

The Business Of Data

Making a fortune designing software is so last century. Many entrepreneurs are trying to build empires out of information.

SUPPOSE YOU COULD FIND ALL THE socks you ever lost. Now suppose getting those socks back enabled you to earn a better living, or work faster and smarter. Wouldn't you be willing to pay someone to locate those socks on a worldwide sock exchange? That's the crux of a business category that some entrepreneurs and investors find pregnant with opportunity. "We think this is the next hot thing," says Jeanne Sullivan, an executive at StarVest Partners, a New York venture-capital firm developing a specialty in this area.

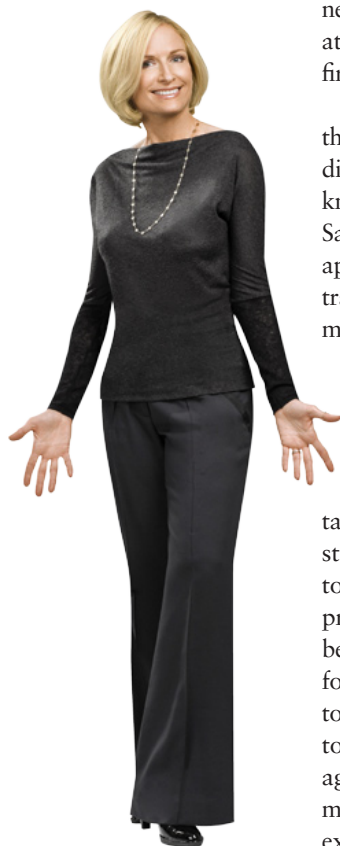
Unfortunately, the business world has given this baby a jargony name: Data as a Service, or its diminutive, DaaS. It rhymes with SaaS, its better-known cousin that stands for Software as a Service. SaaS is the catchall name for on-demand software applications like those on an iPhone. DaaS, in contrast, recognizes that software is becoming a commodity; it's data mixed with software that's king.

DaaS offers some intriguing possibilities for start-up types—a chance to build a lucrative business that can grow rapidly without needing a big workforce to keep it running. Better still, if you're the first to build that sock database, you can have a near monopoly. So while start-up costs can be high—think anywhere up to \$10 million to set up servers and a slick Web presence—profit margins tend to be fat. That's because the business model involves gathering information that's relatively inexpensive or even free to the collector, analyzing it and slicing it into easy-to-consume pieces for people who will pay for it again and again. In business-school speak, "it's monetizing rich data," says Sullivan. Imagine, for example, being able to search the sock exchange

to find socks that match a user's singleton socks exactly and then to find the buyers nearest to the user who are willing to meet his price.

Some established businesses, like the Zagat Survey restaurant guides, already roughly fit the category—Zagat gets consumers to fill out restaurant surveys and organizes them into guides that grow stale and need replacing, like last year's fashions. Much more DaaS-like, and one-upping them considerably, is OpenTable. The company sells restaurant-reservation software to restaurants and offers diners online reservations and the ability to search restaurants by geography, cuisine and price; its recent IPO was seen as one of the brighter moments in the postcrash economy. The datacentric companies are among the fastest-growing these days, according to Louise Garnett, an analyst with information research firm Outsell: "I see two to three new ones each week." Where 1990s-style Web businesses often kept the technical and content elements separate, she notes, the growth today comes from companies that can integrate the two. Overall, the information industry grows 5 to 10 percent a year, according to Outsell.

What do all these ventures have in common? Lemons. George Akerlof's lemons, to be precise. In the late 1960s the Nobel Prize-winning University of California, Berkeley, economist sought to answer the age-old question of why buying used cars favored the seller over the buyer. The buyer couldn't know whether the seller was selling because he needed the cash, or because the junker had unseen repair and maintenance issues. Akerlof proved that the buyer's inability to discern the difference between a good car and a lemon drove down the prices of all used cars. Buyers don't like



Photograph by Evan Kaifka

The Information Edge

"Data as a Service." Businesses in this field gather specialized information, then organize it in a database for which users pay for access.

The Price of Technology. Gathering the information isn't expensive, but organizing and storing it can be; start-ups can spend millions on computer servers and a Web presence.

Shoestring Staff. Once it's up and running, a firm can grow without much person power; five or six people can run a nationwide business.

uncertainty, so many would simply walk away from the transaction. Fewer buyers means lower prices—hence the canyon-like price differential between new cars versus those driven even slightly. (And here we thought consumers were willing to pay thousands more for that fresh-car smell.) In financial markets, investors unable to distinguish between a great business and a loser will put their money into cash and leave start-ups without funding. Under Akerlof's logic, providing more information, with a level playing field for buyer and seller, creates business opportunity.

Darwin Melnyk, 45, a former Emory University seminary student, has been striving to do just that. He first entered this field as a modern-day Indiana Jones, working as a technology specialist on archeological digs in the Jordanian des-

ert. In the field, Melnyk figured out how scientists, by inputting data on their laptops, could improve their productivity and speed up the fossilized process of garnering grants. Beginning in 2006 he started to apply those same skills to a different kind of artifact, digging up data about old

Selling Data as a Service involves obtaining information, often for free, and slicing it into easy-to-consume pieces for clients who can pay top dollar.

tractors for farm-equipment dealers. Iron Solutions, of Fenton, Mo., had its genesis in an annually issued guide, akin to the used-car *Blue Book*, that dates back to the '40s; dealers would dog-ear the guide to help them price, say, a rusted-out 1992 combine some farmer was offering on a

trade. Some of the guide's information was available online by 1999, but Iron Solutions hadn't made the digital leap of making it easy to use.

Enter Melnyk, who built the old tractor data into a sophisticated database. Want the autumn-harvest price on a tricked-out

2003 Flail chopper? No problem, for an equipment dealer with a \$400-a-year subscription to IronSolutions.com. Farmers can search internationally for their machines, dealers can learn which farmers are interested in upgrading, and both can get much more specific equipment informa-

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tion that helps them make money-saving decisions. Melnyk says the business is growing 20 percent this year despite the economic climate—or perhaps because of it. “The good deal is more important than ever,” he says.

The seeds of a similar business, MyGroceryDeals.com, were those colorful advertising inserts that irritatingly flutter out from Sunday papers. It wasn’t an obscure IT term like DaaS that was on Paul Davis’s mind when he spread out the fliers on his kitchen table in 2004. It was how he would pay for his future roast beef sandwiches by inputting all the specials on the Web. Davis, who had previously founded an in-store survey business, wanted to consolidate the constantly changing weekly specials from grocery stores and deliver them online so consum-

ers could compare prices on Coke, Huggies or whatever else they bought. He also enabled the bargain-crazed to use the site to “pantry load” by finding the best local deals regardless of product.

“If I had known how hard it would be, I’m not sure I would have done this,” sighs Davis, in an oft-heard entrepreneur’s lament. There were minor hitches, as one can imagine, in getting 160,000 ads per month organized for shoppers in 55,000 zip codes across the U.S. At one point, his computer server started choking on too many ads, slowing to “a chug, chug, chug,” says Davis, who had to spend an unexpected \$500,000 to get his systems up to consumer-friendly speed again. “Often on Thursday we’d have no idea how we were going to make payroll on Friday.” But four years later, with 300,000 registered

shoppers, Davis says MyGroceryDeals.com is close to breaking even on revenue from advertisers and coupon manufacturers. He is also launching a premium membership service and will start selling research from surveying his customers, his old specialty.

Despite its growth, the site is still more or less a small business; MyGroceryDeals.com gets by with only five full-time employees. Davis doesn’t have to spend much to gather information since grocery chains now digitally feed their ads to MyGroceryDeals.com for free. If and when profit arrives, the number of people getting a piece of it will be relatively small—meaning, presumably, more data dollars for Davis. **S**

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