

Investors focus on internet

By Hugo

Published: September 5 2008 19:58 | Last updated: September 5 2008 19:58

Entrepreneurs have warned potential new start-ups seeking seed funding that the technology, media and telecoms sector is "the only game in town".

Francis Zadan, chief executive of Corebridge, a London-based telecoms software business, said: "Anything with Web2.0 attached to it will get attention – irrespective of the business model or the lack of it. Everything else is a distant second."

Zadan said he recognised the importance of an internet strategy, but warned that history may repeat itself. "Web2.0 and social networking in your business model will not mean success," he said. "I can see the same mistakes repeated, be it on a smaller scale."

Holly Tucker, co-founder of notonthehighstreet.com, an internet retailer, said venture capital firms were "all singing from the same hymn sheet". "You've got to be in internet retail or they're not interested in investing," she said.

Investor interest in other TMT-related areas, particularly technology, also remains high. Paul Caplin, chief executive of Caplin Systems, a financial services software company, said he received three to four approaches a month from private-equity firms and

VCs "wanting to know if we'd like any of their money".

Julie Meyer, chief executive of Ariadne Capital, an investment and advisory firm, said the current interest in TMT firms was similar to that in software companies 15 years ago. "With TMT companies, you have a situation in which you have scale," she said. "With so much now against

“With so much now against companies, you need that extra advantage towards being successful.”

companies in terms of being able to grow, you need that extra advantage, that extraordinary propulsion, towards being successful.”

However, the start-up sector has been suffering from a dearth of new investment since 3i announced in March it would stop early-stage investment in start-ups. In addition, according to a survey of small and medium-sized enterprises (SMEs) by

Microsoft, more than three-quarters of respondents said they will need to find additional funding for their businesses in the coming year.

The downturn in the stock market has also seen many business angels, traditionally a prime source of funding for SMEs, pull out of the sector.

For Kevin Meagher, chief executive of Intamac, a security monitoring company, the consequence of equity funds in particular abandoning the seed funding space is that many start-ups are finding it more difficult to get any investment. "Increasingly, companies – mine included – are looking to other markets such as the US," he said. "Unfortunately, this means the long-term benefits will also shift overseas in terms of technology, jobs and even talent."

However, not everyone agreed this was a bad time to launch a bricks-and-mortar-style company.

Grant Keller, managing director Europe of Acceleration, a digital marketing firm, said launching an internet-based business was not a sure-fire way of securing funding. "An internet business, like any other, needs to make money," he said. "Launching an internet business by no means guarantees funding – not from intelligent investors anyway."