

To market, to market

Early-stage companies are flocking to the challenge of helping manufacturers to accelerate their product innovation cycles.

The pace of innovation in today's industrial and consumer marketplaces is nothing short of breathtaking. We received a portable CD/MP3 player as a birthday gift last year and by now, 12 months later, we find hardly any mention of the device on its manufacturer's website. Our player, a hot item in short supply when we got it, has been pushed offstage by a good half-dozen newer models, each one sporting more features than the last one.

It wasn't always this way, of course. Not so long ago, many of the most sought-after items a person might spend good money for were essentially classics of their kind - electro-mechanical machines, mainly, that were coveted because they'd been designed exceedingly well to begin with, attained a strong reputation, and then were updated only once every so often. Leica's renowned M-series rangefinder camera, for instance, has been through just six revisions since its introduction in the mid-1950s, with the most recent variation resembling the original M-3 model even more than its immediate predecessor, the M-7. And that first M-3 clearly inherited much of its own design

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Private Profile: Scalix

With Linux-based E-mail Server, Co. Looks To Education Market

On the heels of signing two government customers, **Scalix Corp.** will soon disclose its first customer in the education sector. The San Mateo-based company sees considerable opportunity there for its Linux-based e-mail server, which is designed to provide a lower-cost and more flexible alternative to Microsoft's market-leading Exchange product.

Talks are underway with several institutions, says Julie Farris, founder and until recently chief executive: "Education is hot for us right now. When [universities] make changes to technology, they like to do that in the summer months."

Two years old and having released a new version of its product just last week, Scalix sees significant opportunity in providing high-end, feature-rich mail servers. It has designed its product to scale more smoothly and at lower cost than Microsoft Exchange. As Microsoft encourages its customers to upgrade to the new generation of Exchange, which entails no small amount of disruption, Scalix hopes to pick off customers that seek the cost advantages of Linux-based apps without losing Exchange's mail and calendaring features (see CL 18/11, Aug. 11, 2003).

According to Ms. Farris, Scalix's competitors include Oracle Corp., Microsoft Corp., and International Business Machines Corp. (also a partner). Among other benefits, Scalix sets itself apart from those firms with cross-platform interoperability. "Companies have always had to trade off," she said. "If they wanted an open-system platform that gave them lower cost and better manageability, they had to trade off rich functionality. We offer the latest in functionality on an open systems back end."

Earlier this month, Scalix announced the city of Bloomington, Ind., and the Pottawattamie

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LIFECYCLE MANAGEMENT

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and inner workings from the original Leica family, which first appeared in the late 1920s. Likewise, typewriters, cars and fountain pens each have evolved, relatively, at a snail's pace.

Risky business

The increasing reliance on microelectronics and software to define products is a factor driving the tremendous acceleration of product cycles, but it's hardly the most significant one. Most important is that with enterprise resource planning (ERP) software having helped most manufacturers by now to squeeze huge inefficiencies from their order-taking and manufacturing operations, many have turned to the product itself as the next big point of leverage for improving profits. Unfortunately, about 8 out of 11 new products fail for one reason or another. But big manufacturers and, increasingly, smaller ones, are getting help with this in a powerful new form of enterprise software that helps manage the so-called product lifecycle.

In a box

This PLM idea, as it's known, covers a broad range of activities, but the gist of it is to help streamline the many business processes that go into conceiving, defining, engineering, testing, producing, launching, selling, and supporting new products - and even collecting and interpreting feedback from customers to trigger the entire cycle to start all over again. What makes this software particularly important is that many of the processes needed to move products from idea to realization are enormously complex. They involve gobs of data that must be precisely generated, collected, organized, and managed across myriad workflows that each may involve outsourcers, suppliers, customers, distributors, and other business partners, all of whom may be

scattered around the globe and employing disparate information systems. These processes may involve highly technical and challenging constraints, too, such as making sure a new computer contains only environmentally friendly materials, or tracing the exact source of each ingredient in a new processed food product. In the past, much of the work making up

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ComputerLetter

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Startups have been particularly aggressive in trying out new business models that promise to bring PLM to an even broader customer base than before.

these inter-related business processes has been handled in an improvised way, using paper, phone calls, faxes, and e-mails.

PLM is hardly a new concept of interest to private investors, as we're sure many of our readers are aware. But it's one that seems to be enjoying renewed exuberance just now, with several startups having received significant funding in recent months and some interesting acquisitions and other developments drawing attention to the technology as never before. Easily the biggest event of late was EDS' sale this spring of its UGS PLM Solutions unit to Bain Capital, Silver Lake Partners, and Warburg Pincus for \$2.05 billion in cash.

Data, data everywhere ...

Public outfits such as Agile Software, EDS, IBM, Dassault Systemes of France, and MatrixOne have been touting various types of PLM-related software for more than a decade, and serving major customers in automotive, aerospace, consumer packaged goods, and certain process-manufacturing sectors. These companies layered their software onto the sturdy foundation made up of the powerful computer-aided design, engineering, and manufacturing (CAD, CAE, and CAM) tools that manufacturers have been using since the 1980s.

Beginning in the late 1990s, we watched a wave of startups, many of them venture-funded, go after the closely-related opportunity in product data management (PDM). Companies such as **CoCreate**, **Datasweep**, **Modulant**, **Omnify Software**, **Proficiency**, **Profile Systems**, **Think3**, and **Velosel** developed programs to help collect, organize, analyze, and distribute accurate information about a product - everything from its technical specs and pricing to the parts it contains and the machines that produced it - as it moves through the design, engineering, manufacturing, and marketing process. The PDM market enjoyed much attention during the time when all-digital business-to-business (B2B) marketplaces were all the rage with investors, for it was clear that those online venues

would be only as good as the quality and freshness of the data from which they were constructed. Even though the B2B bubble burst, PDM has continued to be important to many manufacturers and has begun to serve as a springboard for several of the newer players trying to break into PLM.

Strength in numbers

Two years ago, our friends at AMR Research had identified more than 100 companies as providers of PLM software, some more comprehensive than others. These firms ranged from specialists such as Agile and MatrixOne to major ERP providers such as SAP and Oracle to a host of startups with solutions aimed at specific industries or addressing only narrow slices of the PLM picture. What was particularly good news for the startups, as immature as AMR seemed to find most of them, was that no single PLM product had the kind of critical mass of functionality that would enable customers to make do with a single product. There appeared to be lots of opportunity available for companies of all sizes and as we'll see, startups have been particularly aggressive in trying out new business models that promise to bring PLM to an even broader customer base than before. All told, the overall PLM market is growing at 12% a year, or about double that of ERP, according to John Moore, a vice president and general manager at ARC Advisory Group.

Indeed, the PLM concept encompasses a wide range of processes and it can be difficult to sort out where exactly any set of startups and larger providers overlap in product functionality, future direction, and prospective customer base. No supplier has a complete solution, which explains why Agile, Dassault, and MatrixOne have been buying startups in recent years: They're trying to flesh out their products with new function and address more of the extended product lifecycle. It's the same path we've seen followed by ERP suppliers, which often decide to buy rather than build and to leverage their relationships with customers.

The “C” word

Unfortunately, PLM companies all tend to employ much the same vocabulary, which can make things confusing for those looking at them from the outside. All of the suppliers we’ve seen, for instance, emphasize how their software helps with “collaboration.” What this most hackneyed of buzzwords means to each supplier tends to vary widely, from simply helping designers who may be on different continents to share files and documents to translating files between different brands of CAD tool to overseeing complex workflows involving dozens of people and applying intricate business rules at every step. Clearly, as more companies outsource manufacturing operations, as they work more closely with major suppliers, and as product cycles continue to shrink, the benefits from computer-mediated collaboration may add up very quickly. As longtime observers of the IT scene, we see PLM’s take on collaboration as comprising functions that previously have been sold under labels such as knowledge management, workflow execution, project management, portfolio management, portals, data management, and data and application integration.

Joint action

Products do have fairly well-understood, predictable lifecycles, and there are many opportunities throughout these lifecycles to apply certain structured methods and techniques rooted in information technology. In the most common narrative, the product lifecycle begins with the so-called ideation stage, in which a new product - or a new variant on an existing one - gets conceived. It may be described in some detail and then submitted for evaluation by various interested parties such as marketing, engineering, manufacturing, and finance. Manufacturing engineers, for instance, may conclude that an initial design will cost \$X too much per unit to build. But they may also suggest using a substitute part or two, perhaps familiar to them from another product, that can lower the build-cost to an acceptable level. Meanwhile, marketing may suggest feature

changes based on its research, experience, and intuition about customer needs.

Collaborative PLM tools can enhance these overlapping set of activities in a number of ways. One is to help the different parties voice their concerns, advice, and comments as early as possible and make sure those inputs get to the right people. Products from **Centric Software** and BlueSky Solutions, for instance, create virtual workspaces on the Web where authorized people may post and share CAD drawings, spreadsheets, evaluations, and other documents in a controlled and active manner. Separately e-mailing each of these documents increases the likelihood they won’t be read by everyone, and could create a tangled web of conflicting messages. PLM tools help keep track of documents and alert the right people to new versions, making sure those people open the documents and pass along appropriate feedback.

Check mates

These virtual workspaces can get quite sophisticated. Centric’s software, currently used by units within BMW, Siemens, and Volvo, creates simulated 3-D rooms, each dedicated to a project. On the walls of these rooms appear document icons that can be clicked on to view the underlying files. The walls also present graphical displays showing the status of projects, the workflows that contribute to them, and selected information drawn in real-time from the customer’s enterprise applications. Centric provides connectors to some 35 apps and enables customers to build their own, too. Business rules can be set up to automatically keep track of important variables and thresholds: An automotive brake system may have to fit within a certain space in a new car, or remain below a certain weight, and the Centric software can alert a pre-set list of engineers or managers if the brake system exceeds those limits. All the while, the Centric setup can record the steps that go into designing and approving a new product and help users build best practices for use in future projects.

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Most enterprises are looking for quick paybacks from their IT investments, which makes hosted services particularly attractive right now.

Many companies always have several product development efforts underway at the same time, all of them vying for scarce resources. Here, a form of portfolio management may be brought into play, helping managers decide which projects to back based on their chances of success and their potential to achieve certain financial or other goals. Companies such as Sopheon, Product Development Institute, and **ProSight** provide software that helps evaluate competing projects. One of the most common techniques employed here is something called the stage-gate process, which identifies a series of project phases and permits projects to move forward only when they've passed certain tests. Typically, these stages are labeled as discovery, scoping, building the business case, development, testing and validation, product launch, and revenue. Product Development Institute founder Robert G. Cooper takes credit for inventing the stage-gate method and his firm has developed its own software to implement it, but the stage-gate idea seems to have been adopted widely throughout the PLM industry.

Apps on tap

Project portfolio management techniques are gaining popularity throughout industry, we've been noticing, particularly in information technology itself. Companies such as ProSight, **Enamics**, **Euclid**, and UMT have developed tools that can help CIOs and CFOs to evaluate their many IT projects at different stages of development and determine which ones deserve increased or decreased funding, for example. The payoff is better capital efficiency and the ability to better align IT and business objectives.

In addition to bringing innovative software technology to market, startups have identified an opportunity to bring PLM to a broad new market by delivering it as a hosted service. PLM suites from pioneers such as Agile, Dassault, and MatrixOne are complex, require hefty consulting engagements, and cost millions of dollars in some cases. That has limited their appeal to very large enterprises. But with IT budgets growing

hardly at all, even those large customers have been balking at making heavy investments in new enterprise apps. Most enterprises are looking for quick paybacks from their IT investments, which makes hosted services particularly attractive right now. The hosted model also has strong appeal at a time when many manufacturers are outsourcing production and an increasing portion of their development activities to overseas partners. With a Web-based PLM system, what's more, those partners can be quickly brought into the fold, without the need for installing fat clients or enduring involved training sessions.

Unifying vision

PLM application service providers (ASP) include such startups as **Arena Solutions** (founded as Bom.com), BlueSky (through a partnership with Engineering.com), CoCreate, **NetIdeas** and **Truereq**. The thrust of their sales pitch is that they can get new customers up and running with robust PLM software in a matter of hours, versus the weeks and months it can take to implement a full-blown PLM software suite from other suppliers. Each firm provides its own slice of PLM function, but all are aiming for the same set of customers, namely mid-sized enterprises and divisions of larger firms.

Arena's service is designed to manage product-related information from the moment a new product is proposed through development, manufacturing, marketing and on to the time when it is finally retired from the market. At the heart of the system is a database that stores technical specs, descriptions of component parts, CAD drawings, and so forth, in a way that can be shared by any set of individuals on the Web. This "single copy of the truth," as CEO Michael Topolovac calls it, enables disparate suppliers, OEMs, outsourcers, and other partners to work together more effectively in bringing new products to market. Arena has surrounded its core data model with pre-programmed business processes that, within limits, users can tinker with to fit their own needs. Arena's target customer is the mid-tier manufacturer with revenues of \$400 mil-

Who's Where

in Product Lifecycle Management (PLM)

Arena Solutions

Menlo Park CA • 650-687-3501 • www.arenasolutions.com
Provides a hosted PLM service that presents data drawn from various enterprise applications.

Betasphere

Palo Alto, CA • 650-930-0200 • www.betasphere.com
Provides software that helps with the planning and development of new products.

Centric Software

San Jose, CA • 408-574-7802 • www.centricsoftware.com
Provides software that streamlines product innovation via shared, 3-D virtual workspaces.

CoCreate

Fort Collins, CO • 970-267-8000 • www.cocreate.com
Provides collaborative product design and data management software.

Datasweep

San Jose, CA • 408-350-7300 • www.datasweep.com
Provides software that tracks manufacturing parts to help improve product quality and identify assembly-line problems.

Formation Systems

Southborough, MA • 508-303-6200 • www.formationssystems.com
Provides product development software for formula-based manufacturers.

Informative

Brisbane, CA • 650-534-1010 • www.informative.com
Provides a hosted service that helps marketing companies solicit and interpret feedback from large online communities of customers.

NetIdeas

Mt. Laurel, NJ • 856-914-9410 • www.netideasinc.com
Provides a hosted PLM service.

Omnify Software

Wilmington, MA • 978-988-3800 • www.omnifysoftware.com
Develops PLM software with an emphasis on managing product data.

Proficiency

Marlborough, MA • 508-486-9868 • www.proficiency.com
Provides a "collaboration gateway" that helps different brands of CAD system use each other's files.

ProSight

Portland, OR • 877-531-9121 • www.prosight.com
Provides software for managing project portfolios.

SatMetrix

Mountain View, CA • 650-314-2300 • www.satmetrix.com
Develops applications that help suppliers manage and understand their customers' experience with products and services.

Truereq

San Francisco, CA • 866-878-3737 • www.truereq.com
Supplies software that helps facilitate collaborative product design.

lion or less. So far, the company has signed 25 accounts.

Try again

BlueSky, in Harrison City, PA, was formed early this year from the remnants of Alventive, a failed software provider. In the late 1990s, Alventive had developed Java-based software that enabled engineers to view CAD files from almost any CAD tool - a big step to enabling collaboration. The firm managed to raise \$70 million in venture money, landed contract-manufacturer Celastica as a prime customer, but eventually burned through the money and saw Celastica drop its product. Founded by ex-Alventive employees, BlueSky bought marketing and development rights to the software, which had been expanded to cover additional aspects of creating, designing, and engineering new electronic and mechanical products. For now, the firm is supporting Alventive's customers and gradually extending the software's function to take on new tasks. Having learned from the Celastica episode that enterprises are loathe to spend too much on new enterprise apps, CEO Chad Poole has signed up Engineering.com, an ASP, to host BlueSky's code. Mr. Poole tells us that if all goes well, he may seek additional financing early next year.

Name game

Truereq's hosted service provides a range of best-practice processes and workflows for managing the front-end of product development. The service requires users to install a 15MB Java runtime engine, with the result being a user interface that resembles Microsoft Outlook. It displays hierarchical trees of products, requirements, tasks, file attachments, and other items as well as graphical dashboards to help understand selected processes in real-time. The system can be set up to notify selected individuals when, say, their attention to a certain document is required or when some aspect of a product design is out of whack. The system assists with the kind of asynchronous dialogs that surround the product design process, enabling

PLM cannot be implemented by one person or even one department within a company; it's a cross-divisional mix of business processes.

managers to review message threads and see who said what to whom. Truereq has designed its software as a collection of Web services, making it relatively easy for the product to exchange information with other products that customers may have in use.

Founded in late 2001, Truereq signed its first customer last January and now has seven paying customers and another 10 in evaluation. Truereq tells us it has just signed an agreement to acquire PLM startup ProductSoft and that it plans to adopt that name shortly.

Hard road ahead

The goal at all of these ASPs, of course, is to show that they can do for PLM what **Salesforce.com** and **Upshot.com** (acquired late last year by Siebel Systems) have done in customer relationship management (CRM) and salesforce automation, but that may be more difficult than it looks, we believe. Clearly, the hosted model lowers development and support costs, as the software provider has to maintain and enhance just one instance of its product, and these savings can be passed along to customers. Users like the model because they get access to the latest features and enhancements without having to upgrade their own installation. Using a hosted app also means not having to invest as much in datacenter gear or costly IT talent to reap the benefits of sophisticated software.

What's likely to make it difficult for a hosted PLM company to follow in **Salesforce.com's** footsteps is that the business processes which comprise PLM are significantly more involved than those of CRM. **Salesforce.com** has seen more than a few individuals and small work teams sign up for its services without any advice or approval from their central IT departments. This is practical because the information that sales teams work with is largely self-contained: contacts, lead data, price lists, and so forth. PLM, however, depends on pulling information from many different systems and in many different formats and, to one degree or another, integrating that information for shared viewing. In short, PLM cannot be implemented by one per-

son or even one department within a company; it's a cross-divisional mix of business processes.

Modeling agency

Other startups remain committed to addressing the vast mid-tier market with the traditional enterprise software model, albeit modified for this new market. **Aras**, for instance, has designed its code to run on the relatively low-cost and widely-used Microsoft technology stack. The software includes a suite of pre-defined apps but because it's all defined in terms of an XML-based model, the code's fairly easy for customers to modify and tailor themselves. **Aras** says its software can be up and running within 45 days. Using a graphical tool and scripting language, customers can create workflows, define lifecycles, forms, and implement their own naming conventions.

Aras has focused the software on managing project portfolios, managing the process of making changes to products based on feedback from customers and other sources, and helping streamline manufacturing operations. The latter entails helping users to design new tooling concurrently with the design of new products. Tooling can be quite complex and designing it this way can slash costs and avoid unwanted surprises on the factory floor. The code provides a series of dashboards for managers, each one enabling a drill-down process to uncover relevant information affecting a particular project or product.

Cooking with gas

Numerous other opportunities exist for startups in the PLM sphere. One that has already caught the attention of investors and entrepreneurs is helping process-oriented manufacturers. In creating new food products, for instance, suppliers need to manage recipes and formulas with more care and oversight than ever before. A recipe developed years ago may suddenly prove to be useful as a new food fad emerges - low-carb water, anyone? - but only if the recipe can be found quickly. Equally important is the ability to track the origins of every single

The long-term forecast shows product cycles continuing to get shorter, faster and trickier.

ingredient that goes into a food product - not just once but for every batch that's produced. Government regulations demand such accountability. **Formation Systems**, SAP, Selerant, and Sequencia (now part of OSIsoft) are some of the companies focused on this problem.

Another is Prodika, which has been devoted to helping Heinz, the pickle and ketchup maker, with PLM but is now seeking additional customers. Prodika's software, delivered to Heinz as a hosted service, has helped that company rationalize product information and product-creation processes across some 65 competing business units who work in 13 different languages.

Vox populi

One area that is still ripe for new companies, we believe, is the aftermarket. Once a product is sold and in the hands of customers, collecting information about their experiences, their suggestions for additional features and other changes, and detailed statistics about breakdowns and other service-related issues can be highly valuable.

Some of the companies addressing the challenge of collecting customer feedback and applying it to new-product development are **Betasphere**, CustomerSat, **Informative**, ProductScope Software, and **SatMetrix**. They provide software that combines, to one degree or another, collaborative product development, customer feedback collection and analysis, and product analysis tools. As its name indicates, Betasphere has focused on helping manufacturers to make the most of early field trials to quickly and effectively refine product specs and marketing messages. Indicative, formerly known as Adaptivity and then Recipio, specializes in helping consumer goods companies interact with large numbers of customers

via the Web. Its software can identify the most influential members of online customer communities and pinpoint significant trends in customers' thinking.

Womb to tomb

Meanwhile, a startup called **SigmaQuest** has developed software that captures and analyzes performance data from products throughout their lifecycles. By analyzing reams of test data and data collected from the field, suppliers can identify problems in product design - or a manufacturing process - early on and remedy them by re-designing the product.

While SigmaQuest doesn't refer to itself as strictly a PLM company, its product focus certainly shows that the product lifecycle extends across many dimensions. It's far-fetched to imagine products that actually report back to their makers about their own performance and their owner's experiences. Yet, several brands of software already do this, and wireless connections will make it possible for many other kinds of product to follow suit over the coming years. RFID tags will help illuminate yet another aspect of every product, too, namely their geographical locations. Who knows, there may come a need for systems that can track the disposal of products: Already, there are strict "green" laws in Europe that make manufacturers responsible for handling discarded computing and other electronic gear.

PLM may not be the next ERP, if only because the functions involved are too disparate to wrap up into a single, unified software product or service, but it's certainly a software category to keep an eye on. Even if there's no sign, yet, of Leica producing a disposable camera, the long-term forecast shows product cycles continuing to get shorter, faster and trickier. □

Private Profile: Scalix

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At a Glance



Scalix Corp.

1400 Fashion Island Blvd., Suite 180
San Mateo, Calif
94404
650-212-8300
www.scalix.com

CEO: Glenn Winokur

Employees: 45

Financing: about \$20 million

Investors: Mayfield, New Enterprise Associates, Mohr Davidow Ventures

Business: Provides a messaging platform that uses Linux and Open Systems Architecture

Revenue: Unknown

County in Iowa, as customers. While Ms. Farris said the company is still focusing just as much on the corporate market, the public sector has been fairly aggressive, too, in its adoption of Linux.

The Scalix messaging platform is based on HP OpenMail technology, which Scalix licensed from Hewlett-Packard Co. According to the company, its platform can help save customers millions of dollars by cutting an organization's total messaging costs by 30% to 70%. The platform can also consolidate up to hundreds of departmental servers down to a few lower-cost Linux servers, and scale up to support organizations with hundreds of thousands of users or down for offices with fewer than 100 users.

Some of the new features of Scalix's latest version, Scalix 9.0, its fourth product release, include archiving capabilities to help with the issue of compliance. Users can archive locally to the system or output to third party archiving platforms, like Zantaz and iLumin. Scalix 9.0 also offers a Web services-based administrative platform to enable administrators to remotely manage the entire messaging system from anywhere.

Perhaps most importantly, the new product now supports Microsoft Outlook 2003 as well as the Linux/open source e-mail and calendaring client Ximian Evolution, and enables Scalix Web Access for Mozilla. Those with

Mozilla browsers can now use Scalix Web Access in the same way as Internet Explorer for access to e-mail and calendaring, and to enable full interoperability with Outlook.

According to Ms. Farris, the Outlook support is key since Outlook now runs on 74% of corporate desktops. Scalix 9.0 is priced at \$60 per user.

Scalix partner IBM resold the Scalix platform to a European customer in February. Since then, Scalix, which already had a location in Berkshire, U.K., has opened a German office, and has continued to gain customers in Europe and focus on international geographies. The company has more than a dozen European partners and expects to have some partners in Asia by the end of 2004. While Scalix is aggressively pursuing its partner path, the company does not plan to partner with just anyone. "When we go into a new geography, we really invest in it. We want to handpick VARs that really do add value," said Ms. Farris. Scalix also has several enterprise customers in production, and will announce some of those this summer, she said.

While the company raised a \$6 million Series B expansion round of funding in April from existing investors, bringing its total financing to nearly \$20 million, Ms. Farris said Scalix did not necessarily need the cash and still has the majority of its total funding in the bank. While she would not comment on exactly when the company expects to reach profitability, she said Scalix could definitely hit that milestone with current funding, depending on how rapidly the company plans to expand.

The company last week named Glenn Winokur president and chief executive. Winokur most recently was chief operating officer at NetIQ, a provider of security management systems. Ms. Farris will remain with the company and on the board, working on strategy and operational matters.

Founded in June 2002 and incubated at venture capital firm Mayfield, Scalix announced its launch in June 2003 with a \$13.2 million Series A round of funding from Mayfield and New Enterprise Associates. □