

# NComm success a nod to do-it-yourself financing

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STAFF WRITER

Bill Matern was bootstrapping when it wasn't cool to be a bootstrapper.

And it's not as if he didn't have the opportunity to take venture capital financing for NComm Inc., the Salem, N.H.-based software company he founded in 1996.

"More dollars to hire more bodies was the wrong thing to be doing," Matern said. "We've never developed one of our products without a sale."



## Finance

NComm's software allows telecom equipment makers' gear to communicate with public network transmission technologies such as T1, E3 and SONET.

Today, NComm's software can be found in the equipment of upstarts such as Derry, N.H.-based Cedar Point Communications and Marlborough-based Telica Inc., as well as in the gear of large, established companies such as California-based 3Com Corp. and Minnesota-based ADC.

The company has also developed co-marketing and development partnerships with big telecom chip suppliers: Dallas Semiconductor Corp, Agere Systems Inc., PMC-Sierra Inc. and Infineon Technologies AG.

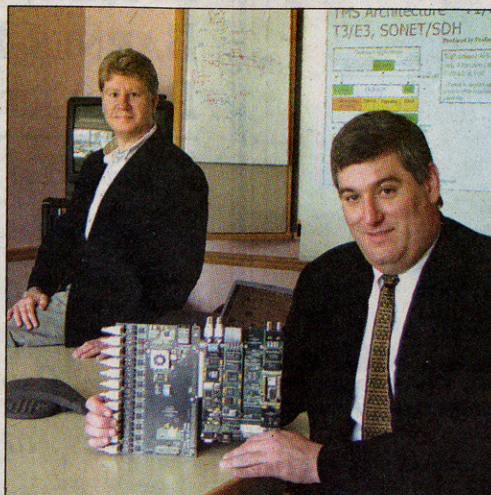
NComm has been profitable from the beginning, and last year its revenue was somewhere below \$5 million, Matern said. That may not seem like much, but considering the company has only seven employees and no outside investors, that's a lot of money to go around.

Like many bootstrapped software companies, NComm began its life as a consulting firm.

Developing the interface for transmission technologies such as T1 and SONET is a necessity for gear makers, but it's not a task a company relishes putting its best engineers on for months at a time.

NComm initially built these systems on a custom basis for clients.

Once NComm got past the point of survival, however, the next hurdle was finding time to develop a product while still bringing in enough consulting revenue



STUART GARFIELD PHOTO

John Brandte, left, vice president of marketing and business development, and president and founder Bill Matern led NComm to almost \$5 million in revenue last year.

to keep the doors open.

"You have the idea, but not the resources," Matern said. "It wasn't until the third year that we were able to execute."

Even with a product, however, NComm didn't fully make the transition to a product company until about two years ago, Matern said.

Bootstrapping is certainly not a new phenomenon. Until the late 1990s, when venture capital dollars seemed to flow like water, bootstrapping was the norm.

And though bootstrapping is a slower means of starting up a company than through venture capital financing, there are significant advantages beyond the retention of equity, said Ken Morse, managing director of the MIT Entrepreneurship Center.

"Bootstrapping is the tried and true method of lashing management's full attention to product development activity and to the needs of customers," Morse

said. "It focuses the attention of even the most recalcitrant techie and the most blue-eyed marketing maven to the brutal reality of cash flow, which we all know is more important than your mother."

Now that the boom is a bust, venture capital investors are increasingly directing their A-round dollars to companies that already have product and revenue. So even companies that plan to raise VC funding are discovering they have no choice but to bootstrap, at least for a while.

These companies could take some pointers from 170 Systems Inc. in Cambridge.

Founded during the 1990 downturn, 170 Systems also began as a consulting company with an eye toward product, though the founders didn't know what that product would be.

"One of the benefits of this approach is that we've always been very close to customers, so we saw the problems companies were having," said Karl Büttner, co-founder and president of 170 Systems.

The company released its first software product in 1991, and by 1993, 170 Systems was a full-fledged product company. Büttner claimed revenue growth of 40 percent for 2002, though he declined to provide revenue figures.

Last year, 170 Systems took \$14 million from Polaris Venture Partners. Part of that money went to the founders — an opportunity for them to partially cash out in a market where exits are non-existent — with the rest going toward company growth.

Just a few weeks ago, the company also named a new CEO: David Ellenberger, formerly CEO of Vividon Inc.

The change in management was expected, Büttner said. In fact, he said, finding a CEO who could continue to grow the company was part of the motivation for taking VC money.

"It was time to step on the gas," Büttner said.

But it took the company more than a decade to get to this point.

"Bootstrapping takes a heck of a lot of patience," Büttner said. "If you want to bootstrap, you've got to be interested in the whole experience. It's more than just the exit."

## Broadband service via power lines rises from the dead

it doesn't interfere with other communications bands, broadband-over-power lines faces weighty business challenges.