



IVP's Chaffee: Why I Invested In Twitter

by Erick Schonfeld

Why did Institutional Venture Partners and Benchmark Capital just plow \$35 million into Twitter? I talked today with Todd Chaffee, the partner at IVP behind the deal, and asked him just that. His answer:

Our model is to find the winners and market leaders that are going to grow at a disproportionate level. Twitter falls in that category. Twitter is bigger than a lot of people realize and growing faster than a lot of people realize, but it has not hit the mainstream yet. It is just starting.

To Chaffee, Twitter is a new type of media property, pure and simple. He (conveniently) puts it in the same category as YouTube or Facebook. The bigger it can grow and the more addictive it can become, the more opportunities there will be for revenues from advertising and other sources. He says:

From a business perspective, it is a media property that is growing very quickly. These newer media properties that have emerged are massive compared to older media properties. [Some people say] Twitter is whatever you want it to be. But at the end of the day you have this open, one-to-many network, and to enable that is this platform. But who cares? The reality is that it is a network/platform which has millions of users and thousands of applications. Twitter does three things. It facilitates social connections with friends, colleagues, writers, and celebrities. The second is knowledge transfer. It is a real-time mechanism for tapping the wisdom of millions of people. The third is social expression. It is a mechanism for the global community to express itself.

Sounds good, but how will it make money? Chaffee is not so worried about that just yet:

I love that here is this cry for revenue generation out of a company not even two years old, Relax, it is coming.

But what gave him the confidence to invest? He ticked off four characteristics of Twitter that make it a potential game-changer.

Open. That makes it easy for others to build on top of Twitter and it also makes it searchable. **Real time.** It is a huge database of what is happening right now. **Ubiquitous.** You can get to it from just about any device. **Scalable.** (Don't laugh) **Persistent.** It allows for an archive of what is happening and what has happened, which is searchable (see No. 1).

Chaffee says:

[Twitter is] the only thing we've found that has all of those things. None of the other things out there - Facebook, YouTube, LinkedIn - has all of those variables. That is why Facebook tried to buy them.

With more than \$35 million in extra cash now in the bank, Twitter has a lot more time to figure out which business opportunities to pursue. For now, it's investors just want it to keep growing as fast as it can and make the jump from early adopters and celebrity users to the mainstream. But there are several money-making avenues it can pursue, from real-time search to premium marketing services for brands.

Twitter Raises \$35 Million

by Claire Cain Miller

Twitter has raised \$35 million in venture capital, bringing the microblogging start-up's total funding to \$55 million.

The new money came from Institutional Venture Partners and Benchmark Capital. Peter Fenton, a partner at Benchmark who has also invested in Web 2.0 darlings Yelp and FriendFeed, will join the Twitter board.

The fundraising round brings in two top West Coast venture firms. The San Francisco start-up had previously raised \$20 million from investors including Union Square Ventures, based in New York, and Spark Capital, based in Boston. Those firms will also participate in the latest round, as could previous angel investors including Ron Conway and Marc Andreessen, which could bring the total to \$40 million, said Todd Chaffee of Institutional Venture Partners. They are still working out the final details.

The company was not looking for new investors and still has money in the bank, said Biz Stone, a co-founder, in an interview. In December, Twitter C.E.O. and co-founder Evan Williams said that though he had originally planned to raise more money in 2009, when the economy turned, he decided not to. But the two new investors approached Twitter, Mr. Stone said, and "we went for it." Institutional Venture Partners closed its part of the deal on Jan. 16 and Benchmark closed its funding Thursday night.

The announcement from Mr. Williams appeared, of course, in fewer than 140 characters on Twitter: "We raised more money: <http://bit.ly/mbEO9> I feel very fortunate we were able to do this and very excited about what we will build. Go team."

"We're fired up," Mr. Chaffee said. "They've had unbelievably explosive organic growth like I've never seen before, and an amazing level of interest from developers, the digerati and the media. We really need all hands on deck to figure how to shepherd that growth."

Twitter will use the money first and foremost to hire new people. "We really need to grow the company," Mr. Stone said. "We have 29 employees, which is shockingly low considering the work we have to do."

Despite its growing popularity — active users have increased 900 percent in the last year, Mr. Stone said — Twitter has not earned a single dollar. It does not sell advertising on its site and is free for users. The company plans to slowly roll out a revenue plan over the next few months. That will likely include charging businesses for certain features they can use to talk to customers on Twitter.

Though Twitter has said that revenue is a priority in the first quarter of this year, the new money could buy the company some time. "I would much rather have this thing grow to natural scale than build in a revenue model artificially, too quickly," Mr. Chaffee said.

Mr. Fenton said he had been watching the company, which turned down a reported \$500 million acquisition offer from Facebook last year, for two years.

"They decided to partner with an active West Coast syndicate to vigorously pursue the path of independence," he said. "As a business opportunity, it jumped out to us as having many potential revenue streams that support, and don't undermine, its success."

Twitter: We Can Do What Google Can't

Venture Capital Backer Says Search Is Reason It Walked Away From Facebook Deal

by Michael Learmonth

Twitter sees lucrative opportunities in search, albeit a different kind of search than what Google offers, and, as co-founder Biz Stone told Ad Age recently, "we'll certainly be exploring those."

It's because of the potential it sees in search that the Twitter co-founders walked away from a \$500 million offer from Facebook -- not just the terms of the deal, said Todd Chaffee, an Institutional Venture Partners general partner and a new Twitter backer. He said contrary to some reports, Facebook offered not just stock but substantial cash in the deal.

Twitter's search engine, purchased with the acquisition of Summize last summer, bills itself as a search of "what's happening -- right now," and in Twitter's small but growing world, it is.

While being a searchable database of what is being said at a particular time is unique, it doesn't take Twitter too far afield from Google, which is a catalog of the world's recorded knowledge. Google looks back at what documents have been produced and can be surfaced, while Twitter looks back at what was said on a given topic.

Certainly there's an AdWords-like business there, but, as Mr. Chaffee told us, Twitter has another "wild card."

In the future, searches won't only query what's being said at the moment, but will go out to the Twitter audience in the form of a question, like a faster and less-filtered Yahoo Answers or Wiki Answers. Users would be able to tap the collective knowledge of the 6 million or so members of the Twitterverse.

"You put a question out to the global mind, and it comes back," Mr. Chaffee explained. "Millions of people are contributing to the knowledge base. The engine is alive. You get feedback in real time from people, not just documents."

Here's how it might work: Someone posts a query on, say, the best basketball shows (is @The_Real_Shaq listening?), or what to look for in a single-malt Scotch, or where to have a drink at 6 p.m. in New Orleans. Then the Twitter community (hopefully) comes back with useful links or other information.

It's the difference between asking the Twitter community where to go for drink after work and searching for any relevant tweets about a bar in New Orleans, which you can do now, and which may or may not yield relevant tweets.

Twitter users who make themselves useful have the added incentive of attracting more followers to their feeds. Like AdWords, this really only works if there's scale, and of the active Twitterverse transcends over-sharing journalists and social media "experts."

But it's one reason Twitter's founders and backers who have ploughed \$55 million into the company: They believe the best of Twitter is yet to come.

Twitter Eyes Search as Means to Monetize

Look Who's Talking Now: Plan to Parlay Real-Time Advantage Into Revenue

by Michael Learmonth

When Twitter closed on a \$35 million round of venture capital, in addition to the \$20 million it had already raised, the messaging service signaled that it intends to be a very big business.

Like its 6 million users, corporations have embraced the service. Its ability to take the measure of what is being said at a given time about brands is a potential gold mine for marketers, and it is the first place Twitter will look to generate revenue.

"There are companies and brands depending on it more and more and finding the insights valuable in how they make decisions," said co-founder Biz Stone. "What further can we do to help them?"

But selling services to corporate America isn't the kind of Google-scale business Twitter's founders and backers are banking on. What is? Well, maybe search. Last summer, Twitter bought search engine Summize and has recently started integrating search into certain user accounts.

Federated Media CEO John Battelle likens Twitter to YouTube, in that Google thought it was buying a video platform, but YouTube's real value may be that it has become the second-largest source of search queries. The difference is Twitter enables a search of real-time sentiment and conversation.

"Twitter owns its own search, which is more valuable than Twitter itself," said Howard Lindzon, an entrepreneur who launched one of a proliferating ecosystem of Twitter-based businesses, StockTwits.

'No rush'

At this point, all ideas are still at a whiteboard stage. Twitter hired its first business-development exec in January, and Twitter's new funders -- Benchmark Capital and Institutional Venture Partners -- want Twitter to continue to focus on growth before revenue. "It is a big, emerging media property growing at a phenomenal rate," said IVP General Partner Todd Chaffee. "Frankly, I'm in no rush to resolve these issues."

One thing Twitter isn't pursuing is traditional advertising. "We're just not looking at it right now," Mr. Stone said, "not just because we don't know how it would be received, but it would require a team we just don't have."

In a sense, Twitter faces the Facebook problem in that it has created an ecosystem of Twitter-based businesses from which it does not profit, and marketers don't need to pay to use the service. Benchmark General Partner Peter Fenton said that's really not a problem. "The more applications built on top of Twitter, the more valuable Twitter is," he said.

Of all the ideas now under discussion, the one that seems a no-brainer to Twitter and its backers is the idea of "verified" accounts. That would allow users to pay to reserve a Twitter handle and certify that they are representing a corporation or an individual. "That is a great concept, because one of the challenges with social media is 'Who is real?'" said Frank Eliason, director-digital care at cable giant Comcast.

Comcast has an entire team that interacts with Twitter, including Mr. Eliason, who tweets as @ComcastCares, but also staffers such as @ComcastBill, @ComcastGeorge and @ComcastBonnie. But there's nothing stopping anyone from registering their own "Comcast" handles, which is why Shaquille O'Neal tweets as @TheRealShaq.

Similarly, corporations could pay for their own secure, private Twitter to communicate with employees or fans of their brands.

Overheard conversations

The other idea that seems obvious to Twitter and its backers is offering paying customers real-time data on who is saying what about a brand. "What struck us is it gives you an immediate view into what people are thinking or saying about your brand right now," Mr. Fenton said. "There is any number of revenue models that could emerge from that."

Scott Monty, global digital communications manager for Ford Motor Co., said the automaker would be interested in, say, age and geographic overlays atop metrics. "It would be great to know who we are talking to on Twitter," he said.

When Ford brings the new Ford Fiesta from Europe to the U.S. next spring, it will pitch the car to millennials. Twitter's average age is well in Gen-X territory, and Mr. Monty said Ford would communicate differently with younger buyers in that demographic.

While Twitter professes to be in no hurry, the band is being beaten to market by others building marketing services around Twitter. One example is Philadelphia-based digital agency NetPlus Marketing, which has its own Twitter-management software, Platform T, that allows marketers to manage multiple accounts, a Twitter scanner and a scheduler that lets them send scheduled tweets. NetPlus doesn't charge for the service but requires users to apply for an account. "We are trying to make Twitter easier and more manageable for our clients," said Colton Perry, NetPlus senior VP-technology.

Search could be valuable for Twitter, or whoever ends up owning Twitter. Mr. Battelle argued that Google and Yahoo haven't added Twitter search because they don't want to make Twitter any more valuable than it already is. But the question is how to turn it into revenue without turning off users in the process.

Now that the funding is in the bank, Mr. Stone said Twitter's first order of business is to increase staff, probably to 60 in the coming year, and then start conversations with brands about the kinds of services they'd be willing to pay for. "We are growing like crazy and kind of shockingly low on employees," Mr. Stone said. "At the same time, there is so much work to do that it's scary."

Tweet this: Twitter rakes in \$35 million in new VC funding

by Scott Duke Harris

The messaging network Twitter, already boasting fast growth and considerable media buzz, is now touting a \$35 million infusion from new venture capital partners and "Big Plans for Twitter Inc."

In a recession that has most Silicon Valley companies trying to stretch their available cash, San Francisco-based Twitter accepted what co-founder Biz Stone on Friday called "an offer we couldn't refuse."

"This thing is taking off," said Todd Chaffee of Institutional Venture Partners (IVP), which invested \$14 million in the round while Benchmark Capital invested \$21 million. Previous investors Union Square and Spark also increased their investments, though the amounts were undisclosed.

IVP, Chaffee pointed out, departed from its normal practice of making later-stage investments to grow already profitable companies to invest in a fast-growing startup that has yet to earn a dime.

"We're trying to find the ones like Twitter that are defying gravity," Chaffee said. "Because the gravity is pretty heavy right now."

Twitter's management team, Chaffee said, has proposed various promising models for making money, none of which is being discussed publicly. The focus now is on Twitter's technical execution and growing a global user base that already numbers in the millions. Twitter's use grew 900 percent in the past year and is "accelerating," Chaffee said.

Twitter, launched in 2006, enables users to post and read short messages — limited to 140 characters — in a communications platform that operates across a variety of networks and devices. The service can be used for both personal, private "tweets" and has gotten attention for quickly alerting users to news such as the recent airliner crash landing in the Hudson River.

"We weren't actively seeking more funding because significant capital from last year's partnership "... is still in the bank," Stone said in a blog posting, referring to second-round funding. "Nevertheless, our strong growth attracted interest and we decided to accept a unique opportunity to make Twitter even stronger with a very attractive offer."

The \$35 million sum is impressive given that the Twitter "team" currently consists of only 29 employees. Expect the team to grow "much, much bigger," Chaffee said.

Twitter Could 'Go for Years' Without Earning a Dime, Investor Says

by Chris Snyder

Apparently, Twitter doesn't need a business plan. At least not for years to come.

"We've got a ton of cash. We have far more cash than we need, so I'm not in any hurry," said Todd Chaffee, General Partner at Institutional Venture Partners, or IVP.

Chaffee, in an interview with *Wired.com*, says the microblogging service that is the darling of the social media set — and the object of a persistent drumbeat of questions about how and when it will actually earn any money — is well north of \$50 million on the balance sheet. And that, he said, can last them for years.

In fact, Twitter did not even actively seek out the current, third round of \$35 million in funding lead by Benchmark Capital and IVP, Chaffee said.

It's hard to argue with the endorsement an unsolicited \$35 million windfall implies, but it's also difficult to ignore the parallels to an earlier era of tech investment enthusiasm, when eyeballs and market share were all that mattered and the thought of actually earning any operational revenue seemed oddly crude, inappropriate and unhip.

But Chaffee, who was also an earlier investor in Yahoo, is still brimming with optimism that the "if you build it they will eventually pay" approach will work.

"You essentially have this company which has these assets that's turning into a very large media property," he said. "When you have tens of millions or hundreds of millions of people actively engaged everyday, you've got all sorts of monetization opportunities."

Still, it's not that they haven't thought about it. Late last year Twitter investor Bijan Sabet told *Wired.com* it would unveil a business plan in early 2009 (still time for that). And Chaffee says they profiled a number of potential business models with Twitter before investing. Without providing any specific details, he said that the platform offers much more than your usual online display advertising.

"Twitter has some unique ones like the ability to verify whether or not it's a real brand that's being promoted," he said, noting that anything they do will likely be implemented gradually and in harmony with the service (i.e., no out-of-place banner ads). Twitter will always remain free to anyone, however, which co-founder Biz Stone has made clear.

More and more brands are turning to Twitter to promote goods and provide feedback on products, but it is difficult to determine who is legit. Burger King recently ran into a case of "brand jacking" with a fake Whopper Virgins account, and someone impersonating the Dalai Lama was escorted off Twitter only to be later reinstated with the mark "unofficial."

Business model aside, Chaffee has some extremely high hopes for Twitter's growth and potential, and says he typically has a self-proclaimed hatred for technology unless it improves your life.

"Part of where this thing may go, it may supersede other communication channels," said Chaffee, who thinks Twitter could some day surpass e-mail and IM.

In general, Twitter has been slowly creeping its way into the mainstream with the help of big names like CNN news anchor Rick Sanchez, who chats with people live on his show, and some big time shout-outs at popular events like the 2009 Grammy Awards, which directed viewers to its Twitter coverage. It has also started ruffling some feathers in Congress.

"Twitter is growing at a phenomenal rate. Active users have increased 900 percent in a year and even though our web traffic is amazing, we see twice that traffic to the APIs. Interacting with Twitter over SMS is also getting more popular every day," writes co-founder Biz Stone on the Twitter blog.

Fred Wilson and Union Square Ventures participated in both the initial and second rounds of funding, where Twitter added two new partners, Sabet of Spark Capital and Jeff Bezos of Bezos Expeditions in Seattle. Peter Fenton from Benchmark will now be joining Sabet and Wilson on Twitter's board of directors, and the new additions now give Twitter two major financial centers on both the East and West coasts.

At that time, Stone stated that the private funding "gives us the runway we need to stay focused on the infrastructure that will help our business take flight."

There was then a CEO swap late in the year with Evan Williams replacing Jack Dorsey which they said was a first step in that new direction. And in December it hired Kevin Thau as its new Director of Mobile Business Development.

This new round he says gives them even more leverage, and more time to figure out their business strategy — something that has been quite the hot topic among Twitterati for months.

"We are now positioned extremely well to support the accelerating growth of our service, further enable the robust ecosystem sprouting up around Twitter, and yes, to begin building revenue-generating products," Stone said.

Facebook offered to acquire Twitter for \$500 million of its stock several months ago, which also included a cash component, but they turned them down believing that Twitter could make do on its own over time — which seems to be the case in terms of growth at least.

Twitter Gets New Round of Venture Capital Funding

by Joseph Galante

Twitter Inc., the Web-messaging service used by everyone from Barack Obama to Britney Spears, raised \$35 million from Institutional Venture Partners and Benchmark Capital, gaining funding to expand products.

Benchmark General Partner Peter Fenton will join the board, San Francisco-based Twitter said today in a blog posting. Twitter had earlier raised \$22 million, bringing the total so far to more than \$50 million.

Twitter users post short updates on anything from their latest date to their views on Congressional hearings. The service has emerged as a valuable source of information and news, which users can access from mobile devices or personal computers, said Todd Chaffee, general partner at Institutional Investors.

"This is going to be a very large media property," Chaffee said in a telephone interview. "Any time you have millions of users engaging with your service multiple times a day, there are a lot of monetization opportunities."

The company, founded in 2006 by Chief Executive Officer Evan Williams with partners Biz Stone and Jack Dorsey, rejected an offer to sell itself to Facebook Inc. last year, Chaffee said. The investors plan to make it an independent media company, he said.

New Model

Twitter stands apart from other technology startups because of "the fundamentally new mode of communication it enables," Fenton said in an e-mail.

Benchmark invested \$21 million in Twitter, while Institutional Investors contributed \$14 million, Chaffee said. Benchmark spokeswoman Stephanie Gnibus declined to comment on Twitter's valuation after the funding.

Williams said last year that Twitter was considering charging companies for access to its users, allowing the site to avoid seeking money from venture capital funds in a deteriorating economy. Venture investment fell 33 percent last quarter as firms scaled back to protect themselves from the recession.

Startups and venture firms are under pressure to perform. Only six venture-backed companies staged initial public offerings last year, according to the National Venture Capital Association, a trade group in Arlington, Virginia. That marked the worst stretch for IPOs in more than 30 years.

IPO Prospects

OpenTable Inc., the restaurant-reservation service, is preparing to sell shares to the public. LinkedIn Corp., the social-networking company whose backers include Goldman Sachs Group Inc., is also a likely candidate for an IPO, according to Paul Bard, an analyst at Renaissance Capital in Greenwich, Connecticut.

Twitter's site lets users create a profile and send one another short messages -- or tweets -- that are up to 140 characters. It takes a simpler approach than social-networking sites Facebook and News Corp.'s MySpace.com, where users can upload photos, build profiles and add multimedia content.

Twitter is starting to gain mainstream popularity and more companies will begin using it to interact with consumers, Chaffee said.

"We are now positioned extremely well to support the accelerating growth of our service," Twitter said on its blog. The closely held company has almost 30 employees.

San Francisco Chronicle

Twitter's new round of funding

by Verne Kopytoff

Twitter, the revenue challenged micro-blogging service, said today that it has raised \$35 million in what is its third round of venture capital funding.

The money should tide the San Francisco company over while it figures out how to capitalize on its legion of users, who voraciously post messages to their friends about what they're doing, thinking and reading. It currently has no revenue.

Benchmark and Institutional Venture Partners were the main investors, while Union Square Ventures and Spark Capital added to their pre-existing stakes. Todd Chaffee, a partner at Institutional Venture Partners disclosed the dollar amount, but declined to reveal Twitter's valuation in the deal.

Biz Stone, Twitter's co-founder, said in a blog post that the company wasn't actively seeking more funding and that it still had money in the bank from previous rounds.

"Nevertheless, our strong growth attracted interest and we decided to accept a unique opportunity to make Twitter even stronger with a very attractive offer," he said.

What changed Twitter's mind about taking money at a time when venture capitalists are in power in terms of valuing a company? No doubt the need to build a war chest in a deteriorating economy. Chaffee said that Twitter now had around \$50 million in reserves.

Stone indicated that Twitter will also use the money to increase the size of its staff, now only 29 people, to support the company's rapid growth. Active users have increased nine-fold in the past year, he said.

And about that revenue? Executives have said that their business efforts will get underway this year, with the first initiative by April. Stone mentioned the topic again today in his post.

"We are now positioned extremely well to support the accelerating growth of our service, further enable the robust ecosystem sprouting up around Twitter, and yes, to begin building revenue-generating products."