

Forum: High hopes of start-ups are often dashed

Compudigm joins a growing list of Kiwi tech start-up failures

By Rob O'Neill Auckland | Monday, 7 April, 2008

News this week that Compudigm, a local company that made data visualisation software for the casino industry, was in receivership is a sadly familiar tale.

The life of a start-up is incredibly difficult. First you have to have the idea and then you have to deliver. That gets you on the bottom rung of success. After that you have to be heard in the market. You have to make that difficult first sale. And then the second ...

Then you have to ensure your customers get top-notch service. And, all the time, you have to watch the competition.

If you have global ambitions — and let's face it we have to — the difficulties multiply further. Yes, technology does bring New Zealand closer to its markets, but it hasn't as yet eliminated the problems of distance.

Computerworld has stepped up its coverage of the development sector and of start-ups over the past couple of years. It's an exciting place full of creative people.

But all too often it ends in tears. Last year we covered the strange tale of display system company OpenEye, for instance, which appeared to implode without warning. We have also catalogued the offshore sale of several local tech companies for what seems like very small beer indeed.

Then there was the mess that became of Auckland-based Argent Networks.

The over-riding feeling is that it is extraordinarily difficult for local tech companies to gain traction. That leaves them without cashflow and in desperate need of further funding.

Quite simply, the cost of successfully launching a start-up appears to be much higher than their management anticipates.

There are bright spots out there though. Endace is doing very well after its UK listing, recently striking a deal with Reuters to sell its network appliance products. After some worrying moments, NZX-listed Xero Live appears to be hitting its numbers and is now active in the UK market.

More mature local companies such as Orion Health are happily signing international deals.

Often the technology a company builds lives on after the company fails and sometimes the development of that technology remains in New Zealand, but we have yet to see a true ICT success of significant scale emerge and stay in New Zealand.

In that context, a new "Nasdaq-like" technology market being launched in Australia could be very good indeed. While we would all like to see local techs list locally and be owned locally, the world simply isn't like that any more.

And an overseas listing is not the same thing as overseas ownership.

Whatever, it is clear our local techs need some kind of boost, whether from improved private finance or an eased path to successful listing or from further government programmes or structural changes.

But we also have to accept that start-ups are high risk. Most of them will fail.