

## **THE STARTUP COALITION RESPONSE**

### HOUSE OF COMMONS PUBLIC BILL COMMITTEE FOR THE DIGITAL MARKETS, COMPETITION AND CONSUMERS BILL: CALL FOR WRITTEN EVIDENCE

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#### **About The Startup Coalition**

- I. The Startup Coalition (formerly Coadec) acts as the policy voice of UK tech startups and scaleups in Westminster. Since 2010, we have worked to engage on behalf of tech startups in public policy debates in the UK across a range of priority issues for startups including access to finance, immigration and skills, and technology regulation.
- II. We fight for a policy environment that enables early-stage British tech companies to grow, scale and compete globally. We have over 2000 startups in our network and have been instrumental in building proactive coalitions of businesses and investors on issues that are integral to the health of the UK's startup ecosystem.
- III. The Startup Coalition works directly with the Government across a range of issues. We represent the startup community on the Government's Digital Economy Council, and the UK on the board of the international organisation Allied for Startups.

#### **The UK tech landscape - a startup perspective**

- IV. Since 2010, The Startup Coalition has witnessed and supported a growing ecosystem of businesses and innovators expand from a small pocket in East London, throughout the whole of the UK. We have witnessed the UK become home to one of the most exciting and successful startup ecosystems in the world - but this success is not something that we can take for granted.
- V. The Digital Markets, Competition and Consumer Bill has the opportunity to be a powerful tool in the Government's mission to create the best environment possible for tech companies built in the UK. We feel the Bill's overarching mission - to promote greater competition and innovation and protect consumers - is correct and we think there is a lot in the Bill for startups to get excited about.
- VI. However, the proof will be in the delivery of the regime. We want the new regime to support competitors to compete - not end up moving only to constrain the powers of the current status quo.
- VII. Ultimately, startups want a pro-competitive regime that proactively supports innovation. Amongst other measures, we think this will require competition authorities taking a more expansive view of the role of M&A among challengers who are building competitors to large incumbents in huge markets.
- VIII. We believe that in order for startups to benefit from the regime as is intended, the Government should consider the following: a new approach to deals; reviewing thresholds for notification and review; and the role of the Competition and Markets

Authority (CMA). Each of these points are expanded below. The Startup Coalition welcomes the opportunity to respond to the Public Bill Committee's call for evidence on the Digital Markets, Competition and Consumer Bill and will be happy to provide further detail and expand on these points, either in writing or in oral evidence.

### **Reviewing thresholds for notification and review**

- IX. Regulator intervention should make things better for the tech ecosystem, not worse. There are two current challenges in the Bill that risk worsening the landscape for startups, and the tech ecosystem more broadly. These are the current thresholds for notification and the revenue threshold.
- X. As currently set out under the Bill, SMS firms holding at least 15% of shares or voting rights (with thresholds of over 25% and 50% triggering further reports) would have to report to the DMU. We are concerned that venture funding rounds by SMS firms may get caught up in the threshold in question, meaning that deals that are truly 'investment' as opposed to 'M&A' may be at risk.
- XI. It is also worth noting that the 15% threshold is significantly lower than the National Security and Investment Act's 25% threshold for reviewing deals - as well as similar criteria in the Companies Act. We would ask that this threshold for notification be lifted to 25%, in line with the National Security and Investment Act.
- XII. We are also concerned that the proposed thresholds for merger review will not have the intended effect of reducing the regulatory burden on businesses that are least likely to cause competitive damage. The powers given to the CMA to define the relevant market in order to exercise jurisdiction are of particular concern as they essentially give the CMA control to define market share however narrowly it chooses.
- XIII. The abandoned deal between Seedrs and Crowdcube, two leading platforms in the equity crowdfunding space, is an example of a recent intervention by the CMA that cut through the startup ecosystem and was characterised by many in it as an example of regulatory regime that did not understand the market nor the needs of competitors.<sup>1</sup>
- XIV. In this example, the CMA's concerns stemmed from the dominant position the merged firm would have in equity crowdfunding (a space pioneered by the two companies in question). The view shared by many in the tech ecosystem was that the merger would have combined the strength of both platforms to enable them to offer more competition to other pools of funding such as Angels and VC. Ultimately, the deal was abandoned before it was formally rejected in March 2021.<sup>2</sup> Crowdcube raised additional investment and Seedrs exited to US firm Republic for \$100 m.
- XV. In order to protect startups - and the original intention of the thresholds - we ask that the revenues threshold (the firmest protection) is further increased. Though the Bill does already raise the revenues thresholds, the >£10 million in revenues figure remains very

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<sup>1</sup> <https://www.gov.uk/cma-cases/crowdcube-seedrs-merger-inquiry>

<sup>2</sup> <https://www.gov.uk/government/news/crowdcube-and-seedrs-abandon-merger-during-cma-investigation>

low relative to international markets. This should be increased to provide further protection for mergers between startups and bring the UK more in line with competitor markets around the world.

### **The role of the UK's competition regulator and the Digital Markets Unit (DMU)**

- XVI. Ongoing dialogue between the UK's startup ecosystem and the regulator will be critical to the regime's success. The DMU is intended to add essential expertise to the CMA at a time when tech is becoming one of the most fundamental sectors to the success of the UK's economy. The sector is also highly dynamic and unpredictable which can pose a challenge for regulation to keep pace with developments. Startups, who form the backbone of the UK's tech ecosystem, know this dynamic the best and we believe that the Government and regulators should prioritise engagement with the startup ecosystem to fully understand how regulatory actions can best support the rapidly changing ecosystem and help innovative companies to break through. Our own research has shown that 60 percent of investors feel that regulators have a "basic understanding" of tech startups, while 22 percent feel that regulators have none at all.<sup>3</sup> The Startup Coalition is keen to rectify this reality and ensure that the intended objectives of regulation such as the Digital Markets, Competition and Consumer Bill - to be pro-innovation and support smaller players - are delivered.
- XVII. To reach its full potential, the DMU must staff and structure itself to allow for expert and thoughtful engagement with startups, investors and other key actors, ensuring the intended 'participative approach' is systematically implemented. Startups themselves have very limited capacity to engage with policy discussions. Without a concerted effort and collaboration with the Startup Coalition and other organisations representing small businesses, the DMU risks creating a fatal blind-spot that could erode the tech ecosystem's trust in regulators. This is not in the interests of start-ups or regulators, and the Startup Coalition is determined for this not to happen.

### **A new approach to deals**

- XVIII. Exits - most commonly through public listing or M&A - are critical to startups. The Startup Coalition's own research shows that if venture funding can't find its way out of companies at the end of their journey, the continued commitment of venture investors to deploying capital will be put at risk.<sup>4</sup>
- XIX. Exiting is not a symptom of lack of ambition from startups eager to sell and offload their company. To the contrary, exits provide a crucial financial return to startup founders, investors and employees who have poured their time, effort and capital into building a company from nothing. Successful exits can generate substantial wealth for founders, enabling them to fund new ventures and invest in other startups themselves by creating funds or as angels. Exits also act as a magnet for talent and capital. As successful

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<sup>3</sup> [https://coadec.com/wp-content/uploads/2021/09/On-the-Side-of-Startups\\_-1.pdf](https://coadec.com/wp-content/uploads/2021/09/On-the-Side-of-Startups_-1.pdf)

<sup>4</sup> [https://coadec.com/wp-content/uploads/2023/06/Building-Competition\\_-Report-040623.pdf](https://coadec.com/wp-content/uploads/2023/06/Building-Competition_-Report-040623.pdf)

startups exit, they create a positive reputation and attract the ambitious potential of entrepreneurs to the ecosystem.

- XX. This process of cyclical capital is crucial for the development of a tech ecosystem and in the UK this is very much a crucial point helping to grow our startup ecosystem into the phenomenal success it is today.
- XXI. Therefore we feel strongly that the CMA should be wary of disregarding the crucial role M&A plays to increase competition in the startup ecosystem. There is concern in many parts of the startup ecosystem that CMA has already become far more active in M&A deals taking place in the tech sector. This adds pressure to an exit environment that already feels squeezed for startups. The bad experiences of scaling companies such as Deliveroo, Wise and THG, have already scarred a generation of entrepreneurs and set them against listing in the UK.
- XXII. We would be concerned if these recent actions were to influence the new approach under the Bill. Especially if the merger control regime set out in the Bill significantly increases the likelihood of the regulator intervening in more M&A and corporate investment deals in the tech sector.
- XXIII. In order for the new regime to work, and to deliver on the Government's objectives to improve consumer protection and regulate digital markets for the good of our thriving tech ecosystem, the future regulator will need to take a more expansive view of M&A - one that enables businesses to grow and be capable of challenging the very biggest firms. To some degree, this will involve reviewing the thresholds for notification and review currently set out in the Bill.