

Software startups thrive in SoMa

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In San Francisco's South of Market neighborhood, Internet-based software startups are thriving despite the worst downturn to hit California since the Great Depression.

"The economy in many ways has been a perfect storm for us rather than against us," said Charlie Graham, founder of Shop-ItToMe.com, which alerts consumers to sales on desired items - capitalizing on the trend of recession-induced frugality.

Graham's 15-person firm is the newest tenant at 410 Townsend St., a building that houses other Web-based startups including Eventbrite.com. The 50-person staff of Eventbrite helps live-performance venues - anything from school plays to corporate seminars - sell tickets online.



"We're all entrepreneurs in the same boat," said Eventbrite CEO Kevin Hartz, 40. "We share and contribute to each other's companies."

The ferment in this SoMa building is a microcosm of a larger dynamic that gives San Francisco a chance to lead in one of technology's most bullish sectors - the sale of software as a service.

Software once was distributed on disks, but the growth of the Internet has spawned a universe of applications that can be hosted on centralized computers and sold on a fee-for-service basis.

Hartz cited Salesforce.com - which develops business applications - and the online game developer Zynga as two San Francisco-based software-as-a-service companies that prove the city can rival Peninsula and South Bay locales as headquarters for large tech firms.

S.F. specialist hub

"San Francisco is where everything happens in this regard; this is where you have all the good talent and the actual experience," said Mikkel Svane, chief executive of Zendesk.com, a customer service operation that he co-founded in Copenhagen in 2007.

Svane said Zendesk had 10 people when he relocated to SoMa in September.

"We are now 40 and will be 70 by the end of the year," he said.

Svane, 39, said San Francisco has a pool of software engineers skilled in Web development environments like Java, PHP and Ruby on Rails - although companies like his are starting to hire aggressively enough to begin complaining about shortages in these fields.



'City of misfits'

The city is also replete with specialists in marketing, social media, customer service and design - skills essential to attracting and serving user communities. Within San Francisco, SoMa has the advantage of being close to Caltrain, a plus for attracting techies from the Peninsula while remaining accessible to potential East Bay hires.



David Ulevitch who came to San Francisco in 2004 after graduating Washington University in Saint Louis, is another example of the entrepreneurial influx that is turning SoMa into a software foundry.

"I always knew I was going to live in San Francisco," said Ulevitch, 28. "I always saw it as a city of misfits where I thought I could fit in."

In 2005 Ulevitch raised \$2.5 million to found OpenDNS.com, a company focused on a niche that couldn't have existed until the Web became a mass medium.

DNS is short for domain name system, the addressing function of the Internet. Users most commonly experience DNS as the rectangular field atop their browser software where they type in the address of the location they want to visit. The underlying network system locates the desired Internet resource and delivers the requested information.

"It's like the phone book," Ulevitch said of DNS.

Most people and companies get DNS service from the same vendor that provides their Internet connection but, just as with e-mail, Ulevitch said this addressing function can be delegated to a speciality firm like OpenDNS.com that offers additional services. He said the company built its business by allowing parents to selectively block children from visiting undesirable Web sites.

"We have 20 million consumer customers," he said. "We've been profitable since 2007."

Ulevitch recently moved his 25-person firm into SoMa from an office in the Financial District partly because his neighbors were simpatico - young people who dressed casually and worked startup hours in contrast with the Financial District's suits and 9-to-5 routine.

"There is a vibe of people here working hard and working late," said Ulevitch, who says his goal is grow prudently rather than hire willy-nilly and have to pull back later.

Prudent growth

Other SoMa startups profess the same discipline, hoping not to repeat the excesses of the dot-com era. Graham, ShopItToMe's 35-year-old founder, said he and two collaborators bootstrapped the company until it became profitable, and only then sought angel and venture capital investments.

Hartz said San Francisco has shortcomings as a business destination.

"It's hard to get our daughter into preschool. The word is you had to apply in utero," he quipped, voicing what is likely a common concern given the industry's youthful workforce.

But he also thinks San Francisco's creativity may attract more software development despite its taxes and other costs.

"It was always like Palo Alto and south was the place to be but now there's been this shift up to the city," Hartz said.

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