

CROSSING THE CHASM ON A DINGHY

A CLOSER LOOK AT WHERE ALL THE VENTURE CAPITAL MONEY IS AND (ISN'T) GOING IN THE M2M SPACE.

Based on predictions from the pundits throughout the years, it would seem like any VC (venture capitalist) that didn't invest in the M2M (machine-to-machine) industry was living in the Stone Age. Why then is M2M so poorly fueled by VC money? After all, if M2M is going to be the biggest thing since the Internet, and there are 50 billion machines vying for conversations with six billion people, money should be the least of any company's worries.

How many times have you seen this reference: "McKinsey & Co. forecasts M2M initiatives will generate \$100 billion in combined revenues by 2010 in the U.S., Japan, and Western Europe." This quote, pulled from a recent Jasper Wireless, www.jasperwireless.com, Sunnyvale, Calif., press release is also familiar: "According to Berg Insight, Europe has a potential market of 600 million wireless M2M connections, while ABI Research expects the cellular M2M service market to quadruple by 2012."

If indeed M2M is to live up to such predictions, it looks like we have a lot of ground to cover between 2009 and 2012. However, looking to the VCs for the cash infusion to make this happen doesn't seem too likely in the near term. "2009 will be a year of anticipation for the venture capital industry as the economic turmoil will engender a fair amount of Darwinian change," says Mark Heesen, president, National Venture Capital Assn. (NVCA), www.nvca.org, Arlington, Va.

If the venture capital bus has already left the station, does this mean the Big Bang for M2M may be little more than a firecracker, or will M2M become quietly ubiquitous while we're all waiting for it to happen?

VC spending is no guarantee of success, but it is surely a barometer of market interest and activity. According to predictions for 2008 made by the NVCA in December 2007, the following categories were among those anticipated to receive big bucks: clean technology, Web 2.0 initiatives, life sciences, and alternative energy. NVCA's predictions for 2009, issued in December 2008, are far less optimistic: "Despite lower investment predictions across all industry sectors, clean technology is viewed by the highest percentage of respondents as potentially growing in 2009."

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Where does M2M fit into this picture? According to the NVCA, "The strongest consensus for investment decline is predicted for the semiconductor industry with 79% expecting a decrease in investment ... wireless communications investing are also expected to decline with 71% and 60% of all respondents predicting slowdowns in those sectors respectively."

But none of this should come as a surprise. Venture funding in the M2M space is rare. Surveying the press sections of each company listed on the 2008 M2M 100 finds very few have actually received funding. Is this because M2M companies aren't looking for funding or have been turned down? Or is it because the identity of M2M, which has been called machine-to-machine, machine-to-mobile, and even machine-to-man, is a story that's being written in the sand during a hurricane?

Vcs like things simple: How can a company make 10X in three years or less? These companies are not big on sitting still for long-winded explanations that involve billions of things and people, but no real revenue stream. And therein lies the problem that M2M has had with achieving venture funding: Everyone is telling the same story and the results aren't backing it up.

Spectrum Bridge Inc., www.spectrumbridge.com, Lake Mary, Fla., is creating the world's first realtime online marketplace for radio spectrum, some of which is focused on the M2M space. In December 2008 Spectrum Bridge announced it had raised \$8.1 million of financing in a Series B funding round. According to Peter Stanforth, chief technology officer, Spectrum Bridge, part of the problem that M2M companies have with VCs lies with how M2M has been presented throughout the years.

He says, "Vcs like things that can be understood and explained fairly simply. Anytime you add complexity their eyes glaze over. They also have a lemming-like instinct. A guy can walk in with a flashy PowerPoint presentation on a Web 2.0 play and they'll chuck a million bucks at it. I think they haven't invested in M2M because it can't be compressed into a 30-second pitch."

The Spectrum Bridge management group formed MeshNetworks. They're no strangers to what makes VCs tick. "We've gotten funding for MeshNetworks and Spectrum Bridge when we found people who pay attention and spend the time doing the due diligence," says Rick Rotondo, chief marketing officer, Spectrum Bridge.

Some of the issues involve companies being too in love with the story of their technology to focus on what a VC is looking for: a solid business model.

Patrick C. Lee is a partner at Pinnacle Ventures, www.pinnaclevent.com, Palo Alto, Calif. He was a lead investor in a number of early-stage technology companies. Lee worked on a venture deal for Jasper Wireless, a licensed global M2M mobile operator founded in 2004.

Jasper Wireless has received several rounds of funding. Prior to investing in Jasper, Lee had never heard the term "M2M."

"We saw an entrepreneur with an interesting technology and a business model that made sense," Lee added.

Three years into the relationship Lee finds his opinion on the space has changed slightly, "We learned that this space takes some time to mature."

Interestingly, other M2M companies have not approached his company for funding. "We don't invest in markets, but technologies, and haven't actively sought out any other M2M deals," he adds.

This indicates another bias that M2M companies have yet to deal with: the concept they're all basically the same play.

Alex Brisbane, president and chief operating officer, KORE Telematics, www.koretelematics.com, Reston, Va., is a 20-year veteran of the networking and telecommunications industry. Brisbane steered KORE away from seeking any venture funding for specific reasons.

"We made an elective decision to fund the business through more traditional sources for the following three reasons: 1) Ramp time: VC-funded businesses traditionally look for rapid gestation cycles; 2) Venture capital based funding is ill suited to service industries; and 3) The building of a network services entity business is for long term sustainability as opposed to exit strategies."

The overall slow growth of the M2M industry may be one of the issues that have scared off potential investors. It also may be an indication the M2M message hasn't reached others. According to Brisbane, "very few companies in

this space are doing \$25 million or more in operations. After 15 years the industry is still fragmented."

The oft cited and unrealized promise of the monetization of every machine communication in the world has been compounded, according to Brisbane, because "bubble numbers from ill-informed analysts can be dangerous—especially when used by charismatic salesmen."

The M2M story is not really being told because the hype seems to now be landing on deaf or uncaring ears. According to Stanforth, the other problem with the conversation has been the focus on technology. "A lot of time when we saw the pitch for M2M it was about the technology—and not enough about getting it into the market-

place and making a business out of it," he says.

But what of the 'Big Bang' that pundits predicted, just around the corner from today? As larger companies start developing internal technology solutions or acquiring smaller companies to bolt on, the first wave—for the OEM (orig-

inal-equipment manufacturer) space—may be passing and M2M will quietly become part of the process. Brisbane adds, "If you think that all of a sudden the market is going to explode because all these machines are out there 'talking' then you're smoking something."

There may never be a lemming-like stream of VCs pouring money into a pit, and it may not be necessary because M2M is already well down the path of organic development with tentacles everywhere that access to transmitted data is required. Instead, on its current path M2M may become quietly ubiquitous, with or without the help of the venture capital community. While many companies may be attempting to cross the chasm on a wing and a prayer, one can't help think that we've heard a version of this story before ...

*This is the way the world ends
Not with a bang but a whimper.
-T.S. Eliot, The Hollow Men.*

About the Author

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The M2M market has much ground to cover in order to live up to analyst projections of the past few years. It now becomes a question of how will we get there?