

2 Start-up and growth

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 (= 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.

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.

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.

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/take-overs (buying other companies).

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.

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 take-over.

- 1 Read the text for general understanding.
- 2 Read it again and underline the words you don't know. Check their meaning.

- 3 Highlight words you know passively, but don't use actively. Choose some to write sentences of your own.
- 4 Check pronunciation at macmillandictionary.com

2.1 Rearrange the letters to make words. Use the definitions in brackets to help you.

- 1 enrtepeenur entrepreneur
(someone who starts a company and makes business deals)
- 2 citapal _____
(money used to start or invest in a business)
- 3 funoder _____
(someone who starts an organization)
- 4 prmeeiiss _____
(the buildings that a company uses)
- 5 puchrase _____
(formal buy something)
- 6 tunvorer _____
(the money a business makes = revenue)
- 7 seahrs _____
(the equal parts of a company which people can buy and sell)
- 8 actisiquion _____
(buying another company; = take-over)
- 9 cotellaral _____
(property or money that you promise to give the bank if you cannot pay back a debt)
- 10 damend _____
(the desire or need that customers have for a product)

2.2 Match an item on the left with an item on the right to make phrases from the text opposite.

- | | |
|----------------|----------|
| 1 start-up | equity |
| 2 exit | name |
| 3 brand | company |
| 4 a going | market |
| 5 private | concern |
| 6 a gap in the | strategy |
-
- 7 do
 - 8 employ
 - 9 fail
 - 10 make
 - 11 raise
 - 12 rent
- | |
|-------------------------|
| a profit |
| capital |
| staff |
| some market research |
| to get enough customers |
| premises |

2.3 Complete the sentences with phrases from Exercise 2.2.

- 1 The founder of the company is going to retire next year. I think he'll probably sell the business as _____. But first he needs to _____ to see who might be interested in taking over the business.
- 2 If the company is going to expand, they will need to _____. They can either ask the bank, issue new shares, or try to attract _____.
- 3 She wants to start her own business and she thinks she can see _____. She has money of her own, so the first steps are to _____ in a suitable location, purchase equipment and employ staff.

2.4 Underline the correct word in italics.

- 1 The bank *lends you / borrows you* money.
- 2 You *lend money / borrow money* from the bank.
- 3 So 'lend' is temporary *giving / taking*.
- 4 And 'borrow' is temporary *giving / taking*.
- 5 The bank gives you a *lend / a loan*.

2.5 Complete the table below.

Verb	Noun
1 _____	development
2 distribute	_____ (activity)
3 promote	_____ (activity)
4 _____	employment
5 own	_____ (activity)
6 grow	_____
7 _____	expansion
8 compete	_____ (company) _____ (activity)
9 fail	_____
10 _____	acquisition

2.6 Complete sentence b) with one word. The meaning must be the same as sentence a). All the words appear opposite.

- 1 a) How are we going to distribute our product?
b) What distribution channels are we going to use?
- 2 a) She was the founder of the business.
b) She set _____ the business.
- 3 a) The company is growing strongly.
b) The company has strong _____.
- 4 a) This year the company will make neither a profit nor a loss.
b) This year the company will break _____.
- 5 a) Who supplies them?
b) Who are their _____s?
- 6 a) A lot of people know their brand name.
b) Their brand name is very well-_____.
- 7 a) They're an established business and they make a profit.
b) They're an established, _____ business.
- 8 a) The company is going to be listed on the stock exchange.
b) The company is going to go _____.
- 9 a) Why did the business fail?
b) Why did they go _____ of business?
- 10 a) Their customers were late in paying them so they couldn't pay their bills.
b) Their customers were late in paying them so they had cash _____ problems.

See page 146 for some discussion topics.