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For Tech Start-Ups, New York Has Increasing Allure

By JOSHUA BRUSTEIN

When Doug Imbruce wanted to start an interactive video company in 2009, he had no luck finding investors in New York. So he moved to Silicon Valley — where venture capitalists were receptive to his pitch — and founded Qwiki.

But in February, he decided that being so far away from the nation's big media companies was stifling his start-up's growth. So he moved back to New York, bringing the company with him. Qwiki, with 15 employees, now operates out of a SoHo loft space.

"We went to Silicon Valley because they understood how big we wanted to get," Mr. Imbruce said, "and we moved back to fulfill that promise."

The recent burgeoning of New York's Internet industry has forced some entrepreneurs — who, just a few years ago, might have felt they had little choice but to head west to pursue their dreams — to make a difficult choice. New York is now enough of an attractive alternative that a few West Coast-born start-ups are even packing up and moving east.

Much of this change has to do with the way that the technology industry has shifted toward creating consumer products and applications, rather than building the basic framework of computing and the Internet. Many new start-ups benefit from proximity to the media, advertising and fashion industries, New York's strengths. And as the city's industry grows, entrepreneurs say, it is offsetting some of the traditional disadvantages of being outside Silicon Valley.

There is little talk of New York overtaking the Bay Area as the hub of the country's technology industry. And the concept of New York as a real rival to Silicon Valley can make some Californian eyes start rolling.

"You can definitely build great companies elsewhere, but I have not seen anyplace in the world that builds true global franchises — technology-based franchises — like this place does," said John O'Farrell, a partner at the venture capital firm Andreessen Horowitz, based in Menlo Park, Calif. Though the firm has invested in several New York-based start-ups, Mr. Farrell said, it sets the bar higher for them, largely because it believes they are less likely to succeed.

A lack of venture capital financing outside of Silicon Valley has traditionally been a prohibitive barrier for start-up founders who might have wanted to put down roots elsewhere. But that is changing. Almost 500 start-ups in New York received venture financing from 2007 to 2011, according to a recent report from the Center for an Urban Future, a New York-based public policy organization. The number of venture capital deals in the city has risen 32 percent since 2007, while the figures for other areas, including the Valley, have dropped. And several major venture capital firms have recently opened offices in New York.

When Mr. Imbruce sought investment for Qwiki in New York in 2009, his pitch fell flat. He did eventually find a California-based investor who offered to back the company, but only if Mr.

Imbruce moved west and immersed himself in the Silicon Valley scene. He agreed, and soon found investors to be much more receptive, to the tune of $10.5 million in financing.

What eventually drew Mr. Imbruce back to New York was the gravitational pull of the major media companies. Soon after arriving in New York, Qwiki began meeting regularly with ABC to discuss how the network could use Qwiki's tools. Last week, the two companies announced a partnership.

Such collaborations are New York's biggest draw. The biggest drawback is hiring. Silicon Valley has the deepest pool of qualified engineers in the country, because of Stanford and the major technology companies that are based there. On the East Coast, many talented engineers gravitate to finance, which offers salaries that start-ups cannot compete with.

Aaron Harris moved his company, TutorSpree, from Silicon Valley to New York last year. He said he was so concerned about finding engineers that he held open the possibility of moving back to Mountain View, Calif., where he had participated in the prestigious incubator program at Y Combinator. But Mr. Harris found that he did not have to rely on hiring New York-based engineers. Instead, he found them elsewhere and convinced them to move.

The woes of the financial industry have also benefited New York's tech start-ups, which have been able to poach some engineering talent. But Mr. Harris, who worked for a hedge fund before starting TutorSpree, is skeptical that this will continue once the tech industry goes through its next downturn.

"We're seeing résumés from people in finance all the time, and that's awesome," he said. "We'll see how long that lasts."

But the tech scene in the Bay Area is about more than just engineering. Because tech is so dominant there, everyone from lawyers to landlords has learned how to cater to the needs of tiny, young, risky companies. Not so in New York.

Olga Vidisheva discovered this soon after she moved her fashion e-commerce company, Shoptiques, to New York this spring. The company quickly outgrew the few desks it was using at a local incubator space, and wanted to find an office to accommodate its growing staff and its need for a photo studio. Every time she found a suitable space, the building's owner asked to see the last five years of Shoptiques's financial data.

"I'm like, 'We just started in July!' " she said.

Ms. Vidisheva did find a landlord who agreed to work with her, after she agreed to put down a larger deposit.

People who have founded start-ups on the East and West Coasts say there can be an advantage to being in a place like New York where tech is not so all-consuming. Those at start-ups in New York repeatedly mention the intimacy of the relatively small but tight-knit industry here — in fact, they may be the only people who say they moved to New York because they liked its small-town vibe.

Josh Miller, a founder of Branch, an online commenting company, said he was struck by the myopia of San Francisco, a place where the hottest event in town might be a party being thrown by the social networking start-up Path, and where the first thing people wanted to know about Branch was how it could possibly compete with Quora, the question-and-answer Web site.

"In New York, no one's ever heard of Quora," he said. In the Bay Area, he added, "it's very easy to get a lot of tech press on blogs and think that you're on the top of the world. In New York, it keeps you humble that you walk out and there's the CNN building."

Mr. Miller's company moved to New York this spring. But he said that the relentless noise and pace of the city reminded him of the virtues of his hometown, Santa Monica. He plans to move back to the West Coast eventually.

"I don't like New York," he said. "I just think it's the best place for my business."