

Number of the day

\$2.5 million

That's how much the Finnish mobile-game developer **Supercell** is generating in sales of virtual goods every day. The startup rolled out two popular titles last summer, the medieval tower-defense game "Clash of Clans" and the crop-tending "Hay Day." Both free apps feature vivid graphics and addictive play, attracting a combined 8.5 million registered users and putting the pair at the top of Apple's iOS game charts since December.



The free app "Clash of Clans" is at the top of Apple's iOS game charts.

Hear here

"Guys say, 'Gee, I think that Pinterest is only for women. I want to go where there are people like me.'" **John Manooogian III**, co-founder of social advertising firm **140 Proof**, on male-oriented image-sharing sites like **MANteresting**, **Du-depins**, **PunchPin**, **Gentlemint** and **Dart-itup**. Pinterest is the third-largest social network after **Facebook** and **Twitter**, with 40 million users — mostly women — and lots of imitators. While it focuses on fashion, fingernail art and rainbow fruit kabobs, **MANteresting** leans toward muscle cars, WD-40 and bacon pancakes. **Story on page D2.**

Bloomberg Market Report
More on Page D4



Paul Sakuma / Associated Press 2008

Heads up

Electronic Arts reports quarterly earnings on Tuesday, and analysts expect net income to drop 31 percent to \$275 million from a year earlier. Sales may slip 24 percent to \$1.04 billion. The Redwood City company is restructuring to focus on mobile games while still developing titles for a new generation of consoles. Last month EA said it was cutting jobs and would shut down three games developed for **Facebook**.

Business Report

The Chronicle with Bloomberg

SAN FRANCISCO CHRONICLE AND SFGATE.COM | Sunday, May 5, 2013 | Section D



Photos by Michael Short / Special to The Chronicle

Blackbird Guitars founder Jon Luttwak checks on an assortment of guitars in varying states of production in his shop on Polson. The shop makes custom carbon fiber guitars at the Mission District location.

S.F. MANUFACTURING

Shopping local is going global

By Caleb Garling

Imagine a Chinese college student shopping for school supplies in Beijing as she gets ready to start classes. She comes across some stylish messenger bags. Eventually, her decision is made in favor of a bag because it has the logo "SFMade" on the side.

That's the vision for SFMade, a nonprofit group dedicated to reinvestigating the manufacturing industry in San Francisco. A free membership gives manufacturers not only access to myriad business resources, but a voice in the expensive and competitive Bay Area economy.

"It's terrific we have a trade association that can give (manufacturers) a louder voice, that doesn't get drowned out by Silicon Valley tech," says Keith Greggor, CEO of Anchor Brewing Co.

This week, the SFMade label will be front and center during SFMade Week. Manufacturers will open their factory doors and give San Franciscans a chance to check out the production lines and latest products.

Making goods in a big city isn't easy. Local



Gabe Daniels sands down the edges of a fret board on the body of a Lucky 13 guitar.

manufacturers work against skyrocketing rents and ever-rising costs of living. Redevelopment and water on three sides constrains the available space for factories in the first place.

Accordingly, the type of manufacturing that **SFMade continues on D7**

Prize money an incentive for building better robot

In the days after the Fukushima nuclear disaster in 2011, the Japanese government sent robots into contaminated reactors and turbines to survey damage, measure radiation and move hazardous debris.

Robots also sifted through rubble after the terrorist attacks of Sept. 11, and disarmed explosives in Afghanistan.

But the promise of such machines to aid in the prevention or aftermath of disasters is still rudimentary. They're limited by the need to navigate terrain cluttered with wreckage, manipulate an unpredictable array of objects and maintain remote connections in extreme conditions, among many other challenges.

The Defense Advanced Research Projects Agency wants to change all that. And it's putting up the money to make it happen.

Temple continues on D5

What college grads face in job market

Students graduating from college in the next few weeks face a more uncertain job market than they did just a few months ago.

When the National Association of Colleges and Employers surveyed employers in the fall,

they expected to hire 13 percent more students from the class of 2013 than the class of 2012. But when it polled them again in February and March, they expected to hire only 2.1 percent more.

"The momentum for new college hires seems to have dwindled in the last few months," says Edwin Koc, the association's research director. He guesses the payroll tax increase and federal budget cuts that took effect at the start of the year were to blame.

Although the April employment report is- **Pender continues on D5**



JAMES TEMPLE
Dot-
Commentary



KATHLEEN PENDER
Net Worth

AUTOMAKERS

A tale of 2 high-tech car companies

As Tesla prepares to report its first quarterly profit, Fisker struggles and appears headed for bankruptcy

By David R. Baker

Come Wednesday, Tesla Motors will report its first profitable quarter ever, as drivers snap up the company's pricey and powerful electric cars.

Meanwhile Tesla's onetime rival, Fisker Automotive, is expected to file for bankruptcy any day now. Based in Anaheim, Fisker fired most of its staff last month and hasn't built a car this year.

The two California startups

shared similar dreams. Both wanted to make plug-in cars that could snare buyers through sheer sex appeal, something the previous wave of electric vehicles never tried.

Both marketed to the rich, trying to initially sell small numbers of very expensive cars before rolling out more affordable models over time. Both received big government loans to make those dreams real.

So why is Tesla thriving while Fisker fades out?

Analysts credit differences in strategy and timing. There's also an element of luck. Fisker, after all, lost a shipment of more than 330 cars to Hurricane Sandy last year when the storm plowed into the New Jersey port facility where the vehicles were parked.

More importantly, however, analysts point to differences in the cars each company produced.

Tesla's Model S, introduced **Cars continues on D7**



Fisker Automotive

The Fisker Karma, introduced at the 2008 Detroit Auto Show, is a hybrid. The company is facing bankruptcy.

BUSINESS The Chronicle with Bloomberg

High-tech car companies see different fates

Cars From page D1

last summer, has received mostly stellar reviews for its performance, comfort and quality. Priced from roughly \$70,000 to \$95,000, it now outsells comparable luxury sedans from such established brands as Audi and BMW and has fast become a status symbol among well-heeled Californians.

Glitches and bugs

The \$100,000 Fisker Karma, in contrast, developed a reputation for glitches and bugs. Reviewers complained about its cramped interior, hefty weight and noisy engine. One Karma broke down on Consumer Reports' test track. Another caught fire in a Bay Area grocery store parking lot.

"Most of us who review cars for a living would say the Tesla Model S is a better product and a better value than the Fisker Karma," said Jack Nerad, editorial director and executive analyst at Kelley Blue Book. "But there's more to it than that."

Both businesses started out facing long odds. New car companies rarely survive, even when their cars feature familiar, gasoline-powered engines. Global companies with intricate supply chains and vast dealer networks dominate the market.

"To put it in perspective, the normal scenario for new car companies is that they don't make it," said Jeremy Anwyl, chief

executive officer of the Edmunds.com auto information service. "When you think about Fisker and Tesla, the remarkable thing is that Tesla is still around."

From its beginning in 2003, Tesla CEO Elon Musk focused on building pure electric cars. The Palo Alto company's two cars to date, the Roadster and the Model S, run on nothing but batteries. Fisker took a different approach, choosing to make advanced hybrids instead. For the first 32 miles of a trip, the Karma operates as an electric car. Then it switches on a gasoline-powered engine.

At one point, the two companies were partners. In early 2007, Tesla hired a predecessor of Fisker Automotive — Fisker Coachbuild — to design an all-electric sedan that would follow production of the Roadster. Six months later, Fisker Coachbuild and another company, Quantum Fuel Systems Technologies Worldwide, formed Fisker Automotive as a joint venture. So in February 2008, Tesla sued Fisker for breach of contract, saying the company had taken Tesla's ideas and trade secrets to set itself up as a competitor. An arbitrator ruled in Fisker's favor.

Outsourced production

Both companies hired someone else to build their first car. Tesla contracted with Britain's fabled Lotus, while Fisker hired Valmet Automotive in Finland.



Sarah Rice / Special to The Chronicle 2011

The distinctive Fisker Karma, above, made a big splash at auto shows. Tesla's Model S, below, the company's second car, is less showy than its Roadster.



Mike Kepka / The Chronicle 2012

At the same time, both Tesla and Fisker planned to move production in-house for their second car models, opening factories in the United States. And due to the 2008 financial crisis, each was able to buy an abandoned American auto plant for a fire-sale price. Tesla got the New United Motor Manufacturing Inc. facility in Fremont for \$42 million, kicking in an additional \$17 million for some of the plant's equipment. Fisker bought the Boxwood Road Plant in Delaware from General Motors for \$20 million.

And in both cases, the federal government helped. Tesla won a \$465 million loan from a Department of Energy program encouraging auto companies to build cleaner, advanced-technology cars. The same program agreed to lend Fisker \$59 million. (The company received \$192 million before the Energy Department froze the loan, noting that Fisker had missed production milestones required by



Henrik Fisker and Elon Musk

(the loan agreement.)

For all the similarities, however, key differences separated the companies.

Fisker's founder and namesake is Henrik Fisker, a well-respected car designer. He gave the Karma a distinctive shape — a marriage of hot rod and rocket ship — that grabbed attention at auto shows. But his company relied on partners for much of the car's technology and used many parts off the shelf. The Karma's gasoline motor, for example, came from GM. A123 Systems in Massachusetts supplied the battery pack.

At first, this looked like a good way to keep costs down. But it meant that Fisker couldn't solve quality-control problems on its own. And when

A123 Systems filed for bankruptcy in 2012, Fisker was stuck. The company hasn't built a car since.

"They had a very different approach to how much they were willing to outsource," said Andrea Jaynes, research analyst with the Dougherty & Co. investment bank. "Fisker put the parts together, but a lot of the parts were designed individually and separately. The problem with doing that is you have no control when things go wrong."

And for Fisker, quality became a big issue. The company missed several release dates for the Karma, finally shipping the car in 2011. It was recalled twice, once for a faulty fan unit and again for a coolant leak that could lead to a battery fire. One Bay Area dealership received five Karmas in early 2012, only to see four of them quickly develop software glitches.

The Consumer Reports incident in March 2012 seriously damaged the car's already shaky reputation. The Karma pur-

chased by Consumer Reports died and had to be towed away from the track before the official driving test even began.

"Our Fisker Karma cost us \$107,850. It is super sleek, high-tech — and now it's broken," the product rating service reported on its blog. "We buy about 80 cars a year and this is the first time in memory that we have had a car that is undriveable before it has finished our check-in process."

Public scrutiny

Tesla's first car, the Roadster, went through two recalls as well, one to fix rear bolts improperly installed by Lotus, the other to better protect a cable for the car's back-up power system. But Tesla had the good fortune to recall those cars in 2009 and 2010, before government loans to green-tech companies had become the focus of intense public scrutiny. Fisker wasn't so lucky.

Despite a New York Times story this year that criticized the Model S battery pack's performance in cold weather, Tesla's sedan has so far built a reputation for quality. Anwyl said the company, which today employs about 5,000 people, used its experiences with the limited-edition Roadster to work out the kinks in its technology.

"They brought out the sports car, and they didn't really have any volume expectations there," he said. "It was all about testing things out. It allowed them to tiptoe into the car business. There was a lot of learning going on there."

David R. Baker is a San Francisco Chronicle Staff Writer. E-mail: dbaker@sfgate.com Twitter: @DavidBakerSF

Label aims to boost local goods

SFMade from page D1

has developed recently is what Janet Lees, senior director of SFMade, calls "artisanal manufacturing" — goods made in small, customizable batches.

That can mean quality products, but ones that carry higher price tags. Yet with the boom in the high-tech sector and a generally healthy San Francisco economy, Lees said, those price-points are supportable for now.

'Final transformation'

To be labeled SFMade, Lees says, the "final transformation" of the product must happen within city limits. So though Joe Luttwak's Blackbird Guitars sources materials from around the world, it makes the handcrafted instruments in the Mission.

The carbon fiber-body guitars and ukuleles represent something of an emblematic crossroads. While the instruments are acoustic — a millennium-old technology — the bodies are modeled on computers and built with high-tech routers. "We can set up the guitar before we cut anything," he says. "Twenty years ago? Good luck."

Such efficiencies reduce the floor space needed for his factory. When he started in 2005, he designed the guitars with manufacturing in San Francisco in mind.

"That was the driver," he says. "We worked backward from there."

Luttwak joined SFMade during its inception and appreciates the resources and forums, but also respects how it has become a loud voice for San Francisco makers.



Lance Versen / The Chronicle

A sign at the Timbuk2 shop says its products are made locally.

"The important that The Mission is not just for bridge 'n' tunnels and dot-commers."

Web sales

Timbuk2, one of SFMade's larger members, was founded by a bike messenger in 1989 and its messenger-style bags, it likes to say, have since become "the unofficial briefcase of high tech culture." Today roughly 95 percent of the company's sales are through its website; it opened just its second retail store on Saturday in Seattle.

Luttwak says his sales are not dependent on Silicon Valley's health. Blackbird guitars do about half its business through its website — "The margins are through the roof" — and the other half through retailers around the country.

Tony Meneghetti, Timbuk2's chief operating officer, notes that the city of San Francisco clearly wants to create more jobs, but points out that its under "conflicting pressures" when figuring out how to build a business tax base. He points to sweetheart deals like the one the city cut with tech

giant Twitter to keep its headquarters in SoMa as an example.

"We don't see those," he says, though he readily acknowledges Twitter has a larger impact the city's finances.

While more recent payroll tax breaks by the city will make Timbuk2's tax burden "more favorable," Meneghetti says that moving the San Francisco factory to the outskirts of the Bay Area would be far cheaper in terms of property expense. But he says that financial benefit would be outweighed by losing the SFMade distinction — and the available talent pool to manufacture and market the high-end bags.

"We've learned to live here and adapt," he says. "We've never considered moving."

SFMade executive director Kate Sofis points out that certain sectors, like food and beverage, face a different hurdle: a dearth of contract manufacturers — large factories that handle capital-intensive tasks like packaging food or bottling drinks.

In the past, startup food companies could focus on their product and not worry about buying and managing heavy equipment. Without that infrastructure available, small food companies here have trouble making that leap to larger production and distribution.

"If we don't start to build some of this, we're going to lose the amazing food companies we're incubating," Sofis says. A solution that has worked well for New York City — where a group is relaunching a similar "Made in New York"

SFMade Week

San Francisco's maker culture shows off its wares all week with a series of tours, discussions and, of course, a party.

Tours: Choose from among five to 10 factory/workplace tours at various times Monday through Friday. Among the businesses taking part: Rickshaw Bags, Blackbird Guitars, Anchor Brewing, Mission Bicycle and T-We Tea.

Discussions: The Intersection of Design, Craft and Technology, 6 p.m. Monday, Tech Shop Annex, 810 Howard St. Making it in SF — Understanding and Leveraging Local Resources and Networks: Tuesday, 6 p.m., Tech Shop, 926 Howard St.

Party/Fundraiser: "Ramp It Up! Making It Real" Wednesday, 6 p.m., Heath Ceramics, 2900 18th St.

More information: www.sfmade.org

campaign — is use of the Brooklyn Navy Yard. The industrial area is run by a nonprofit group. The idea is to lower building and rehab costs for industrial real estate and create industrial-specific areas less subject to sharp economic fluctuations.

A similar project would be well-suited for underdeveloped, yet industrially zoned areas, like the Central Waterfront and the Bayview area, she says.

Bursting bubble?

The sometimes struggling "maker" community has a funny kind of symbiotic relationship with the booming tech sector. While the latter drives up rents and can make manufacturing space scarce, its armies of workers are often significant patrons of many locally made goods. Thus, with venture capital seemingly flowing in the streets, SFMade companies can charge a premium for their products.

But with that economy spurring myriad apps of debatable business merit and high-profile stock flops like those for Group- and Zynga, many worry that another bursting tech bubble may be around the corner.

SFMade is aware of such a possibility. "Eat while the buffet is full," Sofis says, but adds: "While we're feasting, we need to be managing the back end of the house." SFMade advises its members on how to navigate regulations and taxes and manage capital. Companies that build customized goods sold through their websites usually don't build product until they receive an order — avoiding inventory surpluses.

Were the bottom to drop out of the tech sector, some manufacturers could in fact benefit. Plunging rents and lower cost of living might help an already-lean business — like those with a sizable customer base outside the city. At least half of SFMade member companies ship goods outside of the United States, Sofis says.

The Bi-Rite model

The busy kitchens for Bi-Rite Market are nestled in and around the flagship store on 18th Street, which is soon to celebrate its 50th anniversary. The smell of freshly cooked local produce drift through the aisle as shoppers fill their baskets.

Community director

Shakira Simley says that among its various enterprises, Bi-Rite employs more than 250 people in San Francisco. A second store opened on Divisadero in March, but currently the Bi-Rite members is content to sell its branded products only through its own stores rather than seek out larger channels such as Whole Foods.

By contrast, Anchor Steam's beers are now sold in 17 countries. The company would have run out of room in its bottling plant in the next two years, Greggor says. But with support from SFMade, Anchor worked with the city and the San Francisco Giants to develop plans for another factory in a new development just south of AT&T Park.

"In search of trying to squeeze out a few more dollars, moving is not really within our strategic aim," he says. "The overriding concern was staying in the city."

Next generation

SFMade is also thinking about the future. Luttwak notes that one of his most recent employees was hired via SFMade's job board. "I didn't know people went anywhere but Craigslist anymore," he says.

Also, in partnership with youth development outfit Yuma Ventures, this summer the group will launch YouthMade, a program for low-income, college-bound high school students to intern at about 10 member companies.

"We're preparing the next generation to think about what manufacturing will look like," Lees says.

Caleb Garling is a San Francisco Chronicle staff writer. E-mail: cgarling@sfgate.com