

# Course: Professional Practices in IT

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Lec # 8

# Financing a Start-up Company

## INTRODUCTION

- ▶ A lot of people want their career to be led to some independent work, their own work, a company or business owned by them, instead of working for others.
- ▶ New graduates in computing often aim of setting up their own company.

# WHY CAPITAL IS NEEDED

- ▶ To buy the things you need to make the product or to provide the service, and to live while you are making or doing it.
- ▶ Clients and customers usually do not pay before getting the services or product.
- ▶ For any business there must be a certain amount of capital in hand.

## Examples

Mobiles and mobile company, a burger shop, painting of houses, computer services, software developments and software companies etc

# Factors involving capital

If you intend to develop a package, the sum of money needed is likely to be even larger. While the package is being developed, there will be no revenue coming into the company. For this period cash will be needed for:

- ▶ salaries, however small, for the founders and for any other staff they may need to employ;
- ▶ rent, rates, heating and lighting of the premises used;
- ▶ equipment and consumables;
- ▶ costs of advertising and marketing the products;
- ▶ miscellaneous expenses, ranging from company stationery to travelling expenses for any trips that may be necessary;
- ▶ interest on any money borrowed.

# THE BUSINESS PLAN

Firstly to start any business work

- ▶ We plan it.
- ▶ We have some ideas what to do, (focusing business)
- ▶ What will we achieve (benefits, profit, status, etc..)
- ▶ what are the targets

...we create a business plan. What is it?

We need to document our plan. What is this document????

It is a document which explains our plans to the funders and tries to convince them that these plans are well thought out and realistic and would work successfully.

# Business plan Document.....

It should contain:

- ▶ a description of what the company will be doing, together with information to show that it is technically feasible and that the founders of the company have the necessary expertise;
- ▶ a description of the market the company is aiming at, an estimate of its size, and an assessment of the competition.
- ▶ a prediction of the financial performance of the company. This will include budgets, cash flow predictions, and projected balance sheets and profit and loss accounts.

# Why the plan is needed?

- ▶ Every person wants to gain profit by safe means
- ▶ If you have the business plan, you are in a position to approach people who might be willing to lend you money, invest money in your company, or even give you money.

# Business plans are not predictions

- ▶ It is a mistake to think of a business plan as a prediction of what will happen when and if you succeed in starting your company.
- ▶ It should be seen much more as a scenario that demonstrates that your company has a reasonable chance of success.
- ▶ The attempt to produce a business plan will often show that what a new company is trying to do has very little chance of succeeding.

Moral story:

The story of the village girl making castles in the air



# SOURCES OF FINANCE

## ► Grants

- A *grant* is a sum of money given to the company;
- the company is obliged to demonstrate that it has been used for the purposes for which it was given
- it is not intended that the grant should ever be paid back to the organization which gave it.
- grants are only available from government (local or national) and union sources or, very occasionally, from charities.

# Grants

These grants are usually:

- ▶ intended to assist with capital investment, typically investment in premises and equipment;
- ▶ subject to a number of conditions, in particular the raising of capital from other sources;
- ▶ limited to a certain proportion of the capital investment that the company can prove it has made.

# Loans

- ▶ A loan is a sum of money lent to the company;
- ▶ interest is payable on it, at a rate that may be fixed or variable
- ▶ the loan is usually for a fixed period
- ▶ The company has to pay back the loan eventually
- ▶ if it goes into liquidation, the lender is entitled to recover the loan from the sale of the assets of the company
- ▶ In most cases, security is required for the loan

# Equity capital

- ▶ *Equity capital* is money paid to the company in exchange for a share in the ownership of the company
- ▶ Business angels or venture capitalist:  
Business angels are wealthy individuals who provide equity capital for start-up companies and small firms that are seeking to grow rapidly.

# GEARING

- ▶ The relationship between loan capital and equity capital in a company is important. It is known as *gearing* or *leverage*.
- ▶ Lender and shareholder