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Newsflash: Some Web 2.0 Companies are Over Valued

I like Techcrunch a lot, and have always been proud that they're an easyDNS DNS hosting client, but sometimes I find myself shaking my head a lot as I scroll through their feed in my bloglines reader. The still pre-revenue Twitter just got something like a Q-round funding giving them a post-money valuation somewhere north of Canada's GDP and some of the A-rounds being announced stand less of a chance succeeding than bluetooth enabled salad forks.

While the current VC's of these deals may succeed in their own business plans (that of achieving subsequent fundings at ever higher valuations, or effecting a liquidation event where some large elephant with too much money takes the entire thing over), whoever ends up ultimately owning these start-ups at the highest valuation will never recoup that "investment" out of earnings from the venture.

With some of these Web 2.0 companies it's like trying to build a business plan and monetize a really hot knock-knock joke. It catches on like wildfire, soon everybody's telling it in the elevator or at the water-cooler. Your cab driver knows it and so did your waiter at lunch. And then some VC firm comes along throws 60 million into the pot thinking eventually people will pay to hear it, or that they can sell advertisements just before the punch line.

I don't see it happening.

Posted by Mark Jeftovic in Venture Crapital at 11:31