How to start a software company: The essential guide to starting a software business

Category: Branding
written by Stewart Hodgson | 8 March 2023
How do you start a software company? If you're asking yourself this question, you've come to the right place.

Starting a software business can be challenging and time-consuming, but it can also be highly profitable. After all, the demand for software is constantly increasing, particularly during rapid digital transformation in all industries.

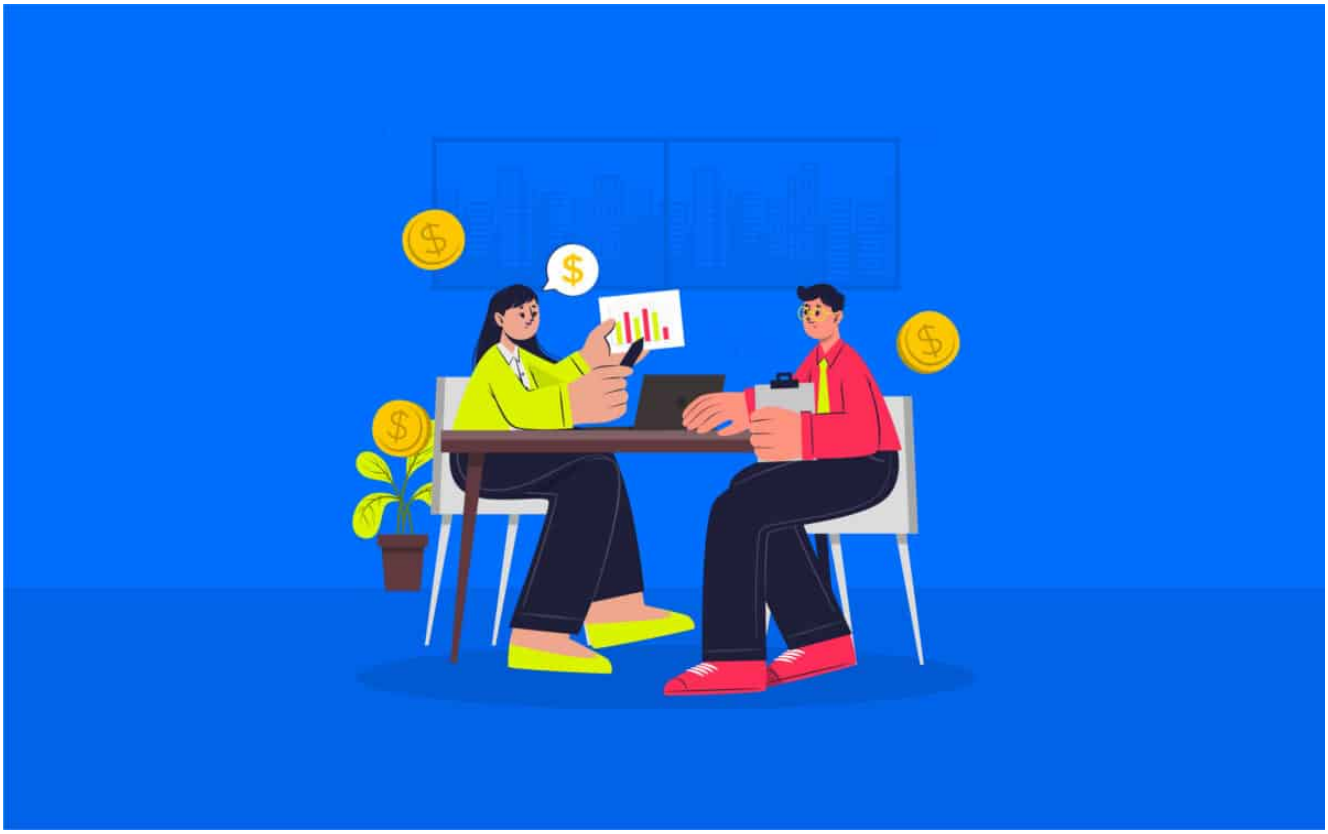
According to some studies, the business software and services market is expected to reach a value of $525.77 billion by 2030, and the landscape is growing at a consistent rate of 11.9%.

In other words, even though there's already a vast number of software brands out there, there's still room for new entrants to impact the market.

Software companies can even be a little easier to launch and manage than your standard technology business, as they don't require you to invest in resources for hardware, warehousing, and shipping. However, this doesn't mean launching a software brand is always straightforward.

There are numerous essential steps to take, from validating your solution to building a solid identity.

Today, we will look at some of the critical steps involved in launching your own software company, so you can make sure you're ready for success.



Are software companies profitable?

Before we cover the steps to start a software company, it's worth assessing the potential for this market. Studies show the demand for software has grown significantly in the last few years, particularly as companies shift away from on-premise solutions in search of agile tools.

Due to major global trends, we've seen a growing interest in concepts like "SaaS" (Software as a Service).

Business leaders are investing more heavily in the cloud, purchasing software to empower remote and hybrid workers and drive new opportunities. In the consumer market, software is also in consistently high demand as people seek out tech solutions to make their lives easier.

How do software company owners make

money?

Primarily, software company owners make money by selling access to the software they've designed themselves or solutions they've chosen to resell from other companies. You can consider two core markets when starting a software business: B2B or B2C.

B2B software companies produce solutions designed to address business owners' needs.

Some companies focus on broad markets, such as communication or collaboration tools. Others focus on a specific niche, creating software for graphic designers, accountants, logistics managers, and customer service teams.

B2C software companies create tools for the consumer market, focusing on the needs of everyday users. Some organizations offer different packages for both sectors. For instance, Microsoft has a selection of business-focused software tools and options for regular users.

Once you've chosen a key market for your solution, you must determine how you will sell your offering. The most common options include one-off sales of software and subscription packages.

Typically, subscription packages can generate higher revenue, requiring customers to pay for access to their tools consistently. However, they need companies to focus heavily on retention and consumer loyalty.



Starting a software business: First steps

Various key steps are involved in learning how to start a software company. Perhaps the first and most crucial stage is determining exactly what you will sell. The software comes in many different forms, from graphic design tools to ERP management systems.

The best tools solve a specific problem for their target audience.

An app like Zoom allows teams and individuals to come together through immersive video calls. QuickBooks helps businesses to monitor their taxes and invoices. Adobe gives graphic designers the tools to produce high-quality visuals for various purposes.

When starting your software company for the first time, you'll need to:

Choose your niche

First, decide what branch of software you will focus on. Some of the most popular niches today include the IoT market, mobile app development, web design and development, and cybersecurity.

The right solution for you depends on your experience and knowledge of the software landscape. Choose a market you feel passionate about, and ensure there's still room for growth in your chosen space.

Assess the market

Once you've selected your ideal niche, you must assess the market. Ask yourself what the trends in the current space are and how you'll need to develop to stand out. What are the key demands of the audience you're trying to reach?

What are their pain points and goals? Creating buyer personas based on what you learn from extensive market research will help you boost your sales chances.

Consider the competition

Even if you select a relatively narrow niche for your software company, you will still likely have some competition. Assess what your current biggest competitors are doing in the field. What are their strengths and weaknesses compared to your own?

What kind of opportunities can you take advantage of, and where can you differentiate yourself from the biggest players in your sector?

Validate your product

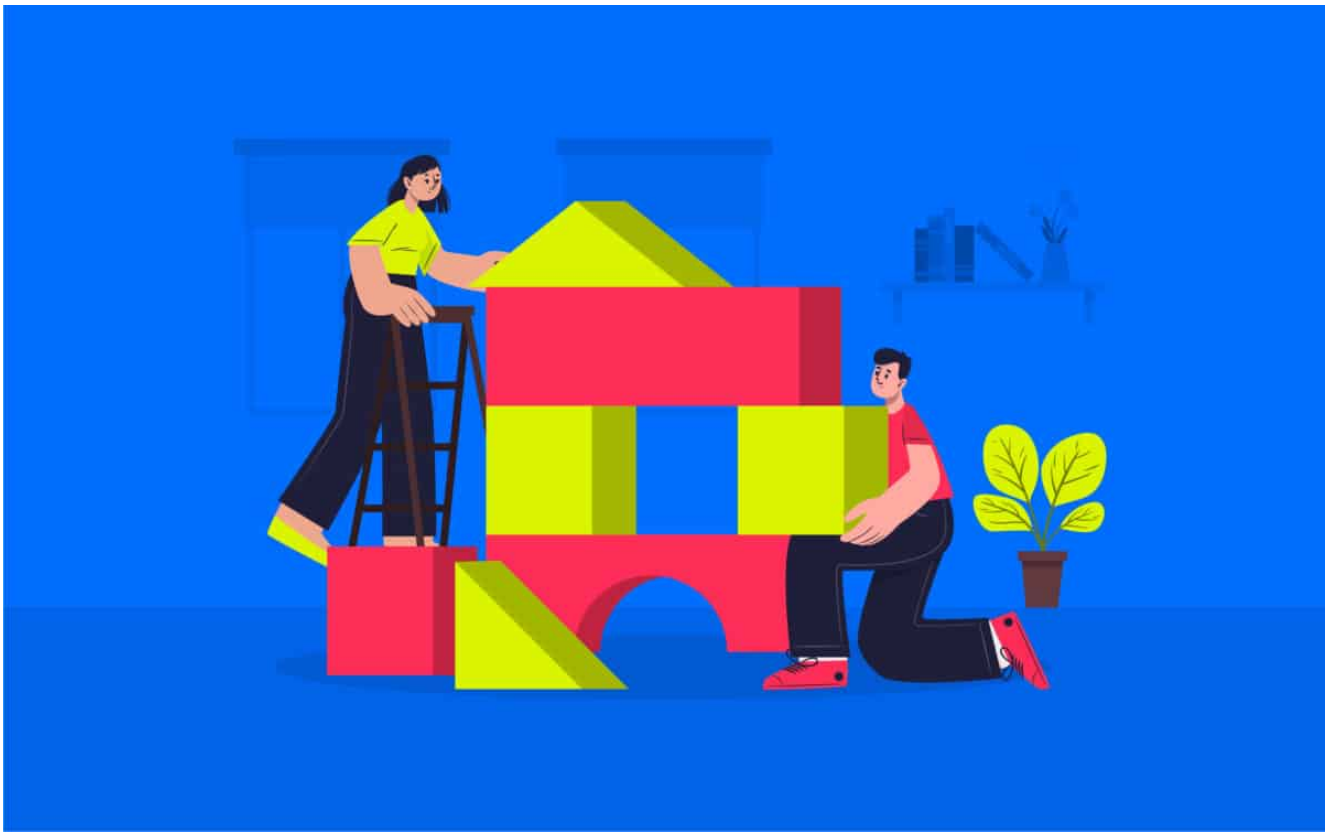
Ensuring there's genuine demand for your product is crucial in the software industry. Spend time navigating forums, Facebook groups, and forums to discover as much as possible about your target audience.

Research whether there’s a genuine need for your software, and ask yourself whether the market is already too saturated for you to dive in. Ask yourself how you’ll need to price your product to generate revenue.

Create an MVP

The next stage in validating your software company is making sure you have a “minimum viable product,” or MVP. Producing an MVP will allow you to test your software on your chosen market and ensure actual demand.

You can also use this strategy to rapidly pivot to changing customer needs, adding new features and functionality to your offering based on what you learn from your customers.



How do you structure a software company?

One of the most critical steps in starting a software business is knowing how to structure your new entity. When you start a

software company, you have a few options available to you.

The legal structure of your business will determine how you grow, what kind of profit you can make, and how you're going to file your taxes.

The most common option for many new software startups is the "sole proprietorship" route. Provided you already have the technical know-how for starting a software business on your own, you can create and run your organization as a solo entity.

While a sole proprietorship is risky, as it requires you to take full responsibility (legally) for your business, it's also the most straightforward strategy to manage from a tax perspective.

Alternatively, you could consider starting a partnership if you plan on building your brand architecture with the help of another professional. Or you could opt for a limited liability company, which gives you some separation between yourself and your business from a legal perspective.

A corporation is more complex, but it is the best choice as your company starts to grow. Speak to a business advisor or tax professional if you need more clarification.

Once you have your structure in mind:

Get permits and licenses

Ensure you know all the national and state-level requirements for starting a software company in your region. You may need to apply for specific permits if you're producing certain types of software.

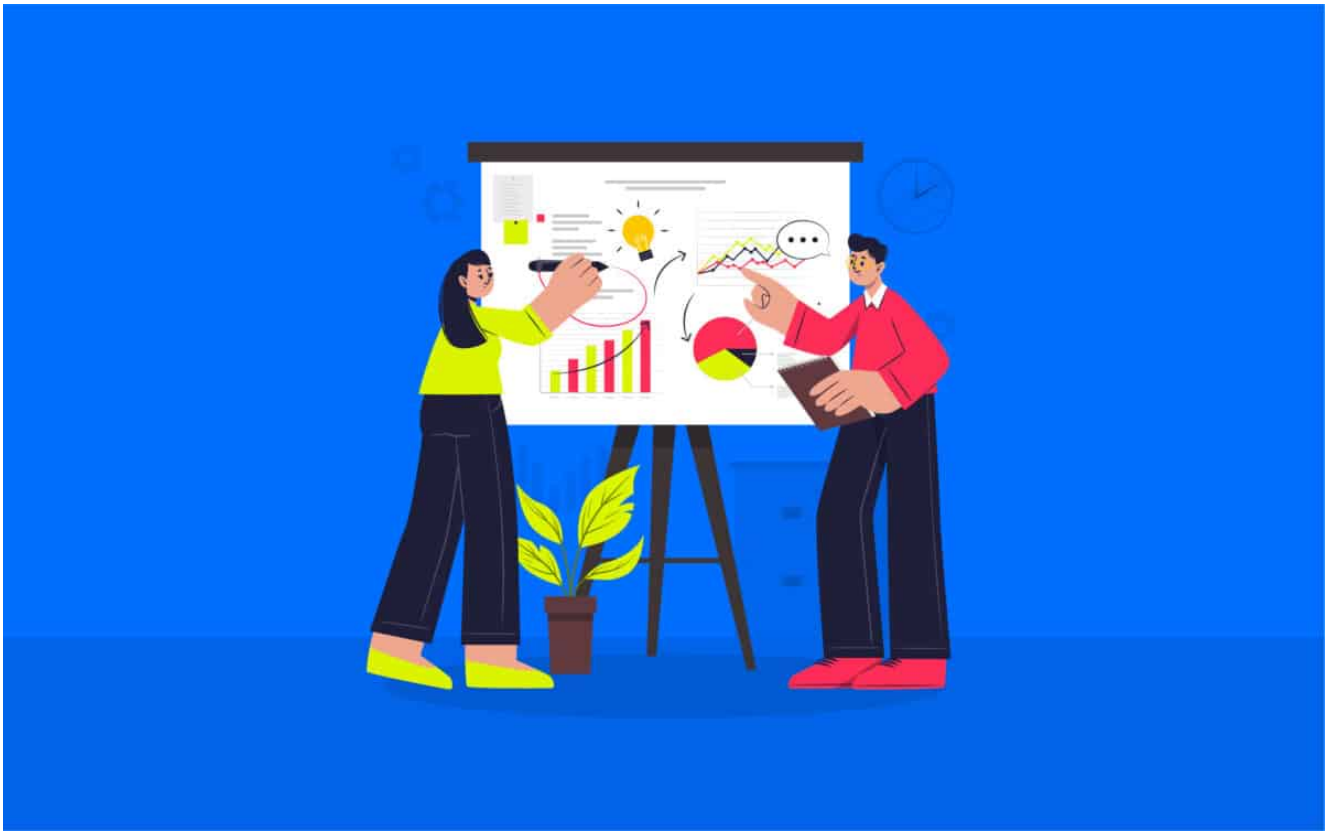
Acquire the right documentation

Ensure you have a tax identification number for your software business to complete your tax returns effectively. Make sure

you know if you need any insurance, such as liability insurance, to protect your business.

Register your company

Ensure your company's name is registered with your state government. If you're doing business under any other name than your legal title, you might need to enter documentation for a "DBA" (Doing Business As) company.



How to create a software startup: The business plan

Legally establishing your startup can be one of the more complex parts of starting a software business. However, there are still additional steps to take before you can effectively "go to market." Once you have all the legal components laid out, building an effective business plan is essential.

Many entrepreneurs overlook this step when they're eager to start a software company as quickly as possible. However, your

business plan can be extremely valuable and is often crucial to ensuring you make a profit.

It’s also a core component of ensuring you can apply for funding, request the support of investors, and even outline your brand to potential employers.

Your business plan will outline exactly how you will run your software business. It should include some of the following information:

Company description

Outline what type of software you will be developing, the location of the business, and how the company will run.

Targets

Address your target markets, customers, clients, and even your competitors. Highlight exactly who is going to be important to your business.

Operations

How will you be running your software company? What’s your go-to-market plan (i.e., reselling software, creating proprietary software, etc.)

Financial plan

Where are you going to get the funding for your software business? How much will you charge for your services (one-off or subscriptions), and how much profit can you expect to make?

Legal requirements

What sort of permits, licenses, insurance, and other legal components will you need for your organization?

The exact components of your business plan will vary depending on the nature and type of business you want to run. However, in all cases, your business plan should provide you and your

potential investors with insight into your company's purpose, vision, and operations.



How to start a software business: Creating an identity

With your business plan and legal structure in place, the next stage in learning how to start your own software company is building an identity. Even in niche sectors, the software landscape is growing increasingly competitive.

If you want to stand out from the crowd, you must ensure you have a brand your audience can connect with emotionally.

Creating an identity can be challenging, but it also ensures you can differentiate yourself from countless other organizations in your sector. Some of the core elements you'll need include:

1. A brand mission or vision

What is the purpose of your software business? Beyond trying to make money, why have you chosen to start a software company? Microsoft, for example, wanted to give people an easier way to navigate their computers and access technology.

Adobe wanted to help graphic designers explore their skills and create new assets using straightforward, convenient tools.

Ask yourself what the core focus of your company is. This "vision" will inspire the products you create and how you position yourself in the market.

Are you going to be an innovative thought leader in your space, constantly rolling out exciting new creations? Or will you focus more on addressing the core pain points of your existing audience?

2. Names (for you and your software)

Starting a software business means coming up with an easily recognizable identity. You can only do this with memorable, evocative names. Not only do you need to choose a title for your software brand, but you also need to think about how you will name your solutions.

Freshworks chose its name to highlight its innovative approach to B2B software.

However, each Freshworks portfolio product has its unique name, intended to highlight its functionality. Freshchat offers conversational engagement tools, while Freshservice is built to empower service professionals.

Your product names don't have to be based on your business name. For example, Microsoft created Windows, and Adobe built Photoshop.

3. Personality (tone of voice)

The personality of your software company is one of the core factors that will set you apart from other organizations in your space. It influences your tone of voice, the kind of brand images you use, and even your marketing strategy.

Take a look at HubSpot. They built their personality around being knowledgeable thought-leaders in the software space.

To build on this identity, HubSpot doesn't just offer a range of great software packages; it also provides useful training sessions and certifications, access to a range of knowledgebase articles, and a thriving community of developers.

Define whether your business will be playful, friendly, informative, innovative, or sophisticated.

4. The image

When learning how to start a software company, image is much more important than many people realize. Although people may not be selecting your products based on their "packaging," they'll still use your image to determine what kind of company you're running.

Mailchimp has an incredible brand image designed to be bright, fun, and engaging.

Alternatively, IBM's image is all about professionalism and authority. Consider the colors you will use to depict your brand, taking color psychology into account.

Ask yourself what your logo will look like, how you'll design your website, and even what images and photos you'll use in marketing. Every part of your visual identity will determine how well you can connect with your audience. It may be worth working with a brand strategist if you need clarification.

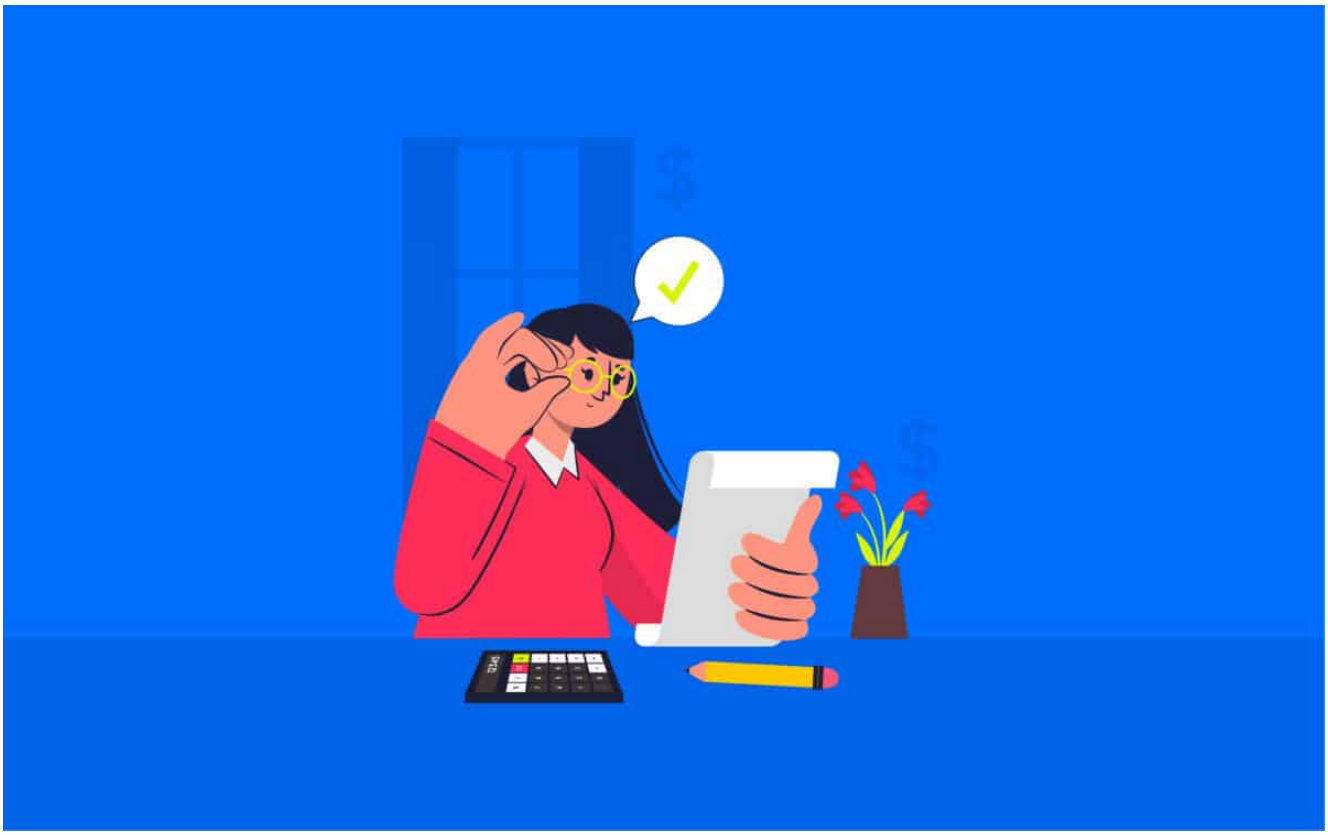
5. Promotion

How will you position your company in front of your target audience? Look at some of the biggest software companies in the world, and you'll notice they all have a strong strategy for promotion.

PayPal has its own advertisements, social media pages, email marketing strategy, and even offline advertising efforts in place.

Consider working with other thought leaders and influencers to boost the credibility of your software company. You could promote your software at industry events or work with partner brands to expand your brand reach.

Whatever your promotion strategy, you should consistently monitor and measure your results to optimize over time.



How much does it cost to start a software company?

One of the most challenging aspects of starting a software business is figuring out how you will fund everything. The answer to “how much does it cost to start a software company?” can vary drastically, depending on several factors.

If you’re looking for a way to start your organization for “free” or to begin selling with as little initial investment as possible, you can either resell existing products or create your own code and programming from scratch.

However, if you need to gain this technical knowledge, you’ll need to pay developers to work with you within your team.

The good news for those wondering how to start a software company is there are often fewer initial expenses than there would be with other organizations.

Since you’re selling a digital product, you won’t need to worry about manufacturing, packaging, shipping, or warehousing. This means you can keep logistics expenses to an absolute minimum.

However, you will need to think about the following:

Research and development

In a fast-moving landscape like the software industry, you must consistently build on your technology with new features and functionality. Research and development can be expensive if you don’t have access to the proper support.

Employee wages

Although you might start as a solo entrepreneur, you may eventually need to hire developers, engineers, specialists, contractors, and customer service experts. Hire slowly to

avoid spending too much money on initial resources.

Marketing and promotion

As mentioned above, marketing your software company is crucial to attracting the right customers. Depending on your chosen marketing strategy, you may need to invest in SEO, content production, and other software.

Real estate

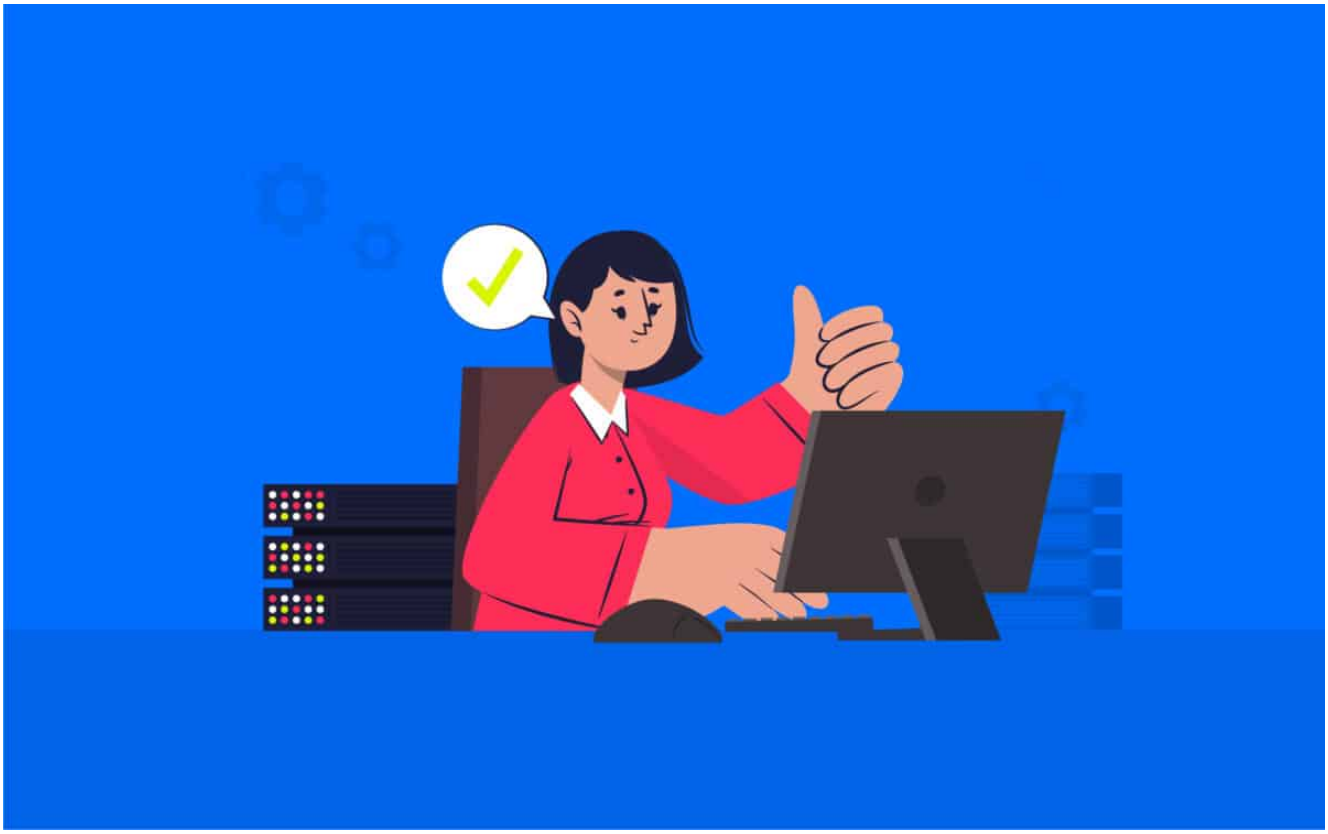
While running and launching a software business from your own home is possible, some business leaders prefer to hire office space and business locations. This allows more people to work together in the same environment for development purposes.

Software development

Aside from paying developers to help you build your software solution, you may also need to find the money for data storage and servers. There may be hosting requirements to think about, as well as payments for processing power.

Hardware

Developing software often requires an investment in high-quality machines and computers. The type of solution you create may require you to purchase hardware for the initial development and testing phases and long-term maintenance.



Can you start a software company by yourself?

Many entrepreneurs prefer to approach the process solo to keep costs low when learning how to start a software company. If you already have developer knowledge, you can produce your software and sell it yourself with little support.

You can use website builders and digital tools to promote and launch your organization.

Sometimes, you can fund the initial startup without any extra support. If you already have all the technology you need to start designing your solution, you may not need extra cash. However, there’s a good chance you won’t be able to run your company alone forever.

In the initial stages, you may need additional support from graphic designers and marketing specialists who know how to bring your company to your target audience.

As your software business grows, you'll find there are several factors you need to manage to keep everything running smoothly. You'll need to commit to regular research and development to stay ahead of the competition, which can consume a lot of your time.

You'll also be responsible for software maintenance (ensuring everything runs smoothly) and customer care.

Hiring additional professionals to help with everything from sales pitches to production and customer support will ensure you can run a more effective business.

How to start a software company: Finishing thoughts

Learning how to start a software company can be an excellent way to launch a new, profitable career as an entrepreneur. Starting a software business can generate massive revenue and exceptional growth opportunities. However, it has its challenges.

Numerous steps involve setting up your entity legally, choosing the right product to sell, and connecting with your audience. It's also worth remembering that most software solutions don't become an instant success overnight.

You'll need to dedicate consistent time and effort to growing your brand presence and differentiating yourself from your competition. If you're willing to put in the work, the results of launching your own software brand can be fantastic.

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–Branding software and mobile applications
–The essentials of software company naming

–The ultimate list of software company logos
–The basics of software company branding
–How to approach software product naming
–Explore Fabrik’s software branding services