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Drilling for data

DigiMine.com is working swiftly to build a data mining and direct warehousing business for Internet companies

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Usama Fayyad consulted former Microsoft Corp. executive Sam Jadallah before he left the computer software giant to start his own venture.

Jadallah's initial advice to Fayyad: Make a clean break from Redmond, take time to focus on an idea, build up a low-scale effort and don't worry about funding. Now, five weeks later, Fayyad has teamed up with two other Microsoft executives and has landed \$5 million in venture and investor backing. He's made a small acquisition, and potential employees are asking to invest their own money in his newly formed company, digiMine.com.

"The minute I left I found that investor interest was such that it wouldn't work as low-scale effort," Fayyad said. "So we said let's do the deal much faster. I never thought the interest would be this high."

DigiMine executives have already found office space in Kirkland. They are screening initial customers who are clamoring to get the products first through the beta tests, and are crafting the corporate culture and strategy to get the product out the door by the end of the year.

Such is life creating a company on Internet time.

The speed at which digiMine is being created is a testament to the background of its three founders and the potentially huge market the company is addressing. A former rocket scientist with the Jet Propulsion Laboratory at the California Institute of Technology, Fayyad founded and led Microsoft Research's Data Mining and Exploration Group. Microsoft tried hard to keep the internationally known data mining expert, but lost out to Fayyad's desire to risk starting his own venture.

When word spread that Fayyad had quit his Microsoft job, and was starting a company that planned to focus on data mining, two other Microsoft employees, Bassel Ojje and Nick Besbeas, took notice. Separately, they were also in the midst of quitting the Redmond company to start companies focused on data mining.

Ojje, at Microsoft since 1992, was group program manager in the Internet

Business Server division, and responsible for all e-commerce related components in Microsoft's Commerce Server Product, including data warehousing and data mining. At Fox Software, Ojeh helped build that database company to 400 people before it was sold to Microsoft.

Besbeas was group product manager in the Applications Division, responsible for marketing research and campaign intelligence for desktop and server applications. He's one of the few people worldwide who has direct marketing and Internet marketing experience, Fayyad said.

"This is an awesome team with a strong track record," said Jadallah, who now heads up Internet Capital Group's Seattle office and who has invested in digiMine. "They were off the Richter scale in terms of data mining and data warehousing. This is an all-star team that's already done a great job in prior projects."

Data mining and data warehousing are hot Internet topics. The terms refer to mining huge corporate databases for data that can help a business identify its best customers, track their patterns and predict their behaviors, among other things.

It sounds good, but "data warehousing as activity is too complicated for most companies to do," Fayyad said. "They spend several million dollars building a solution for data warehousing, but never have the staff that can keep it up to date. The data starts rotting and that means the marketing people lose interest. Then you end up with a big beast that ends up doing nothing."

DigiMine's proposition: "Let us do the ground work, do the data munching, and create the cool applications for marketing to help (medium-sized to large Internet companies) attract and retain customers," Fayyad said. "We do the server work, and you subscribe to our service, and get the information that you want."

Market researcher IDC forecasts that the data warehouse tools software market will grow from \$4.3 billion in 1998 to \$11.2 billion in 2003. The team and the market potential attracted not only Jadallah as an investor, but also Pete Higgins - a former Microsoft executive who's launched a new venture firm called Second Avenue Partners -- Deutsche Bank Technology Fund, Cedar Grove Investments and Kellett Investments, plus prominent angel investors.

DigiMine has attracted the attention of would-be employees, and even its landlords wanted a piece of the company, which surprised digiMine executives.

"Within an hour of a building being available, several companies are vying for the space," Besbeas said. "We ended up having to sell ourselves to the landlord."

"Nick called me up and told me to bring the company presentation over," Fayyad said. "I said 'Great, who are we presenting for?' thinking it was an investor. It seems like all the landlords are doing this now."

"We had some rough and interesting negotiations about stock options," he said. "People just don't give them away. We knew there was this fever from the Bay

Area, and now it's hit Seattle. Finding space is extremely competitive."

Would-be employees were also asking to invest their own money for a bigger piece of the company, to supplement their stock options.

"We had a few cases where excellent individuals were pushing really hard to join the team and were insisting on investing in the company," Ojje said. "The first time we were surprised, but only because it was a new idea. We had one employee that invested in the initial round and two people who have accepted offers will be investing in the next round."

And these aren't top executives, but a programmer, a tester and an operations person, he said.

David Johnston, managing partner with Seattle's Phoenix Partners, said those scenarios are becoming more common.

"Traditionally, landlords wouldn't have taken any kind of risk like that but they've figured out there's hundreds of millions being made in high tech," he said. "The Venture Law Group was paid back one-hundredfold for its investment in Yahoo. The lawyers started (the trend of asking for stock options) and now it's happening up here quite a bit."