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**"CHANGE IS IN THE WIND" ONSET VENTURES PARTNER TELLS ENTERPRISE SOFTWARE  
ENTREPRENEURS**

**The Environment Today Calls for Substantial Intellectual Property and Transformational Models -  
Not Just Evolution**

MENLO PARK, CA - OCTOBER 20, 2004 - The environment today for start-up companies in the enterprise software arena has changed dramatically, an Onset Ventures general partner asserted recently. While in the recent past such start-ups could be successful automating entrenched business processes, today they must think "transformationally", in order to be meaningful business plays.

"The leaders in the enterprise software business - Oracle, SAP, Microsoft, IBM and a few others - have acquired the status of 'anchor tenants'," said Mark Hilderbrand, Onset general partner. "Programmed refinements to their own widely-installed platforms will extend their reach into those few remaining traditional business processes that have eluded them - or not interested them - until now. A start-up today can rarely compete with this inertia."

Instead of going head to head with the anchor tenants, Hilderbrand said, new software ventures must change the rules of the game, focusing on opportunities to transform a business paradigm. "The last decade has seen major shifts in competitive landscapes favoring new leaders who have made transformational changes," he said. "Prominent examples include Dell Computer with its built-to-order capability; Wal-Mart with its real-time inventory visibility throughout the supply chain; and Amazon with its one-to-one marketing capability. Each of these companies has leveraged innovations in technology to catapult themselves to leadership positions."

Transformation can also occur in the software deployment paradigm itself, he maintained. "For example, take Salesforce.com. Supporting the sales process with software and databases was an obvious evolutionary path for the big vendors. What Salesforce.com did uniquely well was transform the very model for licensing and deploying software - giving us sort of 'automation one step - or one user - at a time'. The anchor tenants have virtually no response, because adopting this approach threatens their core businesses."

Without meaningful innovation, said Hilderbrand, startups face a difficult path as the enterprise software industry consolidates. "In the late '80s, software grew nearly five times as fast as the GDP; now it's at parity. License revenue growth was only about 0.6% last year, and the number of software companies has contracted 25% since 1997." Despite this overall slowdown, he said, opportunity exists for those companies who can change the game. Hilderbrand reported that following four-plus years of retrenchment, CIOs and enterprises are once again entertaining compelling propositions from startups. But for them to entrust mission critical operations to products from a

startup, the proposition must be truly compelling, solving really difficult problems, and typically must be based on rich and defensible intellectual property.

"The anchor tenants are vulnerable where they have billions of lines of code, deutschmarks, dollars, man-hours, and brain cells invested in business models that are about to change out from under them," he said. "They are vulnerable to hosted and subscription-based applications, where the costs of deployment and end-user maintenance drop into the noise level, and software becomes - for the first time in history - a true variable cost. They are vulnerable to profound changes in business processes that obsolete everything that was automated before, almost overnight. If you are an entrepreneur, these are the types of plans you must focus on."

Overall, Hilderbrand is bullish on the potential of seeing these types of opportunities: "There's real innovation out there," he said. "What is important is to realize that trying to run with the herd of elephants will probably get you trampled. But even when the herd sniffs a change in the wind, it has trouble changing directions. There's your advantage; you can be into the new 'game' by heading right for it." Nose to the wind, agility, a unique and profound strategy, deep thinking, and a defensible tactical plan - these are the hallmarks.

Hilderbrand made his remarks recently as part of and pursuant to a panel discussion during "The Future of Enterprise Software", an event sponsored by Chinese Software Professionals Association (CSPA).

### **About Onset Ventures**

ONSET Ventures specializes in providing an ideal mix of start-up, follow-on, and intellectual capital to entrepreneurs and early-stage technology ventures, to help transform world-class ideas into sustainable and valuable businesses. The firm has backed nearly 100 companies since 1984 and now has more than \$500 million under management.

ONSET pioneered, and has refined over 20 years, a highly-optimized tool set for risk and capital management, and a *shirt-sleeves style* of active collaboration with entrepreneurs that leverages the firm's substantial operating experience. That collaboration frequently begins before the closing of any financing, and typically continues throughout the life of the venture. The combined process, which has become the hallmark of the firm, has resulted in ventures that have consistently met their operational and financing milestones. In addition, it has resulted in a franchise that not only brings successful, serial entrepreneurs back to ONSET Ventures time and again, but also attracts investors who want the increasingly rare opportunity to participate in very early stage venture investing.

ONSET Ventures focuses exclusively on information and medical technology-based start-ups, and has a long history of successful ventures in each of these sectors.

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