



SAN DIEGO SERVES AS A HOTBED FOR ANALYTICS TECH CLUSTER—AT LEAST UP TO A POINT

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When Tom Clancy introduced a panel discussion yesterday at a forum on analytics software, the founder of San Diego's Tao Venture Partners said the forum was "founded four years ago by people who had an interest in seeing San Diego get established as a leading cluster in the analytics space."

The forum, which is sponsored by the San Diego Software Industry Council, offers an annual snapshot of local developments in a booming industry that has become crucial to business intelligence, data storage and management, and complex decision-making.

Since Robert Hecht-Nielsen founded HNC Software here in 1986, the number of companies that focus on analytics software in San Diego has mushroomed, with more than 100 companies specializing in neural networking, data mining, pattern recognition, and related algorithms and technologies for analyzing data. Yet Clancy and local experts who discussed "opportunities in analytics" lamented that San Diego's standing as the birthplace of some key companies and technologies has gone largely unrecognized.

Among the examples cited:

— HNC, which specialized in technology to analyze credit card transactions, was acquired for \$810 million in 2002 by Fair Isaac and Co. and integrated with the Minneapolis, MN-company's credit-scoring business.

—Urchin Software, a suburban San Diego Web analytics company that developed an assortment of tools for measuring website usage, page views, and other statistics, was acquired by Google in 2005 for an estimated \$30 million. Seven months later, Google renamed its Urchin business Google Analytics, and made analytics tools available to Web users for free.

—WebSideStory, a San Diego company that developed website traffic analysis tools, rebranded itself as Visual Sciences in 2007 and was acquired later that same year for \$394 million by Utah-based Omniture. (Last month, Omniture was itself acquired by San Jose, CA-based Adobe Systems in a \$1.8 billion deal.)

—Carlsbad, CA-based analytics software developer Keylime Software was acquired for \$9.5 million in 2003 by Pasadena, CA-based Overture, an advertising distribution network that was later acquired by Yahoo for \$1.6 billion.

Such deals reflect a surging awareness of the value of data, says Stephen Coggeshall, a co-founder and chief technology officer for San Diego-based ID Analytics, which uses advanced analytics to search credit databases for telltale signs of identity theft. In terms of technology innovations that will likely lead to forming new companies, Coggeshall says the next generation of analytics startups are developing new technologies that help companies optimize their profitability, and in modeling consumer behavior—especially "anything that can forecast or predict consumer behavior."

Clancy added that, "The advent of cloud computing [also] is a major force in analytics, [stemming from] the ability to process much, much larger data sets for a reasonable amount of money."

Analytics was born in the financial services industry, Coggeshall said, because that's where the money is. "First in banking, and then in Wall Street, where small improvements in decision-making—particularly where there are large deal flows—can make a very big business." But Coggeshall added that analytics

has become widely applied in such areas as website search engine optimization, bioinformatics, health care, consumer products, and other industries.

Covario CEO Russ Mann turned the discussion of opportunities in analytics into a momentary pep rally as he enthusiastically listed the “really exciting stuff” underway locally at San Diego-based Accelerys and Illumina, and at Ohio-based Teradata’s San Diego engineering development center. “Teradata is a bastion of high-end analytics!” Mann proclaimed. “Three years from now, or five years from now do we want San Diego to be known as a kind of second tier in analytics, and Lahore, India, or Boston, or San Francisco, to be known as the main cluster?”

But Coggeshall and others said the growth of analytics in San Diego also is constrained in certain ways. It can be difficult to recruit managers and researchers with the necessary skills in computer science, programming, and mathematics here—although a representative of the San Diego Regional Economic Development Corp. said the community just landed \$2.5 million for technology workforce training through the San Diego Workforce Partnership.

San Diego also appears likely “to continue to be more of a small company town,” said Kanani Masterson, a software industry recruiter. With a few notable exceptions, such as Qualcomm and perhaps Life Technologies, San Diego’s startup community seems to prefer a build-to-sell business model. That’s unlike Silicon Valley, where many more startups grow to the size of Hewlett-Packard, Apple, Cisco Systems, and Google.

San Diego’s biggest constraint, however, may be the lack of San Diego-based venture capital to invest in analytics startups and to promote the industry here generally. As Clancy put it, “There is no local capital in this area right now to apply to this particular field.”

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