

Start-ups keep heads above water

There is help for high-potential start-ups in Munster which are trying to overcome the difficulties of the recession, writes **Caroline Allen**

Job cuts in multinationals are having a positive, knock-on effect on IT start-ups in the Munster region, as ongoing difficulties in the telecommunications sphere have seen a raft of highly-skilled candidates come on to the market, boosting related start-up activity, according to Paul Healy, manager of CIT's Rubicon Centre.

Donagh Kiernan of Maidsfield Associates said there had been a rise in the number of new Cork companies offering IT solutions for the energy and environmental markets. These include Mallow firm ResourceKraft and Mahon start-up ServusNet Informatics.

Business process outsourcing is another growing sector in Cork, with local companies Abtran and SouthWestern both performing well.

There has been a noticeable trend toward business process software and compliance software, with more people coming out of jobs in both the pharmaceutical and financial sectors.

"Web-based solutions are also popular, as people see the success stories," Healy said.

External finance

Cork Business Innovation Centre (BIC) works with 30 start-ups annually, 70 per cent of which operate in the IT sector.

Michael O'Connor, chief executive of BIC, said that the availability of external finance was an increasingly important issue, as more entrepreneurs were setting up in business with fewer savings. He said that initiatives like The Business Angel Partnership proved the importance of early-stage funding in driving momentum at start-up stage.

The partnership matches private investors with pre-screened investment opportunities in start-up, early stage and developing businesses.

O'Connor said the partnership had facilitated 26 deals in Ireland since 2006, six of which involved start-ups based in Cork.

A total of between €6 million and €7 million in private equity was raised, he said.

"This triggered nearly double that amount in external additional equity, be it third-party investors, venture capitalists or Enterprise Ireland," he said.

"There is a leveraging effect, which is usually very powerful."

Funding hurdle

Healy said high-potential start-ups faced a major funding hurdle, regardless of their commercial viability over the longer term.

"Public funding through Enterprise Ireland and the enterprise boards is still available, but first round funding from the three 'Fs' – family, friends and fools – is much harder to get, while private investors and the banks are not there to the same degree as in previous years," he said.

Healy said that the shortfall was forcing some entrepreneurs to take on short-term contract assignments and consulting work in order to support their own fledgling enterprises.

"A lot of companies are bootstrapping it, building up the company as they go, in organic growth," he said. "Whereas in the past, if they had the investment, they were able to expand their workforce, it is now taking them a lot longer to achieve growth."

Long-term success

Cork BIC supports an average of between nine to 12 start-up businesses per year. Of these, O'Connor said that about 85 per cent continued to trade after their first five years in business.

"From these, half grow to be significant companies. Finance is there, but it is harder to get," he said. "IT companies are increasingly looking for private equity funding for their growth, driven by the need to have better cash resources to ride out the recession and the lack of funds available at present from the banking sector."

Business angels

O'Connor said that the continued volatility in the stock markets and the downturn in the property market meant there were a greater number of business angels looking to invest in new businesses.

"Business Expansion Scheme [BES] funding tax relief, while better than three years ago at €150,000 per person, compared to €31,750 per investor, is still difficult to get, because there is a complex administrative process," he said.

"I believe we will see more private individuals going into the start-up equity market, because there are fewer investment options.

"By investing in a number of companies, they can diversify the risk of their portfolios and also get tax relief. Rather than trying to pick a winner, they can aim to pick a range of winners, with some doing better than others."

Follow-on support

Conor O'Neill agreed that funding was often a major barrier for start-ups, particularly those attempting to set up within the last six months.

O'Neill is behind Cork OpenCoffee, an informal network for entrepreneurs which meets twice monthly. Start-ups involved in the initiative come mainly from the technology sector.

"We have been right at the coalface with the shutdown of Motorola two years ago, moving on to see a growing cluster of IT companies coming through the Genesis Enterprise Programme and continued start-up support from it@cork and Cork BIC in the National Software Centre," said O'Neill.

From his work on the community site Web2Ireland.org, O'Neill said that there was a good funding climate for IT start-ups during the early incubation phase, supported by both Enterprise Ireland and the county and city enterprise boards. It is the in-between stage – where companies seek additional finance to grow to a point where they can then attract venture capitalists – that causes more problems.

"There is a gap in the middle and what we see happening, which is quite upsetting, is that people are getting started with good products, but then they run out of money and sometimes have to go back to the day job or contracting," O'Neill said.

"I have seen cases where people ran out of time and money, and whose skills weren't very saleable on the local market, having to go to the UK. There is minimal early-stage funding in Ireland once you go beyond incubation cen-

tres, Enterprise Ireland feasibility or CORD grants. In the €50,000 to €200,000 range, there is nothing unless you are lucky and know people, or can find a business angel," said O'Neill.

Revenue driver

On the flipside, Kiernan said that the lack of follow-on finance forced start-ups to focus on revenue generation at a very early stage.

"Reduced funding is forcing people into the market faster for customer revenue, which is not necessarily a bad thing – they are learning faster from the market," he said.

Martin Doyle, regional director, south and south-east, Enterprise Ireland (EI), said that more than 70 people attended two entrepreneur recruitment seminars held by EI in Mitchelstown in February and Charleville in April. He said that the turnout showed the high degree of entrepreneurial interest in the Munster region.

"The environment [for start-ups] is quite good, with evidence of a lot of spin-outs from third level," said Doyle. "People are exiting from larger multinationals with significant redundancy payments, and have money to invest themselves.

"We have engaged with CIT, UCC and the Tyndall Centre over the last number of years. Enterprise Ireland tends to try to overfund companies to allow for slippages and cashflow issues.

"We have put money into start-up venture capital companies – Kernel Capital and Enterprise Equity and others throughout the country – whose raison d'être is to invest in new start-up enterprises, primarily in the IT sector.

"We sit on their boards and contribute to their capital base. In the last five years, they have all made 48 investments in Cork and Kerry."

Government contracts

Pat Lucey and Colum Horgan established project management company AspiraCon in May 2007, when they lost their jobs following the closure of Motorola's Cork facility. Lucey believes the Irish government could do more to support indigenous companies trying to sell into local authorities and government-funded organisations.

"A lot of tenders are awarded to international companies, when there are viable alternatives being offered by very competitive Irish companies, many with the backing of Enterprise Ireland. This has a knock-on effect right through to the smaller companies that supply them," he said.

Enterprise programme

Despite the turbulent economic situation, it is an opportune time to start a new business, according to Denise Kennedy, manager, Genesis Enterprise Programme.

A 12-month rapid incubation programme, Genesis has supported over 170 entrepreneurial teams and individuals to set up in business. Fifteen companies have completed the programme so far this year.

"Businesses are now focused on optimising their performance, so are open to change and looking for better ways of doing things. For a start-up coming in with a new

offering, potential customers are willing to give them a hearing today," Kennedy said.

O'Connor said there were plenty of potential investors looking out for viable start-ups. "There are significant opportunities, as organisations are all looking for cost savings. Start-up firms are agile, lean and mean. A recession produces disruption – and disruption presents opportunities."

Active market

Catherine Wall, programme manager of it@cork, said that the local market for IT start-

ups was very active. The it@cork programme had 280 corporate members and represented thousands of

technology professionals, she said.

"It is very much about creating a community of IT profes-

sionals in Cork – we do that through a range of initiatives, including social networking," said Wall. "We provide a plat-

form for businesses to meet and do business, and help promote their companies through our website and newsletters."