

# There's a fund for that

September 27 2010, By Jefferson Graham

---

Silicon Valley investor Matt Murphy is out to find the next great opportunity in mobile consumer technology. And he has \$200 million at his disposal to pay for it.

Murphy is the managing partner of the iFund, an investment capital fund devoted to apps for the iPhone, iPod Touch and iPad at [venture-capital firm](#) Kleiner Perkins Caulfield & Byers. Murphy spends each day scouring the Internet, networking and keeping his radar on alert for any cool new app that just might do for mobile what Google and Amazon (two earlier Kleiner investments) have done for the Web.

Launched in March 2008, the iFund's success so far is "way beyond" original projections, Murphy says.

There are 14 companies in the portfolio, including Flipboard, the "social magazine" for the iPad, and Shopkick, an app that offers up instant discounts when you walk into retailers including Best Buy and Macy's. Five companies in the fund are profitable, Murphy says, and total revenue generated for 2010 alone so far exceeds \$100 million. That figure does not include the iFund's Zynga, maker of the game FarmVille, which generates most of its revenue from Facebook. (The iFund invested in Zynga for mobile.)

"The iFund was started to say, 'There's this new platform in mobile, and it's going to be a really big deal,' " Murphy says. "There's a ready-made financial ecosystem, and we're convinced we'll make a lot of money from it."

None of his companies has hit the jackpot in terms of a big buyout by a bigger company, often the goal for start-ups and their investors. But Disney's recent purchase of app maker Tapulous for an undisclosed sum is proof that big firms have their eyes on mobile, Murphy says.

"I'd be surprised if we don't sell one in the next few months," he says. "At the same time, if you project forward two to three years, these companies will be much more valuable."

While competitor Google's Android mobile platform is starting to catch up, the biggest audience for advanced mobile apps continues to be with Apple, which has sold some 120 million mobile devices.

Greg Joswiak, vice president of marketing for Apple, says that when the iFund was announced, Apple had sold just 5 million iPhones, and no apps had yet been created. Kleiner "had the foresight to see this massive opportunity. It's easy to see now, but the fact is, they saw something big was coming and acted on it."

The 250,000 apps in Apple's App Store will generate nearly \$2 billion in revenue this year, growing to \$3 billion in 2011, says Piper Jaffray analyst Gene Munster. "If you look at the next decade, the concept of a mobile app will be the equivalent of what software was 20 years ago," Munster says. "Computing is moving to mobile. Apps are the software of the future."

Indeed, BlackBerry maker Research In Motion has a similar fund with several partners which invests in apps for its BlackBerry smartphones. Beyond that, "Every VC (venture capitalist) is trying to figure out how to participate in what appears to be the biggest megatrend over the next 10 years," Murphy says.

The iFund began shortly after the iPhone was announced, to help

encourage developers to create apps for Apple's hot new gadget. The tech community long had talked about mobile as "next year's revolution," says Cyriac Roeding, CEO of Shopkick. "A lot of people thought, 'OK, I've heard this a million times.' But Kleiner was right."

Now, Roeding says, the center of the mobile universe is in and around Palo Alto, Calif. -- not far from the corporate homes of Apple and Google -- rather than Europe and Asia (home to Nokia, Samsung and other phone manufacturers).

When Murphy invests in companies, he generally insists they open a headquarters in Palo Alto, perhaps best known as home to Stanford University, the birthplace of Google. Palo Alto has access to great engineers who like the mild weather and collegiate atmosphere of the University Avenue shopping district, Murphy says. Three of his iFund companies are right off University Avenue.

"We don't want to be more than biking distance from Stanford," says Soujanya Bhumkar, CEO of Cooliris, an iFund-backed company whose apps offer visual search tools.

The iFund was originally budgeted at \$100 million, but Kleiner expanded it to \$200 million in March to embrace iPad app development. Murphy has about \$85 million left to invest. When he helps to seed a company, he generally puts in \$8 million to \$10 million over the life of the investment -- giving Kleiner Perkins about a third of ownership.

In accepting start-ups for the iFund, Murphy says, he wants "big ideas" that can be turned into companies. "If you think you're going to have one great hit app, you should do it on your own," Murphy says. "But if you're looking to build a big company, come to us."

Developers have many ways to fund their work -- personal bank

accounts, friends and family, or seeking investment from other venture-capital firms. Most Apple app development is self-financed, says analyst Munster, with the average developer generating revenue of around \$40,000 yearly for their wares.

It's not easy getting into the iFund. So far, only 14 companies have been accepted out of 6,000 submissions.

One big advantage to joining the winner's circle: Beyond the money, you get to be in the know. The CEOs in the portfolio all get together often to keep abreast of changes in the market.

"These are people who are very focused on one domain, and that's it: mobile," says Scott Lahman, CEO of portfolio company Gogii, which offers a free texting app for Apple's mobile devices. "I can reach out to them any time of day or night if I have a question or want to compare notes."

Beyond regular meet-and-greets, Murphy keeps the members abreast of industry trends via e-mail. Murphy, 43, sits on the board of most of the portfolio companies. He joined Kleiner in 1989 after getting his Stanford MBA degree.

Murphy manages the iFund in collaboration with other Kleiner partners. It is one of four areas of investments that Kleiner focuses on. The others: green tech, life sciences, information technology.

Entrepreneur Mike McCue has been involved with Kleiner Perkins for more than 15 years. He formed a company, Tellme Networks, in the late 1990s that brought audio search to mobile. It was funded by Kleiner and later sold to Microsoft.

For the funding of his latest venture, Flipboard, he returned to Kleiner,

but this time as part of the iFund.

"With Tellme, we were part of the general fund, but it wasn't the same sort of camaraderie of companies all trying to do the same thing," McCue says. "This is more focused and specific about what it means to build apps for the iPhone and iPad."

Being a member of the iFund, and therefore a Kleiner Perkins-backed company, opens doors.

When Roeding came up with his idea for a shopping app, he not only received funding from Kleiner Perkins but also an introduction to executives at the nation's largest electronics retailer, Best Buy.

"Guess who Shopkick's first launch partner became?" Roeding wrote on the Quora social question-and-answer blog. "Yes, it took a lot of meetings and convincing after the first introduction, but without KP, the door probably would not have been opened."

Kleiner Perkins calls Apple a "partner" with the iFund. There's clearly a close relationship there. In announcing the fund at an Apple event, CEO Steve Jobs greeted Kleiner partner John Doerr with a big on-stage hug -- a photo that's prominently displayed on the Kleiner Perkins website. On the iFund section of the website, Kleiner says Apple provides "market insight and support."

Murphy often sets up meetings between iFund CEOs and Apple's developer relations team, but Flipboard CEO McCue says iFund members don't get access to privileged information.

"Kleiner just helps connect the dots," he says. "The developer relations team will talk to any developer."

Apple's Joswiak says iFund developers don't get treated any differently from developers who don't have Apple connections. "Everyone is on the same level playing field," he says.

Still, Roeding says the connection doesn't hurt. "They're friends with Apple," he says. "And being friends with Apple is not a bad thing."

Of the relationship with Apple, Murphy likens it to the old Batman comic book and the police commissioner's private hotline to the superhero.

"We can call Apple and say, 'Hey, we'd like you to take a look at this company,' but it also works both ways."

Apple recommended the music app Shazam to Kleiner. And the iFund's next, still unannounced, new company came direct from Apple CEO Jobs, who sent an e-mail to Kleiner suggesting an investment, Murphy says.

The iFund specializes in Apple mobile devices, but that's not to say it won't invest in companies making programs for the competing Android platform from Google, says Murphy. However, if someone pitched Murphy on an app made only for the Android, he says it "wouldn't pass the IQ test because the [iPhone](#) platform is too big. I'd convince them it should be on both platforms."

Owners of Apple devices "are more active and spend more," Murphy says. "That gap will eventually close, but it will take some time."

Murphy should know. He spends so much time on iTunes checking out the chart rankings of his iFund companies, "I am probably the most active person on the App Store," he says. Apple's charts are updated often, and he can't resist taking one more peek.

"It's like watching the stock market," he says.

(c) 2010, USA Today.

Distributed by McClatchy-Tribune Information Services.

Citation: There's a fund for that (2010, September 27) retrieved 26 April 2024 from <https://phys.org/news/2010-09-fund.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.