Media Companies Regain Appetite for Taking Risks in Tech Start-Ups

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MEDIA companies are often criticized for not taking enough risks in choosing television shows, authors, movies and musicians. But when it comes to technology start-ups, their appetite for risk appears to be on the rise.

A growing number of media conglomerates have established divisions to take minority stakes in small Internet and technology companies. Other media companies that already have such venture capital arms are expanding.

The development sets up something of a clash of cultures. Media companies are known for reacting swiftly to mass market tastes and have little patience for the unpopular or the slow developing. Venture capitalists typically wait more than five years to see if an investment is a hit — and almost always it is not.

Yet media companies say there are significant reasons to develop expertise in early-stage investments. The media business, they say, increasingly revolves not just around developing content but keeping pace with delivery technology and new media.
In most cases, the media companies are measuring success not just by the financial return but also by the chance to better understand and establish partnerships with emerging technology leaders.

“We see the impact digital media are making — and it’s being made not necessarily by large companies but by some very small and rapidly growing players,” said Richard Sarnoff, president of the Digital Media Investment group at Bertelsmann.

In establishing a venture arm, Mr. Sarnoff said, “we felt there was a need to make some investments so we could look around the corner and see what was happening.”

In a demonstration of the trend, Bertelsmann joined the new venture arm of NBC and Time Warner’s investment division in putting $30 million into Trion World Network Inc. in July. The company, based in Redwood City, Calif., makes multiplayer games played online.

What does large-scale multiplayer gaming have to do with traditional media? For one thing, gaming is poaching audience members.

“People are spending a shocking amount of time in the multiplayer gaming world. That time is coming out of the hide of other media,” Mr. Sarnoff said. “We have to not only understand this phenomenon but maybe be a participant in it.”

That thinking is driving other media companies. NBC and another division of General Electric announced a $250 million investment fund last spring. There are venture investments from the Warner Music Group, the Hearst Corporation, Reed Elsevier, Comcast, The New York Times Company, Universal Music, Reuters, ABC and Disney and Sports Illustrated. Bertelsmann announced last October that it would expand the venture program across its entire company and now has offices in New York, Beijing and a couple of cities in Germany.

“So many media companies are setting up venture arms,” said Alan Patricof, managing director of Greycroft Partners, a venture firm that has
invested with the media companies in several start-ups. Now, he said, “they are really part of the venture community.”

But challenges abound, notably because venture profits in recent years have been as difficult as ever to achieve. Even seasoned venture capitalists have struggled; only a few consumer-oriented Internet companies have gone public, and many continue to languish on shoestring budgets, striving for a profitable exit.

In addition, media companies — and corporations in general — tend not to have the patient culture that venture capital demands, said Fred Wilson, managing director of Union Square Ventures in New York. Many media companies and other corporations had venture arms in the late 1990s, only to downsize or eliminate them when the going got tough.

“The biggest problem is — and I see this again and again and again — that strategic investors are not at all prepared to invest in multiple rounds of financing,” he said. “They make their investment and they’ve made it.”

“Media companies aren’t going to be as happy as minority investors as they would be buying and owning something.”

One media company that historically has had a back-and-forth relationship with venture capital is NBC. It had a venture division in the late ’90s that it dissolved with the dot-com crash.

But Elizabeth J. Comstock, president for integrated media at NBC Universal, said the company would have more patience this time, in part because it has learned from its mistakes. Now, she said, the investments are strategically related to NBC’s existing businesses.

Investments made by NBC’s new Peacock Equity Fund include Adify, a company that powers ad networks; IGA Worldwide, an in-game advertising network; and Healthline, a health-related Internet portal and search engine.
Ms. Comstock said that the search capabilities of Healthline had been integrated into another health-related site, iVillage, an NBC-owned Internet property. Traditional venture capitalists measure success exclusively by how much they sell the investment for, but NBC and most other media arms have a dual goal.

“We’re looking to get a return at some point, but these are properties we expect to grow with,” she said. “We want to get great access to early technology that might give us a competitive advantage.”

A minority of the media companies treat their seed capital divisions like traditional venture capitalists. In those cases, the sole measure of success is profit, even if it means making an investment that ruffles feathers inside the media company.

Such was the case a few years ago at Hearst, where the venture capital division invested in Sling Media, a company that allows people to shift television programming to their personal computers — even if the computer is in a distant location.

“Certain people inside our company were not fans of Sling and how it was changing the media landscape,” said Scott English, vice president for strategic investments for Hearst. In that case, the investment appears to have paid off when EchoStar said last month that it was buying Sling Media for $380 million.

More generally, Mr. English said that the strategic investment group, despite its name, does not make its first consideration whether investments are a strategic fit for the corporation. “It’s been very important for us to act like a V.C.,” he said. “We try to walk the walk.”