

BUSINESS 2.0

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FEATURES

Do This, Get Rich

With VCs awash in money and itching to spend, it's a great time to start a new business. We've found 11 of the hottest business opportunities today. Take your pick -- and seek your fortune.

By Michael V. Copeland, Om Malik, [Erick Schonfeld](#), [May 2005 Issue](#)



Things have started very badly.

Before the pitch for a world-altering new mobile-gaming company really gets rolling, Adam Grosser leans back in his chair, hoists his feet onto the conference room table, and declares, "I hate it."

**[11 Great Startups:](#)
Helped by a panel of top VCs, we found eleven great
business opportunities just waiting for the right
entrepreneur. [Full List](#)**

Grosser, a partner at Menlo Park, Calif., venture firm Foundation Capital, runs out of the room. The silence is deafening until he returns and tosses a cellophane-wrapped box on the table. "It's an almost Pavlovian response," Grosser says. "And it's based on this." He points to the box, labeled "XBand." Turns out that in 1993, Grosser developed the XBand, a \$19.95 gizmo that allowed gamers to play their Sega and [Nintendo \(NTDOY\)](#) shoot-'em-ups on a peer-to-peer network. XBand was the hit of the Consumer Electronics Show that year. [Toys R Us \(TOY\)](#) ordered 500,000. "It was brilliant," Grosser says. "They sold about 12."

Tough crowd, those VCs. We have the bruises to prove it. During the past two months, we canvassed dozens of [venture capitalists](#), entrepreneurs, and business visionaries with these objectives in mind: to take the pulse of the VC power players along [Silicon Valley's Sand Hill Road](#), to learn what [startup](#) specialists are looking toward as potential next big things, and -- most important -- to extrapolate from those discussions what may be today's greatest business opportunities.

As the encounter with Grosser suggests, it wasn't always pleasant. But it was continuously eye-opening. Among Silicon Valley's entrepreneurial elite, an important shift has occurred. Never mind that the economy is uneven, the deficits massive, and the stock market twitchy. Here in the hothouse of American business, the gradual recovery from the tech collapse is almost complete. Last year the amount of money invested in startups hit \$20 billion, notching its first year-over-year increase in four years, according to Dow Jones VentureOne. Equally significant, VC firms raised an estimated \$17.5 billion in fresh capital, on top of the \$54 billion they still have from past years.

New money means a new seven-year clock on venture funds -- and new pressure from limited partners for the extraordinary returns promised by VCs. Adding to the impetus, established companies are increasingly willing to buy startups with promising technologies, and [initial public offerings](#), the boom-era fast track to fortune and glory, almost tripled last year after a long drought. It hasn't hurt that [Google's \(GOOG\)](#) moon-shot IPO, which by the most recent estimates has created at least three billionaires and hundreds of multimillionaires, reminded us all just how bedazzling the right bet on a startup can still be.

These forces have led to the return of true early-stage investing, something that has been virtually absent from the Valley since the bust. Venture capitalists are once again willing to invest in companies that are prerevenue -- even those without working prototypes of products or services. And big bets on big ideas are back in vogue. "If it's not audacious in what it's attempting, it may not be worth doing," says Gary Little, a partner at Menlo Park-based Morgenthaler Ventures.

The focal points of VC interest today flow from momentous technological or demographic trends. The [Internet](#) is still central, of course; in Silicon Valley it's taken as a given that the Web will spread to all corners of the globe. Wireless services and the digital home remain hot areas as broadband access advances. With oil hitting record prices, every VC seems to be prospecting for energy-related businesses. And the king daddy of all demographic trends, the aging of the baby boomers, has created keen interest in health care and all it touches. "You want to make sure your startup is riding a trend," says U.S. Venture Partners VC Phil Schlein. "You don't want to swim upstream."

That's not to say you can paddle into a VC's office with just a PowerPoint and a Whitestrips-brightened smile. If you don't offer a clear, defensible technological advantage that addresses a real and preferably huge market, you'd better come bearing customers, and lots of them. But, as we also learned, not every intriguing business idea requires VC funding.

In the following pages, you'll find 11 of the best startup ideas we could dream up based on our explorations among the experts. They cover a range of capital requirements, from \$20,000 to \$150 million. We reality-checked these hypothetical businesses by pitching them to a panel of 10 of Silicon Valley's sharpest VCs. We're not suggesting that any of these ideas are sure things. But the responses our pitches received should encourage anyone looking to start a business today. And we would note that a year ago Business 2.0 undertook the same exercise ("[Field of Dreams](#)," April 2004) -- and four of our ideas have since materialized into ongoing businesses: a seller of low-cost wireless home security systems, a one-stop shop for broadband gear and services, a software firm that enables highly targeted television ads, and a personal jet taxi service.

Make what you will of that, and feel free to run with any of these concepts. Or better yet, use them as springboards for chasing your own entrepreneurial ideas. For those with the drive and talent to bring their startup dreams to life, there can be no more rewarding road.

Next: [View the Full List](#)

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