CA115 Digital Innovation Management Enterprise

Startups #3: Business Planning

2022-02-21

Dr. Niall McMahon

These notes will be posted to Loop.

Types of Business

The main form a business can take in Ireland include operating as a:

Sole Trader

A sole trader is when you set up a business on your own. Being a sole trader is relatively straightforward to set up, but if your business fails, all your assets could be used to pay your creditors.

This is the most common kind of company for tradespeople and consultants.

See Becoming self-employed, at Citizens Information.

Limited Partnership

A partnership is where a minimum of two persons conduct business with a view to making a profit. It must consist of at least two persons and there is normally a maximum of 20.

Partnerships, limited and unlimited, are often used by accountancy firms or law firms. The word *limited* in the context of companies means that liability is limited: *a shareholder in a limited liability company is not personally liable for any of the debts of the company, other than for the amount already invested in the company and for any unpaid amount on the shares in the company*. See Limited liability at Wikipedia. *Unlimited* means the opposite.

See Limited Partnership at the Companies Registration Office, or CRO.

Private Company Limited by Shares (LTD Company)

This is the most common kind of company formed for technology start-ups. The process is a little more complicated and there are ongoing reporting responsibilities. It's important to seek professional advice from a lawyer and an accountant before forming a private limited company. Some of the features of a private limited company are, from the CRO:

- *It has the contractual capacity of a natural person - the ultra vires rule does not apply*.
- *It has limited liability and has a share capital*.
- *It has a limit of a maximum of 149 members*.
- *It can have a single director*.
- *It can pass majority written resolutions (special and ordinary)*.
- *It can claim eligibility for audit exemption*.

See Private Company Limited by Shares at the Companies Registration Office.

Public Limited Companies (PLC)

PLCs are limited liability companies whose shares can be freely sold and traded to the public. This is in contrast to the private limited company, which has a maximum number of shareholders. The reporting responsibilites are more onerous. Features of the PLC include:

- *It has a constitution document which includes a memorandum and articles of association.*
- *It has limited liability and has a share capital*
- *It must have at least two directors. All directors must be over eighteen.*
- *The name of the company must end in "Public Limited Company" or "Cuideachta Phoiblí Theoranta".*
- *It cannot claim eligibility for audit exemption or dormant company audit exemption.*
- *Public Limited Companies have a constitution in the format set out in Schedule 9 to the Companies Act 2014*

See Public Limited Companies at the Companies Registration Office.

Other Types of Company

- Designated Activity Company (DAC)
- Companies Limited By Guarantee (CLG)
- Unlimited Companies

Business Plan

- Title Page
- Table of Contents
- Summary
- Introduction
  - Problem and Solution
  - Goals and Strategy
- Business/Product(s)
- Experience and Team
  - Including organisation and management
- Market
  - Market Overview
  - Competitors
  - Pricing
- Financials
  - Growth Projections
  - Revenue Projections
  - Cash Flow
- Work Plan
  - Goals
  - Hiring
  - Marketing
- Risks and Assumptions
- Summary
- Additional Material

Pitch Deck

- As in a "deck of flashcards". This is a short version of the business plan.
- It's usually a slide show.
- A well-formatted one-page summary sheet is effective.
- Search for "pitch deck" for examples.
- There is no magic formula: investors want to see good ideas, a good and enthusiastic team and concrete plans.

Setting Goals

- Sometimes startup business plans have unrealistic, exponential growth and revenue projection curves.
- These are (usually) very difficult to attain and chasing them can lead to difficulties.
- It is far better to set achievable goals and succeed in meeting them.

Finance

Race against insolvency.

Projecting Cash Flow

Desc	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Income												
Sales												
Total Income												
Expenditure												
Salaries												
Rent												
Etc.												
Total Expenditure												
Net Cash Flow												
Cumulative Cash Flow												

How Much Money at the Start?

As much as you're comfortable spending *as if it's your own* (much of it might be) and with as much risk as you're willing to accept. It's generally a very bad idea to bet your house on an idea.

For a small operation where *you are actually building the system*, for one year, you might need money to:

- Pay for lawyer and accountant's fees, of the order of Euro 5,000.
- Money to live on, i.e. a salary. This depends on your situation, expectations and the people investing in you. For a start-up, wherever the money comes from, you use it as if it's your own.
- Money to do things with, e.g. buy compute or branding, of the order of at least 5,000 for a prototype system. Costs can be very small at the outset but can get bigger quickly.
- Branding and advertising advice, i.e. logos, design and so on. Most agencies will charge at least Euro 5,000 - Euro 10,000 for a basic brand. There are cheaper online options or, of course, you can do it yourself. This is harder than you'd expect to get right!
- Rent, in non-covid times. If you are hot-desking or in a shared space, this will be in the range of Euro 250 - 1,000 per month. So in total, of the order of Euro 10,000. Working from home, if you can, is a neat option.

Salaries are the main component. Depending on who you have involved, i.e. experienced people with relatives to support, this can be a significant amount. Even if the person works "for free", they are giving up potential income earned elsewhere.

For a digitial start-up with one or more experienced people, Euro 100,000 for the first year's operation is not an unreasonable estimate.

Too Much Money at the Start

- May undervalue the company, i.e. early investors will own a lot of the company for relatively little.
- People spend the money unnecessarily. If there's a lot of money, some CEOs will find ways to spend it.
- If the business is good, it will be easy to get more money in the future.

Money is not a problem*: businesses fail for other reasons. Lack of money is a symptom of another problem*.

Sources of Finance

- **Personal savings**: this is very common. The promoter of the idea will have to make a significant investment of both money and time. Even if the promoter does not have a lot of her own money to begin with, she may have to do without much income for a time.
- **Boot-strapping**: this is perhaps the best way to get going. This is where the promoter makes do with what resources are available. With digital technologies there's a lot available for very little. The company pulls itself up by its own shoelaces, using its own income to grow. Although slow and difficult, this is a good way to get going.
- **Friends and associates**: If you have friends or associates who believe in you and your idea, some of those *who have the money to spare*, may invest in you. It's a big risk for them.
- **State support**: the Irish government has some great start-up grants available from the Local Enterprise Offices and Enterprise Ireland. The Local Enterprise Office grants are well worth pursuing for a variety of reasons, including meeting other start-ups in your area.
- **Bank loans**: banks will always fund good ideas likely to make money. This is debt, however, to a bank that will want to be repaid *no matter what*. Sometimes banks look for collateral and may ask for a personal commitment from the promoter. This is not a good idea, in general. You do not want to put your family's home at risk.
- **Venture investors**: these are professional investment companies that provide start-up capital. In return, they expect to be heavily involved in the company and money is released only when targets are met. They expect frequent reports and engagement. In general, they invest only in high potential start-ups, where growth is expected to be exponential with large returns in only a few years.

References

- *Start Up: an Entrepreneur's Guide to Launching and Managing a New Business* (5th Edition). William J Stolze. 1999. Career Press, NJ.
- Local Enterprise Offices.
- Enterprise Ireland.