

# The New Dotcom Boom

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Oliver Bennett finds out how broadband is turning Britain into a nation of entrepreneurs.

About 60 people are mixing, mingling and chatting in the fifth-floor cafe at Waterstone's in Piccadilly. Coffee is fuelling an intense atmosphere of handshaking and exchanging of business cards. Most are male, under 40, wearing open-collared shirts, casual jackets and jeans. Several people have laptops open and sit rapt in front of screens, showing companions their web pages. Here is the Swedish start-up Tablefinder, finding global restaurant reservations; there is the Slovenian start-up Zemanta, offering online links. Potential internet companies from all around Europe have converged on this central London marketplace.

Among them is Damien Tanner, 20, who gave up his biology degree course at Imperial College, London because he was making money with New Bamboo, the web-development company that he co-founded with Max Williams. "The right conditions are here," says Tanner, whose company now employs 10 people and which, he claims, is heading for a revenue of £1m this year. "We were growing so rapidly that I couldn't wait. I had to leave college to grab this opportunity."

This weekly networking event is called OpenCoffee Club, and is

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one of a significant handful of meetings for a bounce-back generation of internet entrepreneurs, future technocrats and investors to hook up and share: perchance also for some "VC" – venture capital – to change hands. Here, amid the banquettes and table lamps, it's as though the dotcom crash of 2000 never happened.

Saul Klein, 37, who set up OpenCoffee Club last February, says the idea came at the right time. "There are now OpenCoffee events in more than 80 locations around the world, which shows the extent of the interest in internet companies." Klein's aim is to bring the informal business culture – that go-for-it Californian positivity – of Silicon Valley to the UK. A veteran of various dotcoms, including Lovefilm and Skype, he prefers to see the start-ups as companies rather than just "dotcoms". "You don't think of Tesco as a dotcom, do you? But it makes millions from its internet platform." Last year he

set up an entrepreneurs' forum called Seedcamp, which attracted interest from 274 internet-based companies. Twenty were chosen for the forum, which is likely to become an annual event.

The housing market may be wobbling, the financial industries suffering from the reckless sub-prime lending credit crunch. But the internet is bullish. Commentators are referring to the second web boom and, once again, venture capitalists are circling, seeking to invest in fledgling internet companies – the start-ups. "There has been spectacular growth," says James Brocket of Calibre One, a head-hunter in the internet sector.

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“Funding in the UK has gone up considerably. In the first quarter of last year, \$24m of VC funding to internet companies was disclosed. In the second quarter, it had risen to \$75m.” He adds that this figure is conservative – much more will have gone undisclosed. Fred Destin of Atlas Venture says that, in 2007, £894m was invested in the UK and Ireland by 282 investors. “Perhaps 2008 will be the £1 billion year,” he adds.

The number of British-based start-ups is also hard to gauge: it includes everything from minor-league bloggers hoping to attract a few ads to web applications for bricks-and-mortar companies. But Brocket says that, again, there has been a significant rise in serious start-ups: “In the second quarter of 2007, 58 were started, with 63 in the third quarter. I’m talking about motivated businesses with over \$2m behind each of them.”

From the perspective of a British start-up, this presents a real opportunity to get some funding behind them. “There are at least five venture-capital companies investing between \$200m and \$500m each across Europe, with at least 40% of this going to start-ups in the UK,” says Saul Klein. Add this to the incalculable amounts added by “seed” investors and “angel” investors – smaller investors who often provide the essential early push and who mostly remain private – and it runs into many more millions being spent in Britain. Library House, a research organisation in the technology industries, says that the total disclosed amount of venture

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capital invested in UK start-ups in 2007 was over £1.4 billion. This is still much less than the dotcom bubble of 2000, which some estimated at about £5 billion, but enough for a consensus to treat it as a “boom”.

If a boom it is, then there’s another vital reason: millions more people have broadband connections. “Broadband penetration is at the tipping point,” says Dan Wagner of Bright Station Ventures, which funds and promotes start-up companies. Wagner, a veteran of the early internet boom, believes there is an unprecedented opportunity for internet start-ups at present, which is why he and his partner, Sháá Wasmund, have set up: “We’re going to spearhead the

resurgence.” He also points to the take-up of the internet. “In the first dotcom boom, only around 5% of us had an internet connection,” he says. “Now it’s 50 to 60%.” According to the Office of National Statistics, there are now around 15m households in Britain with internet access – 4m more than in 2002 – and this figure is rising all the time. We are all jumping on the broadband bandwagon.

Facebook, MySpace, eBay, YouTube, Google, Wikipedia, Bebo, Skype: all have become part of a daily diet for millions of Britons. Then there are the facts from the business pages: that last October Microsoft paid \$240m for a 1.6% stake in Facebook; that Dow Jones recently announced that venture

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capital for internet start-ups had reached almost \$1 billion; that global online advertising revenue is projected to rise by 2010 to \$55 billion; that Google’s shares were recently valued at over \$700. It is clearly a febrile time.

Why now, seven years after the first bubble burst? “Because we’re seeing the reincarnation of the internet,” says the trend analyst Michael Tchong, who envisages an online future rich with possibility – and money. “I think there’s going to be a boom that will make the last boom seem like a day on the beach. It will boggle the imagination.”

Some are more sceptical. Henry Blodget, who runs a web publication called Silicon Alley Insider in New York, featured an article called Recession Watch, which suggested a slowdown was on the cards as advertising and broadband adoption slowed down and competition between dotcoms hotbedded. Still, even Blodget acknowledged the industry’s “remarkable resurgence”.

OpenCoffee is not the only networking event. Back in the 1998/99 boom, the First Tuesday networking club put investors together with entrepreneurs. Now one of the key meets is called, referentially, Second Chance Tuesday. “I launched it in 2006, and we were surprised,” says Judith Clegg of the Glasshouse, the company that runs the event. “We have a limit of around 300, and typically have to turn away the same amount again.” These are not the twenty-somethings of dotcom folklore, reckoning on a leap from bedroom to boardroom in six months. “Most are in their thirties and forties,” says Clegg. “People who know what it is to sleep on the office floor. They’re taking big risks. Some are second- and third-generation entrepreneurs. And in my experience, when they get funding they work even harder.” Clegg is excited. “It’s an interesting time. There are some really exciting start-ups.” Are there duff ideas? She laughs. “Yes. But they’re obviously high-risk. Their overall quality is excellent.” Indeed, to add to the feelings of dotcom déjà vu, First Tuesday has returned to the fray.

Much of the new interest in the internet has gathered around the notion of Web 2.0. This, the notional upgrade from the first internet boom – Web 1.0, which focused on e-commerce, or selling over the internet – is characterised by “user-generated content”: its pages filled with the words, photographs and films of the internet-using public. Facebook, MySpace, Bebo are typical Web 2.0 applications, seething with the

jottings and photographs of its youthful diarists.

Since Web 2.0 came into parlance in 2003, the internet has become a mass habit. “The digital lifestyle has come to pass,” says Tchong. “It’s the marriage of man and machine. We are becoming computers, and computers are becoming us.” Son on Bebo, daughter on Facebook, Mum ordering food on Ocado, Dad blogging about golf: the British home has taken to the digital superhighway, and the predictions attributed to Bill Gates when he started Microsoft in 1975 – that there would be a computer in every home and every child would be computer-literate – have come to pass. “The interest is extraordinary,” says Matt Biddulph, 31, of the travel start-up Dopplr. “So many people use social-networking sites. It’s particularly true of middle-class affluent London.” The young, in particular, are naturalised to this dynamic information world. “The internet is no longer a weird thing you do in Dad’s study. It’s something you do on the bus.” Since the internet bubble of 2000, a generation has emerged for whom the internet has been an integral part of their adult lives. “I’m 33 and I’m not a ‘digital native’,” says Wayne Arnold of the internet-marketing firm Profero, using the term for someone who has grown up with digital technology. “But the under-25s use MySpace and Facebook as normally as a telephone – it’s just what they do. We may refer to the internet as ‘new technology’; they don’t.”

Globally, the figures are huge. As Tchong says: “MySpace has a population approaching that of Brazil.” Facebook claims 64m users. There are well over 100m blogs. “It’s a huge, driving force,” adds Tchong. “It’s a fundamental shift in the way we relate to each other. It goes way beyond online advertising. It’s social capital.” So, the new internet user is not just e-shopping at eBay and Amazon: that’s so Web 1.0. They’re socialising, sharing opinions, getting entertained – all online. “They’re moving away from print,” says Tchong. “They’re moving away from TV. The market is screaming for a new business model for these social-engagement products.” Soon, he says, they’ll be so important that would-be employees will use a Facebook page instead of a CV. “If you’re not online you might as well be watching black-and-white TV.” The internet is also remarkable for the marketing opportunities it offers and, as Richard Moross of the British start-up Moo puts it, “TV does not know who you are.” The internet does: it has followed your browsing patterns, your tastes and preferences – even your politics, should you be using Facebook. This is powerful information to advertisers.

Some of the big names of the first boom have returned, including Brent Hoberman, an architect of the UK end of Web 1.0 and the one responsible, along with Martha Lane Fox, for Lastminute.com, perhaps the most famous first-wave Brit dotcom, which took the travel industry’s “bucket shop” and

put it on the internet. The technology – and Lane Fox – lent it vital glamour. Hoberman went on to help found a site called Wayn, a social-networking site for travellers standing for Where Are You Now?, of which he remains a non-executive director, and he has a new start-up, Mydeco, a home-decoration site. “I think London is the best place to be an internet entrepreneur right now. Yes, the people and the office spaces are expensive, but there’s a vibrant network, good infrastructure – and the UK knows how to do creative industries.”

So the VCs are converging on London, their names whispered in the networking clubs: Index Ventures, Accel, Atlas Venture. “Money is coming from a number of sources,” says Ze’ev Rozov of Sportingo, a start-up that brokers sports content. “US VCs have opened offices here, and they’re making investments in start-ups in England.” Rozov, who has worked across the world, thinks conditions in the UK are “ripe”. Some go further. “London has become the Silicon Valley of Europe,” says Eric Baker of Viagogo, a ticket-reselling site that launched in 2006 with a \$20m injection – gained precisely because of the London factor. Indeed, Biddulph has noticed “there’s a lot of money and sometimes not quite enough to spend it on.”

Another factor fuelling the boom is that it’s far cheaper to set up a company now. “Lastminute used to cost millions of pounds every year in technology,” says Hoberman. “Now it is far cheaper.” How come?

“Moore’s Law. Everything becomes cheaper and faster.” Can you set up for £20,000? “Absolutely,” says Clegg. “Less, perhaps.” Publicity and marketing is virtually free using social networks and blogs: “So, the only real expense is employees and office space,” says Biddulph. And sometimes you don’t even need that. I met Biddulph in a Shoreditch cafe where, at 11am on a Monday, almost everyone was using a laptop. “I can run the company from here,” he says, dressed in the geek chic of black T-shirt and trimmed beard. “It’s being called the ‘Bedouin office’.” Whether in San Francisco, Boston or Amsterdam, the company can travel with you.

In the 1990s, the dotcom crowd was characterised as young, fresh, exciting. Armed with a new lexicon – “functionality”, “content”, “monetising” – they offered the “soft launches” of their dotcoms and hoped for an early IPO, the Initial Public Offering that would be the first sale of private stock to the public. “It’s different now,” says Hoberman. “The acquisition market is stronger than the IPO market.”

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Indeed, anyone who “starts with the idea that they’re going to sell shares is starting at the wrong place”.

This boom is more substantial, adds Hoberman; less feverish, more sustainable, with increasingly mature participants who are often armed with prior experience. “We saw a generation of talent that was blooded in 2000,” says Saul Klein. “Those survivors are gold dust.”

Another thing about the Web 1.0 bubble was that everyone was being valued as a winner, says Wagner. “Now there’s more reality in the market. Not everyone is going to win big. Some will fail. But this time it’s an intelligent boom.” Everyone remembers the disasters, such as Boo.com, the online fashion retailer that went bust in 2000 after ploughing through almost £80m. They recall the Aeron chairs that littered Brick Lane’s second-hand shops as companies flogged their assets.

But such stories shouldn’t render the dotcom idea unworthy. “The reality is that the internet, including e-commerce, has surpassed all expectations,” says Dan Wagner. “Forecasts for growth have been dwarfed. Google is now worth over \$130 billion. The boom is happening, and this time it’s sustainable.” And what if some fail? “Any new industry features ideas that are ahead of its time. Some may be misguided, off the wall or ‘blue-sky’, unrooted in economic reality,” says Wagner. “You’ve got to see failure for what it is – a risk that someone took that could have resulted in an exciting venture that created wealth and

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jobs.” And many of the early dotcoms did survive. “We started with £500 in a garage,” says Wayne Arnold. “Now we’ve got offices all over the world, clients like Puma and the government, and a turnover of over £5.5m.”

Ah, yes: surely the government is excited by silicon Britain? Yes, says Alex Butler, transformational strategy director at the Central Office of Information, responsible for online policy. Her department has noted the Facebook effect, and is transferring it to political life. “We’re moving to Web 2.0 applications as a trusted source,” says Butler. “We’ve got to ‘fish where the fish are’, as we say.” The result will be “supersites” that meld, for instance, Ofsted reports with local house prices and online educational chat.

Will this boom bring a bust? Some think so, and the term “Bubble 2.0” is gaining prevalence from a sceptical commentariat that recalls the dotcom fallout and recoils from the overvaluations. They cite the internet entrepreneur Niklas Zennström, who sold Skype to eBay for \$2.6 billion, then stepped down in October after it was acknowledged that this was an overvaluation. Add these wild projections to a marketplace pullulating with start-ups and you’ve got the ingredients of a bust.

Facebook exemplifies the current web bubble, thinks Andrew Keen, the chief sceptic about Web 2.0 and author of the recent jeremiad *The Cult of the Amateur*. “In my view, Facebook will be the pin-up for the bust,” says Keen. “Mark Zuckerberg Facebook’s founder is too young to have been around the first time, and it’s hard to take Facebook seriously when industry people are valuing it at \$10 to \$15 billion.” Social networking has fuelled a hectic, unsustainable market, he believes, and Silicon Valley is too unselfcritical to see it. “The Valley start-ups are in big dollars, and ridiculous valuations have ensued,” adds Keen. “I get called a Luddite, but in private a lot of people agree with me.” With lots of social networking sites all seeking advertising money, some kind of shake-out is due.

As to the claims of the web visionaries that the web would democratise public life, making everyone a published author, artist or photographer: well, Keen is not keen. “Democratisation is making a few people incredibly rich. And the little old lady with the pension [VCs often use endowment funds] is the one losing the money.”

So, will there be a bust? “No,” says Biddulph, packing his laptop. “The most there’ll be is a soft landing.” After all, as Klein says, “Over a billion people use the internet and that number is rising.” As to all these online hordes, chattering, blogging, putting their holiday snaps on Flickr and poking each other on Facebook, their value has yet to be ascertained.