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Q&A: VC Gary Morgenthaler's simple explanation for his network investments

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Simplicity. That's the name of the game for Gary Morgenthaler, a general partner with Morgenthaler Ventures. When he's evaluating network start-ups, Morgenthaler prefers hardware, software and services vendors whose products simplify the lives of network managers.

Based in Menlo Park, Calif., Morgenthaler Ventures has invested in many well-known network start-ups including router manufacturer Caspian Networks, cellular mobile radio provider Nextel, and DSL equipment provider Catena Networks, which Ciena acquired earlier this year.

I interviewed Morgenthaler about his firm's recent network investments and his outlook for IP services. In this week's issues of the ISP News Report, I'll provide excerpts from our conversation.

Q. You have invested in several IT start-ups that sell to enterprise customers, including Force10 Networks, Inkra and Voltage. Can you explain your interest in the enterprise IT market?

A. If you roll the clock back a little over 10 years - before the Internet burst on the scene - the world was a simpler place. With the Internet began a very rapid transition from a trusted intra-company computing facility to an un-trusted and un-trustworthy open facility exposed to the rest of the world. The Internet created serious challenges around security, scalability and around-the-clock computing that were not architecturally thought through in advance. A lot of entrepreneurs started coming up with individual point solutions. Firewalls, VPNs, authentication, PKI - each of these are point solutions. What we have is a packet stream that has to go across a number of different boxes, which drives up cost, rack space, power, real estate and creates a manageability problem. It's a very inefficient solution.

Now we're in a period of consolidation of those various innovations, and we're going to increasingly see multifunctional devices. For example, Inkra is the best in breed of multifunctional devices for security, acceleration, scalability and manageability in corporate data centers.

When the architecture stabilizes, I think there will be a network I/O processing tier that provides all the security, authentication, firewall and VPN services plus scalability for large numbers of connected users and ports and load balances across various server streams depending on what servers are available. That's the need that Inkra serves in the market.

Q. In June, Morgenthaler co-led a \$74.9 million investment in Force10 Networks, a provider of 10G bit/sec Ethernet switching and routing platforms. Can you explain your interest in Force10?

A. It is not without due consideration that we take on Cisco in the heart of its product line. We are not suicidal. We gave long and hard thought about this investment. Force10 started in 1999, and their products have been in the market well over a year and are achieving surprising acceptance by world-leading customers. What attracted our attention was that the customer list was exceptional and the order list was extremely high. We began making calls to those customers and what we learned is that the world's largest search engine company, the world's largest computer manufacturer, the world's largest space agency and the world's largest sports broadcasting networks are using Force10. We talked to 20 customers that have all made the switch and are using Force10 in the core of their networks.

What we found was quite a high level of dissatisfaction with current product offerings from Cisco and Foundry, particularly the Cisco Catalyst 6500 and Foundry's Mucho Grande product. Force10 is highly differentiated from Cisco's Catalyst product line in multiple regards.

Customers liked Force10's ability to change and swap line cards and remove failed components without taking the network down. We heard a surprising number of complaints about IOS, Cisco's 20-year-old spaghetti code. Cisco has announced its replacement, but it's a year or two from making its way into the Catalyst series.

In the meantime, the IOS operating system has a number of software errors, which periodically cause networks to fail. All those patches force network administrators to reboot and take down hundreds or thousands of systems.

There's also a high level of dissatisfaction about the port density and cost per port from Cisco and a feeling that Cisco has fallen behind. The last piece - which was a surprising thing to us - is that network administrators are quite dissatisfied with the level of service and support from Cisco and Foundry.

The net result is that Force10 is on the path to quadruple its revenues this year and is booking many new customers. In terms of our investment, it was an economically attractive one. We're typically an early stage investor - we rarely do later stage investments like this one - but we felt that Force10 was a significant market opportunity.

Q. How does security start-up Voltage fit into your overall investment strategy?

A. Voltage is a software alternative to a public-key encryption infrastructure. We looked at the PKI space for some time. There are two ways to look at PKI: one is that it hasn't met expectations, and another way is that it's a multi-million market already and so much has been adopted despite how hard it is to use. We had been looking around for alternatives to invest in.

What is unique and important about Voltage is that its approach to security is independent of the communication to be secured. It's equally applicable to e-mail, to instant messaging, to chat, to protecting files, to protecting communications at the IP and packet layer, to VPNs, and to individual e-commerce transactions. Voltage offers the ability to simply, reliably [and in a mathematically provable way] encrypt in a bi-directional but asymmetric computing form. It's as hard to crack as PKI but it removes from the process the introduction of a third-party into the mix.

Q. So it sounds as if simplicity is a key factor in your investment decisions.

A. There's a quote from Albert Einstein that says "Make everything as simple as possible, but not simpler." In simplicity, there is efficiency and in complexity there is cost. I like things that are irreducibly simple. There's an elegance about them. Simplicity for Voltage is key. Simplicity for Inkra is key.

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