



## Europe's Next Net Giants?

### *Will web 2.0 give Europe's startups a second chance?*

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It's feeling like 1999 again in Europe. Hopeful young entrepreneurs are deserting consulting jobs to start Internet companies with funny-sounding names. VCs are initiating bidding wars for companies that appear to shoot out of nowhere. Could it be the "next bubble?" And will the few good companies move to the United States, denying Europe a technology success story once again?

Not if Europe's next-generation Internet entrepreneurs have their way. A group of seasoned entrepreneurs—many who earned their stripes before the dot-com crash—are launching Web 2.0

companies. But instead of throwing lavish parties and "upping the burn rate," these CEOs brag about organic growth and viral marketing. Many keep their costs down by making use of user-generated content and open-source software. Startup talent is tapped wherever they find it, in a kind of distributed employment model.

**'After Skype and FON it is pretty sexy to have a European portfolio.'**  
**-Jan Joost Rueb,**  
**eBuddy**

What's also different this time around: a number are already making money, and have gotten there without venture financing. "When we could have used the funds, no one wanted to help," says Lorenz Bogaert, CEO of Incrowd Media, a social networking company based in Aalst, Belgium, that says it is profitable. "Now we just say 'No' to VC."

But VCs don't want to be left out in the cold, especially since the spectacular sale of Skype to **eBay** in September 2005 in a deal valued at \$4.1 billion. After a long dry spell, they are once again starting to fund consumer Internet companies in Europe. The numbers aren't expected to reach anywhere near 2000 funding levels, when private equity investors poured more than \$11 billion into 1,566 European Internet-related ventures, according to **Thomson Financial**. Last year, only 455 European Internet companies received funding of approximately \$1.4 billion, and this year's funding pace doesn't appear to have quickened: through the first half of 2006, VCs made 57 investments totalling \$273 million, according to Thomson.

Investments in the last six weeks under-score the growing interest: Companies funded include Finland's Sulake, the firm behind online virtual hotel site Habbo Hotel, which raised €6 million, and Stardoll, a community for playing with paper dolls in cyberspace, which received €6 million. Index Ventures has been particularly active; besides co-investing with Sequoia in Stardoll, the VC famous for its backing of Skype recently made undisclosed seed investments in Last.fm, a social music network, and Netvibes, a provider of personalized home pages. Accel Partners led a €9-million investment in travel search engine Kayak.com as well as a €12-million second round in WeeWorld, which allows users to create digital identities. Wellington Partners, Benchmark Capital, and 3i are also funding Web 2.0 firms.

Only a very few of these bets will pay off, of course. "Some people talk as if everything Web 2.0 is sexy and successful, but like in the late 1990s, there will be a few big eBay-type successes and 90

percent will fail," says Olivier Protard, a general partner at Paris-based Sofinovva Partners. "Even those with large numbers of users are often not able to monetize their audiences."

But those who are aggressively investing, such as Index, say they believe business models that combine advertising revenues and premium services will prove to be worth banking on.

And European companies have just as much chance of making it as their U.S. counterparts, says Index partner Danny Rimer, who believes "this is an unusually good time to be investing in Europe."

Europe's Web 2.0 companies will have to compete fiercely with U.S. competitors and bright ideas from Bangalore or Shanghai. But the old world's Internet entrepreneurs are addressing the challenge by putting their own international twist on business models.

For example, Belgium's Incrowd and France's Kewego do not want to ape their U.S. counterparts such as MySpace and YouTube by connecting users into one large network, but instead plan to adapt their platforms to the local language and habits of Europe's many subcultures.

Being in Silicon Valley is no longer a must, says Mr. Rimer, leveling the playing field for European companies that want to go global from Europe.

Germany's Plazes, which combines aspects of social networking with the "presence" features of instant messaging, counts itself among the stay-at-home group. "We have skilled, highly trained engineers here," says Felix Petersen, co-founder of Plazes, which attracted seed funding from Netscape co-founder Marc Andreessen and FON CEO Martin Varsavsky.

And there is one more factor to consider. Venture capitalists have a new reason to shop around for consumer Internet plays on the Continent: "After Skype and FON it is pretty sexy to have a European portfolio," says Jan Joost Rueb, co-founder of Amsterdam based eBuddy, a web application which enables users to chat with their MSN, AOL, or Yahoo buddies without having to install any program or Java applet.

After canvassing entrepreneurs, investors, and veteran industry observers, *Red Herring* compiled a list of 11 promising next-generation Net entrepreneurs in Europe. Some are already well-funded, others are still in early stages. All offer intriguing possibilities for both their investors and customers. They are from all over the Continent, from Norway to Hungary to Spain, suggesting that the new Internet wave is truly pan-European.

## GOING DUTCH

Mr. Rueb, 34, and co-founder Onno Bakker, 37, who are trying to raise a first round of venture capital financing to expand eBuddy, met and became friends in 1995 while both were completing internships at IBM in the Netherlands. After a series of jobs, the duo decided in 2003 to use their own funds to start New York City-based numberportability.com. The idea was to help people get the best deals when changing carriers.

The partners still own and operate the company, which ditched its old business model to become a storefront for a mobile phone reseller. While in New York, Mr. Bakker reconnected with a former colleague, an inventor named Paulo Taylor at Dutch unified messaging service provider Xoip. Mr. Taylor was working on a way to get MSN Messenger onto a phone without downloading software. Seeing the possibilities, the Dutch entrepreneurs decided to form a company with Mr. Taylor. They first called the company emessenger and have since renamed it eBuddy. They moved back to Amsterdam in 2004.

eBuddy, which formally launched on May 1, 2004, and is already profitable thanks to advertising revenues, claims it is growing by as much as 100,000 users a day. The company beat the U.S. venture-backed Meebo to the starting gate and has more clients—some 30 million—including many outside of Europe. About 40 percent of its registered users are in Europe, 35 percent in Latin

America, 10 percent in Asia, and 15 percent in the U.S. and Canada, says Mr. Rueb. Most use eBuddy via a web browser on their PCs but the company already offers mobile phone service to 3 million users and is hoping a new, more user-friendly mobile application will cause those numbers to explode.

## TRADING PLAZES

German natives Mr. Petersen, 30, and Stefan Kellner, 37, met while working at the Cologne-based multimedia agency Antwerpes & Partner as creative directors. In mid-2004, they quit and started working on Plazes, a software program that identifies a user's location either via a router connected to the Internet or their IP address. Users who register and download Plazes software can be automatically located and connected to other nearby Plazes users. The software determines not only what city other Plazes users are in, but whether they are at work, home, or at a conference.

To date, they've raised an undisclosed amount from business angels, including Mr. Andreesen and Mr. Varsavsky. Now Plazes, which currently has about 25,000 users, is seeking venture funding to help develop its application into a mass-market product. It is beta testing a version of its software for mobile phones, which will open up the possibility of finding Plazes friends anywhere, and is working with FON on a service to give users info on the nearest Wi-Fi hotspots.

## FRENCH TWIST

Kewego, a web-based technology platform for television and video services, is the second company launched by French entrepreneurs Michel Meyer, 34, and Olivier Heckmann, 35. They met in Silicon Valley in 1995 and teamed to start an online magazine called The Virtual Baguette, an irreverent view of France that was an instant hit with Francophiles.

The two returned to France in 1996, and with the help of funding from French venture capital firm Sofinnova, launched MultiMania, a web-hosting site that became the third-largest site in France, just behind France Telecom's Wanadoo and Yahoo. MultiMania, the first Internet company to go public in France, was 112 times oversubscribed. The company, which had a market cap of €250 million at the time of its IPO on March 9, 2000, was worth double that at its peak. MultiMania was taken over by Lycos in 2001 and Mr. Meyer became director of Lycos France, and Mr. Heckmann took over web page hosting for Lycos Europe.

A little over a year later, Mr. Meyer decided to take a year off. Mr. Heckmann followed suit. Both became restless and decided it was time to create Pulsevision (now called Kewego) in 2003. Kewego has already acquired two companies, Grenoble-based Tedisys, which specialized in digital signage systems and local television, and Paris-based Pooxi.com, a web site that, like YouTube, allows users to upload, view, and share video clips.

Kewego is targeting three markets: the online creation of local TV ads—it has already sold 600 campaigns on 18 channels in France, Switzerland, and Germany (SpotRunner offers a similar service in the U.S.); the creation of digital signage, for advertising or corporate TV, with clients such as Airbus and Nestle (U.S.-based Scala is a competitor on this service); and, finally, a service allowing consumers to view and share videos.

If Kewego were based in the U.S., investors would tell it to focus on just one of the three areas, says Mr. Meyer. But that would be a mistake in Europe, he argues. The company's ambition is to become pan-European, but the market is so fragmented and the approaches required so different that it would take too long and be too risky to bet on just one of the three. Hence the French twist: Go for a hat trick.

In April, Kewego raised €5 million in venture capital from French firm Banexi Ventures Partners. Kewego has just opened a Berlin office and plans to roll out its services across five other European countries between now and the end of the year, says Mr. Meyer.

## SCHOOL OF HARD KNOCKS

German native Lars Hinrichs, 29, says his education at the "school of hard knocks" has helped him

build OpenBC, a social networking company geared to business people. In 1998, he turned down a chance to attend an elite German university, instead preferring to start politik-digital.de, a site aggregating German election news and hosting live chats with politicians. Then came the boom years, with the meteoric rise and rapid fall of Böttcher-Hinrichs, the venture capital-financed multimedia agency he co-founded, which went bankrupt in September 2001, following the tech market crash.

Undaunted, in 2004 he founded OpenBC. But this time Mr. Hinrichs did it with his own cash, vowing not to depend on outside funding. Before he got angel funding, Mr. Hinrichs financed his company by charging premium users €72 (\$88.36) upfront for the service and then €5.95 a month. Today about 10 percent of OpenBC's more than 1 million users pay the annual fee, and while the company is not profitable due to recent expansion, Mr. Hinrichs says the social networking site generates enough cash to operate comfortably. OpenBC is using a 2005 \$6.9-million investment from Wellington Capital and business angels largely to fund acquisitions.

OpenBC offers its software in 15 languages, including Spanish, French, Russian, Chinese, Japanese, and Korean. Although growth in China is rapid, the company is still much stronger in the German-speaking realm than elsewhere (it doesn't give a market breakdown). That's something Mr. Hinrichs says he is trying to rectify with an acquisition.

### EUROPE'S INCROWD

Incrowd Media's Mr. Bogaert is also addressing multiple markets, but he doesn't want to raise venture capital to achieve his goals. "European entrepreneurs have learned their lesson with VC liquidation preferences," he says. Incrowd runs social networking communities in Dutch (Redbox & Obox), Spanish (Gentebox), French (Coolbox), German (Iobox), and English (Bingbox).

A former freelance telecommunications consultant, 30-year-old Mr. Bogaert co-founded Incrowd with Toon Coppens, 24, who cut his teeth as an entrepreneur by starting a social networking site in Belgium in 2000 called ASL.TO (later renamed Redbox). When Incrowd got its start in 2003, the founders tried unsuccessfully to get seed capital from regional VCs. "The Belgian government preferred to give seed funding to a pizzeria in Brussels over an innovative company in the Internet industry," gripes Mr. Bogaert.

The pizzeria, he notes with satisfaction, is now bankrupt, whereas Incrowd is debt-free and, he says, thriving. "We know how to run a profitable company," he says, although he won't give financial details. Incrowd finances itself through advertising deals.

The number of registered members in its communities has steadily risen to 7 million, with 100,000 new users per month. Regional uptake has varied; in Germany, Iobox has drawn only 300,000 users since its launch in February, whereas Spain's Gentebox attracted 3.5 million users after only six weeks. Bingbox, an English-language community, attracted 500,000 members worldwide within two weeks, leading Incrowd to quickly strike a deal with U.S. online advertising agency Casale Media.

Incrowd's rivals include Stockholm-based LunarStorm, which has communities in Sweden, the United Kingdom, and Denmark, and Berlin-based StudioVZ, a German equivalent to Facebook that claims over 100,000 students in Germany, Switzerland, Austria, Denmark, the Netherlands, Luxembourg, and Hungary.

### PERSEVERANCE PAYS OFF

Timing may be everything, but as 34-year-old Swedish entrepreneur Jörgen Bertilsson has learned, perseverance can also pay off.

Mr. Bertilsson, who now runs a budding e-commerce software maker called Incordia, started his first venture at 13, developing games with two friends for Commodore and Amiga computers, a hobby that turned into a lucrative business. Later, while he was studying engineering at Kalmar's Institute of Technology in Southeastern Sweden, he founded Berima Trading, a company that

imported Asian computer peripherals. Mr. Bertilsson says he sold the profitable company to a friend for €50,000 in 1991. After that, he focused on investing his own money in the then-booming Swedish stock market, passing his own tips for high-tech investing along via a web site, aktiespek.com.

Until that point, Mr. Bertilsson's timing had always been near-perfect. But when he launched his third company, Incordia, in 2000 just as the technology bubble was bursting, it looked like the lucky streak was ending. "The timing was really crappy," he recalls, "but we thought we had a great product and forged ahead." Managers had to forgo salaries, but by 2001, the company had won several large customers, including the Swedish Yellow Pages and telecom operator Tele 2, which today uses Incordia's products to allow its customers to order a new cell phone or sign up for broadband services via the Net.

Incordia currently has 1,000 customers in Scandinavia, 20 employees, annual revenue of roughly €2 million to €3 million and profits of about €500,000—all achieved without a penny of venture capital. The company is now looking to expand into Germany, the Netherlands, and the U.K.

As for Mr. Bertilsson, he is already plotting his next venture, and looking for a replacement for himself as CEO. "Whenever you're creating a new company you learn a lot," he says. "It makes me want to take what I've learned and do it again better and faster."

## **EAST MEETS WEST**

Having built and sold a successful social networking business in his own country, Hungarian native Peter Petrovics is now looking to expand his company iwiw into 13 other markets. A former IT consultant with Unisys Hungary, Mr. Petrovics, 30, left the corporate IT environment in 2000 to start IT services company Virgo Systems, alongside Attila Szantner, 33, and Akos Gordon, 30, gaining customers such as the Hungarian Post and telecom operator Matav. Mr. Petrovics used the profits to help fund iwiw, a Budapest-based social networking site he started with software developer Zsolt Varady in 2003, at a time when social networking software wasn't all that well understood.

Mr. Varady left the company and since then Mr. Petrovics and two other partners have rehailed iwiw's software to make it more scalable and easier to use and translated it into 13 other languages. Subscriber growth has taken off, with some 760,000 users signing up since the October 2005 relaunch, says Mr. Petrovics. Using advertising deals, the company already turns a profit, and about 15,000 users log on daily.

Mr. Petrovics recently sold the company to T-Online's Hungarian subsidiary for €4 million. But he only sold the Hungarian version, and kept the rights to the iwiw software for the other 13 languages he developed. Now he has plans to launch iwiw in other European countries.

## **SUNSHINE, AND WINE**

Seasoned entrepreneur René Lönngren's venture is already pan-European. Mr. Lönngren, 34, who was born in Norway but carries a Swedish passport, emigrated to sunny Barcelona in 2002 for lifestyle reasons. But before he knew it, he found himself starting up Le Cool, an online publication geared to hip young trendsters who want to know where to go out in Barcelona, Madrid, Lisbon, Amsterdam, and London.

Mr. Lönngren wanted to keep costs way down, well remembering not only the bankruptcy of Filibaba.com, his Stockholm-based online food delivery service in 2000, but a lot of closed doors for his ideas after that. "They [venture capitalists] would say, 'we don't do Internet,'" he recalls.

Mr. Lönngren developed a simple program based on MySQL that allowed him to simplify and speed up the online layout process. And since there isn't a physical magazine, costs are very low.

Mr. Lönngren was astounded by how fast the magazine grew. Today Le Cool has 60,000 subscribers, representing a 150 percent growth rate since it was launched last year.

Advertisers have taken notice: he claims the magazine turns a profit, and expects to triple revenues from advertising to about €300,000 by year's end. Like other Web 2.0 companies on the Continent, Le Cool has its own European twist. Forget fueling employees with pizza and Red Bull Americano style. Says Mr. Lönngren: "We like to take a two-hour lunch and drink red wine."

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