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## Emergence Capital: A VC Riding the SaaS Wave

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[Emergence Capital](#) is a VC firm that got our attention when it closed two Series A deals in November (with Maxplore and Zuberance). That is pretty cool at a time when most VCs were ringing alarms and knee-deep in doom and gloom. The New York Times even asked "[Maybe We Should Call Them Venture Pessimists](#)", citing a "quarterly Silicon Valley Venture Capital Confidence Index, which found that venture capitalists' confidence has reached its fifth consecutive quarterly low." Closing two Series A deals in November plants Emergence securely on our [A-Team](#). So, we decided to interview Emergence and find out why it is "[greedy when others are fearful](#)".

### Smart Luck

Emergence invested in [Salesforce.com](#) way back in Salesforce.com's early days. Not only did this generate a phenomenal return on investment, it also gave Emergence a great network and deal flow. The firm is perceived as having the golden touch, and VC is a business where perception has a huge impact on reality.

When we spoke with Brian Jacobs, General Partner, he showed some of the modesty that is de rigueur for highly successful leaders, saying something about it being better to be lucky than smart. Being a Brit, I recognize false modesty when I see it. I also heard the advice of the VC who invested in eBay's first round and was asked how to make a lot of money in the VC business: "Be lucky," he said.

The truth, of course, is more nuanced. It does take some luck to be in the right place at the right time. However, going to the right place just before it becomes the right time to be there usually takes some foresight, guts, and effort. Even more important is recognizing that we are surrounded by amazing opportunities all the time.

### 3 IPOs in 4 years

Emergence claims 3 IPOs in 4 years. These are for Salesforce.com, SuccessFactors and HireRight. In an earlier era, when IPOs were a normal exit for VCs, this would be unremarkable. But the last 4 years have been terrible for IPOs. Sarbanes Oxley is partially to blame, but that is only part of the story. Consumer Web 2.0 ventures tended to either lose money or, in some cases, not even have a revenue model. Even ventures that had growing revenue usually depended on advertising to consumers; and in a downturn, advertising gets hit.

But SaaS is different. It tends to exhibit two characteristics that are very appealing to investors at any stage of the economic cycle but particularly so in a downturn:

1. Revenue visibility or recurring revenue that is less vulnerable to cyclical downturns
2. Clients can sign up with minimal capital expenditures, and so do sign up when cash is tight.

It is possible, then, that we will see SaaS-based companies do IPOs in 2009. It would do wonders for market confidence. SaaS companies need time to mature, so any IPOs would likely be for companies created long before SaaS became a hot sector.

### Echosign Looks Like A Winner

Many companies in Emergence's portfolio look interesting. But Echosign jumps out at me because I have used it myself. Echosign is an e-signature service. I first came across it when signing an NDA. The company I was signing with suggested Echosign. It eliminates the whole paperwork, faxing, and scanning routine. I now suggest Echosign whenever an NDA or other simple agreement needs to be signed. So, it has good viral characteristics, as well as a totally simple value proposition.

### Focus Trumps Scale

Emergence is a fairly small-fund firm. It raised \$200 million in June 2007. Many well-known VC firms have funds in the billions. But focus trumps scale. In fact, VC is one business where there are few economies of scale. Scale simply creates friction and inefficiency. When you take a SaaS venture to Emergence, all of the firm's partners know immediately what the industry's key drivers are. So, as long as you are well prepared and have answers, you'll walk away with a focused partner that adds value. Even if you find one partner in a larger-fund VC who really understands SaaS, that partner needs to align all the other partners, and that takes time away from the entrepreneur.

### What Next?

We at ReadWriteWeb believe we are seeing a breakout phase for SaaS, when it totally disrupts the old enterprise software model. SaaS has taken many years to reach this stage, and it still faces skeptics and other obstacles, but there is no going back to the old way. SaaS is now the obvious way forward. Emergence, then, will face more competition. Valuations will increase. All of that is good for entrepreneurs, and what's good for entrepreneurs is usually good for the economy. So, that's all well and good. But we suspect Emergence will still be brought all the good SaaS deals and will use its deal flow and deep experience to pick a few more winners. Many market segments already have their SaaS champions, but lots of segments are still open.

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