MAYFIELD FUND
Venture Capital with Impact™

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> The Revival of Enterprise Technology

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MAYFIELD VIEW:
Robin Vasan and Navin Chaddha
Managing Directors

Signs of a revived but changed enterprise technology market are everywhere.

At the core of this rebound is the resurgence of global IT spending, which jumped 8 percent last year, up from just 3 percent in 2002-2003. Then there's the return of the IPO. After years of M&A and LBO exits, the IPO finally returned in the U.S. and abroad in India and China. In 2006, offerings by enterprise technology companies like Riverbed Technology, WNS and Isilon Systems made stellar IPO runs by year's end. At the same time, M&A activity continues to be strong. Big players like IBM, Cisco, Microsoft, Hewlett-Packard, Symantec, EMC and Oracle continue to compete for the best acquisition opportunities. Of more than 1,800 acquisitions in the enterprise sector last year, software infrastructure deals dominated.

But make no mistake: the companies doing business in this market differ vastly from the crowd of 1999. Today, IT departments are run as tight businesses and buyers are more frugal and demanding with vendors then ever. With this new frugality comes opportunity and investment strategies are changing accordingly.

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"We're looking at all stages of enterprise technology investing now. We're considering hot growth-stage companies and re-visiting startups that survived the Internet bust by changing their business models and reinventing themselves."
– *Robin Vasan*

"Enterprise customers ask any startup to consider three basic questions. Will your product improve our business processes? Will this software help reduce our cost of doing business? Can you guarantee better service deleivery?"
– *Navin Chadda*

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MAYFIELD VIEW: Managing Directors Robin Vasan and Navin Chadda

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Here are some trends that we believe reflect this new market:

SOFTWARE IS ABOUT PAINKILLERS, NOT VITAMINS.

Companies gaining traction in this market are curing IT headaches caused by massive storage growth, data-center consolidation, heightened security risks, and a tighter regulatory environment. Email archiving needs alone in a newly regulated environment inspired an expanded market for compliance software.

FRICTIONLESS IS THE ENTRY TICKET FOR MAKING SALES.

Corporations grappling with complex heterogeneous computing environments demand fast roll outs and quick time-to-value. Software as a Service (SaaS), appliance solutions and even business/knowledge process outsourcing (BPO/KPO) are new models that offer more efficient solutions to problems. WAN optimization appliances provide a smarter, simpler way to relieve network bottlenecks caused by a jump in the use of remote web applications.

PURCHASES ARE SMALLER AND MORE TARGETED.

Corporations have shifted from big capital spending to smaller departmental purchases. On the down side, corporations earmark most of their budget to incumbent vendors. That poses a particular challenge for newcomers seeking a piece of the pie. However, many are succeeding by using new approaches to sales and distribution. Open source vendors, for one, allow potential customers to try their products before making future sales. Linux vendors pioneered this technique, paving the path for more open source opportunities in the enterprise.

Finally, the emergence of the Internet 100 is perhaps the most important trend within the enterprise market today. The Internet 100 is a distinct market. These companies – beyond the obvious leaders such as Google, Yahoo! and MySpace – are driven by the hyper growth of the Internet. This growth creates new unprecedented demand for scalability, reliability and manageability from vendors.

Even the 100th largest company in the Internet 100 has scalability needs that reach beyond any traditional enterprise. New ideas from smaller vendors can lend the edge these companies need. In 2005, MySpace added startup (and Mayfield portfolio company) 3PAR Data to its vendor list because of the company's unique ability to incrementally add terabytes of storage.

At Mayfield, we are looking for more companies like 3Par that meet the needs of the next MySpace – and the evolving Internet 100 -- in this exciting new Internet 100 enterprise market.

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> Guest Interview:

MARK JUNG
Former COO of Fox Interactive Media

Mark Jung is the former COO of Fox Interactive Media, where he was responsible for MySpace.com, FoxSports.com and AmericanIdol.com. He sold his company, IGN Entertainment, to Fox Interactive Media, in 2005 for $650 million. Jung is a board member of 3Par Data and board chairman of Clearspring Technologies. His sister, Andrea Jung, is CEO of cosmetics giant Avon.

Mayfield: *Do you think there is a resurgence of customer activity in the enterprise sector?*

Mark Jung: Absolutely. This shouldn't come as a surprise considering the combination of deferred capital investment – the result of cut-backs in IT spending during the 2000-2003 economic downturn – and recent high growth in the digital media/consumer internet space.

Mayfield: *How have the challenges for businesses buying and using software changed in the past five years?*

MJ: Web 1.0 was characterized by publishers creating content and making it available to millions of users across the Internet. In today's world, users have become publishers. As a result, millions of people are viewing millions of individualized pieces of content simultaneously worldwide from a wide variety of devices – networked PCs and Macs, laptops running on WIFI, and mobile devices. The result of this ongoing trend is an industry-wide network re-architecture and expansion.

Mayfield: *Are startups providing the right hardware and software to address these new pain points?*

MJ: They're trying. The solutions we see tend to be relatively narrow and focus on pain points like data and network storage, real-time access, content and media serving needs, bandwidth availability, and load-balancing issues. Unfortunately, point solutions don't help CEOs and CFOs deal with macro-level budget planning. Let's say, for example, a video published on a user's social network page or blog suddenly lights up. Providing ubiquitous access to that content requires tradeoffs among the costs associated with distributed storage, media serving capacity, and bandwidth expense. These costs are rarely analyzed and there aren't off-the-shelf tools today to help managers decide how to allocate the budget among categories.

Mayfield: *What are some of the technology challenges startups face in an Enterprise 2.0-type of world?*

MJ: On one hand, new architecture requirements open up new markets for startups. That's the good news. The bad news is that these new companies are forced to scale their applications faster than they'd like. In the past, a startup would land a few initial customers and deploy their solutions on a metered basis. You were never required to scale rapidly out-of-the-box because customer expectations and needs were relatively conservative. In today's environment, corporations are finding themselves behind the eight-ball. New solutions must be rapidly deployed, which creates both a cost and service burden for startups.

Mayfield: *Where are we seeing the most innovation in the software market?*

MJ: Solutions addressing the production, distribution, monetization and tracking of user-generated and published content. Storage, media delivery and CDNs, personalization, bandwidth management, ad optimization, behavioral targeting, and web analytics are all areas of high growth, not to mention mobile.

Mayfield: *Any advice for entrepreneurs tackling this new market?*

MJ: Find yourself a customer, application or channel partner whose growth is so viral and extreme that you can leverage their success. YouTube tapped into the growth of MySpace and rode the wave of that growth with no formal contract between the two companies. When you lock into a high-growth client and they grow by leaps and bounds, so do you. Too many startups are too focused on finding solutions for technology that they develop while not focusing on the growth rate of the target market segment or customer.