The smart money is on software

Microsoft's Matthew Bishop says the knowledge economy will account for more than half of Britain's GDP by 2010

The first Direct bank expects to cut its energy bills by £24,600 and its carbon emissions by 11.7 tonnes this year thanks to software developed by IE.

The company, at No.70 on this year's Sunday Times Microsoft Tech Track 100, has designed the Nightingale program, which shuns off unauthorized computers and monitors updates at night.

The London firm's other key software product, Nomad French, has helped more than 20 big companies, including Nestle, Vodafone and Reed Elsevier, cut their IT bills by reducing the number of servers required to run their networks. As a result, sales at IE have risen 65% a year from £5.3m in 2004 to £9.5m in 2006.

"Computer engineers can take two hours to install a program and, if an organisation has 100,000 computers, that's a lot of staff time," said IE's chief executive, Sumir Karayi. "We are succeeding by building on Microsoft technology and in so doing, cutting the cost of managing IT assets.

IE is part of a growing band of tech ventures that are poised to take advantage of soaring global demand for software as businesses work new ways to reduce overheads and improve their services. Corporate spending on Internet-based software projects, covering a huge range of functions from payroll management to order tracking, is expected to reach $11 billion next year, a tenfold increase since 2003.

As the Tech Track 100 research shows, many more software firms are responding to consumers search for fresh entertainment. For example, Genaysys, the online gambling group ranked No.28 in the table, has posted sales of £117m, as punters place 30bn bets on the company's Bingo and casino games each month.

The group's turnover has joined the No.6 slot by selling its mobile-phone downloads in 11 countries.

With demand for cutting-edge application suites growing, promising technology companies like those in this year's league table have become the new hot stock for economic growth in Britain. By 2010 the knowledge economy - firms in the information and communication technology sector - will be responsible for more than half of the country's GDP, according to Microsoft's second Developing the Future report. What's more, the innovation that is driving productivity are beign generated more rapidly among small and medium-sized companies than big ones.

But Britain's software ventures must overcome some tough hurdles to take advantage of the huge opportunities that are emerging. The report identifies several key trends, including the growth of outsourcing, the looming skills shortage and more business planning and associated lack of investment displayed by start-ups and university spin-outs.

Many Tech Track 100 companies are succeeding by offering unique, high-quality services rather than competing on price with rivals in low-cost countries such as China. For example, IE's Nightingale, launched in 1999, has made money only in the past two years as clients have become more aware of green issues. "Cutting costs only gets you so far," said Karayi. "The solution is to innovate.

Exasso, at No.51 on the league table, is one of a growing number of technology ventures that are harnessing the skills of Britain's universities. The company created the Mergo Fundamentals package that calculates customer losses on endowment policies, and has Adder, Barclays and HSBC among its clients.

Since last year Exasso, based at the Coventry University Technology Park, has employed two university associates as software developers and uses three more university staff as part-time consultants through a government-funded scheme. The firm also hires undergraduates for project work.

"We have fresh minds working on new projects. We benefit from new ideas and the university benefits from working in a commercial environment," said Exasso's managing director Alan Mallik. "Getting the right calibre of staff is difficult but this has helped." Other venture are also defying the skills shortage highlighted in the report by convincing school leavers and graduates that technology, far from being dull, employer's work. Many are succeeding in the music, film, fashion and media industries that graduate jobseekers in search of glamour are targeting. On average, Tech Track 100 companies have hired 22 additional staff this year.

Some firms are taking stronger action to recruit and retain staff. One of the right training at our office in Skipton has been our biggest challenge," said Andrew Illsman of Manganese (No.65), a vehicle tracking software developer. The company is boosting enrolment and retention by launching an employee share-option scheme.

Microsoft is firmly committed to helping existing new companies. We offer the platform and the tools with which firms can create world-leading software businesses and help foster the ecosystem in which they can flourish. Looking ahead, we will expand and strengthen our offering with "software plus services", where packaged software will be augmented by a range of web-based services from suppliers to customer relationship management systems. For example, the next phase of Windows Live will connect and protect PCs as they link to internet-based services such as social networking and digital photography storage.

Our network of more than 60 Microsoft Innovation Centres around the world offers guidance on invention, investment and innovation, the three central planks that support the growth of all successful technology firms. Over the next couple of years we will build on the success of our Microsoft Technology Centre in Reading by opening several Innovation Centres in the region.

Our Microsoft Partner Programme helps talented software designers and sellers with business by making sure their products are compatible with our platforms. Membership confers a stamp of approval, proving to potential clients that a growing firm's products are trustworthy. Companies that join also receive benefits such as coaching to communications, marketing and business planning. Our close relationship with our partners also helps us to spot and pass on sales and joint-venture opportunities through networking events.

Of the 100 companies on this year's league table, 18 are official Microsoft partners. They include a host of innovative ventures ranging from Ppects (No.56), which assesses voice and video quality over communication networks, to Office Cynosis Group (No.87) which monitors how much companies spend on commodities from paper to light bulbs. Their relationship with us has helped them gather an impressive list of blue-chip clients such as London TSB, Virgin Media, Woolworths, BMW, Nokia and Vodafone.

By championing the brightest ventures like IE and Exasso, we are encouraging British businesses to seize the huge opportunities that are emerging as demand for software soars. We are helping them compette on the global stage.

Microsoft, with £11 billion a year in revenue and a $2 billion workforce building the future of software that is creating wealth, empowering productivity and transforming all our lives. Microsoft is proud to be supporting these companies and their role in a changing world.

Matthew Bishop, the director of Microsoft UK, is asking to Catherine Wheatley.
Tech firms that stay on track after year

Some companies have sustained their growth. Lindsay Uppadine and Eva Gronboeck look at the firms that have had real staying power.

The Tech Track 100 league table is now in its seventh year and competition for a place on it has never been so fierce. Showcasing Britain's fastest-growing private technology companies, this year's table features a diverse range of ventures, from clinical researchers and software developers to mobile-phone recyclers and synthetic bone manufacturers.

The mean growth rate this year is 124% per annum over two years, up from 91% per annum last year. Even the growth rate of the 100th ranked company stands at an impressive 52% a year.

Nearly two-thirds of companies in the league table this year are new to it. With 20% of all start-ups going out of business, the key to the continuing success of these ventures will be their ability not only to achieve impressive growth but to sustain it.

Four businesses have managed to do just that, making their fourth appearance in the Tech Track 100 (see table below).

Of this quartet, Cheepflights (No 64) has made the table four years in a row. Founded in 1996 and one of the pioneers of online travel price search, Cheepflights takes quotes from hundreds of travel companies and presents them in one place.

A fast-growing presence in America and a recently launched Canadian website have helped boost sales 71% a year from £4.2m in 2004 to £12.5m in 2006.

Three other companies, Ie (No 65), Perficient (No 66) and Lagam (No 97) also appear for a fourth time, although not in consecutive years.

Named after a Microsoft error, Ie (No 65) makes it easy for users to customise their website, and then turn it into a business. Now 68% a year from £1.2m in 2004 to £7.5m in 2006.

Perficient (No 66), a developer of enterprise software provider, not only designs and builds storage networks but also offers IT hardware in its best-seller store. It dispensed with its previous hosting and development businesses to focus on developments in storage and network technologies.

Lagam (No 97), a UK-based supplier of software development services, has grown 97% a year from £2.3m in 2004 to £4.6m in 2006.

Nineteen firms have floated, four since the publication of last year's league table, including Money supermarket.com in July with a market value of £840m. This was the biggest flotation in the history of the London stock market. Some 65 companies have been acquired, with five of those taking place in the past 12 months. Among them were Symantec and E-Plus Continental Telecom, which was bought by Adapt (No 28) for a reported £46m.

Furthermore, a healthy 75% of this year's businesses are in profit, with revenues from 69% last year, with the other 25% focused on moving into the black. With the improving statistics, companies identified by Tech Track 100 are obviously producing products and services that are in demand, and we look forward to tracking their progress over the coming years.

Lindsay Uppadine is research manager at E-Plus Network. Eva Gronboeck is head of research.

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HOLIDAY FIRM GOES PLACES

EVERY MONTH thousands of bookings are secured for our budget hotel network through HolidayRoomsDirect.com. With 46,000 properties listed on its website, the online travel agency offers a full range of accommodation, from budget apartments to luxury five-star spa hotels.

The company focuses on European beach destinations, but also covers the United States, South Africa and Latin America, and provides extras such as airport transfers and car hire through partnerships with firms such as Resorhotella and Holidayhotels.com.

The average value of bookings made through Holidayroomsdirect.com is £425 for a week's stay, and the firm receives a commission each time a booking is made.

Based in Dorset, the company is led by chief executive David Henry, together with founder and managing director Jennifer Davis, who set up the firm in 2005, when she was only 23.

Henry claims that a commitment to the highest levels of customer service and heavy investment in marketing have resulted in phenomenal sales growth of 114% a year from annualised billings of £184,000 in 2004 to £6.5m in 2006.

Henry and Davis now plan to tap into the continental European market by opening a call centre in UK. Other new initiatives include the development of city breaks, which will be launched later this year.

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THE BEST OF

AMF HOLDING

Mobile content provider

THIS Buckinghamshire company provides mobile content such as ringtones, games and music to its target market of 16-25 year olds. It boasts a global customer base, and has recently expanded through the acquisition of Antonym, an interactive services provider. Managing directors Nate MacLetch and Jack Crosswell, who co-founded the firm in 2004, now plan to add pay-sms services to the mix.

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THE REST OF

E-Plus Network

The company operates the world's largest wireless network.

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LOWFELL INTERNATIONAL

Russian DVD rental

WHETHER you love romance films or are fans of thrillers, this online DVD rental company probably has something for you. London-based Lowfell says it has 500,000 subscribers and a library of 65,000 film titles. It also provides online DVD rental services for clients such as Tesco, The Guardian's Online Cinema and Odeon. Founded only five years ago, the company merged with its biggest British rival, Video Island, last April. Led by chief executive Simon Caver and backed by private-equity group, Lovellfin, Lowfell has boosted its sales 568% a year from £1.5m in 2004 to an annualised £27.6m in 2006, when it made a significant loss.

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PITCH ENTERTAINMENT

Television production

FORMER classical musician David Warburton created music of a different kind when he founded Pitch Entertainment to sell ringtone to mobile-phone users, backed by £500,000 from angel investors. The London company now sells mobile downloads to subscribers in 14 countries, under the brands SplashMobile and Pitch. Alternatively, users can get free access to videos and games of their choice from this £2.99 service.

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STIRK LAMONT

IT consultancy

STIRK LAMONT & Associates, with its subsidiary SLA Mobile, provides a range of IT consultancy services such as systems integration, CRM, business intelligence and project management.
55

CITIFLEX

Digital networks provider 77.8%

This London firm specialises in installing interactive touchscreen panels in public places to provide information on local transport and council services. It is also behind broadband networks in Edinburgh and Aberdeen, where local authorities have installed these networks to boost up mobile employees and provide wireless connections to CCTV cameras. Rentiers also benefit from free access to the internet. Chief executive Marc Meyohas has grown sales 77% a year from £1.3m in 2004 to £6.4m in 2006.

56

TSG IT services provider 78.4%

This IT services provider has been on the acquisition trail, buying 22 companies in three years and spending £28m. Set up by Sage co-founder Graham Whitt in 2003 with £202m of his own money and £35m bank debt, TSG provides hardware and software and IT support. The Newcastle-based company has 16 offices nationwide. Its 12,000 customers include Bannatyne Fitness, Buckingham Bingo and Lush. It is still on the looking for acquisitions and has grown sales 77% a year from an average of £9.5m in 2004 to £35.9m in 2006.

57

READING ROOM

Website designer 78.4%

-APPALLED by the quality of some websites, chartered accountant Matthew O'Sullivan and IT expert Simon O'Sullivan created Reading Room to help businesspeople make effective websites more effectively online. Founded in 1996, the London firm says it has designed more than 800 websites for clients such as the British Library and Cancer Research UK. In April 2005, it raised £1m from Octopus Asset Management to fund overseas expansion. Sales have risen 78% a year from an annualised £3.3m in 2005 to £7.2m in 2007.

58

YOU AT WORK

Employee benefits agency 78.2%

WHEN employees are resistant to automate and integrate their employee benefit systems, they turned to this London firm. At Work's online portal gives staff access to the benefits offered by their employers, such as childcare vouchers or discounts. Employers can use its software to configure their own benefits packages. Set up in 2001 with funding from Barclays, whose private-equity arm now owns a majority stake, the company has boosted its sales 78% a year from £10m in 2004 to £52.5m in 2006 under chief executive Bruce Rayner.

59

NET-A-PORTER.COM

Online fashion retailer 78.0%

NATALIE MASSENET's online boutique helps fashionistas get their hands on the hottest clothes from top designer clothes and accessories without joining the crowds. Baed on £9.7m from investors, the company has convinced the world's most modelled hands, including Oscar de La Renta and Christian Lacroix, to sell through its website, catering for high-end, top-buyers, who typically spend £500 per transaction.

60

PSYCHOTECH

Communications software 77.8%

BASED in Ipswich, Psychotechnics designs software that assesses voice and video quality for clients such as Microsoft, Skype and IBM. Products include systems that measure the quality of voice and video communications over fixed and mobile networks. The company set up an American operation in 2005. Under chief executive Anthony Finbow, sales rose 79% a year from £1.1m in 2005 to £4.6m in 2007.

61

CLEANFLIGHT

Online travel directory 77.8%

TRAVEL price-comparison website Cleanflight.co.uk claims to take up to 14% price from travel companies and presents them in a simple format for online search and comparison. Its fast-growing Bornes based business publishes American domestic and international guides and, according to a third of revenue. A new Canadian Montreal was also launched this year.

62

NCS SOFTWARE

Security software 77.5%

NCS Software's clients include the Queen's Award for Enterprise this year, and its co-founders Mark and David Litchfield also picked up the title "World's Best Bug Hunters 2004". The London-based company, which is operating director Tony Purfield, technical director Adam Young and operations director Matthew Davis with £800,000 of their own money. Purfield had set up the Telecoms retailer Genesis, selling it in 2002. Sales have grown 79% a year from £1.2m in 2004 to £5.3m in 2006.

63

MONTES QUITO

MOTORMAN signs from this company deploy safety messages such as "Watch your step" and "Don't drive while drinking". SSL's systems run on monitor Britain's road network and the firm has developed a CCTV system for the Highways Agency. Its further CCTV services include streaming video from motorway cameras to traffic monitoring centres via the internet. Managing director Louis Thompson completed the buyout of the British network operator in 2005. The firm has been acquired for £8.2m by the Century Network, led by Richard Branson, and is managed by Richard McCahill. Its sales rose 69% a year from £1.2m in 2004 to £7.3m in 2006. Nor the firm plans to expand internationally.

64

ESPROSSE EDUCATION

London company ESPRESSO Education claims to supply e-learning software, including video clips, news articles and web-based quizzes. It caters to up to 140 pupils from travel companies and presents them in a simple format for online search and comparison. Its fast-growing Bornes based business publishes American domestic and international guides and, according to a third of revenue. A new Canadian Martin was also launched this year.

65

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66

VENDA SOFTWARE

Security software 77.5%

VENDA develops and hosts e-commerce sites for retailers and manufacturers such as De Beers, Superdrug and Republique. The company recently announced a global partnership with PayPal to offer the Payal Express Checkout payment method through its e-commerce platform, and is now looking to expand its American operation by setting up a data centre in New York. The London firm is led by founding CEO Alex Mathieson, who has increased sales 69% a year from £2m in 2003 to £15.8m in 2006.

67

MEETING ZONE

Call services provider 77.8%

TWO veterans of the conference-call industry, Tim Duffy and Steve Grant, set up Meeting Zone to capitalise on the technology that makes meeting by phone or web easy and effective. The Buckinghamshire-based company provides automated conference-call facilities to companies and individuals, and chairs and co-ordinates calls for large events such as product launches and press briefings. Backed by a £2.5m investment from Springside (now Nova Capital Management), which took a 23% stake in 2003, the company has grown sales 69% a year from £1.4m in 2004 to £4.6m in 2007.

68

SSL ELECTRONIC SOFTWARE SOLUTIONS

Electronic/software design 65.5%

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70

MIDWEST SOFTWARE CONSULTANTS

Software consultancy 65.5%

THERE are some 10m office PCs in Britain and 1.5m are regularly left on overnight or all weekend, according to a recent study on energy wastage. Software developer IE is behind Nightingale software, which automatically installs eight-hour updates and shuts off unused applications when energy. Its other core product helps businesses reduce their number of servers. Focusing on selling to large enterprises such as NBT and Verizon has helped turnover at the London firm grow 69% a year from £5.5m in 2004 to £15.8m in 2006 under chief executive Suvarn Karam.