



# Adaptability is just as important as size



Richard Sharpe catches up with our Acorns to find out how they have fared during 2002

**T**hinking about launching into the IT sector? Then the UK is definitely the place to be, according to a report by accountancy and consulting company Deloitte Touche Tohmatsu.

Out of a list of the 500 fastest-growing European acorns, the UK boasts 142 companies. France has 99, followed by Germany, with its larger markets and population, which has 54.

Fast-growth acorns are clustered in western Europe. Norway has 50 entrants and Ireland has 27 to complement the UK (see graph).

The research looked at companies that have been in business for three years or more; had a 1999 turnover of 50,000; and are headquartered or have shares listed in Europe. The rankings are based on the heady days of 1999, 2000 and 2001.

But it's not all about growth. Acorns must also change to survive. *Computing's* prospects have spent 2002 searching for new routes to market and package technologies to survive the downturn. Business plans for delivering technology to market have had to be revised, and financial plans have also been through the shredder.

The main change is that hardly anyone is buying raw technology. Users don't want, or probably can't afford, infrastructural investments, which in the

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past have involved buying underlying software technologies. They want packaged solutions to demonstrate return on investment as soon as possible.

### Lazy Software

Lazy Software has taken its Sentences post-relational database and is using it as the platform for solutions developed by customers.

The first solution is a package to help fund-raising by educational institutions and other membership organisations.

'The market is not interested in just technology,' says chief executive and co-founder Simon Williams.



Eldridge: it takes two years to sign a new partner



Williams: 'market is not just interested in technology'

The fund-raising application is one of four or five developed by customers, which Williams hopes to sell on.

He is passionate about the subject, and has even written a book on it. But now the technology sell and the underlying philosophy has to give way to a selection of applications, which can be repackaged for specific vertical markets. Another could be a liquidity planning package.

### Procomsoft

Chi Nguyen, chief executive at Procomsoft, is passionate about how to turn the open-source software model into a real business model.

Open-source software has saved it £30,000 in licensing fees for software development tools for version three of its Procombox product, compared with the fees it paid for tools to develop version one, says Nguyen.

'This took the product development costs, apart from people, close to zero,' he says.

Nguyen plans to build communities of users who will have common access to the source code, be able to change it and share it.

'Ten customers of Oracle are not a community. Ten customers of Procombox version three could be a closed community, which helps support itself. We have become a membership director or gatekeeper for this community,' he said.

### CopperEye

Database indexing turbo software company CopperEye has enjoyed success by choosing the indirect route to market, rather than by the direct

route to potential customers outlined in its original plans.

Logica has employed CopperEye's software to accelerate relational database applications in a key application for Orange.

Orange claims that the bespoke system, which Logica built around CopperEye's Adaptive Addressing system, gives it an application to process millions of call records, which outstrips anything else on the market.

### Alterian

Column-based analytical database technology startup Alterian is focusing on existing partnerships, rather than chasing new business. It lost 20 staff when it scaled back its efforts to recruit new partners, and focused on helping existing ones generate more modules of software.

'It takes two years to sign a new partner,' says David Eldridge, chief executive and co-founder of Alterian. But it's far easier to encourage and support an existing partner to develop more applications embedding Alterian's software. 'This gives us regular royalties from sales,' he adds.

Alterian's turnover grew nearly four-fold in three years to the end of 2001, according to the Deloitte & Touche *European Technology Fast 500* ratings. Alterian was placed 143 in the ratings, with a growth of 388 per cent in three years to the end of 2001.

### nettec

nettec has won a place among the top European growth companies in the Deloitte rankings.

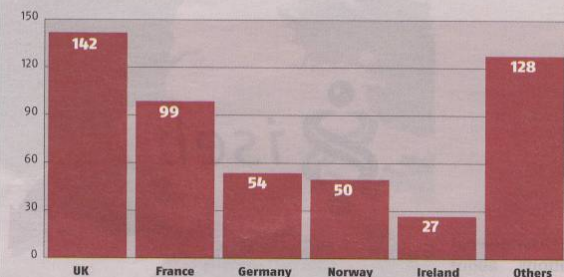
'Those were the heady days,' says managing



## Oaks & Acorns

### Fastest-growing number of European Acorns

From The Deloitte 500 rating, number of firms



### The European top 10

£-year turnover growth percentage - to the end of 2001

|    |                                |         |    |
|----|--------------------------------|---------|----|
| 1  | Danionics A/S                  | Denmark | 2  |
| 2  | Sense Comms                    | Norway  | 3  |
| 3  | Fast Search & Transfer         | Norway  | 1  |
| 4  | Cambridge Display Technology   | UK      | 10 |
| 5  | Bibit Global Payments Services | N'lands | 9  |
| 6  | VersaMed Medical Systems       | Israel  | 4  |
| 7  | Schema                         | Israel  | 5  |
| 8  | Call Centre Alliance           | France  | 8  |
| 9  | Advanced Transport Systems     | UK      | 6  |
| 10 | Fasthosts Internet             | UK      | 7  |

director Thomas Nikolopoulos, who has reshaped the business to deal with the new realities of slower or stagnant markets. Now nettec is using the core of its business - project development - to expand into managed services and packaged services, he says.

### Celoxica

Other Acorns have had to open their eyes to wider markets. Celoxica, the circuit-design software tool kits company, originally targeted the networking and telecoms sector. It was thought customers would take readily to its DK tool kit, which allows designers to write C code and generate full hardware circuit designs.

'The market is much more general than that,' says chief executive Phil Bishop, who is now looking at the defence and automotive sector. The company is also targeting designers of hardware to assist with XML processing, or real-time virus detection.

Bishop has repackaged the DK tool kit by cutting the technology into parts to generate an 'a la carte' menu of products. He is doing all of this with slimmer financial resources, and has cut costs and lowered the break-even point to \$12m a year, from about \$25m. This will stretch the cash further.

January and February 2003 should be profitable months. The whole of the fourth quarter of 2003 will be profitable, says Bishop.

### Alamy

Alamy, the online picture agency

batting with the giants Getty and Bill Gates-backed Corbus, will be in the black in mid-2004, says chief executive James West.

The company now generates a turnover of about £1m a year, and is growing at about 18 per cent a month. Alamy implemented a web site for customer access to its library in September, which allowed some customers to flick through 10 thumbnail pictures a page in less than half a second.

West aims to give customers the same speed and sensation as if they were thumbing through a paper catalogue. He now has 260,000 images available, up from 60,000 at the start of 2002. Some 1,100 photographers and 80 picture agencies now store images on the Alamy service, compared with 400 photographers and 20 agencies at the start of 2002.

There is a tendency for web service providers to optimise their server, and think all they have to do is put the packets on the web, says West.

The next hurdle is to speed the delivery of its services over the internet. 'The weakest link is the connection from the customer to Alamy,' he says.

### Symularity

Computing's Acorns are using the web as a marketing tool. Symularity, the Leeds University spin-off, clinched a sale of its co-ordination package with the German arm of a US company, which had found the package during a web search.

Hi-Lite International, a US automotive supplier, is on an acquisition spree in Europe and needs Symularity's package to help a team of 10 executives co-ordinate the mergers. Symularity is not only providing the package, but hosting it.

This contributes to the £450,000 or so turnover generated in the current financial year to March 2003. But profits will not flow until mid-2004, says commercial director Steve Kerridge.

Customers such as Hi-Lite allow Symularity to demonstrate that its software is attractive outside the academic market, where it has been winning business. This includes a pilot, centred on Cambridge University, of nine universities to link their innovation centres with local small and medium-sized enterprises (SMEs).

### Dat-Lab

The academic and research sector continues to provide business for many Acorns. Dat-Lab has developed a software-based Digital Lab Book to help researchers record and gather information.

The company was focusing on sales of the individual version of its package for researchers, but has since found that its server version, backed up with a client front end for users, is the way forward.

Dat-Lab has just won its first key order, from the John Innes Centre, where 15 scientists will be supported by a server, says Dat-Lab's marketing director Mike Boreham.

There are five other pilots underway that Dat-Lab hopes to turn into orders to complement the John Innes Centre. Dat-Lab has priced the server version at £5,000 for the server and £1,450 per client. In addition, there will be turnover from services for implementation.

With its first order and trials, Dat-Lab is now looking for further funding, says Boreham.

### Synad

Many of Computing's Acorns have been wary of funds from venture capitalists.

Mike Baker, chief and co-founder of Synad, dubbed some of them 'rottweilers'. 'Some funds are more hands-on and less professional,' he says.

Synad designs chipsets to handle combined wireless interfaces. Baker put together a second round of funding in mid-year to raise \$20.7m, to supplement \$6m raised in the first round from Celtic. He is pleased that the second-round funders are in Silicon Valley and had the pick of Acorns to invest in.

'When we came across the right crowd they were fair-minded, but argued for a good deal. They will leave us to run the business,' says Baker.

The news that Intel is to enter the market in the summer of 2003 will prompt a degree of uncertainty and doubt, but Baker says: 'This shows we are in the right market because people want to enter it.'

Synad will keep ahead by adding features. It already has silicon back from its fabrication partners being tested by potential customers.

'These pilots are real engineering projects, which should turn into orders by the first quarter of 2003, or even by the end of 2002,' he says.

### eXant Software

eXant Software is also facing another industry heavyweight - Microsoft. Redmond has gobbled up Great Plains and Navision to build a portfolio of enterprise resource planning products for SMEs.

Kevin Jones, eXant founder, cut back on his development projects when he discovered that New Zealand company Olympic Software was ahead with developments in the same areas. Now eXant can bundle and sell Olympic's software in the rest of the world outside New Zealand.

Jones, like many other Acorns, is adding value to existing products. Three of eXant's five worldwide sites are already trading in the black, but overall eXant is still in the red, on a turnover of £1.5m.

'By the end of March 2003 there should be no red on the profit and loss account month-on-month. If we achieve that, I shall be overjoyed,' says Jones.

## Computing helps raise the profile of our startups

Computing's Oaks & Acorns series has raised the image of companies in the eyes of potential customers, investors and suppliers.

'We had a lot of good conversations with venture capitalists (VCs) as a result of the profile,' says Chi Nguyen, chief executive at Procomsoft. Some of these VCs renewed their contact as a result. And, a week after publication, there was a blip in web site hits. 'It also gave me a boost of confidence,' he says.

The profile of Alamy prompted prospective IT suppliers to contact the company, says chief executive James West.

Dat-Lab became more recognisable in the market as a result of Computing says marketing director Mike Boreham. 'It helped to give us credibility,' he says.

And the profile of alternative database technology vendor Alterian prompted some potential customers to contact it for talks, says chief executive David Eldridge.

If you are involved in a UK startup, contact Richard Sharpe at [rsharpe@cix.co.uk](mailto:rsharpe@cix.co.uk)



THE UK'S GROWING IT INDUSTRY