SETTING UP A TECH BUSINESS

THERE ARE MANY THINGS TO THINK ABOUT AND DO WHEN STARTING A TECH BUSINESS. ONCE YOU HAVE COMPLETED YOUR RESEARCH, FORMULATED YOUR IDEAS AND DEVELOPED YOUR STRATEGY THEN THE HARD WORK REALLY BEGINS!

It is very common for new startups to focus their time and energy on the product and neglect the importance of the finance, legal structures and operational framework that will be critical to the long term success.

SETTING UP A COMPANY

A company is a legal entity with a separate identity from those who own it or run it. Getting the legal formalities right at the outset and getting into good habits of administration can prevent difficult questions arising later on, for example when fund raising, bringing in new partners or ultimately realising value.

A fundamental question is who will own the company and how will these shares be held. Related to this is working out if the company should have different types of shares in addition to an initial class of ordinary shares, for example additional classes of ordinary shares or preference shares. This means considering economic rights (income and capital), voting rights and other matters such as transferability and ability to convert into other classes of shares at particular times.

Other considerations include: the name of the company, who will be the directors and where the registered office should be.

From a legal perspective, you should consider both at the start and as the business grows whether there is intellectual property or technology that need protecting via patents. Similarly, you should also consider whether any trademarks or brand names need to be registered.

The final, crucial element of this initial set-up phase is formulating a realistic, achievable strategy to realise your vision and with this an operational plan. The likelihood is that this will change and develop over time as the business pivots and reacts to the external environment but it is important for the shareholders to be clear on the strategy from the outset.

MONITORING

Your business may have received an initial investment to get the project off the ground, or used your own personal finances to support it, but either way monitoring your costs, the bottom line and your cash flow should be top priority.

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It's vital for new startups to keep up to date with internal finance, to ensure their cash flow remains positive so they can operate efficiently.

Much of this can easily be done by implementing a good finance system. There are numerous packages available to assist you with keeping financial records and monitor your business. A number of these packages also allow you to directly connect to your technology which increases both efficiency and lowers the administrative costs.

Whilst finance might not be the top of your agenda it really is important to understand the financial reports that are provided to you, and use them to make important financial and operational decisions.

So regardless of whether your accounts are done in-house or by an external bookkeeper, remember to keep up to date, monitor them carefully and understand what they are showing you.

RAISING FINANCE

At different stage of the company's life cycle, its likely you will need to raise capital to grow the company but this can be one of the most difficult hurdles you face.

Once you have established how much money the company will need then you will need to consider how to do this. Technology businesses often raise finance in 'rounds', starting with seed capital, investment capital and then venture capital as more money is needed. There are several options available to raise capital:

Equity – This is a term which covers all types of shareholding investments in a company. Equity gives the equity holder ownership in the business but at the same time is unprotected on a liquidation or winding-up.

Debt – This is a term which covers all types of borrowings by companies. Debt will attract an interest charge but has the advantage that it allows the shareholders to retain their ownership without diluting their holdings.

Loan notes or convertible debt – This is a term which covers a flexible halfway house between equity and debt. Often the loan, whilst still attracting interest, will be convertible into shares at a certain price at a future date.

Finance can come from a variety of sources and each comes with different degrees of return, involvement and exit requirements. At the beginning tech start-ups are often bootstrapped before receiving seed equity funding and later, if needed, venture capital money. Crowdfunding is also possible and sometimes desirable in certain circumstances.

R&D TAX CREDITS

Whilst a tech start-up may not be making a profit at the start, tax is an important consideration. The UK government offers substantial cash rebates to technology companies that qualify for R&D tax credits. This can be an important source of cash for businesses that are pre-revenue. This is an area we specialise in and understand what activities qualify and how to get the maximum relief available.

TAX EFFICIENT INVESTMENTS

In the UK there are two schemes namely, Seed Enterprise Investment Scheme and Enterprise Investment Scheme that provide income tax and capital gains tax reliefs for individual investors who subscribe in cash for ordinary shares in qualifying companies. Both of these are very popular for UK investors in tech start-ups.

TO DISCUSS ANY QUESTIONS OR ISSUES YOU MAY HAVE AROUND SETTING UP A TECH BUSINESS, PLEASE CONTACT

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