



VC exuberance in social networking space

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When it comes to investment money, perhaps no space in mobile is as hot as social networking. And it looks like the spigot isn't going to shut off anytime soon.

But for venture capital to truly flood the space, the online guys will need to start generating some real revenue.

Private wireless companies [pocketed roughly a billion dollars in financing](#) in the past three months, according to Rutberg & Co., and the crowded field of wireless community players enjoyed much of that cash. [Zannel](#), a community centered on mobile video, snared \$10 million in a Series B round a few weeks ago. Fliptrack, a developer of widgets for social networks, raised nearly \$6 million — funding that coincided with a name change to Moblyng and a refocus on mobile.

The list continues: Pelago closed a \$15 million round; Kyte grabbed \$21 million; Mobango picked up \$5.7 million and several others — including Brightkite, Buzzd and Pinch — put smaller wads of cash in the bank. Meanwhile, on the acquisition front, [FunMobility](#) acquired the photo-sharing company Moblastic for an undisclosed sum, and [Vodafone](#) Group plc laid out nearly \$50 million for ZYB, a Danish virtual community based on mobile contact information. The action continued late last month when [Nokia](#) Corp. picked up Plazes, a community centered on presence, and Jaxtr raised \$10 million to pursue its own service.

That kind of activity is dwarfed by the online space, of course, where a recent investment valued LinkedIn to the tune of more than \$1 billion, and where Microsoft Corp.'s stake in [Facebook](#) last year placed a \$15 billion sticker price on the popular site.

And that steady rain of capital may turn into a flat-out downpour over the next year or two — especially in mobile. A recent poll by [KPMG](#) found that 52% of executives and VC types surveyed predicted investment in digital content creation will increase in the near future, with one-fourth of those polled expecting investment to climb by more than 20%. Mobile is expected to be the top recipient of the cash, with 31% saying wireless apps will see the most investment. Indeed, application-specific initiatives such as the \$100 million iFund and the \$150 million Research In Motion Ltd./Thomson Reuters BlackBerry fund are sure to finance their share of social networking efforts.

But just how lucrative the social networking space is has yet to be determined. Even the most popular PC-oriented sites — including [Facebook](#), [YouTube](#) and [MySpace](#) — have had difficulty turning traffic into money. [Google](#) Inc., for instance, spent \$1.65 billion on [YouTube](#), which industry watchers say will earn in the neighborhood of \$100 million this year. [Facebook](#) will generate as much as \$350 million this year, according to CEO Mark Zuckerberg, but the company's earnings before interest, taxes, depreciation and amortization is expected to be roughly \$50 million.

And mobile virtual communities remain a fraction of the size of their fixed-line counterparts. So how long can players expect the VC spigot to flow? At least a while longer, it seems.

"So far what we're seeing is not the irrational exuberance we saw in 2000," said Kok Fung Lai, CEO of BuzzCity, a 9-year-old outfit that witnessed the dotcom hype and the post-bubble fallout. "The value chain hasn't gone very crazy yet, except in isolated cases. ... So far it seems that the space is quite stable. Lots of new companies are getting funded, but we don't see crazy money being thrown around."

While it may be true that the current funding atmosphere is level-headed — on the mobile side, at least — it seems the line of investors is still a long one. BuzzCity, which is based in Singapore, has had "no problems attracting high-quality investors," and has actually turned down funding opportunities in recent months.

But fixed-line social networking sites may play the canary in a coal mine for their mobile counterparts. Investors won't bet massive amounts on wireless communities until online sites such as [Facebook](#) and [YouTube](#) start generating real returns on their investments. When — or even whether — that's going to happen is far from clear.

"We have that debate all the time," said Andy Miller, CEO of the mobile advertising firm [Quattro](#) Wireless. "The question is, are they making money on the wired side? And for most of them, the answer is no. The CPMs are tiny and there's a lot of inventory."

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