

In Brexit, London startups see risk—and some opportunities

1 July 2016, by Leonora Beck



Frank Bertele, CEO of tech startup NETZ, works on his laptop in London Wednesday June 29, 2016. Within 24 hours of Britain's vote to leave the European Union, London-based technology startup Netz saw five investors suspend hundreds of thousands of pounds in promised money. (AP Photo/Leonora Beck)

Within 24 hours of Britain's vote to leave the European Union, London-based technology startup Netz saw five investors suspend hundreds of thousands of pounds in promised money.

Now the company, which provides data to financial companies on potential customers, can't hire the candidates it had lined up. And should it eventually get the needed investment, it will face the risk of not being able to tap enough talent as Britain's departure from the EU could make it more difficult to hire from the bloc's other 27 countries.

"The people we want to hire, are they still interested in coming to London? There is a lot of uncertainty from a regulatory point of view," said CEO Frank Bertele, a German national. Since the vote, he has accelerated plans to expand into the U.S.

Britain's decision to break away from the EU has created huge uncertainties for businesses, and there is no more vulnerable a period for a company than its infancy. Survival depends on getting the timing right in attracting investment, hiring workers, and spending on office space and equipment. London's tech companies will scramble to cope—though true to the startup community's culture of adaptability, many are looking to the tumult also as a source of opportunity for new business and to gain ground on the less nimble established companies.

Among the top concerns for startups in London is hiring. Being part of the EU guarantees free movement of workers, without the hassle and costs of visas or work permits. The tech sector is particularly dependent on accessing talent easily. A 2015-survey by Wayra, a startup incubator, found that one third of employees in tech startups in Britain are from outside the country, and one in five comes from another EU nation.

The concerns about the potential effect of a British EU exit, or Brexit, come as the U.K. tech industry is already experiencing a talent shortage. To help with that, the government allows firms to speed up recruitment of nationals from outside EU. Job search engine Adzuna shows there are around 35,000 open software positions in London.

DueDil, a financial technology startup, has doubled its staff every year for the past five years, with 20 percent coming from other EU countries. It is growing far too quickly to have the luxury of waiting for Britain's relationship with the EU to be clarified over coming months. As a result, it has hastily drafted a plan for a European office. It will decide in the next few weeks whether that will be in Dublin, Berlin or another European city.

"If it hadn't been for Brexit, we would probably have hired more people in London," said Damian Kimmelman, CEO of DueDil.

According to Pat Saini, the head of the immigration team at law firm Pennington Manches, it costs upward of 5,000 pounds (\$6,650) in visa costs and related fees to hire a person from the U.S. or another country outside the EU. "If EU nationals, with Brexit, end in the same category as nationals from outside the EU, then companies relying on EU labor will have to wait longer and pay extra for workers," she said.

For some startups, however, the uncertainty has not been all bad.

Netz saw the number of customer requests quadruple since last week's vote. Wealth managers and financial advisors in particular have flocked to Netz to find potential new clients from the [startup's](#) database. And one of the five investors who had suspended their involvement in the company has since changed his mind and decided to back Netz regardless of the uncertainty.

DueDil landed three contracts in two days from investment-keen American equity firms that wanted to profit from the drop in the British pound and access DueDil's database of detailed information about private firms in the U.K.

And by nature of being small, startups have a flexibility to adapt to new situations and take advantage of changes in the market in a way that would take longer for big companies with thousands of people on their payrolls.

"When people start realizing that these obstacles in front of them are opportunities, startups are the ones that best can exploit them," said Kimmelman.

Some are concerned that an EU exit means London will lose its luster as a vibrant tech hub. London's finance technology industry is particularly at risk. In the past year, companies in Britain attracted one third of the venture capital invested in European startups, according to the venture capital database CB Insights.

Neil Rimer, co-founder of [venture capital](#) firm Index Ventures, says that's unlikely in the longer run as it will be in the interest of the British government, whatever the future trade relations with EU

countries, to keep attracting talent and encourage startups.

"Whoever ends up doing the negotiations are not interested in standing up the flow of people coming to work," he said. "I think they will work very hard to preserve that kind of mobility."

For his firm, Index Ventures, which has \$1.25 billion to invest and has backed startups like Dropbox and Skype, Brexit is business as usual.

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