Estimating Startup Costs for a New Business

Estimating the startup expenses for a business requires an approach that breaks down the process into specific categories. This process should remove any mysteries and creates a clear picture of the amount of funds that will be needed, on a monthly basis, throughout the time required for construction and to achieve a realistic breakeven point.

Startup Cost Categories

Each type of businesses will have different types of startup costs. All businesses will require parking for customers, plus a secured lot for company vehicles. Additional requirements will include for example the following:

- A Retailer generally needs a storefront, staff to maintain it, space for an office, and inventory storage, plus restroom facilities for staff and customers.
- A Manufacturer needs floor space for manufacturing equipment, trained a staff to operate the equipment, a warehouse, plus a marketing/distribution system, space for an office, and restrooms.
- A Service business, space for an office, display/reception area, and parts storage/inventory.
- A Repair Business, space for an office, display/reception area, and parts storage/inventory.

Costs for a startup business can be divided up into six major categories:

1. **Cost of sales** – Product inventory, raw materials, manufacturing equipment, shipping services –
   - Mailbox Services
   - Digital Printing & Copy Services
   - Packing & Shipping Services
   - Moving Supplies & Packaging Materials

2. **Administrative** –
   - Mailbox Services
   - Digital Printing & Copy Services
   - Packing & Shipping Services
   - Moving Supplies & Packaging Materials, packaging, shipping insurance, warehousing
   - Professional fees: Setting up a legal structure for your business (limited partnership, privately held S corporation, publicly trades corporation), trademarks, copyrights, patents, drafting partnership and non-disclosure agreements, attorney fees for ongoing consultation, retaining an accountant

3. **Technology costs** –
   - Computer hardware,
   - Computer software,
   - Printers,
   - Cell phones,
   - PDAs,
   - Website development and maintenance,
   - High-speed internet access and servers,
   - Security Systems

4. **Administrative costs** –
   - Business insurance,
   - Office supplies,
   - Licenses and permits,
   - Express shipping and postage,
   - Product packaging,
   - Parking,
   - Rent, Utilities,
   - Phones, Copier,
   - Fax machine,
   - Office equipment - desks, chairs, filing cabinets
   - Other items needed to operate a business on a daily basis

5. **Sales and marketing costs** –
   - Printing of stationery,
   - Marketing materials,
• Advertising,
• Public relations, event or trade show attendance or sponsorship,
• Trade association or chamber of commerce membership fees, travel and entertainment for client meetings, mailing or lead lists

6. **Wages and benefits** – Temp Agencies give startup companies a tool to hire qualified employees quicker, more efficiently and absolutely risk free. Temporary employees offer quick, more efficiently and risk free source of temporary employees. The Temp agency charges a fixed price and takes care of -
• Salaries,
• Payroll taxes,
• Benefits
• Workers compensation

– **Factor in the time to get your startup business off the ground** –

One critical component of getting an accurate startup cost estimate is to determine the length of time it’s going to take you to open your startup business. No matter what your business type, take into account everything you will spend, from the moment you begin the process, through the time you’re ready to sell a product or service.

The clock starts from the time you sign a contract, to leasing a building or purchase land to construct a new building until the time your business opens and revenue starts.

Calculate the money needed for salaries, electricity, rent, mortgage payment, or lease payments during throughout the entire period of getting ready to open the business, plus the amount not covered by revenues which operating the business until a breakeven point is reached.

Join an industry trade association to learn about specific costs for your new business and connect with individuals who can provide insight and analysis about the companies and people that drive the industry.

Most industry trade associations usually have an active group of members who have successfully navigated the startup process, and they typically will be happy to share tips with you.

**Access to sample business plans and checklists for your market niche, but most importantly, you’ll find out which hidden costs to be wary of in your industry.**

Take every opportunity to network with business owners in your industry, whether it’s online or in person. They will have the best understanding of how the costs of a typical business in your industry balance out across those six categories. With that knowledge, you’ll be able to create a reasonable cost estimate for starting a business of your own.

**Putting all the pieces together**

Once you’ve pulled together the costs for your startup business, use Cash Management Reporting software to monitor and project your monthly cash flow.

Above all, be realistic when calculating startup costs for your new business. The first calculation may not be the right one. Continue to refine your analysis by performing a range of research service reports on your emerging venture including a market analysis, competitive analysis, intellectual property analysis, technology analysis, opportunity assessment or a tailored combination of topics.

Even if you’re satisfied with the final report, add a miscellaneous budget item for 10% of your total budget. You’ll spend more than you think to get your that dream startup business going, and the "miscellaneous" category will cover any unexpected costs.
Business Startup Costs

Write Offs

One of the basic rules of financial management is to control all your business financial needs in one place with access to extensive business financial research, data and step-by-step guides.

Every business – both large to small - must control all business financial needs through its chief financial who has extensive business experience in researching revenue streams and sources, data management, and an understanding of the implications of state and federal tax laws and regulations.

– Long term successful businesses: expenses must be offset by revenues –

Some expenses, like meals and entertainment, may be only partially deductible. Other expenses may have to be amortized, or "depreciated," over a period of years. But the basic fundamental concept - revenues justifying expenses - is still pretty easy to understand and explain.

The expenses that occur before the business opens are referred to as business startup costs. Depending on the type of business, there are specific tax requirements on what can be charged as a 100% expense and those that must be amortized for specific number of years depending on the asset classification.

There are accounting firms that offer a comprehensive understanding on how to file the business tax forms for partnerships and corporations and depending on which state the business headquarters are located.

Once you open your business and start generating revenues, you can write off many of those initial business startup costs at tax time.

The bad news is that the rules for taking advantage of these deductions is not as straight forward as they are for a business’s everyday, ordinary, ongoing daily expenses.

Other Articles of Interest

‣ Business Planning Articles
‣ Little Strategies for Saving Big Tax Dollars
‣ Tax Savings: How to Save Taxes Before Year-End
‣ White Paper on Ecommerce Sales Tax

There are basic steps to deducting your business startup costs as you start a business. Track your business startup costs from the beginning.

Startup expenses are things associated with setting up your business or investigating the purchase of an existing business. Among the items that count as startup expenses includes a range of research service reports, including an:

‣ Analysis of –
  • Markets,
  • Competition,
  • Intellectual property,
  • Technology,
  • Opportunity assessment
  • A combination of topics.
‣ Paying for consultants
‣ Buying initial supplies
‣ Advertising your new business
‣ Paying employees before the business opens

Track your organizational costs - the fees associated with initially organizing your new business. Among the expenses that can qualify as an organizational cost:

‣ State incorporation fees
‣ Lawyers' charges for drafting incorporation papers
‣ Initial accounting fees
Once you've written off that first $5,000, you can still get a tax benefit from other expenses. However, those startup costs will have to be written off, or amortized, over 15 years.

The assets - equipment and furniture - purchased for the startup can be written off. However, unlike supplies and other expenses, assets have to be depreciated. There are different rules for different assets.

Most office equipment, for example, could be written off over seven years; computers can be deducted over a five-year period.

It might be easier to rent or lease office equipment and delay purchases that can be put off until after the business opens. The same purchase made after opening could be written off in full in the first year instead of depreciated over 15 years.

In some cases, owners of startups may prefer to stretch out deductions over several years so that they balance out more evenly against eventual revenue streams.

Consult with a certified tax attorney/CPA to determine the best expense- and tax-planning strategies for your startup venture.