Going It Alone

A STEP-BY-STEP GUIDE FOR TECH ENTREPRENEURS

MENZIES
BRIGHTER THINKING

Technology Insights Report

FOREWORD

Today's independently minded tech entrepreneurs often prefer to go it alone rather than opt for the protective environment of an incubator or accelerator programme. They want to develop their business ideas in their own way, on their own terms and in their own timeframe; seeking the support of people they know and trust as things develop.

The world has changed and the rules of doing business have altered in a way that favours the bold.

For tech entrepreneurs nurturing their latest business idea, the changes have come at exactly the right moment. The age of digital disruption is enabling individuals to challenge traditional business thinking and transform established mature markets swiftly and irrevocably.

You only have to think Uber to see how the invention of a simple app has changed the way people take taxis in the UK and around the world. Widespread consumer take up has allowed the business to grow rapidly and traditional taxi business models are becoming obsolete. The brand is making headway in other markets too.

Similar examples of disruption are everywhere. In fact, it is difficult to find a marketplace that has not yet been exposed to some form of digital disruption. In the accountancy profession, for example, a cloud-based accounting platform called Xero has replaced the need for traditional software based systems. For new start-ups, gaining access to such technologies can give them an early mover advantage, whilst others may be hampered by legacy systems, which prevent them from making the transition to a Software as a Service (SaaS) based model as quickly.

Where are all these disruptive ideas coming from? Some might be coming from dedicated coding teams within established, innovation led companies, working to specific research briefs. The vast majority, however, are more likely to be tech savvy entrepreneurs working at home, or in a co-sharing work space just around the corner.

To make an impact, these independently minded entrepreneurs prefer to go it alone rather than opt for the protective environment of an incubator or accelerator programme. They want to develop their business ideas in their own way, on their own terms and in their own timeframe; seeking the support of people they know and trust as things develop.

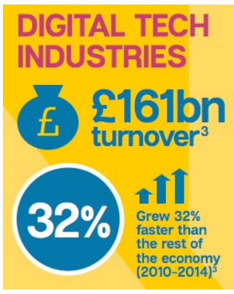
To be successful in the future, these free spirited entrepreneurs must find a way of staying focused on developing their business ideas, whilst adhering to sound business management principles. This step-by-step guide is designed to help.

Stephen Hemmings,
Head of Technology

THE BIG PICTURE

The number of businesses in the UK's tech sector is growing rapidly - faster than the rest of the economy.

According to the Tech Nation 2016 report, compiled by Tech City UK in partnership with Nesta, a new Digital Tech Economy is emerging, which is transforming British business. The report shows that digital tech industries in the UK grew 32% faster than the rest of economy between 2010 and 2014; leading to the creation of more jobs than other sectors too. These jobs are also attracting higher salaries (the average advertised annual salary was close to £50,000) about 36% higher than the national advertised average.



This is great news for tech entrepreneurs. It is evidence that digital innovation is gathering momentum and ideas under development are finding market application. Importantly, it also indicates that lenders and investors are willing to back such entrepreneurship.

London is now widely recognised as the tech start-up capital of Europe with lots of incubators and accelerator programmes to choose from, including Entrepreneur First, which is Britain's biggest incubator. The city's reputation as a tech innovation hub is also attracting overseas investment. In particular, some US corporates are setting up bases in the UK in order to increase their exposure to emerging ideas and this is giving UK based entrepreneurs an opportunity to cut their teeth and pitch their ideas. This activity is acting as a natural catalyst; encouraging more innovation and inspiring entrepreneurship.

Google opened its new HQ in London in 2015

> *London is widely recognised as the tech start-up capital of Europe with lots of incubators and accelerator programmes to choose from.*

Graham Seddon

Building on the UK's strong foundation of incubators and accelerator programmes, other initiatives designed to support tech entrepreneurs are being announced on an almost daily basis. For example, the banking platform provider, Mambu, has recently partnered with selected incubators and accelerators to launch a new FinTech programme to support the development of 500 new FinTech start-ups. Cisco has also announced plans to open a new start-up innovation centre in Manchester, focusing on the development of smart cities and the Internet of Things (IoT).

There is no doubt that joining such programmes and initiatives can represent an important opportunity for some start-ups. However, other tech entrepreneurs may already have experience of developing ideas and bringing them to market and prefer to take a more self sufficient approach. These individuals are more likely to want to structure their own collaborations and may already have a personal network of support to call upon.

For these free spirits, here's a step-by-step guide to going it alone:

10 key steps for go-it-alone tech entrepreneurs

#1

Have a plan

Every tech entrepreneur needs a three year business plan and a clear strategy. It can be helpful to summarise this on a single sheet of paper and use it as a prompt at meetings to ensure the business is on track. If the plan has identified strategic opportunities, is action being taken to capitalise on these and if so what? Alternatively, if strategic threats have been identified, the management team should know what action has been taken to protect the interests of the business. The entrepreneur needs to maintain a focus of working ON the business as well as IN the business.

#2

Use robust forecasts

How accurate are your financial forecasts? Running a successful business involves more than just having a good idea, developing it and generating sales. When starting up, most tech businesses will employ just one or two people, but as it grows it becomes necessary to hire more people and at this stage it may be difficult to control resources. Robust forecasts can help to ensure the business doesn't over stretch itself and clarifies exactly how much cash it will need and when to invest as it grows.

#3

Lock in talent

Have you locked in your talented people or could they leave you in the lurch? In an intensely competitive industry sector, where jobs attract higher than average salaries, it is important to create an incentivised business structure, which will help you to attract and retain the right people. Introducing an employee share ownership scheme, such as an Enterprise Management Incentive (EMI) scheme, can help to reward key members of staff in a tax-efficient way.

#4

Plan ahead for overseas trading

Tech entrepreneurs that want to trade overseas should plan ahead and seek advice from organisations that have international reach. Are you intending to establish separate trading entities or open a new branch office? Do you know how to go about this? Are there any intellectual property implications you need to consider before making the move and how might licensing arrangements or national tax regimes differ from those in the UK? Transfer pricing arrangements may need to be considered and cultural differences should also be taken into account.

#5

Choose the right structure for the new venture

If you are already running a successful business, do you really want to use it to launch a new venture? By structuring things in the right way, it may be possible to keep both ventures separate by placing them in separate entities both owned by a single holding company. This structure may also appeal to potential investors as they can see that an established entrepreneur is involved in the new venture. It would enable a clear demonstration of a successful track record in an initial venture and also enable equity to be released only in the new venture where the investment is needed.

#6

Think of time as a resource

Many entrepreneurs prefer to do everything for themselves. But is this right? As the business grows, its owner should consider whether spending time in a specific way is adding sufficient value or whether their time would be better spent elsewhere. For example, the entrepreneur could spend 2.5 hours of their working day pulling together a robust cash flow and balance sheet, or they could outsource the job to a chartered accountant and incur a modest fee. In this case, their time may be better spent pursuing a sale or securing some investment. Having an adviser on board can also help to ensure tech businesses don't miss out on opportunities to claim R&D tax relief or other tax reliefs, such as Patent Box.

#7

Keep an eye on costs and be realistic

You may have a great idea but if you can't manage cash effectively, the business could fail even before you generate your first sale. Having your books in order from the start is a fundamental first step. It is also important to forecast costs accurately. For example, it is easy to overlook the cost of customer acquisition and under estimate the length of the sales cycle. As well as budgeting for sales and marketing activity, you should also consider what you may need to offer on a free trial basis. An advanced demo may need to be developed or you may need to provide potential customers with a period of free usage. In order to do this, you may also need to spend some time making the product bespoke to each potential customer.

#8

Keep investors close

There is nothing more reassuring to a potential investor than a demonstration that you are delivering against your business plan. You should start liaising with potential investors at an early stage (well before you need the money) and share your business journey with them. Using a business adviser to audit your business plan and provide robust forecasts so you can present it in a way that shows how funds will be invested and the rate of return expected, will also strengthen your investor relationships. Details of customer orders, intellectual property rights or agreed proof of concepts for any technology under development will demonstrate credibility. Being able to present a realistic business valuation may also be helpful.

#9

Keep suppliers close

In today's fast-paced markets, strong supplier relationships are an essential part of doing business. Having the right supply partner will ensure you are ready to move quickly to market opportunities on the understanding that both businesses stand to benefit if they are first over the line. However, for growing businesses it can still be difficult to secure a line of credit. To gain a supplier's confidence in the early days it may be possible to create a system which allows the supplier to invoice the end customer directly in order to build up a trading history.

#10

Risk assessment

All tech entrepreneurs should carry out a risk assessment of their business model. One of the major risks is likely to be data protection and cyber security. Data management laws are changing in Europe in 2018, so businesses need to be aware of how they might be affected. Smaller tech companies often hold large amounts of data and can be targeted by 'spear phishing' activity. If a data breach occurs, the reputational damage could mean the end of the business. To minimise this risk, all tech businesses should conduct a cyber essentials health check at least annually and such checks can help to reduce commercial insurance costs too. Care should also be taken when signing customer agreements to ensure tech businesses are not left shouldering too much of any liability in the event of a serious data breach.

How can Menzies help?

Tech entrepreneurs can choose from a range of services to assist them at every stage of business development.

Starting out

- Business planning and strategy
- Cash flow modelling and forecasts
- Presentations for investors
- Introductions to investor platforms
- Establishing an Entreprise Investment Scheme (EIS)
- Tax-efficient structuring

Up and running

- Efficient cash management
- Managing accounts and payroll efficiently
- Tax compliance and tax planning advice
- R&D tax relief
- Employee share schemes (EMI schemes)
- Practical and pro-active HR advice

Trading overseas

- Advice on structuring the move
- Access to an international network of advisers
- Employer responsibilities
- Tax planning - sales tax and transfer pricing arrangements
- Cultural awareness

Planning an exit

- Developing an exit strategy
- Adviser support for managing a disposal
- Valuing the business
- Structuring to ensure a tax efficient disposal
- Wealth management advice after realisation

CONTACT

To speak to a specialist business adviser or to outsource services in areas like HR, payroll and accounting please contact the firm's Technology Group.

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