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Faculty of Economics, Commerce and Management Sciences

Commerce Department

Module: English
Branch: Finance and International Trade
Level: First year Master

Lecture 06: Start-up

1- Definition

A startup company is a newly formed business with particular momentum behind it based on perceived demand for its product or service. The intention of a startup is to grow rapidly as a result of offering something that addresses a particular market gap.

2- Planning

An entrepreneur sees a gap in the market and wants to found (= start) a new company. First some planning is necessary. The entrepreneur has to:

- Do market research and develop the product.
- Think about pricing, distribution channels, and promotion.
- Raise capital ('capital' = money used to start or invest in a business).

The capital might come from the founder's own funds, loans from the bank, or money invested by other people/business partners.

3- Start-up

The founder is now ready to set up (= start) the business. The first steps are to rent premises (= the buildings that a company uses), purchase equipment and supplies, and employ and train staff. The company can now begin its operations.

One thing is certain: the first few years will be difficult.

Sometimes a start-up company can get help from venture capital (= money invested in a new business by a specialist company who work in high-growth areas like new technology). VC money is used to run the business, pay salaries, etc in the early years. In exchange the VC company will take part ownership of the company and hope to sell it later for a large profit.

4- Growth

In a successful business the number of customers grows, turnover increases, and eventually the company breaks even and then makes a profit. The company employs more staff and divides them into different functions: operations, sales, marketing, accounts, etc. The company develops a network of suppliers. The brand name starts to become well-known among customers.

What happens if the business needs to raise additional capital to expand its operations? There are various options.

● The company can ask the bank for a loan.
● The company can issue new shares and sell them to outside investors.

● The company can attract private equity. Private equity is very similar to venture capital, but it comes at a later stage in the company's growth.

5- Maturity

All being well, the company continues to grow. This growth may be organic (through increased sales and developing the product range) or by acquisitions/takeovers (buying other companies).

6- Exit strategies

There are various exit strategies available to the owners if they want to sell the company.
● The business can be sold as a going concern (= as an established, profitable business) to other private individuals.
● The business can be sold to a competitor, or to a large foreign company wanting to enter the market.
The company that is taken over may or may not keep its brand name.
● The company goes public. This means it is listed on a stock exchange and its shares are sold to individual and institutional investors. The original owners may continue to run the company.

7- Risks

The majority of businesses fail (= go out of business). There are many reasons, which include:
● The founder can't get a loan, perhaps because of insufficient collateral (= property you agree to give the bank if you fail to give back the money you borrowed).
● The company can't meet its monthly repayments to the bank.
● The company fails to get enough customers.
● Competition from other companies.
● Changes in the market (demand for the products falls).
● Poor management of cash flow and/or insufficient capital.
● Management problems (eg the founder finds it difficult to delegate work to other people).
● Failure to integrate an acquired business after a takeover.