

# DATA & BUSINESS

**Richard Anton** warns about the investment fads in the technology sector — and how to avoid them

**T**HERE has never been an easier time to start a technology company, especially a software firm. But as more start-ups are springing up than ever before, the industry is falling foul of bubbles and fads — and investors are taking riskier bets.

As an investor who has seen a lot, I believe that these potential banana skins can be sidestepped, and true value can be found.

The state of play as it stands is this: it is far cheaper to develop software now than in the past, due to the rise of cloud-based technology and readily available third-party software components. Companies sell what they build on a subscription basis — a business model called software-as-a-service, or “SaaS” — which itself marks a secular change in the industry. And there is now more longevity to each use of software, and a closer relationship with each customer because of that.

As a result, there's a need to get more funding, because of the absence of a large upfront licence fee.

Enterprise software businesses look different to their predecessors, and the reality is that software is still eating the world. Industries that have started to be transformed by SaaS include workplace communication (Slack and Zoom), process automation (UIPath), and insurance (Lemonade).

But the nature of these businesses encourages heat. The sheer size and scope of the software market today means that there is more noise and ferocious competition.

Invariably, then, there are sectors that are now too hot — where more money than is needed is pouring in and where there are too many suppliers relative to the number of customers. It has become top-heavy, and something's got to give.

Cyber security is also at risk. It is a vital sector and growing really well, with new problems to be solved materialising every day. But there are now a huge number of companies that are not sufficiently differentiated in terms of product or technology.

The same is true of fintech. This is a crucial industry for the UK (arguably, it is several industries) but valuations are being pushed up to dizzying levels, particularly in the consumer-facing part of the market.

These are just two sectors in which we believe that we are seeing bubbles. And of course, bubbles invariably burst, which means that there will be many losers and a few winners — unfortunate for some investors, but not all, and a necessary function of markets.

What differ from bubbles, however, are fads. A recent example is cryptocurrency, while past instances include new operating systems, mobile search, or dedicated mobile virtual network operators.

The difference between a fad and a bubble is that, when approaching the former, people can be completely blind to the associated problems and how insurmountable they really are.

With crypto (and I distinguish between

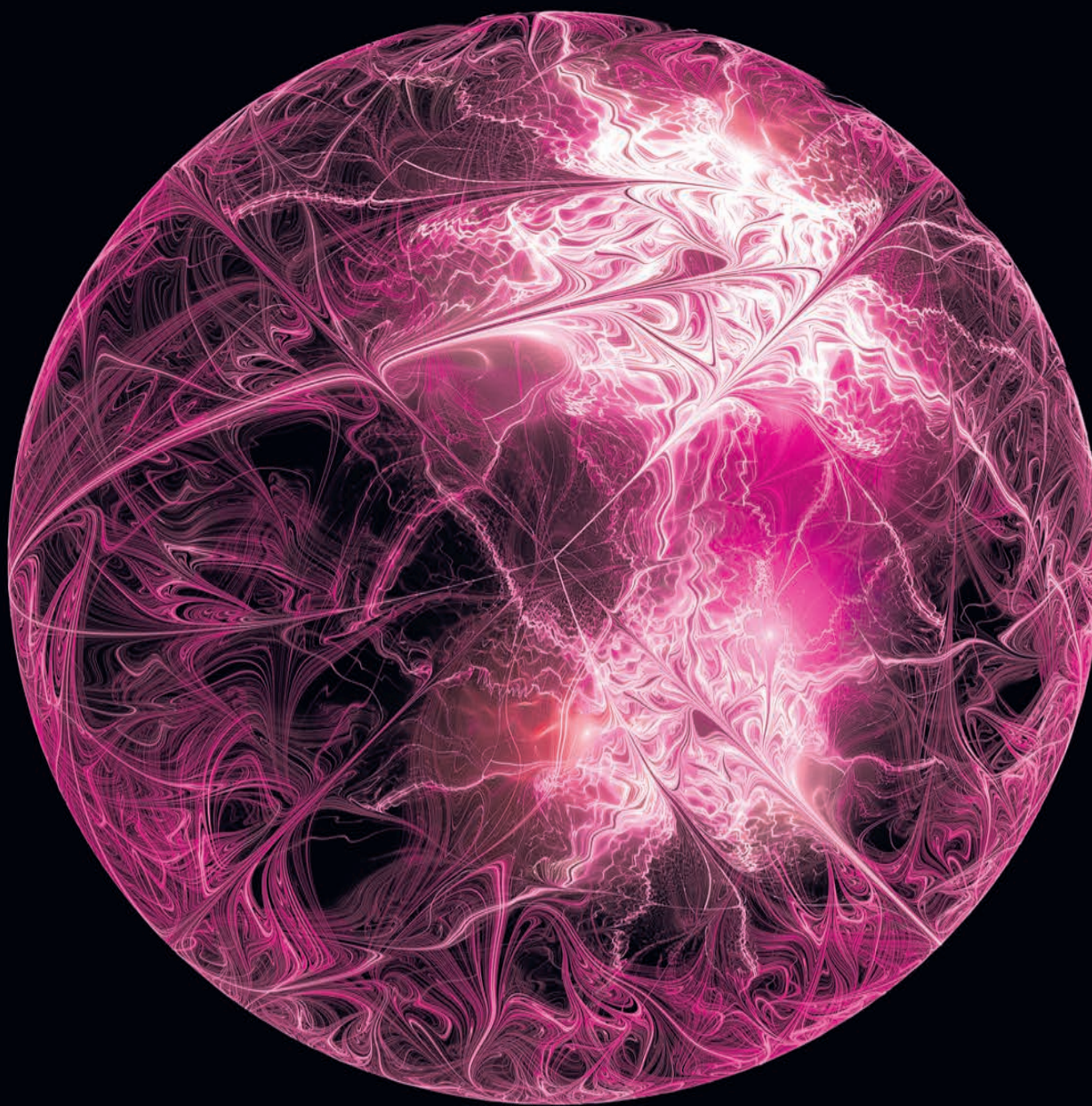
cryptocurrency and blockchain, which has other promising applications), those problems include speculation, theft, and fraud.

Avoiding bubbles or fads is not going to be the strategy of every investor — they can, by definition, provide upside.

But we believe that there are a plethora of worthwhile software companies that are building valuable plumbing across a wide range of markets: categories like web infrastructure, go-to-market applications, developer tools, HR, retail and travel tech.

These are the companies where real value lies: those that are building the

# BLOWING DIGITAL BUBBLES



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systems that underpin a larger market or opportunity.

If you're looking for examples of companies that fit this brief, take Ometria, which enables retailers to match shopping experiences to customer needs.

Another example is Eloomi, which enables large businesses to deliver tailored learning and performance tools to their teams. Paddle is third — it provides a commerce platform for all SaaS companies.

In the same vein, Funnel (full disclosure, my company Oxx has invested in this business) uses the cloud to aggregate and standardise marketing

data for companies.

We often assume that software has already been implemented in places where it makes complete sense for it to be, such as automating job application processes, improving project management, or in online NHS GP portals. But in many places, this simply is not yet the case.

Actually, we are only at the start of software's global meal — there are plenty of corners of the economy waiting to be rebuilt.

Richard Anton is a founding partner of software-focused venture capital fund Oxx VC.