A Dilemma of a Venture Capitalist

-Dr. Monika Aggarwal, Dean, CGC-Group of Colleges, Gharuan, India

Brief History:

Odeo, a start up of Odvious corp. released a new service on July 15, 2006 called Twttr which is a sort of "group send" SMS application. Each person controls their own network of friends. When any of them send a text message to "40404," all of his or her friends see the message via sms. Users can also post and view messages on the Twttr website, turn off text messages from certain people, turn off messages altogether, etc. There is also a status widget available that can be placed on a website. People started using it to send messages like "Cleaning my apartment" and "Hungry". They added friends via text message, nudge friends, etc. They felt that it really worked as a social network around text messaging. Though there were some problems as one of the user Michael Arrington wrote, "I like the service although I was not able to sign up for it myself (someone added me at the same time I tried to register directly, the result was lockout of my phone number). I've been playing around with someone else's account until I can figure out how to get my number sorted out. There is also a privacy issue with Twttr (Michael Arrington, 2010). Every user has a public page

Fund Raising Exercise:

Twitter raised a $5 m round on a $20 m pre valuation (Michael Arrington, 2007). In its second round it raised $15 m from Union Square Ventures, Bezos Expeditions, Spark Capital, Digital Garage, Kevin Rose, Tim Ferriss. In its third round the new investors Spark Capital and Bezos Expeditions come on board. Spark partner Bijan Sabet joined the Twitter board of directors. Till this round the business model was not disclosed as in the post, Twitter cofounder Biz Stone talks about their aspirations to become a communications utility, and not to worry about the business model too much until their infrastructure is stable. Michael Arrington, 2008 in his post agreed that Twitter is on track to become an indispensable service. Twitter is still a relatively small service, but users are averaging at least 15 twitter messages per day, meaning they are highly engaged. If they can get the platform stable, I believe they will eventually become as ubiquitous as email, instant messaging, sms and other forms of communication (Michael Arrington, 2008) (see annexure 2).

It was on October 5, 2009 when Twitter raised its most recent round of funding at $1 billion, a few players were noticeably absent, including Union Square Ventures and Charles River Ventures. Charles River Ventures is focused on using a $325 million fund for early stage investments. Participating in a high-valuation round means too large a share of the fund goes to too few companies, said George Zachary, a partner at the firm. The firm entered when

twitter was scarcely a verb and the service was highly controversial because it provoked heated arguments over why anyone would ever want to constantly post their thoughts in 140-character bits. As pointed out by Saar Gur CRV partner, "A lot of folks claim that Ev [Williams] and Biz [Stone] are not great managers but I would argue that they are perfect for the type of company that they are building. The community wants them to win; they are telling them what to build and how to build it." The Charles River Ventures is already riding a 40X return on its initial investment in Twitter, when the company was valued at $25 million (Kim-Mai Cutler, 2009).

In the meeting hosted by investment banker Allen & Co. on further fund raising exercise top Media Execs Wonder How Twitter Will Make Money? (Michael Liedtke, 2009). The doubts on Twitter's money making potential were raised. It was observed that the Twitter was a great communications tool, but the question is, how the online messaging service was going to make money. One of the first sessions focused on how to capitalize on digital media. Twitter quickly became a focal point of the discussion because it had emerged as one of the Internet's fastest-growing services in 2009. But Twitter is not making profits from its popularity yet. It raised a brow on how the 3-year-old startup intends to pay its bills after it exhausts its $55 million venture capital (Michael Liedtke, 2009). The participants on the panel moderated by media writer Ken Auletta of The New Yorker magazine predicted Twitter Inc. will face major challenges when the San Francisco-based company finally tries to generate revenue. Reporters were barred from the session — like all other meetings at the media summit — but Auletta confirmed the tenor of the Twitter talk afterward. Two of the panel participants, veteran media executive Barry Diller and cable television magnate John Malone, reiterated their skepticism about Twitter's moneymaking potential in separate interviews.

Malone, chairman of Liberty Media Corp., pointed that Twitter's best bet is to simply get people so addicted to the service that they might eventually pay fees. It's an idea that YouTube, the Internet's leading video service, might want to try. Malone said billionaire investor Warren Buffett confided that he enjoyed watching YouTube so much that he would be willing to pay a $5 monthly subscription for access. Although YouTube is more popular than ever, it still isn't making money nearly three years after Google Inc. bought it for $1.76 billion. Twitter's co-founders, Evan Williams and Biz Stone, hadn't revealed their business model, but indicated that advertising was low on their priority list. They suggested that they might impose fees on companies interested in mining the data about consumer preferences and peeves that pour into Twitter. In an interview before program began, Williams said he had been discussing possible deals with some of the conference's other guests but never

disclosed the name. Some of the most best-known people on the guest list arrived after the summit had begun. The late arrivals included Google CEO Eric Schmidt, Microsoft Corp. Chairman Bill Gates, basketball star LeBron James and Facebook Inc. CEO Mark Zuckerberg — another Internet whiz still trying to prove that his service for online banter will mature into a profitable business. Twitter raised $100 m.

Questions:

1. Why Charles River Ventures was not present in the fund raising exercise of 2009? Was it a right decision?
2. What are the promising points of Twitter which encourages venture capitalists to invest in?

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Twitter acquired Mixer Labs. (12/23/09)
Twitter received $100M in Series D funding. (9/25/09)
Twitter received $35M in Series C funding. (2/13/09)
Twitter acquired Values of n. (11/24/08)
Twitter acquired Summize. (7/15/08)
Twitter — Hires Rudy Winnacker and John Adams, two new Operation Engineers (6/23/08)
Twitter — Survives iPhone 3G Stevenote (6/9/08)
Twitter — Twitter partners with Summize to cover Apple news. (6/9/08)
Twitter — Launches a status blog to communicate to users better about issues with the service. (5/28/08)
Twitter — Twitter Starts Blacklisting Spammers (5/7/08)
Twitter received $15M in Series B funding
Twitter — VP Lee Mighdoll Leaves Twitter (4/24/08)

Annexure-2
Funding Series

Total	$160M		
Series A, 7/07 Charles River Ventures Union Square Ventures Marc Andreessen Dick Costolo Naval Ravikant Ron Conway Chris Sacca Greg Yaltanes Brian Pokorny	$5M	Series C, 2/09 Benchmark Capital Institutional Venture Partners Spark Capital Union Square Ventures Charles River Ventures Digital Garage	$35M
Series B, 5/08 Union Square Ventures Bezos Expeditions Spark Capital Digital Garage Kevin Rose Tim Ferriss	$15M	Series D, 9/09 Insight Venture Partners T. Rowe Price Spark Capital Benchmark Capital Institutional Venture Partners Morgan Stanley	$100M

Source: Compiled from www.twitter.com