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Talent War Crunches Start-Ups

By [PUI-WING TAM](#) And [STU WOO](#)

SAN FRANCISCO—Internet start-ups across Silicon Valley are struggling to compete for talent amid the investment frenzy gripping Facebook Inc., Twitter Inc. and Zynga Inc., with many smaller companies beefing up pay and recruiting and wading into the private-company share market to keep pace with their larger rivals.



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Bloomberg News

Tagged CEO Greg Tseng, shown in 2010, says he has fielded queries from some workers on how they can cash out of their private shares.

Online real-estate brokerage Redfin Corp. is feeling the fallout. The 200-person company, which is based in Seattle and has offices in San Francisco, typically hires new engineers fresh out of college, relying on competitive compensation and the allure of working at a profitable start-up.

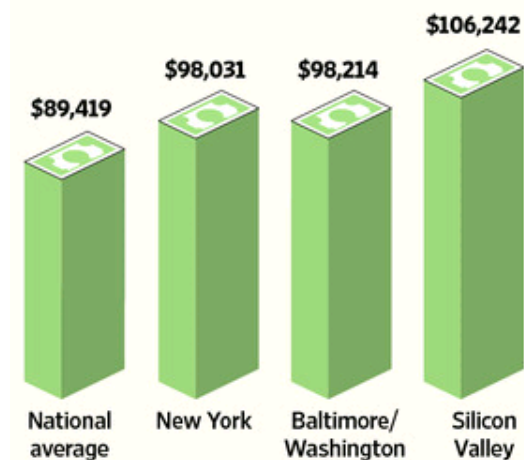
Redfin said it has recently been up against salary-and-bonus offers of \$100,000 to \$150,000 a year for new college grads from social-gaming start-up Zynga, among others—far above the \$80,000 or so a year Redfin would normally offer.

"Zynga and others have introduced such great financial incentives that it's hard to win candidates anymore," said Glenn Kelman, Redfin's chief executive.

He added that he has since increased Redfin's compensation offers to recent college grads—though that hasn't prevented it from losing some potential recruits to competitors at the center of the Web boom that attract deep-pocketed investors. (J.P. Morgan has been in talks for a stake in Twitter, said people familiar with the matter Sunday.)

Silicon Valley Froth

Average annual salaries for software engineers in Silicon Valley versus other parts of the nation in 2010



Source: Dice Holdings

"To get top-flight engineers, we now have to play in Facebook's and Zynga's world," added Mr. Kelman.

Colleen McCreary, Zynga's chief people officer, acknowledged that the hiring environment has become more "aggressive" in the past two months. She said Zynga, which is known for FarmVille and other games played on Facebook, has been "exceptionally lucky to ride a little of the buzz wave."

She added that the San Francisco-based start-up, which now has more than 1,500 employees and expects to nearly double its work force this year, offers compensation in line with other tech companies like Facebook, but declined to give specifics.

Redfin's experience shows how the Web boom surrounding Zynga, social-networking site Facebook, microblogging service Twitter is spilling over to other Web start-ups.

Flush with funds from investors eager to buy a piece of their rapid growth, Facebook, Zynga and Twitter have been on recruiting tears with robust job offers, raising the compensation bar for others start-ups.

At the same time, Facebook and other have allowed some employees to cash out of their private-company stock, putting pressure on smaller start-ups to set up similar programs.

Some of the boom's effects became apparent in 2009, following the recession—particularly the escalating competition for talent. Giants like [Google Inc.](#) have already responded. Last year, the Internet-search company

gave a 10% raise to all employees. But the pressure has picked up following recent investment rounds for many Web start-ups.

Facebook in January raised more than \$500 million from [Goldman Sachs Group Inc.](#), valuing the fast-growing company at \$50 billion, while deal-of-the-day start-up Groupon Inc. closed on nearly \$1 billion that same month, and Twitter raised \$200 million in December.

Zynga, meanwhile, has been in talks for new funding of as much as \$500 million that would value it at as much as \$10 billion, people familiar with the matter have said.

Greg Tseng, CEO of website Tagged Inc., which allows people to meet online, said he has recently fielded queries from his employees about how they can cash out of their private-company shares, given that Facebook has sometimes allowed employees to liquidate their stock.

Private-company share trading is tricky because it potentially raises financial disclosure issues and can bring unwanted investors into a company; the Securities and Exchange Commission has recently scrutinized the practice.

As a result, "it's not something I'm actively seeking out like, 'yes, give me more shareholders,' " said Mr. Tseng, who co-founded Tagged in 2004. But, with some of the company's 64 employees having worked there for more than four years, he said he realizes it is "good to let them cash out and show that they have real value to their stock options."

Facebook declined to comment.

In January, Tagged also gave a 10% across-the-board raise to its employees. Mr. Tseng said the move was a reward for a strong 2010, but added that "we definitely keep a pulse on compensation, and we always like to pay above market."

Tagged, in addition, launched an unlimited-vacation policy for its employees last September, he said. That means Tagged's workers can take an unlimited amount of time off, as long as they are getting their work done.

The talent wars are frustrating for many start-ups where engineers are prized.

"We have people who walk in through the door and they like what we're doing, but they've already got four offers from big companies," said Rich Skrenta, CEO of Blekko, a search-engine company in Redwood Shores, Calif. "A significant fraction of them go elsewhere. ... They'll say, I like what you're doing, but I'm going to Twitter or Facebook," he said.

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