

Internet Week in New York: patterns of transformation

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For those of us who follow the media sector, and some of us who are New Yorkers in finance, the past week was an inspiring and refreshing change of pace on many levels. This was the time that the second annual Internet Week came to town, and brought with it its myriad of digital media entrepreneurs, venture capitalists and other investors, reporters and bloggers, and other parties of interest to fill out an enormous cast of attendees all around. This was a time to forget that the media sector has been challenged by reduced advertising budgets and consumer spending, that Wall Street has been stifled by record low transaction volumes and the disappearance of whole firms, and that venture capital is being eulogized while still living. Instead, Internet Week brought with it a tremendous variety of new business ideas, open dialogue, and a level of energy that served as a reminder of the potential that still very much exists. Some notable trends stood out:

- Judging from attendance at business plan competitions, meet-ups, and similar events, it does appear that entrepreneurship is on the rise. This stands to reason as traditional employment opportunities have dwindled. But there are other underlying currents as well. For example...
- The entry cost of new enterprise has declined – aided not only by the Internet and increased broadband infrastructure, but more recently by cloud computing and systems outsourcing – and done so in many cases by whole decimal places.
- Although the need for millions of dollars in Series A, B, and C rounds has not entirely gone away, particularly to pay for rapid expansion and in some cases infrastructure, the proof of concept stage all the way up to the revenue generation stage can now be more than adequately funded with hundreds of thousands... or less.
- Whether millions of dollars are in fact needed after the business model is proven and revenue has begun ramping up, this really depends on the platform and the market opportunity. In many historical cases, the money was taken in simply because it was there, but this should now be a less

likely occurrence. Entrepreneurs seem to have learned from those lessons of equity dilution, loss of control, and exit pressures that may ultimately prove counterproductive, and are now treading more cautiously into venture capital territory.

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- For venture capitalists, the above presents a new dilemma. On the one hand, VC's general appetite for new investment has been cut by sub-standard returns, while, on the other hand, the entrepreneurial trends described could marginalize the VC function involuntarily. A number of Internet Week events, ranging from a "boot camp" at which prominent New York VCs sought to explain their perspective and investment rationale to a room full of entrepreneurs, to a variety of VC cocktail receptions around town, may be seen as an attempt by the venture community to remain front and center.
- Regardless, one of the very distinct business trends that manifest itself during the week's events, and one that should be welcome to the investment community, is an increased focus on revenue generation and the development of new platforms with very specific revenue-production orientation. Whether in the form of technology licensing, software as a service, B2B offerings, lead generation, or advertising optimization platforms, such entrepreneurial endeavors are very different from the audience building emphasis of social networks and similar platforms for which revenue plays a secondary role to visibility.

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With the above in mind, a couple of concluding remarks. First, there does seem to be a transformation of sorts underway. Revenue emphasis, tighter capital budgets, a lesser scramble for venture capital as an end-goal or "badge of honor", all these characteristics point to a possible maturation of the sector – not in the sense of business cycle but rather in terms of mindset – which can only be healthy. Secondly, it is worth commenting on the sheer number of novel ideas and entrepreneurs present at the week's events. This quantitative aspect alone, without passing judgment on the merits of individual ideas, speaks not only to the promising prospects of digital media as a sector, but to the potential emergence of New York as a center of industry evolution. Having for a long time been



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in the shadow of San Francisco, we are hopeful and anxious to see the trend continue, both as New Yorkers and as active digital media industry participants.

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