

THE TENNESSEAN

Media, Entertainment Startups Face Challenge: Getting Investors to Look Beyond Health Care

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Mark Montgomery, who sold his firm EchoMusic to Ticketmaster for \$25 million, says some of the young brainpower in digital media in Nashville has come from people who came here to work in health-care IT but found digital media companies "a hell of a lot sexier."

Finding investors to back the next "can't miss" digital media or entertainment venture isn't as easy as getting money for health-care startups in Nashville, despite a rush of ideas from young entrepreneurs geared toward marketing music or reaching out electronically to consumers in other ways.

Money "is out there, but they're not going to give it away freely," said John Walker, co-founder of Heng Dai Media LLC, which produces the Music City Roots music variety show on radio and via webcast.

Jacob Gordon, whose startup Nemonics Media operates from the Nashville Area Chamber of Commerce-affiliated Entrepreneur Center downtown, sees potential for Music City to become a bigger player in digital media, entertainment and marketing. But locals need to open their minds to more fresh ideas, he says.

"In Nashville, we're still at a spot where if somebody thinks of a new idea, we're very quick to try to think about why it won't work or the reason why it couldn't make money," said Gordon, whose company aims to build Web traffic for clients. "Those are great questions, but if you ask those questions too early, you'll never end up with anything truly new or innovative."

The bottom line: Access to money comes most quickly for young companies with the best early track records of building annual revenue, and many investment pools operating in Nashville remain more comfortable with health-care deals or other equally familiar niches.

Media and entertainment deals got just \$2.2 million — or less than 2 percent — of the reported \$123.5 million that venture capitalists invested in Tennessee companies over two years through mid-2011, according to an analysis by PricewaterhouseCoopers/National Venture Capital Association MoneyTree Report.

Health-care services and other software deals, by comparison, each took in nearly 20 times as much money in that period.

But help may be on the way, investment pros say, largely because local angel investors and venture funds have seen a couple of recent deals score big paydays for others.

Locally, the digital entertainment and marketing niche got a boost from the success of two companies — online video company StudioNow, which AOL Inc. acquired for \$36.5 million last year, and Echomusic LLC, which Ticketmaster bought for \$25 million.

Some entrepreneurs who profited there now invest themselves and mentor others, said Sid Chambless, executive director of the Nashville Capital Network and managing partner of the Tennessee Angel Fund. "It's certainly not at the same level as health care or health-care IT. But I'd say there's definitely an interest around media opportunities."

Since scoring a fourfold return from a \$1.9 million investment in StudioNow, FCA Venture Partners has been eyeing other deals in digital media and entertainment, said Matthew A. King, managing partner of the venture capital funds of Franklin-based Clayton Associates.

King, however, said FCA Venture and many other firms prefer prospects that already have significant revenue. "We're execution and growth-risk investors," he said. "We're not sort of a creation-risk investor."

Echoes of the past

Mark Montgomery, founder of FLO {thinkery}, an incubating vehicle for digital media, recalls not getting much support within the Nashville investment community when he took startup company Echomusic into selling music online directly to consumers in the mid-'90s. He attributes that to a lack of understanding at the time here.

"We raised our first round of venture capital money on the West Coast because the local investment community didn't understand our model," Montgomery said. "That's why I got so active in helping to build a local entrepreneurial ecosystem."

Today's environment is better thanks to the recent launch of the Entrepreneur Center, an incubator on Lower Broadway that supports young business owners, and increased venture capital interest from companies such as Nashville's Solidus Co., which backs a group known as Jumpstart Foundry and targets investments in social networking, data systems and information technology.

The Entrepreneur Center is among sponsors of tonight's Next Awards, a Nashville Area Chamber of Commerce program designed to cast a favorable light on startups in several fields, including digital media and entertainment.

Montgomery is working with a half-dozen existing companies and early-stage ideas at FLO {thinkery}. He's also an investor in Artist Growth, a startup that is close to raising \$1 million with plans to launch an artist management system in January.

Artist Growth is drawing interest from investors such as Dr. Harry Jacobson, a longtime Vanderbilt health-care executive; former Sony Music executive Joe Galante; and Montgomery.

"Nashville is ready to become a center for technology innovation," said Matt Urmy, co-founder of Artist Growth.

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Other emerging entertainment and marketing ventures are rising out of existing businesses.

RedPepper, a marketing agency with a dual digital and traditional focus, wants to raise money to spin off a Web-based technology application it developed for its own use. The idea is to gauge marketing campaigns' return on investment.

"In the old days, you could just run a marketing or print ad and say if it's reaching a certain number of people, it's working," said Tim McMullen, RedPepper's founder and executive creative director. "Nowadays, marketing is all about demonstrating the impact. Now it's about tracking customer engagement and the business impact."

Many business owners see potential here because of Nashville's universities, plus its health-care and music industries, which attract talent.

"Those three things bring talented people to Nashville who are innovative and cutting-edge and creative," said Kelly Magill, who bankrolled her tiny startup company, KellyGirl Video, with \$30,000 after launching it in late 2009. First-year revenue was \$57,000. She remains optimistic: "Nashville in general is a great city for any kind of startup."