

## The New Garage, San Mateo, CA April 2007

Well, it didn't look like a garage, that's all I can say. It was clean and freshly painted and if you believe the stories in the press, recently exorcised to remove the ghosts of Siebel. It was Salesforce.com's incubator, the closest thing I have found to my New Garage concept.

For several years now, I have been saying that on-demand platform technologies would change many things including how companies are formed and how new products are built and I used the analogy of going back to the garage since that's where innovators have historically gotten their starts. Yesterday I was at salesforce.com's self-described incubator to get a look at how they updated this idea for 21<sup>st</sup> century Hewlett's and Packard's and I have to say, it looks pretty cool.

If you aren't familiar with the incubator yet, it's a pretty simple idea. Just as the name implies, it is a place for nascent companies to go to build new products as well as themselves and to refine their ideas. It is also a place where more established companies have congregated to jump-start their on-demand strategies and roughly half of the first class of incubator companies fit the latter categorization.

In broad terms the importance of the incubator goes way beyond anything that is technologically related. In my mind it's mostly about social capital formation. Let me explain.

With the plethora of application tools now available, an innovative person with an idea can bang out an application or even a system in a very short time and the fact that there are nearly 600 applications in the AppExchange is testament to that fact. True, many of the AppExchange applications may not have been built using the Salesforce tools, but there are quite a few that have. However these applications have been built

it is not the building that determines success or failure of a venture it's at least equally about things like company structure, culture, and approaches to marketing and sales and a lot of other things. That's where social capital comes in.

Social capital encompasses all the other things that you need to build a successful company — the contacts and networks, the best practices for sales and marketing, strategies for accessing and using limited capital resources and a lot more. Innovators, especially those doing it all for the first time face a daunting challenge of assembling their networks and tapping into these soft tools for company formation and success.

The salesforce.com platform is now ubiquitous and global and it is a shrewd play by the company to begin deploying incubators (more are in development). Without incubators or some other mechanism to nurture emerging companies in the pre-VC phase of life, there could be an embarrassingly long list of good applications that never made it to the big time as developers would inevitably discover that building an application is not the same as building a company.

For the record there are 32 companies in the first incubator who each paid twenty thousand bucks for the privilege. In exchange they get a desk, access to all the tools and a lot of help grappling with ideas — technical and business oriented — that some have rarely dealt with before. The close quarters foster inter-company cooperation and idea sharing.

Surprisingly many of the companies don't qualify as start-ups they have names like Bluewolf, Centive, Eloqua, Pervasive, and Xactly. Companies like this take advantage of the incubator to get a ringside seat at the hub of the on-demand world and to rub elbows and trade ideas with the people who

make the secret sauce. The knowledge they pick up at the incubator can be invaluable.

For example, Centive, a compensation management company got a head start embedding Adobe Flex tools in their product thanks to its membership in the incubator. That got the company some valuable PR when Salesforce.com and Adobe announced their alliance a week ago. Everyone can use a little help in the social capital formation area but I expect that, over time, established companies like Centive will be the rarities at the incubators and more companies like Portaga (travel services) and StakeWare (battling global warming) and InsideView (sales effectiveness) will take their places.

I also think that the incubator concept will prove itself here in the US but I suspect its

greatest impact will be in other parts of the world where the cost of traditional innovation — computers, operating systems, middleware, databases, and more — are too high to enable the kind of dynamic entrepreneurship we are seeing in San Mateo. This will likely result in new applications for the global market but it will also fuel the emergence of local software companies with solutions tailored to local market needs.

The more I think of it, the more I wonder what might have happened to the Internet bubble if the incubator had been in place at the beginning of the decade. Alternatively, you wonder if we all might now just pick up where we left off.

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