

Analyze This: Social Analytics Gain Traction

As corporations try to attract and engage customers online, social analytic startups are measuring their impact and raising huge amounts of capital

Tom Stein
Contributor

Social media sites like **Facebook**, **Twitter** and **Pinterest** still get all the attention. But for corporations, the emphasis is not just social media outreach, but social analytics—namely, tools and technologies that can turn their online engagement and the resulting flood of data into potent new revenue streams.

That's why VCs are pouring huge amounts of capital into dozens of social analytic startups. Here are some recent deals:

- **Curalate**, an analytics developer for Pinterest and Instagram, landed \$3 million from **New Enterprise Associates** and **First Round Capital**;
- **PeopleLinx**, a LinkedIn-focused analytics firm, secured \$3.2 million from **Osage Venture Partners** and **Greycroft Partners**;
- **SocialFlow**, a New York-based provider of social marketing optimization technology, raised \$10 million in Series B funding led by **Fairhaven Capital**;
- **Socialbakers** cooked up \$6 million from **Index Ventures** and **Earlybird Venture Capital**; and
- **Dachis Group**, a social analytics platform, raised \$7.5 million in Series C financing led by **Austin Ventures**, bringing the company's total funding to \$58.5 million.

The ultimate winners are still unclear, but companies that help marketers transform data into dollars could become some of the most successful venture investments over the next year or two.

Perhaps the real story behind the rise of social analytics is the evolving role of the marketing department. Marketing was once a backwater in terms of technology adoption. Not anymore.

By 2017, the chief marketing officer will spend more on IT than the chief information officer, according to research firm **Gartner**. Businesses are now discovering that they can leverage big data and social analytics to uncov-



The applications Facebook and Instagram on the screen of an iPhone. Startups like Curalate are raising venture funding to help corporations analyze data of their customers who use social media apps.

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er valuable marketing insights. Startups that cater to the needs of the marketing department could ultimately become the next billion-dollar behemoths.

Most companies now realize that their social media presence is critical to attracting and engaging customers. Still, a major source of frustration is measuring the impact of their efforts and trying to pinpoint the exact return on investment.

"Marketers are thirsty for meaningful social data," says **Chris Pacitti**, a general partner at Austin Ventures, who led the firm's investment in Dachis Group. "Which networks have the right social amplification? How many people

are retweeting this ad or that piece of content? Who are your most influential advocates? Which 30 people from this group of 10,000 are having the most impact, and how can we further engage with them? This is blow-your-socks-off stuff."

That's why social analytics is gaining traction so quickly. When Earlybird Venture Capital backed Socialbakers in 2011, the company had just hit their first \$100,000 in monthly revenue. Today, it has annual revenue of \$35 million. Among the company's 3,500 customers are global brands like **L'Oreal** and **Samsung**.

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Earlybird Venture Capital

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revenue than competitor **Buddy Media** had when it was acquired by **Salesforce.com** for \$689 million last year. He expects acquisition activity to quickly heat up in the social analytics space.

Among other notable acquisitions to date, Salesforce snapped up social analytics trailblazer **Radian6** for \$326 million, **Google** bought social marketer **Wildfire Interactive** for \$350 million, and **Oracle** acquired **Vitruve** for \$300 million.

"The buyer universe is looking very attractive right now," Whitmire says. "There are still a lot of big players who haven't put their cards on the table yet. Large software players like Oracle and Salesforce have tucked in social analytic assets. But others, like IBM, SAP and **Adobe**, will ultimately have to make moves in the space too. So it is getting really exciting as the dust settles."

Whitmire may be getting ahead of himself.

analytics play," he says. "There is a good footprint of quality companies out there right now, and less whitespace in the market."

Of course, not everyone goes along with this viewpoint. After all, the social world can change in a heartbeat.

"Something like Pinterest can leap on the scene and become one of the fastest growing sites ever, sending more traffic to brands like **Martha Stewart.com** and **Williams-Sonoma.com** than Facebook and Google combined," says **Patrick Chung**, a partner at NEA who led the firm's investment in Curalate, which provides analytics for Pinterest and Instagram.

Curalate competes with another new analytics startup called **Piqora**, which recently raised \$1.4 million from **Freestyle Capital** and **Baseline Ventures**.

Chung says that, for many brands, Pinterest is this mysterious box that drives enor-

ture of the sweater on his blog, which was then pinned by thousands of his readers.

"Curalate matches the two images so the retailer can understand there is this influential fashion blogger in Brooklyn, and every time he posts a picture of one of their items, sales rise 50%," says Chung. "Before, there was no way to figure that out."

So why can't Pinterest, or any social media site for that matter, simply introduce their own set of analytics and put all these other startups—companies that feed off their ecosystem—out of business?

"Anytime you invest in a company that is operating in an ecosystem of a larger player, that is always something that you need to look at," says **Nate Lentz**, a managing partner at Osage Venture Partners and an investor in PeopleLinx, which develops analytics for LinkedIn. "Is this a risk? Sure it is. As a stand-alone social analytics company, you really

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After all, Salesforce recently revealed that Buddy Media was losing more than \$40 million a year and that it was cutting jobs in its social media marketing unit.

Still, he expects to see a few big winners in the next six to 12 months, with Socialbakers and one or two other well-funded players, such as **HootSuite**, as the most likely acquisition targets. As for the rest of the players, he says companies that so far have failed to gain significant market traction or land global customers will be left in the cold.

"There is a bunch of companies that would like to be sold, but not everyone will be," Whitmire says. "The buyer universe has about 10 or 12 large companies, and after that you really have to step down."

Austin's Pacitti agrees that a new wave of consolidation is on the horizon as enterprise software players look to beef up the marketing function with a robust analytics offering. He argues that for VCs looking to invest in the space, it's probably already too late.

"It's getting harder to stand up a new social

amounts of customers to their site.

"They don't really know who these people are, what they like, and what else they're looking for," he says. "Analytics sheds light on that. It opens the box and lets people see what is going on inside. For the first time brands have the opportunity to discover what consumers really care about at a product and content level. That's something they never had that before."

Chung argues there is absolutely room for a new player like Curalate in the market because no one else is doing social analytics quite the way it is.

"Our competitive advantage is that we are the only company using visual analytics, while other companies rely on keyword matching or URL matching," he says.

Chung explains it this way. A fashion retailer suddenly starts seeing a spike in sales for a particular sweater, with much of the traffic coming from Pinterest. With Curalate, the retailer can go deeper and discover there is fashion blogger in Brooklyn who posted a pic-

ture of the sweater on his blog, which was then pinned by thousands of his readers.

The other risk for investors in the social space is that everything can change overnight and absolutely nothing is guaranteed. "Everybody can wake up tomorrow and suddenly the social graph has died away," says Earlybird's Whitmire.

For example, a recent **Piper Jaffray** survey shows that interest in Facebook is waning, with just 33% of teenagers listing Facebook as their most important social network, compared to 42% a year ago.

Still, most people believe that social networks are here to stay, and that analytics is the best way for companies to monetize those platforms.

"The enterprise has woken up to the fact that social is critical to how they do business," Lentz says. "That means more dollars allocated to solutions that have a social analytics element."

Tom Stein is a Palo Alto, Calif.-based contributor. He can be reached at tom.stein@yahoo.com.

