

New York Isn't Silicon Valley. That's Why They Like It.



Michael Falco for The New York Times

One sign of a dot-com revival is the North Brooklyn Breakfast Club, for local tech types. Three of its organizers are, from left, Justin Shaffer, Dorothy McGivney and Chrysanthe Tenentes.

By [JENNA WORTHAM](#)

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THE two dozen or so people arranged around wooden tables, warming their hands and bellies with steaming mugs of coffee and plates of homemade biscuits, looked like just another Sunday brunch set in New York. But members of this group had braved knee-deep snow to gab about cutting-edge ideas and as they introduced themselves the roll call sounded like a Who's Who of digital start-ups: Foursquare, Hot Potato, Six Apart, Flickr, Flavorpill, Trust Art, Vimeo.

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Robert Stolarik for The New York Times

The New York Tech Meet-Up is held monthly, and as many as 700 people attend, a sign of the revival of tech businesses in the city.

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Michael Falco for The New York Times

Chris Dixon and Caterina Fake are involved in multiple tech ventures, like Hunch, which helps people make decisions. “We are definitely doing our part to get the ecosystem going,” she said.

“There’s a lot happening right here in our ZIP code,” said Dorothy McGivney, a former [Google](#) employee who is a co-coordinator of this group, the North Brooklyn Breakfast Club, and runs [Jauntsetter](#), a travel site for women. Like the others, she had come to the brunch to help foster the growth of her little local community of entrepreneurs.

The group had its inaugural meeting in January and is among a growing cluster of informal meet-and-greets for the local technology and media industries. A recent installment of another monthly event, called the New York Tech Meet-Up and held in Chelsea, drew 700 tech enthusiasts.

The buzz surrounding these gatherings is just the latest sign that a decade after the dot-com bust, the Internet economy in New York is springing back to life.

“After the crash, New York was a complete wasteland of dead funds and companies,” says Charlie O’Donnell, an entrepreneur in residence at First Round Capital, which hired him recently when it opened a new office in Manhattan.

Since then, “the community has gelled,” Mr. O’Donnell says. “We now we have a critical mass of support and financing.”

New York’s flashier industries, including big media and Wall Street, have long dwarfed the tech sector here. And the dot-com implosion only reinforced that reality. The fledgling tech scene that was just beginning to hum in the late 1990s flatlined as dozens of Internet companies folded, pink slips replaced party invitations and [venture capital](#) firms took their investments elsewhere.

During the dot-com boom, “venture capitalists were just throwing dollars at every Internet idea on every street corner,” says Owen Davis, a serial entrepreneur and managing director of [NYC Seed](#), an early-stage technology investment fund. “There was little critical judgment about business models and ideas.”

Since then, Mr. Davis says, the New York technology industry has been steadily coming back on line and has managed to accelerate despite the economic turmoil besieging other industries.

Helping to give New York an edge is a broader shift in the types of innovation that are gathering speed in the technology industry, says Dale Jorgenson, an economics professor at Harvard. The infrastructure for mobile communications and computing is now all in place, he says, so the next opportunities lie in developing new services using that technology.

“They will be behind the next boom in the industry,” he says.

Of course, services can be developed anywhere. But because so many industries now grappling with the Internet are based in New York, the city is finding surer footing among its peers as a thriving tech hub.

“Book publishing, advertising, media and even the fashion industry are all located in New York. These are the main industries that are being reshaped and redefined by technology and the Internet,” says AnnaLee Saxenian, a professor at the [University of California, Berkeley](#), who studies regional economics and technology entrepreneurship.

To get a vivid snapshot of this new generation of Web innovation, one needs to look no further than the portfolio of [Fred Wilson](#), co-founder of Union Square Ventures and a force within the New York start-up scene. Run through a list of Web darlings here — Boxee, software that pipes video from the Internet to a television; Tumblr, a microblogging platform; and Foursquare, a mobile social network — and Union Square is an investor.

“The software business has morphed into the Internet business,” Mr. Wilson says. “Ten years ago, maybe 80 percent of software was being built for enterprise. Now, it’s being written for consumers and is more media-centric than ever. And, historically, those have been New York’s strongest sectors.”

Champions for New York’s continued evolution as a hotbed for digital innovation say that the proximity to industries ripe for innovation helps draw companies in those fields.

Kevin Ryan, former chief executive of the ad company DoubleClick and founder of [Gilt Groupe](#), a Web site that offers discounted luxury goods, knows the importance of having prospective customers in his backyard. “We need to be here because the people we’re hiring are coming from Saks and [Dolce & Gabbana](#), and they are all in New York,” he said.

To be sure, New York is not unseating its West Coast counterpart, notes Ms. Saxenian. “Silicon Valley is always leading the cluster, but it goes through booms and busts like everywhere else.” Nevertheless, she adds, “this is a moment where New York really has the chance to shine.”

HELPING to cultivate New York’s revival, entrepreneurs and investors say, is the proliferation of early-stage investment firms, start-up incubators and the cadre of successful serial entrepreneurs choosing to set up shop within the five boroughs of the city.

Ben Lerer, a co-founder of Thrillist, a popular daily e-mail newsletter aimed at hip urban men, recently raised \$7 million for an investment firm he runs with his father, Kenneth. The two men plan to make as many as 25 investments in tech start-ups this year, 80 percent of which will be in New York, they say.

The elder Mr. Lerer is a co-founder of The [Huffington Post](#). He also is an investor in Betaworks, an incubator housed in the meatpacking district that has helped nurture roughly 25 companies since it started in 2007, including the [online tools Bit.ly](#) and Tweetdeck.

Adding to the momentum are cash infusions from noted venture capitalists based elsewhere. Ron Conway, a San Francisco financier who was one of the earliest investors in Google, [Twitter](#), [Facebook](#) and Zappos, says his fund has 25 investments in New York that account for roughly 20 percent of his portfolio.

“Just a year ago, it was less than half that,” he said in an e-mail message. “New York has become a hotbed of innovation,” he said. “Many start-ups there have as much promise as the best start-ups here in Silicon Valley. And the ecosystem of entrepreneurs, engineers, investors and other players is growing at a pace similar to Silicon Valley when it first got started.”

Another promising sign, experts say, is the number of companies in New York that have attracted investors. According to the National Venture Capital Association, 247 venture capital deals worth \$1.4 billion closed in New York in 2009, despite the recession and rocky market.

New York still ranks third behind Silicon Valley and Boston in the number of deals and overall investment rates, says Emily Mendell, the association’s vice president for strategic affairs. “But New York is holding its own against the other big hubs and possibly beginning to increase its share,” she says.

COLLEGES and universities have long helped fuel the dreams of entrepreneurs. An early pillar of Silicon Valley innovation was Stanford’s dean of engineering, Frederick Terman, who viewed the university as an incubator for the electronics industry. More recently, Facebook was born in a Harvard student’s dorm room and Google first percolated in the heads of two Stanford graduate students.

Hoping to replicate those kinds of successes, schools in New York are increasingly collaborating with local start-ups. Chris Wiggins, a professor of applied mathematics at [Columbia University](#), regularly brings start-up founders to campus to speak to students about careers in technology and is establishing an internship program at the school.

NYC Seed works closely with the Polytechnic Institute of [New York University](#) to help students there translate promising ideas into profit-making ventures.

Some of the more interesting breeding grounds in the city are technology incubators that nurture and mentor young companies. One example is the new Manhattan arm of Dogpatch Labs, which is backed by Polaris Venture Partners, an investment firm in the Boston area.

Dogpatch, which opened in January, offers start-ups a place to work, rent-free, for several months, along with the possibility of securing an investment down the line.

Socks, crumpled pieces of paper, scribbled-upon white boards and empty beef jerky packages are scattered around Dogpatch's roomy office. "It's been called a frat house for geeks," says Peter Flint, a partner at Polaris who spends several days each week in the New York office.

"There is a lot of excitement and interest budding in New York," he says. "And if we can help convince entrepreneurs to think about staying in New York versus going to Silicon Valley, then that's a huge win."

Currently, 13 companies are housed in the space, including Postling, the newest spawn of the founders and early employees of [Etsy](#). Locals cite Etsy, an online shopping bazaar specializing in handmade crafts, as one of New York's shining start-up success stories, along with [DoubleClick](#); [TheLadders](#), a jobs search site; and the Gilt Groupe.

"There wasn't anything like this in New York when Etsy started," said Chris Maguire, a co-founder of both Postling and Etsy. "We worked out of our apartments for the first few years."

New York has historically lagged Silicon Valley, entrepreneurs and industry experts say, in the latticework of experienced mentors and deep-pocketed early-stage investors who help cultivate young entrepreneurs.

"What we need in New York is our own PayPal mafia," says Caterina Fake, referring in jest to the band of early PayPal employees in Palo Alto who went on to found hugely successful ventures after the e-commerce business was sold to [eBay](#) in 2002.

"[YouTube](#), LinkedIn, [Yelp](#), Slide," she says, ticking them off on her fingers. "We need a big company to go public, throw off employees that start their own companies and create a self-propagating, thriving scene like that out here."

Ms. Fake helped found the photo-sharing site Flickr, which was later sold to [Yahoo](#). Last summer, she and Chris Dixon co-founded [Hunch](#), a recommendation service that helps users make decisions, like what kind of digital camera to buy or what kinds of dishes to make with Thanksgiving leftovers.

Ms. Fake and Mr. Dixon seem determined to lay as much of that groundwork as they can. They've placed themselves as close as possible to the center of the New York tech reboot. The Hunch offices are in the Flatiron District, on the same street as several up-and-coming tech companies, including [Pingg](#), an online invitation company, and [LearnVest](#), a financial Web site for women.

In addition to working on Hunch, Mr. Dixon has invested in a host of start-ups, including [Skype](#), BillShrink and OMGpop, and is a founding partner in Founder Collective, a new \$40 million investment fund for early-stage technology and media start-ups in New York. Ms. Fake is a member of Etsy's board.

"We're very incestuous," says Mr. Dixon with a wry laugh. "We're definitely doing our part to get the ecosystem going."

He says the economic collapse that fractured the financial industry could help bring the New York technology sector back online. The dimming of Wall Street's halo, he explains, helps illuminate other career options, like those in the technology industry.

"We're helping save the next generation of college grads that would have gone over to [Morgan Stanley](#)," he says.

"We're pulling them back from the dark side," jokes Ms. Fake.

Mr. Ryan of the Gilt Groupe agrees that the local tech community can now tap a wider pool of talent than it could before. Mr. Ryan estimates that Gilt Groupe, which was founded in 2007, will generate \$400 million to \$500 million in revenue this year.

"It's gotten so much easier to hire people from the West Coast to come to New York, not necessarily because the city is better but because there are now other companies in New York to work for," Mr. Ryan says. "You can make a 25-year bet at being in New York in a way you couldn't before."

Talented engineers and start-up hopefuls aren't the only ones being lured to New York.

Scott Beale, a technology enthusiast who lived in San Francisco for nearly 20 years, says the ebullient spirit sweeping through the start-up scene in New York drew him to Manhattan.

Mr. Beale, who runs a Web hosting company as well as a tech and art blog called Laughing Squid, says the accessibility of the New York technology scene, tinged with the grass-roots feel of start-up culture, was reminiscent of the earlier days of Silicon Valley.

“I felt that things had plateaued in San Francisco,” he says. “There is more to explore and document on the East Coast.”

DESPITE all the buzz, New York will never be able to match Silicon Valley in one crucial area: the weather.

It’s a notion that Justin Schaffer, one of the organizers of the North Brooklyn Breakfast Club, and the founder of Hot Potato, chewed over as he pulled on a scarf and hat before heading back out into the blustery afternoon.

Jerking a thumb toward the window, he flashed a big grin and said, “Maybe on a day like today, yeah, then I think I should be in San Francisco.” Pondering that thought a moment, he said “being here is a no-brainer.”

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