Bust: while the market was buoyant, problems were easy to ignore. But 'when the business is failing, everything is wrong. You have disgruntled shareholders, disgruntled customers' and a bad press. Image Bank

THE TECHNOLOGY SECTOR

A sense of respectability starts to creep back into the sector

Some companies have disappeared, but others are making a slow but steady return to growth and profitability. **Maija Pesola** reports

Five years after the bursting of the technology bubble, a sense of respectability is starting to creep back into the sector. A number of companies, mainly frothy dotcom start-ups such as Boo.com and Clickmango – remember them? – have disappeared without a trace. But other technology businesses are making a slow but steady return to growth and profitability.

Marconi, the telecommunications equipment company, which nearly collapsed under £4bn in debt in 2002, has come back from the brink. It relisted in May 2003 after a financial and operational restructuring, and is seeing revenues grow while losses narrow.

Lastminute.com, the UK online travel company that became the much-maligned symbol of the dotcom boom and bust, made its first full year profit – before goodwill and exceptional items – in November 2003.

A brace of other UK IT companies have also recently returned to profitability, including Anite, Xansa, and TTP Communications. IndigoVision, the video technology group, and Arc International, the chip designer, are expecting to break even this year.

Common themes in the survival of these companies have been radical changes in business plan, scaling back, and a tight focus on core activities.

A common flaw for technology companies during the boom was to have good technology, but completely the wrong business model. IndigoVision, for example, was one of the earliest companies to develop CCTV surveillance systems based on digital, internet protocol networks. The technology was signed up for by a number of leading CCTV equipment makers, such as Panasonic and Honeywell. But product sales and royalties failed to materialise.

"We thought we were doing really well signing all these licences," says Oliver Vellacott, chief executive. "It was only later that we realised that these companies had just signed the technology in case something began to happen, and were happy to sit on it. They weren't going to start to cannibalise their own analogue CCTV market before they had to."

IndigoVision underwent a radical change in business plan, and started to manufacture its own digital CCTV products. Five painful years later, the company is starting to thrive again, having won several large contracts, including providing the backbone for the security system at the Athens Olympics.

Another common mistake was spreading the company too thin through rapid expansion.

UK companies such as Anite and Xansa came to grief, for example, because they went too enthusiastically into a technology land grab in the late 1990s and 2000.

Money was sloshing around in these days as businesses upgraded computer systems to insure themselves against the "millennium bug" and investors endorsed virtually any business plan involving a website.

Alistair Cox, who took on the task of turning around Xansa in 2002, says the company had probably made the right acquisitions, but had failed to integrate them effectively. Some of the companies they bought, such as rival Druid, had overseas operations that were failing to make a profit. While the market was buoyant, these problems were easy to ignore. But once the downturn hit and the money stopped flowing in, they became a serious drain on resources and management time.

Much of Xansa's restructuring process has been about shedding these unprofitable, underscale businesses and focusing on the core UK operations where it knew it could reach sufficient scale and offer customers a unique service.

Recent contract wins with BT and the National Health Service are a good indication that this approach has returned the company to credibility.

Arc International had a similar story. Its technology for microprocessor subsystems, was always highly regarded. But over the last few years the company distracted itself by trying to become a one-stop shop for chip software and hardware – something it simply did not have the scale for. Once the focus returned to the core proposition, performance has improved markedly.

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One of the most difficult bits of a turnaround, says IndigoVision's Mr Vellacott, is staying focused amid the chaos.

"When the business is failing, everything is wrong. You have disgruntled employees, disgruntled shareholders, disgruntled customers and adverse press coverage. The whole thing feeds on itself," he says "You need to have a crystal clear vision of where you are going to get through that."

A particular risk is becoming victim to corporate raiders who use the disgruntlement and the fall in the share price to buy their way in, boot out old management and tap into any remaining cash reserves.

IndigoVision was targeted by Acquisitor, the Bermuda-based investment company, in this way in 2002 but managed to fend off the attack. Mr Vellacott said survival in its case came down to having a very strong chairman, who was able to hold the faith of the shareholders.

"We knew that the technology was first class and that we were in the right market with a lot of potential, so there was never any question of giving up," he says.

Other management teams have been less fortunate. Baltimore Technologies was also a pioneer in its field of public key infrastructure (PKI) encryption technology but misjudged the way the market would move.

The one-time FTSE 100 listed company was forced to sell all its operations, becoming a cash shell last year. Management then proposed a comeback, turning the company into green, renewable energy business. However, the team was ousted by Acquisitor, which had built up a 25 per cent stake in the company.

The company has now delisted from the stock exchange and is in the process of returning cash to shareholders.

Even if the companies survive this kind of crisis, they undergo a long period of scepticism from investors and customers.

Carl Schlachte, president and chief executive of Arc, admits that re-establishing credibility after a collapse is a long process. Since the new management team has taken over, it has been careful not to over-commit itself, to only offer what it can fulfil. Mr Schlachte, who is based in the company's San Jose headquarters, says he has "racked up more air miles than I care to think about" travelling to reassure customers.

Marconi took similar steps, keeping close communications with key customers, and reporting to the City every six weeks, either through quarterly figures or detailed trading statements.

However, the good news is that, eventually trust can be regained. Just under two years after the relisting, Marconi executives say that questions about survival and financial health have disappeared from their conversations with clients. As Xansa's Alistair Cox puts it: "People are now more willing to believe that there are good tech companies as well as bad ones, just as in any other sector."

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