

Start-Up Costs



EXACTLY HOW MUCH is it going to cost you to get into business? Most new business owners find themselves under financed at the start-up stage of their business. This occurs because they had underestimated costs or forgotten items such as utility deposits. Be thorough in your start-up calculations and make sure you are getting complete information. When you have completed your calculations, you should have a total of all costs that will be incurred at start-up, regardless of who is paying for what expense.

The following lists some of the most common items that are forgotten in start-up calculations:

- Utility deposits
- Damage deposits
- Delivery charges
- PST and GST on items purchased
- Fees charged by creditors to register security
- Lawyer fees
- Licensing and permit fees
- Opening floats
- Sufficient funds for renovations or leasehold improvements

If you are purchasing goods from the U.S. or other countries, be sure to remember:

- Exchange rates
- Brokerage fees
- Tariffs
- Shipping costs
- Insurance on shipments

Use the following worksheets to help you calculate your start-up costs. If you have a start-up cost that is not on this list, be sure to add it in the appropriate category. Be sure to:

- Use a pencil
- Round number to nearest dollar (e.g., \$547.62 becomes \$548)
- Include all start-up expenses, whether they are paid for already or not
- Get quotes or estimates in writing to back up your claim; do not guess



Capital Costs

Capital costs are the costs you incur when you buy physical assets for your business. These assets include land, buildings, and equipment. Insert your capital costs below:

Capital Costs	
Land	
Building	
Deposit on land or buildings	
Office furniture/fixtures	
Office equipment	
Computers	
Commercial vehicle	
Tools over \$200	
Signage over \$200	
Leasehold Improvements	
Painting	
Electrical	
Plumbing	
Renovations	
Equipment (please specify)	
TOTAL CAPITAL COSTS (A)	

Intangible Costs

Intangible costs are the costs you incur for things that you cannot physically touch. Insert your intangible costs below:

Intangible Costs	
Trademark registration	
Patent registration	
Copyright registration	
Goodwill <small>(only pertains to purchase of an existing business)</small>	
Franchise fees	
Mailing lists	
Industrial designs	
Other	
TOTAL INTANGIBLE COSTS (B)	

Inventory Costs

If you are a manufacturer, include the cost of the raw materials you'll need to purchase to start. If you are in retail sales, include the cost of goods you'll need to purchase for resale. List your inventory by type of merchandise. Insert your inventory costs below:

Inventory Costs	
TOTAL INVENTORY COSTS (C)	

Pre-Operating Costs

Pre-operating costs are costs that you bear before you open your doors. Insert your pre-operating costs below:

Pre-Operating Costs	
Market research/study	
Pre-advertising/promotion	
Incorporation fees	
Agreements for sale/offer to purchase	
Partnership contracts	
Deposits on purchases	
Real-estate appraisals	
Other professional advice	
Land title fee	
Pre-commencement debt cost (interest charges on money borrowed before start up)	
Phone hook-ups	
Utility hook-ups	
Utility deposits	
Business licences and fees	
Permits	
Opening floats (till, VLTs, lottery)	
Insurance	
Rent/lease deposits	
First month's lease payment	
Office supplies	
Software	
Travel costs	
Bank charges to open account	
TOTAL PRE-OPERATING COSTS (D)	

Operating Cash Shortfall

Operating cash shortfall is the amount of cash you will need to cover your operating expenses until your business makes enough revenue to pay for these expenses. Cash shortfalls usually occur in start-up businesses because:

- It takes time for revenue to start flowing into the business.
- Businesses that extend credit to customers must wait for their money.

Here is an example: In your first month of operation, you know you will have \$1800 of expenses, but you expect to receive only \$1,200 in revenue. Your operating cash shortfall for that first month is therefore \$600. Cash shortfalls occur until you have enough revenue to cover your business expenses. Your estimated cash shortfall for operating may have to be adjusted once you complete your cash-flow projections for the business.

TOTAL OPERATING CASH SHORTFALL (E) _____

CALCULATE TOTAL START UP COSTS

To calculate your total start-up costs, transfer your totals for each of the previous categories to the appropriate line below:

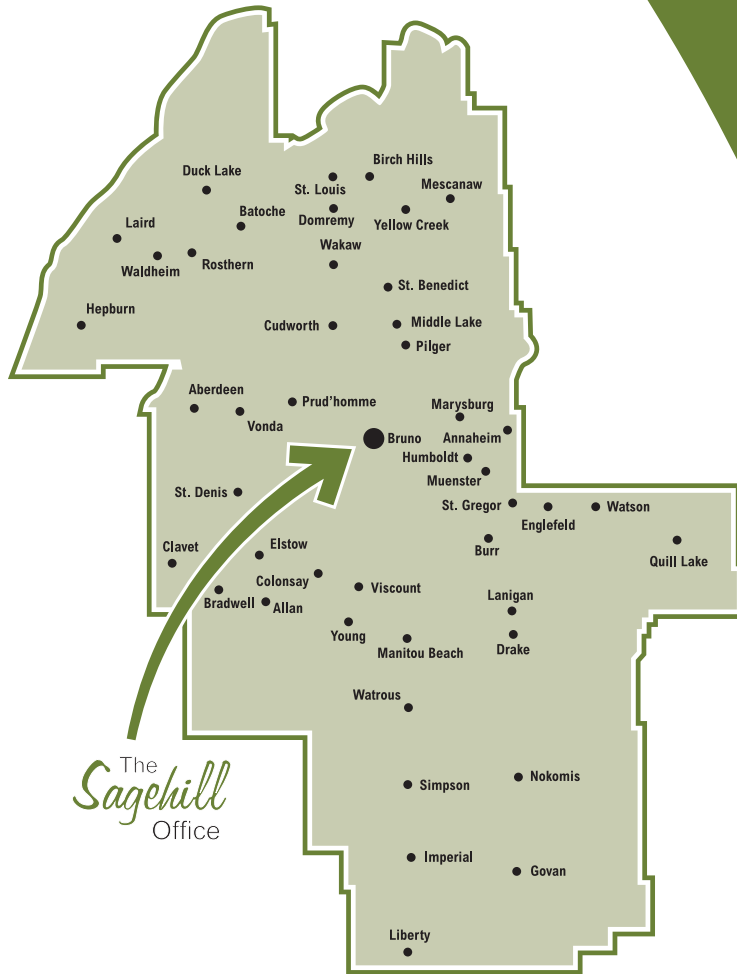
Capital costs	_____	(A)
Intangible costs	_____	(B)
Inventory costs	_____	(C)
Pre-operating costs	_____	(D)
Operating cash shortfall	_____	(E)
TOTAL START UP COSTS	_____	

Now that you have calculated your start-up costs, take some time to re-evaluate them. Can you find ways to accomplish the same thing for less money?

Ask yourself:

1. Are my estimates based on written estimates or quotes?
2. Could I rent the building instead of buying it?
3. Would the owner be willing to enter into an agreement whereby each rent payment, or portion of it, could be applied to the purchase price?
4. Have I tried to negotiate a lower purchase price on the land and buildings?
5. Does my type of business really need a storefront to start out?
6. Have I considered purchasing used equipment rather than new?
7. Can I get warranty on used equipment?
8. Have I compared leasing and buying in terms of their costs and benefits?
9. Can I do some of the work myself (e.g., renovations, painting, etc.)?
10. Do I really need new office equipment?
11. Do I already own office equipment or fixtures that I could use in the business until the business can afford to buy its own?
12. Could I pay for my insurance monthly rather than in one lump sum?
13. Is it possible to start with less inventory? For example, if your supplier guarantees timely shipments on orders, you might be wise to order two weeks' worth of inventory at a time rather than eight.

In light, of your answers to these questions, go back and adjust your start-up numbers if necessary.



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