

Something ventured

As venture capitalists re-invest in IT and acquire networking and voice VARs, convergence will gather pace, writes **Keith Humphreys**

FOR THE PAST FOUR YEARS venture capital firms have not been investing in networking, and certainly not in firms involved in IT distribution or any part of the channel.

However, investment in Silicon Valley is now starting to return, with funding in the fourth quarter of 2003 reaching \$1.67bn, up 22 per cent from \$1.4bn in Q3. Thirty per cent of the Q4 cash went into seed or first-round funding, including biotechnology as well as IT. In comparison, across the US as a whole, venture capital investment in Q4 was \$4.9bn, up from \$4.4bn in Q3, which is only a six per cent rise. There is even an interest in the channel, albeit in the specialised area of convergence.

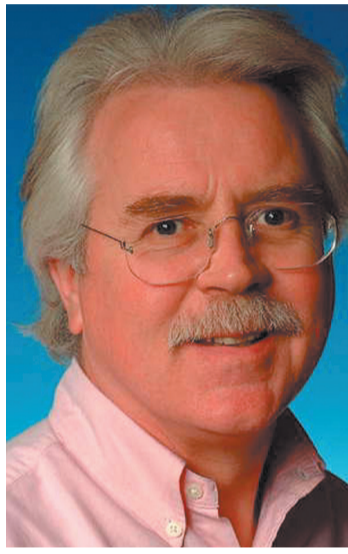
Venture capitalists are set to invest in convergence by acquiring both traditional voice resellers and networking resellers, and merging them. This is a sure sign that the convergence of voice, video and data is set to become a reality in the short term. The fine job that vendors such as Avaya, Cisco, Mitel and Nortel have done in promoting convergence is at last paying off.

While all this is happening in the US, the UK market is achieving the same outcome.

Azzurri acquisitions

The holding company Azzurri, which was set up with backing from 3i three years ago, had the primary aim of acquiring voice and data resellers, and it achieved that with 10 acquisitions. The latest of these, Everlogic, was in March.

The other acquisitions were networking integrator NetWise, and on the voice side, FH Brown, ATC Networks, Kilbryde Communications, Focus Communications, Xstreammedia, Smart Connections and Gemini Trading. In July 2003 it rebranded all



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of these acquisitions as Azzurri Communications.

One of the aims of acquisitions must be to retain the senior management, and Paul Caudell, managing director of NetWise, jumped ship recently. However, Azzurri Communications has grown to be worth £75m. It employs 450 staff and was named Partner of the Year by BT Indirect Channels, so it must be doing something right.

Ahead of the game was Honeywell Network Systems, which four years ago heeded the advice offered by EuroLAN in a newsletter and acquired two voice resellers to achieve a similar outcome.

Omnetica is the outcome of Kohlberg Kravis Roberts (KKR) acquiring a diverse set of divi-

Venture capitalists investing in voice and networking VARs is a sign the convergence of voice, video and data will be a reality.

sions from Siemens and rebranding the former Siemens Network Services (SNSL) in the UK, France and Italy. Omnetica now reports to another Siemens division, Demag Cranes, which had been part of the KKR acquisition. This may seem strange, but as long as Omnetica is meeting its numbers, all is well.

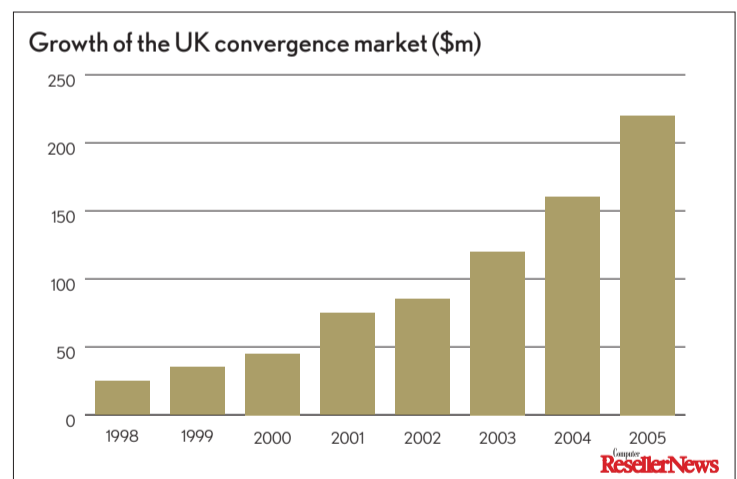
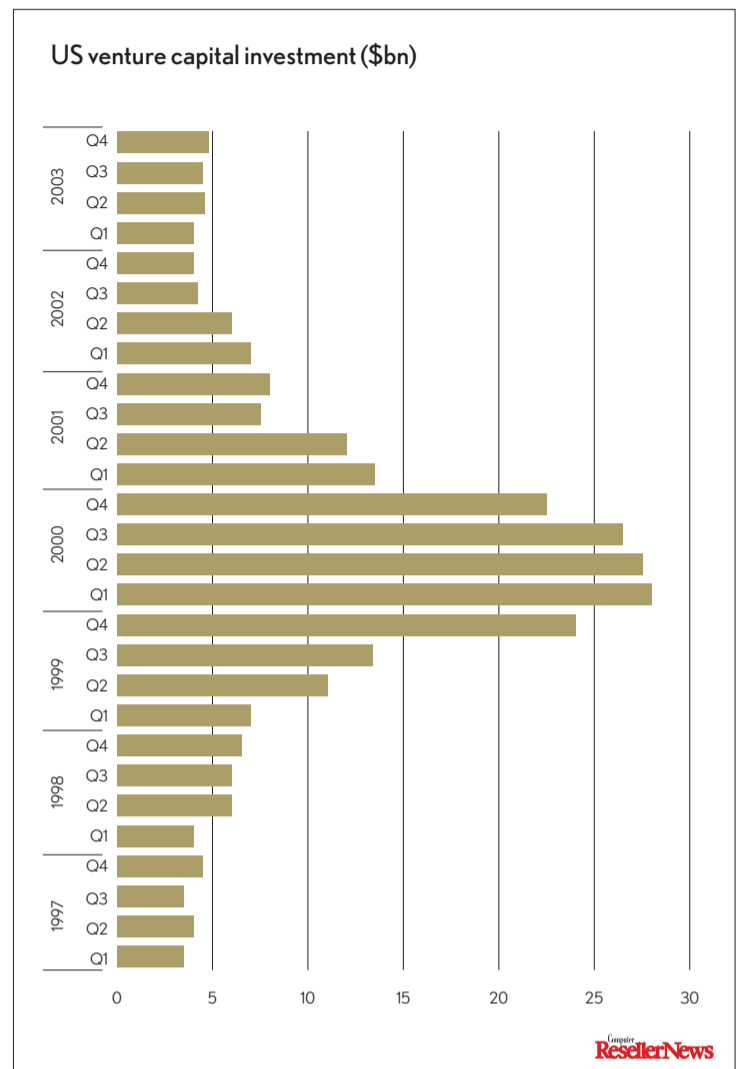
A serious failing in these moves is that they are either UK-specific or European at best. This is fine until you consider that major deals are nearly always initiated in the US and rolled out to Europe later. Even if the corporate customer is not headquartered in the US it will have a significant presence there that will need servicing.

Venture playground

In a similar move, venture capital companies have acquired the commercial divisions of major manufacturers. For example, NextiraOne, formerly part of Alcatel, was acquired by venture firm Platinum Equity, and Damovo, formerly part of Ericsson Enterprise, was acquired by Apax Partners. NextiraOne has a good geographic footprint, being Cisco Gold-certified in 11 countries, including the US and Mexico.

So if we believe that a US foothold is essential for these companies, how do they stack up? NextiraOne has a US operation, but Damovo has none. This, along with the fact that Ericsson still has a networking integration business, is a restraint on Damovo's success. And Dimension Data obtained its US foothold by acquisition, so it is strange that Didata should sell its major acquisition, Proxim, the system integrator for which it outbid Compaq in 2001.

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Azzurri Communications companies

ATC Networks	Convergent Systems	Everlogic	FH Brown
Focus Communications	Gemini Trading	Kilbryde Communications	NetWise
Smart Connections	Xstreammedia		