

Strange bedfellows or friendly neighbors?

Umbria Communications in Boulder, Colo., captures and analyzes unsolicited opinions culled from the musings of nine million bloggers per day using language processing technology.

Invoke Solutions in Wellesley, Mass., provides a software platform that gives online focus groups a whole new meaning, accommodating up to 175 participants and 30-40 observers with high performance and real-time analytics.

MarketRx in Bridgewater, N.J., applies sophisticated analytics to pharmaceutical company data, combines it with primary research data using its physician panel, and delivers sales optimization projections to 16 of the top 20 U.S. pharmaceutical manufacturers.

What's the common thread between these companies? They are private market research organizations that have all obtained venture funding since 2001. And they're not the only ones.

Key component

Market research has never seen the level of venture involvement that high-tech, communications or bio-tech have enjoyed. However, venture capital has been a key component in the growth of many companies that have pioneered new research methods.

In the dot-com era of the mid-to-late 1990s, venture capital investment swelled to record highs, peaking at over \$100 billion in 2000, and dropping off sharply around 2001 when the high-tech investment bubble burst. By 2003 less than \$20 billion annually was invested. During the heady investment period of 1995-2001, several market research companies obtained venture funding, particularly those positioned to lead the industry toward online data collection.

A partial list of companies funded from 1995 to 2001 reads like a Who's Who in online research brand awareness: Greenfield Online, MarketTools (Zoomerang), Harris Interactive, E-Poll, Insight Express. Many of those former start-ups are now brand-trusted incumbents in a fairly mature online survey business.

As higher-bandwidth consumer Web usage has become more mainstream, new possibilities for more directly connecting companies and consumers emerge, creating entrepreneurial opportunities



By Julianna Berry

Venture capital and market research

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and corresponding venture interest. And indeed, though venture investment levels in general, and in market research specifically, are much lower today than in 2000, some innovative companies offering market research products and services are still attracting investor attention.

Standing start

What do VCs look for? "Venture capital looks for companies that can go from a standing start to a highly valued company in five years," says Steve Bowsher, general partner with InterWest Partners in Menlo Park, Calif., an investor in MarketTools (owners of the Zoomerang brand) and in RHK. "A lot of sectors need to build companies over a longer time, and though they can build valuable companies, it may not be in a venture-like time frame."

Anthea Stratigos, co-founder and CEO of Outsell, Inc., an advisory firm tracking the information industry, agrees. "VCs are looking for the next Google, Yahoo or Apple. They're looking for the next big thing. They want companies that can scale up quickly, which may not be a realistic goal for most market research companies. Those that are fundamentally reengineering the way market research is done may have those rare instances of scale."

A successful exit strategy is a key criterion for venture investment. Some of the bubble-era investments have already exited well. Harris Interactive went public in December 1999. WebSideStory had an initial public offering in February 2004. Greenfield went public in July 2004. MarketTools remains private with strong growth (see sidebar).

Why would a VC invest in market research now? Steve Bowsher of InterWest Partners explains, "Though market research is a fairly mature industry, growing at close

to gross domestic product rates, the segment of Internet research is increasingly grabbing a larger portion of the market, and can achieve near venture-rate returns."

There are other reasons for venture capitalists to add research firms to their portfolios. Hugh Tietjen, a partner in Rutherford Group, founded Computer Intelligence (now Harte-Hanks Market Intelligence) in 1969, and today sits on the boards of three market research companies: RHK, Primetrica and Current Analysis. He believes investors build relationships with market research not only for big exits, but also "to give them a window on the industry." Tietjen says VCs invest in specialty market research "to have access to top-level analysts, which helps them, when making another equity investment, to get the background information they need. It also helps them look good to entrepreneurs, perhaps justifying higher prices, because of the expertise they bring."

Tietjen says that most of the VCs on the board of RHK were investors in other telecom startups. When Gartner Group was started, Bessemer Venture Partners was the only VC firm involved, and since they were actively making IT investments, a relationship with Gartner made sense.

Three types

When VCs are looking at market research companies to invest in, they look for three types of opportunities, according to Outsell, Inc.'s Anthea Stratigos:

1. Verticals: companies doing in-depth research into new, emerging or growing vertical markets, such as pharmaceuticals, telecommunications, optics.
2. Methods: companies developing new tools or methods of data collection, such as online surveys and newer paradigms.
3. Customer experience manage-

ment: companies enabling market researchers to obtain data and perform analytics on their own customer interactions, especially over the Web.

Recent investments bear out this three-pronged theory.

• Vertical markets

MarketRx and RHK are examples of market research companies that have hitched their wagons to specific industries of present interest to the investment community.

MarketRx

According to President and CEO Ja swinder (Jassi) Chadha, pharmaceutical companies spend nearly \$30 billion per year on marketing. "We help our customers improve their returns on that investment." What distinguishes MarketRx from other companies providing pharmaceutical research, Chadha says, is a suite of proprietary tools that can mine mountains of data already captured by pharmaceutical companies. "It's a data-rich industry. I can't think of any other industry that tracks more information. You can look at that history and do a good job of predicting what the future will be."

MarketRx boasts Pfizer, Merck, Bristol-Myers Squibb, Johnson & Johnson, AstraZeneca, Novartis and many others on its client list. It has raised \$14 million in venture funding so far, yet its current assets are greater than the amount raised. "That's very attractive to any investor," says Chadha. "We're leveraging the capital and not spending it."

RHK

RHK, which tracks the optical telecommunications equipment industry, raised \$6.3 million from three venture investors and a private fund in June 2000, when the optical industry was still growing rapidly. Its clients include Siemens, Alcatel, Marconi, Lucent, Ciena, Cisco, Nortel, Fujitsu, NEC, Hitachi, Agilent, Mitsubishi and

many others.

CEO John Soden is himself a venture capitalist by background. Soden believes that technologies that shape future research aren't the vehicle in market research to start a business. "The primary issue is, who are the clients, what is the information they need, and how do you get close to them? It's more likely that a sustainable customer advantage can be gained by first focusing on a specific customer decision-making issue or process than on the delivery method."

- Methodology

The founders and investors involved with Umbria Communications and Invoke Solutions would probably disagree with Soden. Both companies are developing Internet-based technology platforms that could radically reinvent the way market research is done. Both see extensions of their platforms beyond traditional market research and into other corporate functions. Both are growing rapidly, and both have raised rounds of venture funding as recently as the first quarter of 2005.

Umbria Communications

Howard Kaushansky, founder and CEO of Umbria Communications, believes that a blog-based market research company was the inevitable convergence of two realities. The first is that traditional market research relies on answers to questions, which cannot escape bias, and which are point-in-time bound. The second is that the explosion of Web log (or blog) usage has created a vast universe of unbiased, spontaneous consumer opinions, waiting to be profitably harvested. "Companies compete today less on product differentiation and more on brand and image," says Kaushansky. "Competing on brand means your momentum within public opinion becomes critical."

Umbria's platform mines over

nine million Web logs each day, searching for references and comments on their clients' products. Using sophisticated linguistics algorithms, it can derive gender, location and other demographic specifics about the bloggers, and provide clients with weekly updates on attitude shifts regarding their products. In the fourth quarter of 2004, Umbria saw 400 percent sales growth.

"When you marry notions of 'what are people talking about' with 'who is doing the speaking,' you end up with very structured, very traditional-looking market research," says Kaushansky. "You get focus group-level information, weekly, without bias, from thousands of consumers rather than seven or eight."

Tom Washing, managing partner at Sequel Venture Partners, is an investor in Umbria. (Sequel also invested in Harris Interactive.) Washing says, "Customers are ecstatic about the information they're getting. It's more organic. They can be more of the 'fly on the wall' that they really want to be."

Invoke Solutions

Invoke Solutions has raised over \$20 million over a series of several rounds since its inception in 1999. It grew in revenue by 70 percent in 2004 and projects over 100 percent growth for 2005, with customers such as Nestle, Pepsi, Marriott and Unilever. But it didn't set out in the beginning to be a market research company at all.

The founders were trying to solve the problem of prohibitively sluggish performance in online learning systems once more than a few participants were signed in. They developed a platform where today up to 175 users can participate in a session, viewed by 30-40 observers who can redirect the dialogue if desired. Suddenly the application to market research and online focus groups was obvious.

An Invoke session combines some of the strengths of online focus groups and online surveys with high speed and performance, regardless of users' processor speed. Executives can observe the sessions as they take place, ask questions on the fly, and see the results instantly, polling the audience for agreement with individuals' statements.

"We can submit individual responses anonymously back out to the pool and say, 'Thumbs up, thumbs down, do you agree with this?'" says Corey Torrence, Invoke's CEO. "Our objective is to have Invoke become a verb for Global 2000 companies. We've had clients say to us: 'There are certain major decisions we don't like to make without Invoking the issue first.'"

Torrence sees an opportunity to use the Invoke platform for other functions besides product or concept testing. Clients now use Invoke internally for employee feedback studies. Invoke markets this service as its "Human Resource Management" offering, which has seen a growing demand. "I'd like to say we dreamed up this new offering, but I can't," says Torrence. "A client actually approached us and said, 'This would be really helpful with some of our employee issues. We feel we can't get a finger on the pulse of key issues disrupting our workforce.'" Company executives believed, based on an earlier focus group and an internal survey, that compensation was the root of the morale problem, but found after Invoking the question that compensation wasn't even on the Top 5 list of employee concerns.

- Customer experience management

As technology has enabled companies to become more responsive to individual consumers, a new hybrid technology has emerged: customer experience management, which straddles the divide between

MarketTools: a case study

First founded in 1997 with nearly half a million in individual or "angel" investment, MarketTools obtained its first institutional round of venture funding in November 1998, raising \$4 million from ComVentures and Capstone Ventures. In December 1999, MarketTools raised \$25 million more from a syndicate of six VC firms, with Dominion Ventures leading the round. InterWest Ventures, Monitor Clipper Partners, and Oak Hill Venture Partners were other new entrants. In March of 2001, several additional new investors joined forces to raise another \$20 million, notably including two of their clients as corporate venture investors, General Mills and Procter & Gamble.

With nearly \$50 million raised, how is MarketTools doing today? According to Beth Rounds, senior vice president for business development, MarketTools has enjoyed 75 percent year-by-year growth since 2002. Most of its business is customer relationship management and market research. These platforms use various means to harvest user feedback throughout the online experience.

While such companies use a variety of terms to describe themselves - and generally "market research" isn't one of them - these means of delivering and utilizing customer experience data have secured funding from numerous investors for several start-ups. Telespectrum Worldwide (IPO 1996), CusomerLinx (first funded 1998, still private), Vividence (first funded 1999, acquired 2004 by Keynote Systems), and Satmetrix Systems (first funded 1999, still private) are all examples of such companies.

The future?

What do VCs see as the future of market research investment oppor-

custom research services performed under the MarketTools shingle for corporate and manufacturing clients in the consumer packaged goods industry. Zoomerang, its online self-service survey administration platform, accounts for approximately 15 percent of its annual revenue. "One advantage we've had," says Rounds, "is that we're still a relatively young company, born out of the Internet. Traditional market research firms have legacy systems they have to battle - tremendous investments in infrastructure and technology. MarketTools wasn't encumbered in that way, and it's remained much more nimble."

Rounds believes that MarketTools' competitive edge lies in its abilities to make deep inroads into their clients' organizations. "Manufacturers are looking for consumer insight systems that are multi-faceted. They want to be able to mine the information and make it easily usable, in almost real-time, with the ability to im-

mmediately import it into PowerPoint for management presentations. The question has been, how do you use technology to enable that? If you've got the panel, the people and the technology to do everything from exploratory to heavy-duty confirmatory work, and you embed your systems into the organizations at large companies, you've got a compelling offering." MarketTools is still private and has not yet made the big exit that VCs seek. But Steve Bowsher, general partner with InterWest Partners in Menlo Park, Calif., and an investor in MarketTools, says, "We fully expect MarketTools to be a win. MarketTools has continued to achieve significant levels of growth." And even if online surveys are no longer the hot new thing, Bowsher says, "We'll still remain competitive. People are still using them and increasing their use of them. MarketTools is well-positioned because it got its lead when they were the new thing."

just look at the opportunity." **Good reason to invest** Natural ties connect the venture and research communities. Whether for strategic alliances with top-level analysts, or for purely financial wins, VCs have good reason to invest in research. Many venture capitalists perceive themselves as market researchers, reviewing hundreds of start-ups per year, and performing deeply-drilled due diligence research on industries of interest. While it is unclear whether venture investment in market research will ever again rise to the levels enjoyed prior to 2001, venture capital will continue to have a presence in the research industry, using its capital and its strategic insights to influence where and how research is performed. | Q

opportunities? David Brown, managing partner of Oak Hill Venture Partners in Menlo Park, Calif., says, "Armed with the ability to use IT, market research is going global. Venture capital's future involvement will probably increasingly take the form of growth private equity or later-stage venture investment, with a lot of consolidation of smaller companies taking place." Mike Krupka, a managing director at Bain Capital in Boston and investor in Invoke Solutions, is less concerned with industry than opportunity when assessing potential investments. "If we found a highly differentiated technology that we thought could be big, focusing only on the market research industry, that's fine. It could just as easily be selling to the milk industry, or to real estate. We don't think any industry is bad; we