeles and Orange counties are on pace this year to receive \$2.15 billion - their most since 2001, according to the National Venture Capital Association

.Venture capitalists in Los Angeles give their better-funded counterparts in Silicon Valley credit for the recent growth. More than \$500 million has flowed to Los Angeles from Silicon Valley investors in the last 2 { years, according to Thomson Reuters data provided by the association.

"There was a tremendous amount of arrogance in Silicon Valley because LA was a lot of talk and maybe not a lot of walk, but there's been some real successes lately," said Brent Weinstein, who manages United Talent Agency's startup investment arm.

Content-sharing app Snapchat, for example, has received hundreds of millions of dollars in investment from Silicon Valley hotshots on its way to a reported worth of \$10 billion. Auto-shopping website TrueCar Inc. had a \$70-million initial public offering in May, and its stock has doubled since. Overall, the median value of a Los Angeles startup's acquisition or IPO has reached a post-recession record of \$87 million so far in 2014 and topped the \$75-million San Francisco Bay Area median, according to tracking firm PitchBook.

Speaking at Rand Corp. in November, Snapchat Chief Executive Evan Spiegel pointed to three Los Angeles advantages: Most hires are new to Los Angeles, so employees exploring the city together creates culture. Distance from Silicon Valley gives Snapchat a different point of view that he said was "important." Being in the center of arts and entertainment surrounds Snapchat with "energy," he said.

Google Executive Chairman Eric Schmidt told the Los Angeles Times recently that it's hard to predict how big the region's tech scene will become, but that there's reason for optimism with companies like Snapchat and Space Exploration Technologies Corp. building global brands.

"If you look at the benefit of Caltech and USC and UCLA and the

quality of the programs they have, they are producing the people that are needed to produce the local winners," Schmidt said.

The data-driven and stock-rich Silicon Valley has begun to fuse with Southern California's content-fueled, cash-hungry culture to build a brand for tech in Los Angeles.

Hollywood's interest in experimenting has led Northern California companies such as Netflix, YouTube, Facebook Inc. and Twitter Inc. to build larger presences in Los Angeles County. And an untold number of app makers are following suit, finding it essential to be close to the content makers who could be crucial in making their products popular.

The endorsement of technology startups has flowed deep into the entertainment industry. Shows such as NBC's "The Blacklist" and ABC's "Modern Family" now use a mobile app called Sync OnSet to store photos of props, costumes and sets that production managers had once stashed into three-ring binders.

As its customer base grew to more than 100 productions, Wymsee Inc. moved some of its staff from Boston to the WeWork shared workspace in Hollywood because this remains "home base for entertainment," co-founder Alex LoVerde said.

A few years ago, a Wymsee or Tyffon would have found itself stonewalled in Hollywood. Kevin Yorn, an entertainment attorney whose clients include Ellen DeGeneres and Matthew McConaughey, remembers his firm holding a 2007 gathering of about 40 celebrities, media executives, Silicon Valley venture capitalists and technologists.

Marc Andreessen, a deep-pocketed investor from the Silicon Valley, declared that Hollywood had to shape up and give in to what upstarts wanted, Yorn recalled. Miffed, the [entertainment industry](#) sat back until

its peers in technology realized "people in Hollywood have secret ingredients - storytelling and large social bases - that can help propel a startup," Yorn said.

Transportation service Uber probably would have ridden to success without ferrying celebrities to red-carpet events. And someone other than Jessica Alba may have been able to start lifestyle and cleaning products brand Honest Co. and turn it into a near-\$1-billion company. But the stars elevated the brands in the minds of consumers and the media and accelerated their progress, according to investors.

It's also possible that if Honest Co. were to go public, it could raise Alba's net worth more than any movie has. The economics of tech have become "real," Yorn said. Entertainers who once spurned offers to advise or advertise startups are now pleading with managers to let them become investors or launch their own.

One of Yorn's clients, "CSI" creator Anthony Zuiker, has worked with several companies experimenting with new ways to distribute content. Zuiker's latest project is with Fanlala, a children-focused media startup in Santa Monica. Zuiker, who invested in Fanlala, plans to use the website soon to launch a show that children will be able to interact with like a video game.

"We need to push very safe Hollywood into the gutsy tech space," Zuiker said. "We see the beginnings, and it's very exciting."

Economists and investors point out that startups in Los Angeles aren't just taking on entertainment-related businesses. Aerospace, finance and health are also popular. Likewise, the new technology investors from Los Angeles' most well-known industry say their connections go beyond the stars to major companies, politicians and international audiences.

For CAA, the daily debates on which entrepreneurs deserve the money and guidance that could lift them into stardom are just a reflection of the zeitgeist.

"Everything we do in this company is about pop culture," Yanover said. "Where is our pop culture going right now? Tech entrepreneurs."

That thinking is increasingly shared by talent agencies William Morris Endeavor, ICM Partners and United Talent Agency, which are making similar bets on startups, as are studios Warner Bros. and, of course, Disney.

Last month, Tyffon and nine other startups invited to the Disney summer program offered polished presentations to a theater full of venture capitalists and dignitaries. Iger, the Disney CEO, sat in the front row as Fukazawa made his pitch about turning the animation of selfie photographs into a big business.

Learning about innovations that Disney lacked resources to develop in-house was energizing, said Jimmy Pitaro, president of Disney Interactive.

"There's so many super-talented entrepreneurs and fantastic products, and to be able to get in on the ground floor with these people and businesses was a fantastic opportunity," he said. "And I look forward to partnering with these guys."

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