SIMON CHADWICK

82% INCREASE IN 2014

Investment boom in analytics and market research explodes and matures

When last we reported on inward capital investment into the marketing research and analytics industry, we found that the levels of new capital flowing into the industry–at US $3.2 billion–were four times higher than just three years previously. Surely this boom was nearing its apex and we would see venture capital and private equity focus more on gaining returns from the enormous amounts of money that had poured into this space?

Well, no. And yes.

There is absolutely no sign of a let-up in the tsunami of investment capital washing into market research and analytics. The 2014 Cambiar Capital Funding Index reports that inward flows of capital into the marketing research, analytics and information industry increased by 82% in 2014 (on top of an 88% increase in 2013). CCFI estimates that the total amount invested came to US $5.85 billion–seven times the amount invested in 2011.

At the same time, however, there are very clear signs that the investment boom is "maturing"–that is, money is being invested on a "doubling down" basis, with investors making increasingly large bets on companies that seem to be succeeding in their respective markets. More money is being invested in the later stages of firms' life cycles and comparatively less in the earlier stages. In certain cases, investors are reaping the rewards of their bets by taking their portfolio companies to IPO and other forms of equity participation.

Some of the transactions conforming to this behaviour in 2014 were staggeringly huge:

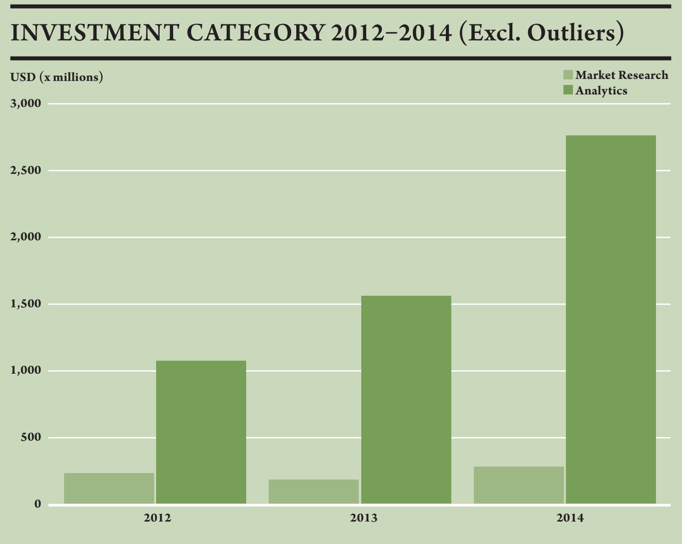
- IMS Health successfully completed its IPO, garnering US $1.3 billion. This is an excellent example of how a very few established market research companies are once again hot in the public markets (Nielsen amongst them).
- Cloudera, an enterprise big data firm, raised an impressive US $900 million in a Series C funding round that was backed by the likes of Google Ventures and Intel.
- iSentia, a media intelligence firm, raised US $235 million in an IPO.
- Mozido, a customer analytics provider, raised a whopping US $185 million in a Series B round, backed in part by MasterCard.
- Qualtrics, a market research data-collection platform, also had a startlingly high early round success, raising US $150 million from Accel Partners, Sequoia Capital and Insight Venture Partners.

These, and a couple of other very large raises, can arguably be called outliers in the overall scheme of things, but even without them, the overall amount raised was close to US $3.1 billion. More accurately, they represent the extreme edges of the overall picture, in which firms that have proved their success in the market are attracting very high valuations and considerable amounts of double-down capital.

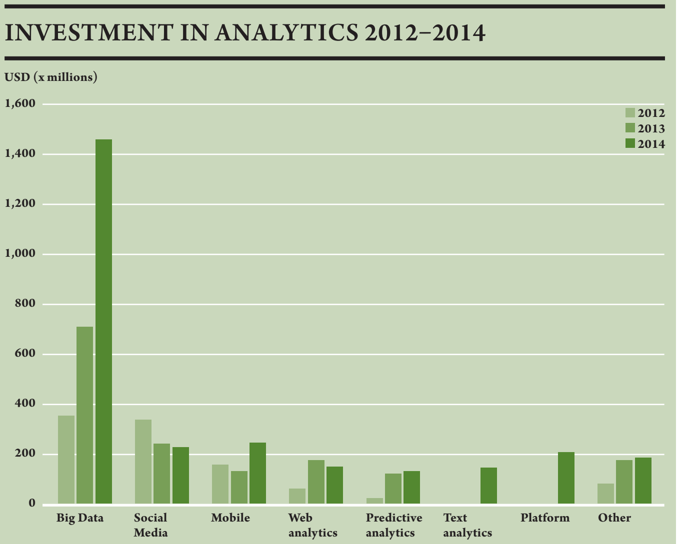
CATEGORIES

The terms used to describe the various types of analytics firms in which investments have been made are largely those used by the firms themselves to describe their core businesses. Some of these ("social media analytics," "mobile analytics," "text analytics" and "predictive analytics") are self-explanatory. Others, such as "big data analytics" and "web analytics" are looser and are often used more broadly to describe a variety of different approaches. However, "big data" is usually used to describe the ability to mine extremely large and/or diverse data sets and derive patterns and insights from them; "web analytics" is more usually used to describe patterns of behaviour on the internet.

Pascal Tieman



Source: Cambiar Capital Funding Index 2014



Source: Cambiar Capital Funding Index 2014

So, what may we expect for 2015? Will the market research and analytics investment "bubble" burst?

ANALYTICS

Going back to the basic data–and excluding these outliers–the picture is even more one of "analytics frenzy" than it was at this time last year.

Leaving IMS and Qualtrics out of the equation reveals that historic levels of new investment in market research are relatively stable. Even leaving outliers out of the analytics equation, however, we still see a massive increase in new investment in analytics firms of all stripes and persuasions. Even here, though, we do see shifts in what it is about analytics that attracts investors.

While social media, web and predictive analytics are relatively stable, the real story here is the massive doubling down in big data analytics. The vast majority of this phenomenon is to be found in mature investment stages–primarily Series C–and this is also the case in social media and mobile analytics. It is interesting, however, to see that investment in mobile has overtaken that in social media at this stage; it suggests that interest in social media analytics has stabilised at best. Other categories that command our attention as newcomers to the list include text analytics and analytics platforms, ie, firms that provide the infrastructure for carrying out analysis (but not the actual analysis itself).

MARKET RESEARCH

This interest in platforms is replicated when we look at investment in more "classic" market research or customer feedback (not least in the amounts of money invested in Qualtrics and Medallia). Interestingly, this does not carry over to mobile, where we see a collapse of interest from the investment community (perhaps suggesting investment in this area is taking place inside the industry without the need for funding of new, "insurgent" competition).

Instead, we see an upsurge of interest in online media and audience measurement as well as continued interest in communities. Despite much hype in the industry, biometrics (including neurosciences) failed yet again to attract significant investment.

FUNDING DEFINITIONS:

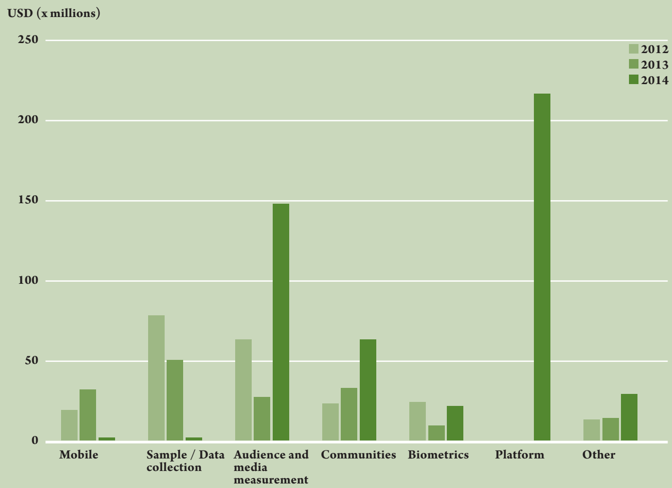
Seed: very early stage funding, usually at the beginning of a company's life

Series A through E: sequential rounds of equity funding as the company grows, with "A" being the first in the series; usually these rounds are funded by venture capital or private equity funds which then become shareholders of the company

Debt: funding, often carried out by banks, that injects capital into a company; that capital then becomes a debt obligation for the firm – funders become creditors rather than shareholders

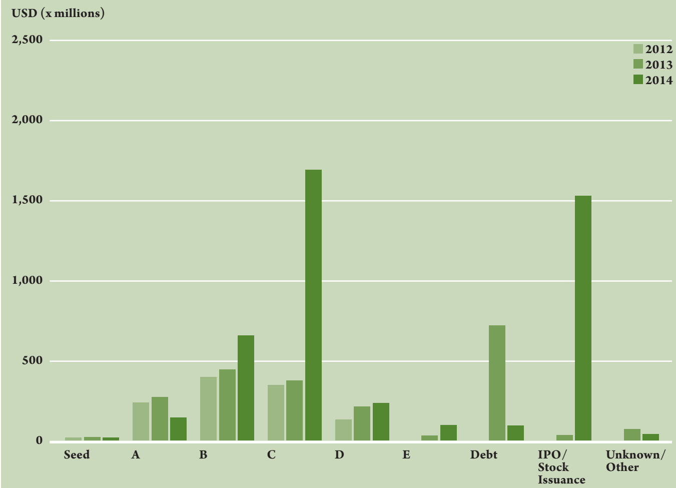
IPO/Stock Issuance: a public stock offering to raise capital

NEW INVESTMENT IN MARKET RESEARCH 2012–2014



Source: Cambiar Capital Funding Index 2014

INVESTMENT TYPES AND STAGES 2012–2014



Source: Cambiar Capital Funding Index 2014

THE CAMBIAR CAPITAL FUNDING INDEX

The index is based on a comprehensive database of all announced investment deals as they relate to a broad definition of our industry. This definition includes firms whose core business involves primary and secondary market research, sample provision and data collection, research-related technology, syndicated reports (eg, Gartner, Forrester), ethnography, web and text analytics, social media monitoring, market intelligence and all forms of information and analytics that inform marketers and brands about consumers, their attitudes and behaviours.

It is based on deals announced in trade newsfeeds, the trade press and investment and technology news sites around the world. Only deals that were announced between 1 December 2013 and 30 November 2014 are included in the Index.

Note that CCFI did not include the recent purchase by HGGC of Survey Sampling, since this was more accurately an acquisition by one private equity company of two others and did not necessarily equate to new capital entering the industry. Nonetheless, that transaction does speak to the maturing of certain investment categories in this space.

The maturing phenomenon is seen most clearly in the next figure. Less money is going into the earliest stages (seed and Series A) than is going into Series C or is being raised via IPOs and equity offerings. In other words, the "new" market research and analytics industry is growing up; it is now a developing teenager about to mature into a full-grown adult.

Continuing the pattern of previous years, 90% of the investments made in 2014 were ploughed into US-based companies (where most of the investors themselves were also based). Of the 269 companies that CCFI logged as having invested in the sector, 258 were venture capital or private equity companies (the former being the vast majority). Among these, 54 made multiple investments, the most prolific being Sequoia Capital, Intel Capital, Accel Partners, Battery Ventures, Draper Fisher Jurvetson, Institutional Venture Partners, Scale Venture Partners and Insight Venture Partners. The first five of these are heavily invested in the sector and are among the most prolific in doubling down. In addition to these were four banks (Silicon Valley Bank being the most heavily invested in this space) and 14 corporations, including tenacious investors such as WPP, Salesforce.com and Adobe.

So, what may we expect for 2015? Will the market research and analytics investment "bubble" burst? We don't think so, but we do expect growth to level off and to continue to emphasise doubling down on investments that appear to be working. Venture capital funds need to show returns, and many of them have now been investing in this sector for four to five years. They will be concentrating on those investments that will bring viable returns to their funds and maybe less on finding new prospects.

Or, we could be wrong! **RW**

Simon Chadwick

is managing partner of Cambiar and editor-in-chief of *Research World.*