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Technology Start-Ups Take Root in Berlin

By *MARK SCOTT*

BERLIN — Near the Rosenthaler Platz subway station here, signs of the city’s high-tech future blend seamlessly with its communist past.

Decrepit breweries and stables have been converted to communal offices decked out in colorful [Ikea](#) furniture. Achingly cool coffee shops with names like Betahaus and St. Oberholz are packed with programmers in their 20s and 30s hunched over shiny new laptops. And even as the city’s unemployment broadly remains high, vintage clothing stores selling patent-leather Dr. Martens boots for 180 euros, or \$235, entice technology transplants from across Europe with promotions in English.

“I got sucked into Berlin,” said Henrik Berggren, a Swedish college dropout who moved here in 2011 to work on his e-book venture, ReadMill. “It became clear that this was the place to be.”

More than two decades after the fall of the [Berlin Wall](#), the German capital has gone from a cold war relic to one of the fastest-growing start-up communities. Engineers and designers have flooded into Berlin in recent years, attracted by the underground music scene, cutting-edge art galleries, stylish bars and low rent.

Hours after landing at Tegel airport, Mr. Berggren, a bearded 33-year-old computer programmer, found an apartment with two 20-something Germans in one of the city’s trendiest neighborhoods for just 300 euros, or \$390, a month. A few days later, he secured a cheap office for his four-person team, a space they shared with several other start-ups.

With the new wave of entrepreneurs, Berlin, once viewed as the poor relation to Germany’s main business centers, like Frankfurt and Hamburg, is improving its ranking in the country’s economic hierarchy.

In March, the country’s chancellor, [Angela Merkel](#), toured several local technology firms in a show of support. The city’s politicians also are trying to make it easier for international workers to get visas by fast-tracking applications from technology professionals and other workers.

“The scene is very young,” said Alex Ljung, the co-founder of SoundCloud, a music Web site backed by the American venture capital giant Kleiner Perkins Caufield & Byers. “Berlin isn’t proven yet. It’s much like a start-up in that way.”

By Silicon Valley standards, Berlin is still a backwater.

Entrepreneurs say high-quality programmers and engineers are hard to find, and a lack of early-stage funding from venture capital firms, particularly those in Europe, has hampered companies' growth. After getting burned by the dot-com bust, German venture capitalists have largely shied away from making big investments, preferring to finance early-stage companies with checks of less than \$2 million.

The city also is trying to overcome its reputation for copying American business models rather than developing innovative ideas.

The Samwer brothers, whose Berlin start-up incubator Rocket Internet has completed a series of successful deals, sold German versions of [eBay](#) and [Groupon](#) to their more famous competitors. The brothers — Alexander, Oliver and Marc — have used the proceeds to invest in companies like [Facebook](#) and [Zynga](#). One of their latest projects, a German rival to the online retailer Zappos, is valued at \$3.7 billion.

“Previous generations of Berlin start-ups were copycats,” said Matt Cohler, a partner at the venture firm Benchmark Capital, who was one of the first employees at both [LinkedIn](#) and Facebook, and has invested in a Berlin start-up. “It was the predominant playbook.”

More important, there have been few successful exits — sales to larger companies or lucrative initial public offerings — that could cement Berlin's place in the global start-up community. Among those deals, few break the \$1 billion mark.

In 2010, Groupon bought the European rival CityDeal for around \$260 million. [Google](#) acquired DailyDeal, a similar daily deals Web site from Berlin, for a reported \$200 million in 2011; earlier this year, the Internet giant sold the start-up back to its founders.

“Many funds got started at the wrong time,” said Christophe Maire, an angel investor in Berlin, whose nickname is the Conductor because he has mentored, and invested in, many of the city's new generation of young entrepreneurs.

“There's a reluctance to back innovation.”

But as local start-ups gain global audiences — and international backing — entrepreneurs and investors are betting on Berlin. While venture capital investment in the rest of Europe has remained flat since the financial crisis began, the city attracted 173 million euros (\$226 million) in venture funding last year, a 164 percent increase compared with 2009.

Big technology companies are showing interest, too. Earlier this month, the Japanese technology giant Panasonic bought Aupeo, a local audio streaming service, for an undisclosed amount. Google has invested in a local start-up hub called the Factory that is being built at a site that once was part of the Berlin Wall.

“There are billion-dollar companies just waiting to happen,” said Ciaran O'Leary, a partner in the local venture firm Early Bird, in his minimalist office in the center of the city. “Something big is going to happen. It's just a question of time.”

Ijad Madisch knows the limits of starting a technology company in Germany.

Mr. Madisch, a Harvard-educated medical doctor, also holds a Ph.D. in virology and has studied computer science. Yet when he started working on Research Gate, a social networking site that allows scientists to share work and collaborate on projects, he faced resistance.

Returning to Hanover to be closer to his family in 2008, Mr. Madisch's college supervisor told him to give up his pet project after he asked to work part time to focus on the start-up.

The next day, Mr. Madisch, 32, quit his job. He soon transferred to Harvard where a former boss was happy to let him work fewer hours while he pursued his business idea. Friends also put him in contact with blue-chip American venture firms, including Benchmark Capital and Accel Partners.

After securing early-stage fund-raising from West Coast backers, Mr. Madisch moved Research Gate from Boston to Berlin in 2011, and has expanded his staff tenfold in less than two years, to 120 employees. The site now connects more than 2.6 million scientists worldwide, and Mr. Madisch plans to make money by selling advertisements for academic conferences and job openings.

In an ironic twist, Mr. Madisch's former boss, who had warned him against starting the company, is now one of the site's most active users.

"I had to leave Germany to get back to Germany," Mr. Madisch said in his three-floor office in central Berlin that has a large game room and sleeping pods to keep programmers fresh.

"German venture capitalists had this idea in front of them, and they didn't do anything about it."

For entrepreneurs, Berlin offers the infrastructure, without the costly overhead of Northern California, New York or London. Commercial rents in the once-communist side of the city are about half of that in London, allowing entrepreneurs to stretch their start-up budgets.

Three years ago, the founders of EyeEm, a mobile photo app similar to [Instagram](#), borrowed an art gallery in a chic part of Berlin to start a global online photography competition. The showcase received more than 2,000 entries from around the world and formed the basis of their business idea.

EyeEm later replicated the exhibition in SoHo. But costs quickly rose as the founders had to fork over high rent for a trendy gallery, submit multiple forms to receive licensing permits and pay high wages to waiters and security staff.

"The cheap rent Berlin buys you time, and time is everything," said Lorenz Aschoff, a co-founder of EyeEm, in the company's converted loft space. "If we hadn't received the original gallery for free, it would have killed the idea before it took off."

As start-ups in the German capital become more established, entrepreneurs and investors alike are hoping that one of the city's companies will turn the growing interest in Berlin into cash.

Many eyes have focused on Wooga, an online game start-up founded in 2009 that competes with Zynga for users on mobile phones and social networking sites like Facebook.

At a converted bakery colorfully adorned with characters from Wooga's games, the company's 250 employees from more than 35 countries busily plan their next online game.

After raising money from both European and American venture firms, Jens Begemann, Wooga's co-founder and chief executive, said investors are slowly reconsidering untested ideas. He is focused on beefing up its games for smartphones in an effort to diversify away from sites like Facebook.

"Gaming involves combining skilled engineering with a creative atmosphere," said Mr. Begemann, 36, in the start-up's five-story office where programmers share ideas in an open-plan kitchen that has been designed to look like a leafy forest. "Wooga couldn't exist in any city other than Berlin."