



VC firms spot enterprise trends

Talk to the money men, and they'll tell you software as a service and open source are all the rage

By Marc Ferranti, IDG News Service - December 19, 2005

If you want to find out what's hot for the enterprise, follow the money: the venture capital money, that is. Interest in old-school business models and applications has waned, but startups that offer enterprises innovative, secure solutions at low cost are attracting big money.

Venture capital investing this year could meet or surpass 2002's \$21.7 billion, which was the highest level for the past three years, according to PricewaterhouseCooper's MoneyTree Survey. In the third quarter this year, the software industry retained its position as the largest single industry category, with 185 companies capturing approximately \$1.0 billion.

"We've gone through the valley, and we're in a period of cautious optimism," said Mitchell Hollin, a partner with LLR Partners, a private equity firm. He flags business intelligence along with security and management of mobile applications as areas ripe for new applications.

"Dollars are definitely going back into the enterprise field -- not into companies with classic enterprise business models, but more into software as a service, managed services, and dynamic IT," said Pat Kenealy, who is stepping down this month as chief executive officer of International Data Group (InfoWorld's parent company) to take the helm as general managing director of IDG Ventures.

Warren Weiss, a general partner at Foundation Capital, agreed with Kenealy's emphasis on software-as-a-service. "The on-demand computing model is real, and startups that offer software with friendly, consumer-like interface, but which scale up, are in a good position," he said.

With an interest in innovative pricing plans, Foundation also invested in Itemfield, a maker of application-integration, business- infrastructure software. Earlier this month, SAP announced that the NetWeaver middleware platform would integrate Itemfield software. "Users will pay for usage, based on the amount of data coming in and out of NetWeaver," Weiss said.

Foundation also has invested in Rearden Commerce, which makes the Services On-Demand platform. Reardon's EBS (Employee Business Services) application provides a single Web interface for procuring employee services such as travel, package shipping, audio and Web conferencing, and dining.

Open-source software and services that can lower the cost of business intelligence are also sought after, according to Bernard Dallé, general partner at London-based Index Ventures. Index last week announced, in partnership with U.S.-based New Enterprise Associates (NEA), a \$5 million round of funding for Pentaho, a provider of open source business intelligence software. Users can get 80 percent of the Pentaho code for free. The remaining 20 percent is purchased under a license and provides the code needed for scalability.