

THE DAILY RECORD

ONLINE

"Maryland's Business and Legal News"

January 10, 2001



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Volume: 1 Number: 161_techlink January 10, 2001

Investors starting to look for returns from dot.coms

Local tech companies start to look at boosting bottom lines; begin layoffs to improve profits

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It's not just what you know...



Ellen Wiggins, the executive director of the University of Maryland Baltimore County Technology Center and Research Park., says investors are being more cautious with their money, looking for returns on their investments in dot.com firms.

Since the New Year, there's a distinct smell of paranoia in the air regarding dot-coms. Confident companies which hired at alarming rates a year ago are now **cutting large percentages of their staffs** -- while simultaneously claiming that all is well on the home front -- that this isn't a sign of nigh doomsday.

But with staples of the Digital Harbor like Advertising.com losing 25 percent of

its employees and Laurel's Cidera Inc. releasing a third of its employees, what seems like the sky falling is merely the settling of a hyperactive market and a response to demanding investors, according to industry insiders.

Both companies said the reductions in workforce were meant to spur profits to lessen the anxiety among investors who were starting to look for returns on their investments. In the early days of the dot-com revolution,

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money was thrown at companies well before the bottom line turned black — but those days appear to be ending.

"It's not a surprise that companies are being pushed on their path to profitability," according to Mitch Arnowitz, director of business development for Netpreneur, a venture of the Morino Institute in Reston, Va.

"Since the market's implosion, we've seen a steadfast move toward profitability" across the board, Arnowitz added. Investors are demanding returns, which means streamlining business plans and cutting costs.

"It's the natural evolution of business," Arnowitz said.

"The trend is that the on-and off-line worlds will continue to morph," since it's obvious that our dependence on technology continues to grow, Arnowitz said.

"Infrastructure is always important; software, hardware, telecommunications are all important."

Art Marks, a general partner at New Enterprise Associates, agreed customers are still around to support companies, but the demand isn't as great as it has been, a natural denouement in business.

"You're only as good as your customers. These companies must have some companies that are sustaining them," Marks said.

Marks said the tech industry is undergoing adjustments, making it just like any other industry instead of the new kid on the block.

Period of adjustment

The year 2000 was a period of adjustment, while 1998 and 1999 were years of fast-paced expansion and change, he said.

"1998 and 1999 were years of unusually rapid growth, and 2000 was unusual in its compression and destruction of wealth," he said. "Now the industry is adjusting for normal times. This was a market that was growing at an unprecedented rate, and it can't continue to grow as fast as it was."

"Venture capitalists are, with good reason, being more judicious. ..." - Ellen Wiggins

Last year, companies were hiring in advance of the demand, Marks said. This "aggressive effort" to gain

talented employees before the other guy was industry-wide and resulted in supersaturated workforces.

"The guy with the best team wins," said Marks of the business theory, and while companies still have business, the business doesn't compare to that of a year ago, hence the packed houses are now unnecessary.

And although the market is slowing, this isn't the end of profit as we know it. Marks attributed the slowdown to elapsed time and industry consolidation.

The inevitable process is "practical, pragmatic and explainable," he said.

Arnowitz agreed: "Good ideas are getting funded, and there are plenty of jobs for good people."

The commonplace dot-com death has resulted in employees needing a way to get new contacts and new jobs, and Arnowitz's firm, Netpreneur, recently hosted a Pink Slip Party to ease the blow for newly unemployed tech workers.

Held in mid-December, the party was "unfortunately successful" with over 300 job-seekers in attendance, from recently furloughed workers to employed folk who wanted to test the waters. The first of its kind in the region, the Pink Slip Party allows workers in the turbulent market to sympathize and network with others.

"I position this as a support-type group opportunity," said Arnowitz. "When people are hunting, or are in need, the community helps them." The event acted as a surrogate holiday party for ex-employees with no others to attend.

Next step

The region, however, will play a large part in the tech industry's success, said Ellen Wiggins, the executive director of the University of Maryland Baltimore County Technology Center and Research Park.

"Good ideas are getting funded, and there are plenty of jobs for good people." - Mitch Arnowitz

"Historically a lot of our tech students were looking to opportunities outside the region. What is changing is that there's a lot of activity within the region now," she said. With the region growing so rapidly, she said, it's becoming more attractive to students and retaining them post-graduation is picking up, she said.

"It's all starting to come together. Ciena, Aether Systems and RWD are moving so quickly, I think that it must be keeping more of our really good folks" in the region, Wiggins said.

But what about funding? With all the tanking dot-coms, are the money men being choosier than before?

Last year, a lot of venture capitalists were investing with the hope that the companies would do IPOs quickly, said Wiggins. Now those investors aren't seeing that big return right around the corner and are becoming gun-shy.

"Venture capitalists are, with good reason, being more judicious, but the future of Internet-related companies is very, very bright," Wiggins said.

Last year at this time, "anyone with a decent idea got funded," said Marks. Venture capitalists are now scrutinizing ideas.

NEA, for instance, chooses which companies to fund based on three criteria:

First, the idea must have the potential to change the way people act or think. Mediocre ideas are everywhere — good companies are revolutionary, Marks said.

Additionally, Marks said NEA looks for people they can work with no matter what, "through thick or thin."

Finally, the investors have to judge on a case-by-case basis whether they feel they can make the kind of returns they want from the investment.

Marks recommends that burgeoning companies try to find funding in places other than venture capitalists. It's important to create relationships with investors, he stressed, adding that it's not the guys that come to board meetings, but the guys you can meet over coffee that are the most valuable to a company.



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