

Business Start-up Finance: Estimating Your Start Up Costs

By Jeff Williams

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In addition to providing enough money to pay your family living expenses for three-six months, you will need money to pay for a variety of one-time expenditures necessary to set up your business. Let's take a look at typical expense categories required in setting up a new business.

Office Space

As locating one's business at home becomes more acceptable, larger numbers of new businesses are able to save a major start-up expenses - rent. Renting an outside office, retail store, or warehouse space results in some significant startup expenses. Included among these are:

- Rent deposits, usually at least one full month's rent, which can range from \$300 to over \$1000.
- Utility deposits, averaging \$100 per utility.
- Insurance, costing from \$500 to \$2000 per year -- E.g., retail stores must often have plate glass insurance in addition to general business insurance.
- Phone line installation, starting at \$85 per line, without any inside wire location work included.
- Redecorating & renovation, which you sometimes can negotiate with the landlord to include in your base rent. You usually must sign a multi-year lease to receive this however. This expense runs from \$100 (you do the painting) to several thousand if you must build walls and add doors and windows.
- Furnishings are needed whether you locate your office at home or in outside space. Most offices will require at a minimum a desk, chair, lamp, file cabinet and a bookcase or bookshelves. Additionally, you may wish to have a separate computer table.

Equipment

Wise use of electronic equipment can allow you to run your one-person business as professionally as your larger competitors. This is one category of expenditure where it pays to shop as the prices are continually dropping.

- Telephones. Can be found in discount stores and catalogs, as well as direct from the phone companies. Plan on spending \$30.00 for a reliable one-line phone and \$60.00 for a good two-line

phone.

- Telefax. Increasingly just having a phone is not enough. Your customers expect to be able to send you something immediately by fax. Coated paper faxes run about \$125.00 and plain paper faxes cost around \$300.00

- Computer. Take your pick! What a variety is available today. Learn what the main computer words mean and how a particular feature affects speed or ease of use. Then go around to both computer and discount stores to compare. And don't forget online sellers such as Dell and Gateway, both of which make excellent computers.

- Copiers. Rarely needed by a new business and really an expensive luxury because of their tendency to break down. Rebuilt copiers with high-speed features can be bought for under \$2,000.00.

Telecommunications

At a minimum your business will require one telephone line and a telephone to attach to it. You may be able to get by for some time with your existing residential phone line, thereby avoiding a connect charge. If, however, one line is not enough to take all of the calls or if you wish a second line to transmit and receive telefaxes, it will cost you a minimum of \$80 to connect the line. Any inside installation is extra. Local phone companies bill their inside installation time at \$60/hour.

Consider also your needs for: phone message handling, calls made outside of your office and paging. Voicemail may be sufficient to handle calls when you are not in. Special phone features, such as call waiting, call forwarding or caller ID carry installation charges of \$30 - \$40 apiece. Keep an eye open for occasional deals that combine features for one, low cost.

Cellular phones often run over \$100 to buy and set-up and pagers often require a \$200 deposit.

Licenses, Fees and Permits

Common start-up costs in this category include: assumed name registration fees, ranging from \$30 to \$50, incorporation fees of \$100 and up, business licenses starting at \$30, health permits sometimes cost several hundred dollars, and state-issued licenses, such as cosmetology licenses, can cost up to \$1000 or more per year.

Insurance

If you are starting a typical home-based service business, your renter's or homeowners insurance may cover your business equipment, supplies and inventory. But it may not, so be cautious and call your insurance agent before you open for business to check the policy coverage. Often a small additional fee, known as a rider, will increase your home insurance to cover equipment such as a business computer, telephone and fax machine. If you need a rider, figure on adding \$50 to your start-up costs.

Stationery

To promote a professional, established image for your business, have well-designed and printed letterhead, envelopes and business cards done. Quick printers and office supply warehouse stores, such as Office Max and Office Depot, offer very attractive prices on packages. For example, Office

Max in Chicago offers 500 letterhead, 500 envelopes, 500 business cards and 200 invoices for \$49.95.

Professional Fees

If you are considering incorporating your business, need contract forms setup, will deal with import/export, want to set up distributors or require any other legal guidance, you had better budget 5-7 hours of a lawyers time. Good business attorneys charge between \$125 and \$175 per hour, so you would need to set aside \$500 to \$1000 in start-up investment for legal help.

If you are going to open a retail store, a wholesale company or a manufacturing company you would be wise to consult an accountant before you launch. Budget \$500- \$1000 in start-up investment to cover accountant's fees.

Summing It Up

When you total up all of the categories of start-up expense, you may be amazed at the total. If you include a computer, start-up costs can easily run over \$5000, without any cash contribution toward your personal living expenses. Advance planning is the key, because you should try to avoid borrowing the money to pay start-up costs. You will need to borrow later to stay in business. Borrowing before you start puts you in the credit hole before you have started to market your company.

Jeff Williams worked for big business for years, until he decided to take his career in his own hands by establishing his practice as a small business trainer and coach. Since 1988, he has guided more than 3,000 people to successfully go from employee to boss. For those seriously considering self-employment, he is pleased to offer his free, monthly telegroup: "Are You Ready To Leave Your Job?". Register at: <http://www.bizstarters.com/ready2leave.cfm>
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