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Taking On Goliaths

George White
The Deal
April 20, 2007

When a startup looks to raise capital, telling the venture capitalist that it plans to compete head-to-head with Google Inc., Yahoo Inc. and Microsoft Corp. in search, the usual result is a quick meeting. That is, unless the startup happens to be in mobile search.

The ubiquity of cell phones has startups, VCs and search giants coveting mobile search as the next big thing in Internet advertising. Although mobile search is still evolving in the U.S. - M:Metrics Inc. reports that about 12.5 million people conducted Web searches from their phones in February -- its best days are still to come as phones with browsers proliferate and more Web sites are designed for cell-phone screens. Mark Duffy, CFO of Cambridge, Mass. and Tel Aviv-based JumpTap Inc., a VC-backed company that provides search services for wireless carriers, expects the market for mobile search advertising to expand from \$1.5 billion in 2006 to between \$16 billion and \$18 billion in 2011.

"The upside is so huge right now, with 2.1 billion mobile users, there's a high likelihood that it will eclipse Internet usage," says Brian Lent, CEO of Seattle-based Medio Systems Inc., which also provides mobile search. "If you think of developing nations, the mobile phone is their PC; it's their access to the Internet."

Given the growth prospects, the Internet search giants have been making their mobile offerings a priority, but the market remains open.

"At first blush, you'd think you could straight-line to mobile search right from what's happening on the Internet," says Mark Donovan, vice president with Seattle's M:Metrics. "But there's some different dynamics to the mobile market, which I think created an opening for these startups."

Chief among these is the relationship with the wireless carrier, which has far more leverage in controlling the cell phone's built-in browser -- or deck -- than a PC maker has. "Startups worked with the carriers to become embedded on the carrier portal," Donovan says. "Those portals drive the majority of Web traffic, so if you're in the right place, namely, their deck, then you're sitting pretty."

Duffy says that a "carrier-friendly approach," where his brand doesn't overshadow that of the wireless company, is



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one of the most important parts of the company's success. "We don't threaten carriers with a label," says Duffy. "Google and Yahoo can be kind of scary, particularly when Google's saying phone service should be free."

JumpTap has partnered with Alltel Corp., Boost Worldwide Inc. and Virgin Mobile Lt. And T-Mobile USA Inc., Verizon Wireless Inc. and Telus Communications Co. use Medio. "In the geopolitics of big business, that's very attractive to carriers that want to make sure they don't lose control of their customer," Donovan says of his company's white-label approach.

All of this has not gone unnoticed by the kings of Internet search, who all moved to beef up offerings in mobile search. Yahoo expanded its oneSearch platform to mobile phones and rolled out a new mobile advertising platform, Yahoo Mobile Publisher Services. Google launched a mobile search engine customized to give preselected weather, news and film information for a designated area. Google has also closed a deal to put Google applications on the millions of phones made by LG Electronics.

But of more interest may be that other companies are upgrading their mobile search capabilities by acquiring their portfolio companies. Microsoft, for instance, dropped a reported \$800 million to buy Tellme Networks Inc. last month. Tellme, which had raised \$280 million from General Atlantic LLC, Kleiner Perkins Caufield & Byers and Benchmark Capital, allows users to search on their phones by talking instead of pushing buttons.

Meanwhile, Nuance Communications Inc. of Burlington, Mass., which also uses voice to deliver search results from Google, spent \$140 million in February to buy BeVocal Inc., cashing out ArrowPath Venture Partners, Technology Crossover Ventures, Mayfield Fund and U.S. Venture Partners. Two months earlier, Nuance bought MobileVoiceControl Inc., another mobile voice search company.

Venture capital-backed mobile search companies

Company	Investors
4Info Inc.	U.S. Venture Partners, Draper Fisher Jurvetson
JumpTap Inc.	WPP Group plc, General Catalyst, Redpoint Ventures, BCE Capital, Valhalla Partners
Medio Systems Inc.	Accel Partners; Mohr,Davidow Ventures; Frazier Technology Ventures; Trilogy Equity Partners
Nubiq	Enterprise Ireland, eTen
Pyxis Mobile Inc.	Ascent Venture Partners, Egan-Managed Capital, Brook Equity Partners
V-Enable	Palisades Ventures, SoftBank Capital
Ziva Software	Nadathur Holdings & Investment Ltd.

Source: The Deal

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