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London's Tech City Start me up

A cluster of start-ups in east London is thriving. All they need now is a big success

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TO SPAWN the next Facebook or Twitter, first launch a start-up contest. Promise the winner a sizeable equity investment, say £1m (\$1.6m), and let firms from all over the world compete. Among the entries there will surely be a hit. This is the idea behind the Million Pound Start-Up competition put together by Digital Shoreditch, an event organiser. More than 1,000 hopefuls from 77 countries have signed up.



The contest's selection process may prove overly complex (it involves crowdsourcing, an algorithm and a jury), but the experiment underlines an important question for Tech City, London's burgeoning start-up cluster: can a few hundred exciting but mostly small start-ups produce a flotation worth billions of pounds or a headline-grabbing sale to a big firm?

Tech City needs such "exits" to become an entrepreneurial ecosystem in which success begets success: newly enriched entrepreneurs become investors themselves, offering not just money, but experience. So it is good news that King, the London-based maker of popular casual online games such as Candy Crush Saga, has filed for a flotation.

The proliferation of start-ups is impressive. An online map showing their location in the area around the Old Street roundabout in east London and neighbouring districts boasts hundreds of dots (although it includes design studios and the like). According to a study by Start-up Genome, a consultancy, London leads the pack of new European start-up scenes in, for instance, entrepreneurial mindset and support.

Dozens of co-working spaces have sprung up, with Google's Campus the best known. Accelerators (start-up schools) and similar organisations, such as Passion Capital, Seedcamp and Techstars, abound. The cluster is also growing geographically. Canary Wharf is now home to Level39, an incubator for fintech (financial technology), smart-city and retail ventures.

Like new ecosystems elsewhere, Tech City has benefited from an important trend: it has become cheap to create start-ups, thanks to technologies such as cloud computing and free

software. But London was able to move faster than other European cities, notably Berlin and Paris (see [article](http://www.economist.com/news/business/21587209-vigorous-start-up-scene-has-yet-produce-its-first-big-breakthrough-slow-climb) (<http://www.economist.com/news/business/21587209-vigorous-start-up-scene-has-yet-produce-its-first-big-breakthrough-slow-climb>)). The first internet boom has left it with experienced entrepreneurs. Language and lifestyle make the city a magnet for ambitious young people from abroad. It has also helped that Britain's government identified these strengths early—but was not tempted to intervene. Instead, Rohan Silva, until recently a policy adviser at 10 Downing Street, organised regular breakfasts for entrepreneurs, investors and others, which yielded tangible results. A generous Seed Enterprise Investment Scheme reduces the risk of losing an investment in start-ups—in some cases to zero. Additionally, the government has introduced a special visa for entrepreneurs and created the Tech City Investment Organisation to market the area abroad.

Tech City has already produced some promising operators. In 2007 Last.fm, a music website, was acquired by CBS Interactive, the digital division of the American media giant, for \$280m. A dozen other firms are seen as promising. Other than King, candidates include MOO, an online printing business, Mind Candy, another online-gaming firm, and Wonga, a short-term lender that is also an interesting fintech firm.

Yet Britain still makes it hard for start-ups to grow. “We have 100 vacancies, but we’ll be fortunate if we can fill half with hires in the UK,” says Errol Damelin, the boss of Wonga. Often talent has to be imported from America or elsewhere, but immigration rules for hires from outside the European Union are still “extremely cumbersome”, he complains.

Although most leading European venture-capital (VC) firms are based in London, financing is another barrier. Not least thanks to the new tax breaks, raising the first few £100,000 or a couple million to get a start-up off the ground has become easier, but subsequent rounds of financing are harder to come by. “Great firms will always attract enough funding,” says Robin Klein, a partner at Index Ventures, a big VC firm in London. Others argue that there is simply not enough capital to go around. Although the number of firms to get seed financing is not much lower in Britain than in America's Silicon Valley, a much smaller share of firms manage to raise money for expansion, explains Simon Cook of DFJ Esprit, another British VC firm.

The government has prodded the London Stock Exchange to make it easier for fast-growing firms to list: they now only need to float 10% of equity, instead of 25%. The government has also launched a programme called “Future Fifty”, which will allow 50 firms each year tailored support to help them expand. Immigration rules may be the next target. One idea is to let experienced executives and engineers apply as “exceptional talent”, as artists and scientists can do.

Deepening the pool of venture capital is vital. The prime minister's office recently hosted a “growth finance group” of investors. One suggestion was to modify rules for tax deductions, so that individuals can invest in venture funds to save taxes—and not just in companies.

Yet there are no guarantees that London's Tech City will produce a Facebook-like success soon. “The ecosystem itself is still a start-up. And it takes time for it to grow,” warns Hussein

Kanji of Hoxton Ventures, a VC fund in London. Patience is warranted, but Tech City looks like it is taking the right steps to becoming a self-sufficient ecosystem—a sort of Silicon Valley with an East End twang.

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