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$20.3 million in venture capital for digiMine
Software tracks customer behavior for retail, media companies

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When Usama Fayyad hit the fund-raising trail in early January, the CEO of digiMine Inc. was nervous that battle-scarred venture capitalists would turn their backs on his Bellevue data-mining start-up.

"I did it with a lot of fear at first because I had heard all of these horror stories of people taking a year or more to raise funding and VCs not wanting to do deals," said Fayyad, who initially hoped to snag $10 million. "But our experience, thank God, was 180 degrees different."

DigiMine, which helps companies such as Nordstrom, Getty Images and CBS Marketwatch sift through data to make sense of customer behavior, plans to announce $20.3 million in funding today. Total financing in the 2-year-old company now stands at just over $50 million.

The flurry leading up to the venture round, the company's third, was so strong that Fayyad had to turn away several investors. The 38-year-old former Microsoft researcher and scientist at the Jet Propulsion Laboratory capped the funding at $20 million, saying he could have easily raised another $10 million. Why the investor interest?

Fayyad says it has to do with results. Despite losing 10 dot-com customers last year and a dismal climate for enterprise software, digiMine's revenues came in at four times expectations in the fourth quarter.

"2001 was an interesting year to deal with, but it came out all right" said Fayyad, who declined to discuss revenue figures. "A lot of the big companies that we had not targeted before started seeking us out and we started landing much larger contracts."

DigiMine inked most of those big contracts in the fourth quarter, signing the likes of Sega, Microsoft's Xbox division and Dow Jones & Co. About 40 companies use the service, Fayyad said.

The deal with Dow Jones, announced today, calls for digiMine to analyze and report on Web site activity at The Wall Street Journal Online and Barrons Online. In addition to tracking the clicks and movements of the Journal's 640,000 online subscribers, digiMine's software will help the media company deliver personalized news to readers.

Seattle-based Getty Images, which operates a library of more than 70 million images, has been using digiMine's service in a similar vein for the past several months. Tracking the way customers purchase photographs

and illustrations on Getty's Web site, digiMine produces daily reports on customer behavior and buying patterns. Using that information and tailoring it to the individual tastes of magazine editors or advertising agencies, Getty has increased sales, said Joe LaCugna, director of knowledge services at Getty.

"Because the information is so detailed, you can look at how you are doing with a typical customer," LaCugna said. "It is an in-depth, granular analysis."

Unlike traditional software companies, digiMine sells its hosted service on a monthly basis charging customers anywhere from $15,000 to $375,000 a month. With the system hooked into a company's database, digiMine can slurp up the relevant data, analyze it and then provide daily reports to marketing managers or other executives. Fayyad said the hosted model is cheaper and easier to install than multi-million dollar products from companies such as Accrue Software or IBM.

"(Companies) are learning that you can actually do data warehousing and data mining at 10 times less the cost and get more value to business users," said Fayyad. That's "versus the way they used to do it, which is build huge warehouses that become big IT (information technology) projects but never deliver any value."

Before installing the digiMine system, Getty Images operated "far less efficiently" when dealing with Web site and customer analysis, LaCugna said.

Dan Vesset, research manager in IDC's data warehousing group, said the business intelligence software market actually saw a slight increase in sales last year, growing to about $3.8 billion.

While digiMine's approach is not entirely unique, he said the company has found a niche with its focus on retail and media companies. Meanwhile, large companies have started to wake up to the value of data mining in the past five years, he said.

"They get insight into their business process, instead of going on the gut feeling of some manager who may or may not be right," Vesset said "It provides quantitative data behind your feelings."

Investors in digiMine's third round of funding include Mohr, Davidow Ventures, American Express and Rolling Thunder Network. Existing investors such as Mayfield also participated. As a result of Mohr, Davidow's investment, General Partner Bill Ericson has joined the company's board. The money will be used to bolster the sales force, expand in Europe and possibly look at acquisition targets, Fayyad said. digiMine employs 120. The company's valuation decreased slightly in the most recent venture round, though Fayyad said the fact that investors were competing with multiple term sheets insured that VCs "came in within the parameters we were looking for."