

Value Added Venture Capital

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There is no business without communication. In fast-moving markets, the speed, accuracy and quality of communication are key assets for creating a competitive edge. Modern Information Technology (IT) finally has the power to streamline external communications, and with the emerging Internet, IT has become Information Communication Technology (ICT).

In the coming years, ICT will dramatically change life and business. Within five to ten years, the Internet and the World Wide Web will have the same penetration grade as television today. New television sets will access the Internet via the cable TV networks with a simple Teletext-like decoder. Consumers will change their buying behavior. Simply because the Internet will make life easier. How many people really like going to supermarkets? How many men really like shopping? Who does not want to buy at the lowest possible price? Which shareholder does not want to track stock prices all over the world? Who likes to bring stamped envelopes to the post office for distribution?

The Internet will change it all

You can send email messages simply by pushing a button. You can read email messages any time of the day, from any place in the world. Important notes will be filed automatically. You can assemble your own CDs, just by buying pieces of music from the web. Movie videos no longer need to run from tape. You can ask different car suppliers for best-price offers. You can easily view interactive multimedia catalogs before making your choice. Food and beverages will be brought to your home 24 hours a day, seven days a week.

Are these statements futuristic?

No, they are reality today. More and more people in the US buy cars via the Internet after selecting the best-price proposal. In the Netherlands, a petrol station manager with a small supermarket had his son develop a web site (www.A27.com). Customers use it to order their goods, which they then pick up

on their way home. Within a few weeks the supermarket had a sharp increase in the number of new customers per day.

Converging Technologies

The role of information is growing in every sector of the economy and in many parts of daily life. The business market, the residential market and the public sector require easy-to-use and easy-to-access information. The digitalization of content and communication is generating a significant and far-reaching revolution.

On the supply side, three business sectors are involved:

Information Technology

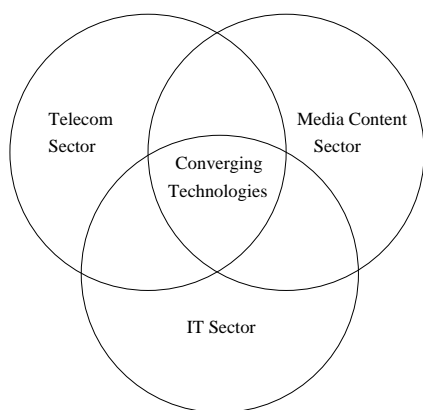
Suppliers of hardware, software and IT services.

Telecommunications

Suppliers of telecommunications infrastructure, e.g. fixed and mobile networks, cable TV networks, public data networks, services and equipment.

Media

Publishing companies (including both traditional and electronic publishers), and suppliers of audiovisual media such as radio, television and entertainment.



Digitalization has caused major interdependencies between these industries. Each sector needs the knowledge, experience and assets, such as physical infrastructure, of the other sectors. With mergers, acquisitions and joint ventures, a new converged industry is coming in existence that is often called "Multimedia" or ICT.

Internet: a Visible Example of Converging Technologies

During the last five years the Internet has been the most visible example of convergence. Telecom, IT and media enterprises have gathered together in the Internet arena and started either to cooperate or to diversify into a single Internet market. In all links of the value chain, telecom, IT and media enterprises act as suppliers nowadays. Moreover, totally new companies are set up with the goal of seizing opportunities in the promising Internet market.

Market Characteristics

The main characteristics of the three converging technologies are:

- Combination of various media (e.g. audio, video, pictures, and text) making up new multimedia products.
- Products and services are time- and place-independent.
- Products and services can be reused by suppliers and customers.
- Customization of products and services.

Recent Trends

In 1996, users spent almost USD 19 billion on Internet and Intranet products and services. Although this amount is relatively small compared to the total IT marketplace, for a somewhat new market segment it represents a large volume of expenditures. Clearly, Internet and Intranet products and services are at the leading edge of growth in the IT market.

Figure 1 shows an overview of Internet and Intranet revenues, in 1996 and 2000.

America Online (AOL) is the leading online service provider in the US with 9.9 million US subscriber accounts (including CompuServe) as of the end of 1997. Microsoft Network (MSN) trails AOL with 1.7 million subscriptions.

Convergence Drivers

The converging technologies result in products that fit new requirements in the business and consumer markets. Influenced by social, economical and political developments, market demand for information and entertainment products and services is developing from one-way communication and information patterns to interactive, flexible and customized services.

Economic Drivers

The characteristics of converging technology services, such as customization, independence of time and place, and flexibility closely link up with some current economic developments:

- Development of a 24-hours economy.
- Globalization of the economies.
- Information is a major production factor.

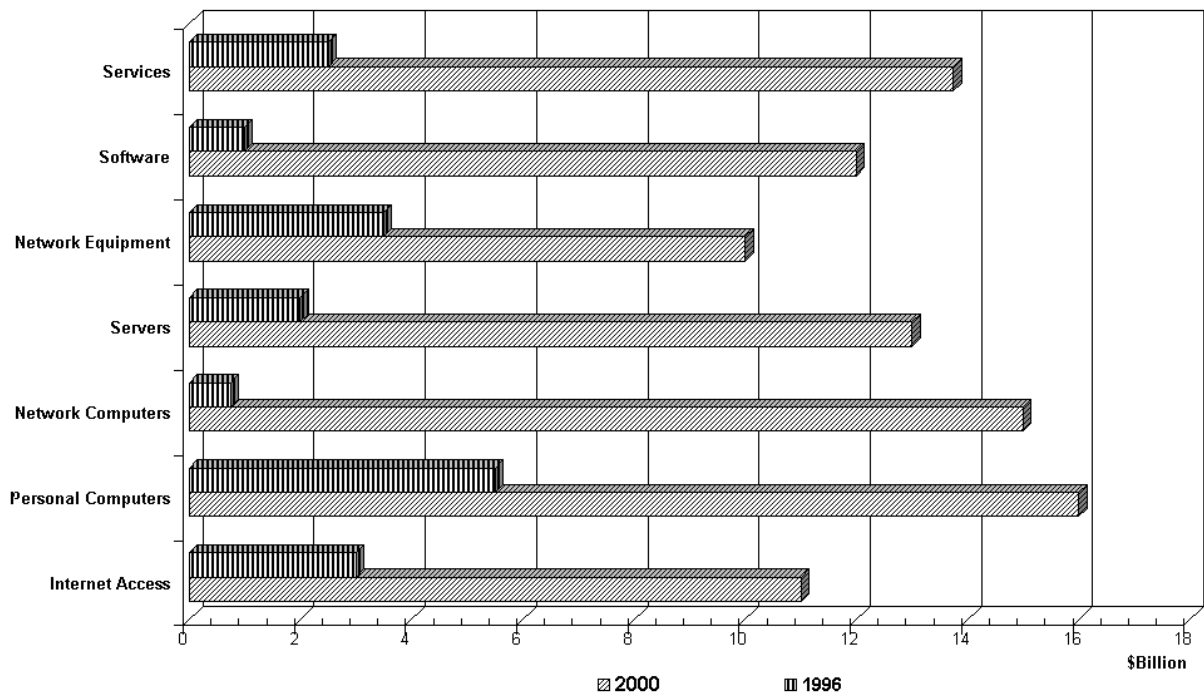


Figure 1: Internet and Intranet revenues in 1996, 2000 (Source: IDC)

- Competitive position of Europe depends for a large part on the penetration of converging technologies.
- Growing competition results in declining prices.

Social Drivers

The features of today's and tomorrow's information consumers closely fit the features of converging technologies:

- Decreasing customer loyalty.
- Demand for manipulation and flexibility.
- Growing individualization.
- Growing demand for interactivity.
- Integration of converging technologies in education.

Political Drivers

Politicians and public administrations in most Western European countries are well aware of the importance of development of innovative information and communication technologies (ICT) for the position

of their countries:

- Converging technologies can improve their competitive strength.
- Converging technology applications can enhance the educational and socio-economic level of the citizens.
- Converging technologies can be supportive of several political goals, such as the level of democratic participation of the citizens, environmental policy and the reduction of commuting, and the participation of disabled people in the economic processes.
- Because the former Public Telephony Organizations (PTTs) are (in the process of being) privatized, the former PTTs are allowed to enter new markets with diversified product portfolios. New entrants in the telecommunications markets try to offer diversified service packages from the start.
- Privatization of the telecommunications markets is closely linked to deregulation. This means that suppliers in the telecommunications markets and cable TV markets are allowed to enter new markets including the content market. This re-

sults in a trend of companies moving up the “value chain” towards the high-end of Value-Added Products & Services (VAPS).

A Second Chance for Europe

A well-known assumption in the IT industry is that successful companies need Silicon Valley representation. In the last few years, companies such as SAP, BAAN, Uniface and Business Objects have proven that European IT companies can be successful globally. In-depth analysis shows that European companies provide IT solutions that are generally superior from an architectural and conceptual point-of-view. However, for a company to be successful, the financing, sales and marketing must be in place as well. This is where European IT companies all too often lost out, and what differentiates Silicon Valley and “Shalom Valley” in Israel.

The Dutch Minister of Economic Affairs has recently started an initiative to improve the situation. Headed by Mr Roel Pieper, former chairman of Compaq and currently member of the board at Philips, a foundation has been set up that will supply the initial funding, contacts, marketing and sales expertise that are required to turn drawing-board plans into business.

The market opportunity for Europe is recognized internationally, as demonstrated by the following quotes:

- Venture Capitalist says Europe is ripe with opportunities (Mr Cohen, Apax Partners).
- The growth in Venture Capital could signal a crucial shift for Europe’s conservative investment mentality (Wall Street Journal Europe).
- Venture capitalists see an increasing likelihood that a startup will make that next big step and get itself listed (Wall Street Journal Europe).

The converging technologies arena offers a second chance for Europe because European business culture is changing and companies have become more flexible and entrepreneurial.

Value-added Venture Capital

The market demand for innovative converging technologies is growing and the economic climate is positive for making investments in innovative technologies. For technological innovations to be successful both technology push and demand pull are necessary. After all, the market has to be familiar with innovative technologies before demand will exist and grow. After the take-off of innovations, the market will do the rest. For this reason, the companies in the converging technology sectors need venture capital. They also need a venture capital supplier who acts as a business partner by adding value in the form of business experience, and networking. The fundamental forces driving the development and financing needs of the converging industry originate from the three traditional sectors. Most players in these sectors follow a diversification strategy that could be summarized as follows:

- On the one hand, their specific competencies and skills will allow them to exploit and benefit from synergy between their more traditional activities, the design, marketing and servicing of “convergent products/services”.
- But on the other hand, their respective market environment is undergoing such a fundamental transformation that they are constrained to pursue new and attractive markets with new products/services.

Traditional Industries: Set-up of New Companies Requiring Venture Capital

There are many mergers and acquisitions between suppliers in the traditional industries from which the converging technologies sector is originating. Most of these companies have vested interests and aim at already existing markets. Some newly developed companies, however, aim at new markets but do not have sufficient cash to make large investments in innovations. Because these companies do have the knowledge, experience and occasionally sometimes the necessary infrastructure, they could be very successful if necessary investments would be made. Therefore, there is a strong demand for venture capital.

New Players: Good Initiatives, but Lack of Financial Means

Convergence of the major players in IT, telecommunications and media sometimes results in inflexible large enterprises that are unable to target new and innovative markets. This strengthens the opportunities for fast-growing smaller players in niche segments to fill the gaps in the strategic objectives of the major players.

The newcomers in the market of converging technologies are often enthusiastic and innovative. Because they do not have enough capital or assets to build upon, there is a very strong demand for venture capital in this segment.

High Demand for Venture Capital

The demand for venture capital in Europe has increased significantly over the last few years. The total amount of invested venture capital was 6,752 million ECU in 1996. Growth between 1995 and 1996 was 21%. Investments in technology rose by 57% to 1.32 billion ECU (source: European Venture Capital Association).

The recent successes of fast-growing technology companies funded with venture capital have further boosted the market demand for venture capital. A new generation of entrepreneurs has evolved, with

experience in fast growing technologies that need venture funding. All these developments create a strong demand for venture capital focused on selected segments for IT, telecom, and media.

NeSBIC Converging Technologies Europe (CTE) Fund

NeSBIC Groep has set up a special venture capital fund called NeSBIC Converging Technologies Europe Fund. It is one of the few venture capital funds that truly focus on early-stage investments in IT, telecom and media, and has a pan-European focal point. Its investment directors have a proven business track record rather than a financial background. Acquisition and due diligence are a matter of weeks rather than months. The Fund has an advisory board consisting of key players from the industry, offering guidance and global relationship networks.

This is what we call value-added venture capital.

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