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## Route 128 VC Firm Favors SaaS

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Ever wonder where so many Software as a Service companies have come from lately? One reason is they have big fans in important places, like venture capital firms. I spoke to Mike Fitzgerald, founder and managing general partner of Commonwealth Capital Ventures, about his fondness for SaaS companies. One big reason he likes them? An early one he funded, Constant Contact, has become a leader in e-mail marketing.

"SaaS applications are like PCs sneaking into corporate America back in the early 80's," said Fitzgerald. "They provided new functionality and people used the PC long enough to make it mainstream." If you're old enough to remember computing back in the early 80's, you remember PCs didn't try to go head to head with mainframe applications, they just handled jobs the mainframe couldn't do, or couldn't do easily. Mainframes didn't have spreadsheets, for instance, but PCs did. Actually, Apple II's did years before that, but they didn't make any impact on large companies.

"The new SaaS applications for small businesses are little pieces of functionality hitting the sweet spot for companies," continued Fitzgerald. "They're easy to buy, easy to use, and you can quit whenever. Since they often have monthly contracts, the SaaS companies have to keep a happy customer base."

That's a great point, and one I like to mention regularly. If you buy an application and it doesn't work, the money is gone. If you try a SaaS application online and it doesn't work, you stop paying for it. You lose the amount of money you paid for the number of users for the month, but you don't pay anymore. If a SaaS application doesn't do the job, turn it off.

According to Fitzgerald, SaaS is now only about eight percent of the software business, but is growing rapidly. Only a few try to make SaaS work for global enterprise, but many SaaS applications work great for departments in big companies and for small companies. Every SaaS vendor that advertises "50 of the Fortune 100 use our products" may leave out the part that they average only a dozen users in those fifty companies. But that's OK, because they're providing a solution for a problem the huge enterprise hasn't solved itself. And your small business can get that same solution for a few dollars per user per month.

"Selling SaaS products is a completely different process than selling enterprise applications," said Fitzgerald. "You don't go for a big deal upfront, so you must capture one user then one department at a time." Although you may not have many departments, the idea of one user on a SaaS application becoming two users then four users is a pattern I've seen many times. Of course, collaborative applications must have a group of people join at once to give users someone to collaborate with, but many applications spread by word of mouth.

Finally, big companies provide the SaaS foundations for new SaaS applications. "In our neck of the woods, all the SaaS companies are starting on Amazon," said Fitzgerald. He expects HP, IBM, Google, and maybe other companies to provide that type of storage and computing foundation for new SaaS vendors.

Looks like Software as a Service is as big a hit with venture capital groups as with small business customers. If that continues, expect to see more and more SaaS companies offering more and more interesting new applications.

