

Smart Talk

Insights from
entrepreneurs

MATT BARRIE ON THE MAGIC OF INTERNET ENTERPRISE



Smart Talk is a weekly column by successful entrepreneurs about their daily challenges. This week, Freelancer.com founder and inaugural BRW Entrepreneur of the Year, Matt Barrie, shares why it's never been a better time to start a business.

● We live in a magical time if you're an entrepreneur. Thanks to technology, it's never been easier to start a company. It's never been cheaper, either.

Let's face it, every business today is an internet business. Try doing business today without a website and you're toast.

How will customers find you if you're not ranking highly in Google? If you're in retail but not selling online, you're in for a world of pain as Harvey Norman and David Jones are discovering as young upstart internet retailers such as Kogan come out of nowhere to eat their lunch.

One of the great things about starting an internet company is that a lot of the things you need to build it are free. Thanks to open source, the software that runs your web server is free. Database software is free. Operating systems are free. Even the software that powers your shopping cart is free. Email is free. Voice over internet telephony is free.

And what's not free is cheap. Domain names are cheap, your internet connection is cheap, cloud computing is cheap, payment gateways like PayPal are cheap. Buying ads to promote your business on Google or Facebook is also cheap. Even if you don't understand how this stuff works, you can hire freelancers to put it all together for you ... cheap.

Virtually all the software I use in my business is open source and free. We only need to pay for a few things – Amazon's EC2 cloud computing for our hosting, Akamai for our content distribution (which big websites use to be fast on all points of the globe). Apart from that we pay about \$10 a year for our domain name!

In our office, apart from our desktops, there's no network infrastructure. Our file server is a dinky little storage device we bought for a few hundred dollars from the local computer shop. Everything is in the cloud. You could burn down our office and it would have no effect on our business.

Today, you can literally start a company off the back of a credit card. This is why there's been a big transformation in venture capital in Silicon Valley over the last few years. When I started Sensory Networks back in

2001, a typical first-round financing for a software company was around \$5 million. By comparison, one of the teams that has spun out of the technology entrepreneurship class I teach at the University of Sydney is currently in the 2012 winter program of Paul Graham's Y Combinator, the rock star incubator in Silicon Valley. The total funding provided to each company? \$20,000! Why? Because \$20,000 will pay enough to put four guys in a room and feed them noodles for a few months. That gives you enough time to take your idea, talk to a few customers and get a website up. Turn that website on and suddenly you can reach two billion potential customers overnight.

At minimum Y Combinator hopes you can get to "ramen profitability" (the ability to pay for your own noodles from now on), but there's been quite a few stellar hits out of the program. Omnisio, a company started by a couple of friends of mine, went through the program and four months later sold for \$15 million to YouTube without any further financing. Even bigger hits include the ubiquitous cloud storage service Dropbox. Since completing the program, the company has raised a grand total of \$7.2 million. In 2011 it pulled in \$240 million in revenue, and today has a market capitalisation of over \$1 billion.

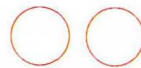
Across its entire portfolio, Y Combinator has invested a total of about \$5 million. At last report the total market capitalisation was about \$4.7 billion. That's the capital efficiency of the internet business model.

The speed at which internet companies can grow is also mind boggling – Facebook went from zero to 800 million users in eight years, Twitter from zero to 300 million in six.

Never before have you been able to scale revenue in a business so rapidly – look at RetailMeNot.com, the online coupon directory which took \$30 and a weekend to set up. The two Australian founders bootstrapped the business, and five years later were doing \$30 million in revenue, before selling out not long ago for \$90 million.

With the speed at which some new companies are growing revenue, we might one day soon see a company generate a billion dollars in sales within its first year!

So what are you waiting for? **BRW**
Next week: Brumby's Bakeries founder Michael Sherlock



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