



TechWatch – Blog Networks and VC Funding

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As you have no doubt noticed lately a lot of blog networks are receiving funding from big name VCs. The most well known blog networks to receive funding recently are [GigaOm](#), [b5 Media](#) and [Sugar Publishing \(PopSugar\)](#), etc.). The blog network has truly become the hot new investment for early stage VCs. Why? Well, VCs have seen that blog networks are garnering traffic at a rapid pace and have the potential to make huge sums of money from advertising. The most well known example of this right now is [TechCrunch](#). The founder started the blog as a hobby and now takes in over \$60,000 per month in advertising from it (note: the Founder has not taken funding).

What is a blog network? Essentially, a blog network is a “collection of blogs under a single domain name or company,” according to [Blogossary.com](#). A “blog” for those of you that don’t yet know it, stands for “web log” and is an online journal that is usually routinely updated, with many entries in chronological order. See [Blogossary.com](#).

Given the immense earning potential in advertising, , investing in blog networks does make sense if you look at how the businesses can grow and how the coveted network effects can be harnessed to drive even more traffic (using user-driven social content websites, for example, such as [Digg.com](#)). However, my interest lies in why the blog networks need the money and, if they need it, how much do they need?

There are some easy answers to whether or not blog networks need money or why they would want it: writers, ad sales (this can be outsourced to a certain extent), admin, office space, servers, bandwidth, office supplies, etc. Om, for example, took \$1mm or so for [GigaOm.com](#), an online news and web log. The investment will cover all of those costs and leave some room for growth. But what about a blog network like Sugar Publishing that took approximately \$5mm from tier one firm [Sequoia](#)? Do they need \$5mm? To answer that question I decided to do a little research on what kind of capital it takes to start a print magazine. Perhaps there are some similarities between print magazine and web log costs.

It turns out that you need between \$50k and \$100k to start a low end magazine/newsletter, but if you want to launch a glossy newsstand publication like PC Magazine you’ll need to spend at least \$5mm¹ (Interesting. Seems like we hit the exact number that Sugar Publishing took, and I would consider them, and the other blog networks I mentioned, the equivalents of high quality newsstand variety magazines.

Yet, a lot of the cost to start up a big time magazine lies in the printing and infrastructure which you don’t have in the online world. With bandwidth and storage being cheap, where does that

¹ sources: [MagazinePublisher.com](#), [MagazineLaunch.com](#) and Cheryl Woodward’s book *Starting and Running a Successful Newsletter or Magazine*

money go? Staff, office space and the like are a big expense for online publishers but are still not enough to justify a large investment. It seems the answer may be that Sugar and blog networks are planning on using some of their money to acquire other properties, networks and talent. With a few acquisitions Sugar starts to look cheap at the \$5mm investment price.

With the costs being laid out I am now drawn back to the VC side of the table. I am guessing that the pre-money on Sugar was around \$10mm or so (perhaps a little more as TechCrunch speculates) which means that Sequoia ended up with about one third of Sugar. VCs are usually looking for a 10x return, meaning that, in this case, they want to sell the business at the end of the day for around \$100mm. This then means Sugar will need to get to about \$10mm in cash flow per year (\$833k per month).

If you take a look at Sugar's current pageviews (which are growing incredibly fast - I have heard they are at 13mm per month now), they will have to grow them by 8 - 10x or so and achieve a good CPM (Cost-per-mil (mil/mille/M = latin/Roman numeral for thousand impressions²) to be able to get to that revenue level (not including feed ad inventory which will become more of a factor³). This is not at all impossible judging by how fast they are growing and by the demand for quality women-focused content online. Also, if the acquisitions do come into play this type of growth could be achieved fairly easily.

It is going to be very interesting to see how or if the different funding amounts and approaches will affect blog networks and whether or not the VCs will get the 10x returns they are looking for. It still seems to me like \$5 million is a lot of money to put to work in this type of venture, but I also don't want to discount investors like Sequoia who have had a lot of big wins over the years.

² Wikipedia.com, on Affiliate Marketing: http://en.wikipedia.org/wiki/Affiliate_marketing

³ disclosure: I work for [FeedBurner](#), a feed management provider that offers "web-based services to help bloggers, podcasters and commercial publishers promote, deliver and profit from their content on the Web."