

# City must wake up to digital growth, says tech investor

Saul Klein says US companies such as Google and Amazon have 'walked in and eaten the lunch' of UK businesses

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**Lisa O'Carroll**

guardian.co.uk, Friday 1 March 2013 17.57 GMT

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Saul Klein in 2003. He is on a mission to transform boardroom thinking about digital business. Photograph: Graham Turner for the Guardian

One of the UK's biggest tech investors has called on the City and FTSE 100 companies to wake up to the internet, warning that there will be more casualties if they do not.

Saul Klein, a partner in Index Ventures and former chief executive of Skype, said digital business was now the third biggest contributor to the economy, responsible for 8% of GDP, but the City and the public sector were asleep to its significance. "American internet companies like Google and Amazon have walked in and eaten the lunch of the UK in media, in retail, in travel – and they are not going to stop here. They are going to do it in other sectors like financial services, accommodation," he said at the London Web Summit.

In the past two years Klein's company has raised €1bn in tech startup and growth funds. It has 130-140 active investments in businesses ranging from retailer Net-a-Porter to

financial services providers such as climate.com, an insurance business for farmers concerned about bad weather destroying crops.

Klein is now on a mission to transform boardroom thinking with predictions that digital business will grow to 12.4% of the economy in 2016. He said watching businesses being destroyed was "like watching a car crash in slow motion", but was often down to the lack of effort to understand the digital dividend.

"We have all heard about how Kodak was destroyed by the internet and we've seen the same thing happening in the UK with HMV," he said.

He conceded there was a strong fear factor among investors in the UK after the dotcom boom and 2003 bust, which cost investors billions, but said there was an "awareness issue". "We asked 20 companies in the FTSE 100 how much of their business was in digital and only two or three could even answer the question."

Klein has been in talks with Downing Street about his campaign to help transform business thinking. He said the government was very supportive and had created entry-level tools such as startup visas for foreigners who want to launch a tech business in the UK.

But he said that to create an environment that could germinate and grow something on the scale of a Facebook or a Google, the approach had to change across the board. He said every business and public-sector organisation should be forced to measure its digital operations, whether that is the percentage of online procurement in a hospital or online shopping at Tesco.

"If a board can't answer how much of their business is digital by the end of 2013, the CEO, the CFO and the board should be fired. If they don't report on this metric every quarter by the end of 2015, they should be fired," he said.

Klein said the UK was so far behind Silicon Valley that investment banks did not even employ analysts to follow the sector. The online retailer Asos is followed by fashion analysts rather than specialist digital analysts, for instance.

He was scathing about fund managers, saying: "[They] have £700bn to invest and they have got one job, and that is to make money. Why aren't they investing in digital?"

Klein started his internet career launching the Telegraph newspaper online in October 1993. He said he could see then that structural change was necessary if the media were going to survive.

He said he was optimistic about the future of media and of retail despite the challenges created by the internet. "In fashion retail, some of the most successful companies have been created, like Zara, H&M and Urban Outfitters. Retail isn't dead, it's just changing –

the same with media," he said.

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