

Guest comment

European venture scene is struggling to stay alive

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To put it bluntly, the [European](#) venture scene is presently a graveyard.

Europe looks set to follow in the footsteps of the US. There, from a group of over 500 venture funds in existence at present, only 250 are likely to make it through the next five years.

The reason is simple – the vast majority of venture funds have had poor returns over the last five to 10 years, and many simply cannot afford to continue. We are at the point where most no longer have a reason to exist, despite Europe boasting a nucleus of world-class venture funds, such as [Index Ventures](#) and Sofinova, which are setting high standards.

Ironically, this is one of the best times to fund businesses. Companies have learned the lessons dealt to them by the recession. They have learned to make their money work more effectively, focusing on quality and long-term return on investment and embracing capital efficiency.

The companies that need funding now are, generally speaking, head and shoulders above those we were backing 10 years ago. However, the fallout of the recession is that there is no longer much funding to be had.

The last 10 years have seen funding aplenty. Now it is time to return to our roots and embrace capital efficiency. A little funding can go a long way, and over the last 10 years we have seen a catalogue of companies producing phenomenal returns for a low level of investment. A good example is [Oracle](#), which has only ever raised €5m (\$6.6m) in its entire history yet has produced incredible results.

Companies seeking funding are up against tough competition, and it is important that companies examine how they might succeed before seeking funding.

First, they should consider analysing opportunities in niche markets. Lead a market segment early and you are already offering something no other company can offer, making your business indispensable. Market segments can emerge quickly, so it is imperative to analyse the market thoroughly before starting to look for opportunities.

Additionally, companies seeing success at expansion stage generally exhibit a high level of capital efficiency. We are past the days when growing businesses could raise £10m (€11.5m) to £20m in venture capital – the emphasis now is on making things happen for less.

Tuesday last week marked the beginning of the [UK](#) and [Ireland](#) Tech Tour – a scheme pioneered to pair the most promising, high-growth, early and expansion-stage technology companies with representatives from the global venture capital world for strategic advice and potential funding. The funds that will be present at the tour represent over €10bn worth of investment capital. Around 30 selected companies will be at the event, drawn from a pool of more than 250 applicants.

In an economic climate in which high-quality technology companies have access to limited funding, it is a great opportunity to ensure those who deserve funding have access to it. When we select our finalists, we are looking for companies that are unique; companies that fit into a niche and could lead a sector. We are not looking for risk takers – now is not the time to be gambling.

“Me too” companies won’t wash in today’s market. The market is saturated with companies we do not need, and those with a future are those that can demonstrate their value by responding to a specific need.

There is no better time than now to fund a growing business – the quality available is at its highest level yet. But never forget that choices on who to fund need to be made more carefully than ever before.

For details of the Tech Tour visit: www.techtour.com